

Q2 miss on costs; firming up growth outlook for 2020

Shamaran reports weaker numbers than we expected for Q2'19, mainly on the cost side due to well work-over and heavy oil extended well testing costs as well as depletion coming in higher than we expected (table below). Production continues to increase, reaching 28.3 kbopd in Q2, and Shamaran's production guidance range for 2019 remains 30-35 kbopd, with an exit rate of 45-50 kbopd. We expect 45 kbopd for Q4. Shamaran further expects to increase Atrush production capacity towards 80.0 kbopd during 2020, which constitutes a firming-up of guidance, and the previously indicated long term target of 100 kbopd remains in place. We are more conservative in our estimates for the ramp-up pace, assuming 46 kbopd for 2020E and 60 kbopd for 2021E, leaving material upside to our estimates if Shamaran delivers on its growth plan. The unrestricted cash position at quarter-end of USD 19.5m is in line with our expectation of USD 22m. We have a Buy rating on SNM, TP SEK 1.00.

Shamaran Q2'19 deviation table

USDm	Actual	PAS	Diff.
Revenue	15.1	16.8	-10%
EBITDA	6.9	10.3	-33%
Operating profit	1.2	4.2	-72%
Net result	-4.1	-1.5	na

Q2 miss driven by higher operating costs and depletion cost

Atrush gross production in Q2 was 28.3 kbopd, 6% below our expectation of 30.0 kbopd, and revenue of USD 15.1m is 10% below our expectation. Both operating costs and depletion costs are higher than we expected. The average lifting cost per barrel is USD 9.28 in Q2 compared to the (reiterated) full year guidance of USD 6.30-7.90/bbl, due mainly to a well workover incurred in the period. Production bonuses paid to the KRG and the heavy oil extended well test also impacted costs in Q2.

Production ramp-up plan through 2020 firmed up

For July, Shamaran reports Atrush gross production of 33.9 kbopd, and the production guidance range for 2019 remains 30-35 kbopd, with an exit rate of 45-50 kbopd. This growth will be underpinned by additional well capacity coming on stream and additional infrastructure being added. Heavy oil extended well test facilities have been installed and testing from the Atrush-3 well commenced in mid-April and is currently ongoing. This will provide important insights on the large heavy oil part of the Atrush resource. The HOEWT facilities will also be able to provide an additional 5.0 kbopd medium oil processing capacity. Further, the existing production facilities' capacity has been increased to 34.0 kbopd (from a nameplate capacity of 30.0 kbopd), and additional debottlenecking will be completed in Q4 to further increase capacity to 38.0 kbopd, Shamaran says. And finally, the procurement process for Early Production Facilities to add another 10.0 kbopd processing capacity is under way. In total, Shamaran expects these measures to add close to 20.0 kbopd in the second half of 2019.

Completed transaction to go to 27.6% interest in Atrush in May

The acquisition of an additional 7.5% in Atrush brings Shamaran's total interest in Atrush up from 20.1% to 27.6%. Upon close of the acquisition in May, total cash payments of USD 27.2m were made, financed from existing cash.

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