Coro Energy plc

Stock Data

Share Price:	2.35p
Market Cap.:	£17.9m
Shares in issue:	718.5m

Company Profile

Sector:	Oil & Gas
Ticker:	CORO
Exchanges:	AIM

Activities

Coro possesses an ambitious South East Asian growth strategy and recently made its first acquisition in Indonesia to complement its existing gas assets in Italy. The company is focused on a large number of potential oil and gas opportunities in South East Asia with which to continue to expand its current portfolio.

Share price performance

Source: LSE

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Coro is accelerating its strategy to become a mid-tier South East Asian focused E&P company with the announcement that it has agreed to acquire a 15% interest in the Duyung PSC offshore Indonesia for a total consideration of US$4.8m in cash and shares in addition to a US$10.5 contribution to the 2019 drilling campaign on the licence. Duyung contains the Mako gas field which has estimated 2C recoverable resources of 276 BCF. The wider licence is also highly prospective with significant associated exploration upside.

Coro has agreed to pay private company, West Natuna Exploration Limited (WNEL), the current 100% owner and operator of Duyung, US$2.95m in cash and US$1.85m in shares for a 15% interest in the Duyung PSC. As of the date of this report, Coro has already paid a total of US$2.95m in cash comprising US$1.75m of the initial cash consideration and US$1.2m of drilling campaign contribution.

The Mako gas field is a well-defined, large, shallow structure located in the prolific West Natuna Basin offshore Indonesia. It has been drilled but not tested by previous operators of the PSC. However, the commercial viability of the field has been demonstrated by the Mako South-1 well which flowed at rates up to 10.8 mmcfpd. Four wells have been drilled on Mako to date and further appraisal drilling is planned in 2019 to firm up resource estimates given the large 350 km^2 areal extent of the field.

Mako is located only 16 km from the West Natuna Transportation System (WNTS) pipeline which delivers Indonesian gas to Singapore. The current operator has submitted a development plan to the Indonesian authorities and initial gas marketing discussions have started resulting in an initial Heads of Agreement with a potential Singaporean buyer.

An indicative development plan, envisaged by the current operator, would comprise of an initial four well development from a small platform with an additional four wells being added in a second phase of development. This would imply a plateau production rate of up to 90 mmcfpd.

Mako is estimated by Gaffney Cline & Associates to contain 2C gas resources of 276 BCF of gas. However, there is prospective resource upside in additional structures situated below and above the main Mako structure. Of these, the Tambak prospect could contain up to 250 BCF and the Mako Shallow prospect could add a further 100 BCF of recoverable resources. Both prospects have been ascribed high chances of success in the event that they are drilled.

To finance its acquisition of Duyung, Coro has agreed a €22.5m Eurobond finance package with Lombard Odier Asset Management and Pegasus Alternative Fund Ltd with which Coro will be able to fund the Duyung transaction. The terms of this package are outlined in detail in this report.

Coro notes that Mako is a high quality asset with substantial exploration upside, located close to gas transportation infrastructure. As such, we believe that the completion of this deal would provide a highly complementary asset to the company's existing conditional interest in the Bulu PSC located in East Java offshore Indonesia.

Acquisition of 15% of the Duyung PSC

Coro has agreed to acquire 15% of the Duyung PSC (Production Sharing Contract) in Indonesia from West Natuna Exploration Limited (WNEL), a private company that currently owns 100% of the Duyung PSC. The shareholders of WNEL currently comprise Conrad Petroleum Limited, a Singaporean private company with a 90% interest and AIM-listed Empyrean Energy plc with the remaining 10%.

Coro has agreed to pay WNEL a consideration of US$2.95m in cash and US$1.85m in Coro shares for the 15% interest in Duying. In addition, Coro will pay a contribution of US$10.5m towards the 2019 drilling campaign on the field. As of 11 February 2019, Coro has paid a total of US$2.95m in cash, comprised of US$1.75m of the WNEL cash consideration and US$1.2m of the contribution to the drilling campaign. This aggregate amount will be treated as a break fee in the event that Coro fails to complete the transaction.

The shares element of the transaction has been set at the 30 day VWAP of Coro's share price up to the date of signing the acquisition agreement and has been established at 2.3492p per share. This will equate to a paper consideration of approximately 60.9 million shares to be issued to WNEL upon completion of the transaction.

The balance of the consideration for the acquisition will be paid on closing (within 44 business days) and the transfer of PSC title, which requires Indonesian regulatory approval, is expected to follow with a long stop date of 31 December 2019, failing which Coro will receive transfers of 15% of the shares of WNEL instead.

The Mako Gas field (Duyung PSC)

The Duyung PSC is located offshore Indonesia and contains the large Mako gas field, which is a shallow structural closure with an areal extent of over 350 km^2. The reservoir is Pliocene age sandstone with a gas-water contact at a true vertical depth of approximately 391 metres. The field is well defined by seismic data and direct hydrocarbon indicators are in evidence.

The Mako field has been drilled but not yet tested by previous operators of the PSC. However, the commercial viability of the field has been demonstrated by the Mako South-1 well drilled by WNEL in 2017. This well tested at flow rates of up to 10.8 mmcfpd of dry gas and to date, four wells in total have penetrated the Mako reservoir. Although the reservoir distribution within the Mako field is reasonably well understood, further appraisal drilling is planned given its huge areal extent.

Mako is located in the West Natuna Basin only 16 km from the WNTS pipeline infrastructure which delivers gas to Singapore. A development plan has been submitted to the Indonesia authorities and initial discussions for the marketing of the gas have commenced. This has resulted in a Heads of Agreement being signed with a Singaporean buyer for Mako gas.

Estimated gas resources

In a report published by independent competent persons, Gaffney Cline & Associates in early 2018, Mako is estimated to contain 2C recoverable gas resources of 276 BCF. At the lower end of estimates, Gaffney Cline estimates that 1C resources are approximately 184 BCF, with 3C contingent resource upside of 392 BCF.

The current plan of the operator, WNEL is for a four well field development, comprising a small platform with compression facilities and an additional four wells to be drilled during a second development phase later in the field's life. Plateau production is expected to be approximately 90 mmcfpd.

Upside potential of Mako

Coro has identified several additional gas prospects located beneath and above the main Mako field structure. These include the Tambak prospect at the northern end of the Mako field which is estimated to hold prospective resources of 200-300 BCF of gas. The mid case scenario is 250 BCF with an attractive Chance of Success (CoS) of 45%.

At the southern end of the Mako field, located over the Mako structure's crest, Coro has identified the Mako Shallow prospect situated in the Muda sandstones. A successful drilling result here has the potential to add 100 BCF of additional recoverable resources to the PSC and this prospect has been ascribed a high CoS of 75%.

Funding the transaction

Coro has agreed subscription and underwriting commitments with Lombard Odier Asset Management (Europe) Limited and Pagasus Alternative Fund Ltd (SAC), together termed the 'institutional investors' to subscribe for and underwrite a minimum issue of €22.5m MM Eurobonds to fund Coro's acquisition of 15% of the Duyung PSC. The Eurobond issue is being subscribed for and underwritten by the two institutional investors as to 50% each.

The Eurobonds, which are to be senior secured over Coro's shares held in operating subsidiaries holding its existing assets and the Duyung PSC will however be subordinated to any senior development or reserve base debt secured by Coro in excess of US$30m as it moves to develop its portfolio of other assets.

Terms and conditions

The Eurobonds will be issued at 85% of par value and as such Coro will receive €19.125m in cash. Half of the bonds are expected to be designated as 'Tranche A Bonds' which carry a 5% annual cash coupon and half as 'Tranche B Bonds' which will accrue interest at 5% per annum and which will be payable in cash on redemption. In addition, there will be a 7% origination fee payable to the institutional investors.

The bonds will be listed on a relevant European exchange to be notified at a later date. The redemption date for the Eurobonds will be three years from the issue date at 100% of par value plus any accrued and unpaid coupon and may be repaid earlier by Coro at its option at 100% of par plus any accrued and unpaid coupon. The Eurobonds will contain certain standard events of default which could cause the bonds to be repayable early at 105% of principal value plus accrued and unpaid interest.

The bond issue is subject to final documentation on the agreed terms and conditions and is expected to complete in late March or early April 2019.

The Eurobonds will also have warrant coverage equal to 5% of the notional Eurobond issue, or approximately 42 million warrants based on yesterday's closing price, with each warrant entitling the holder to subscribe for 10 new shares in Coro at an exercise price of 4p per share. This represents a 70% premium to Coro's prior thirty days volume weighted average share price, at any time over the next three years from the issue date.

The institutional investors will also receive in aggregate a fee of 6 million warrants. Each warrant will entitle the holder to subscribe for 10 new Coro shares at an exercise price of 4p per share at any time over the next three years from the issue date.

General Meeting required for the issue of warrants

The issue of warrants is subject to the consent of Coro shareholders and the management intends to convene a General Meeting in due course where a further announcement will be made. In addition, Coro will also update the market during March/April 2019 in regard to the completion of the Eurobond issue as well as other reserve base lending discussions with tier 1 bank debt providers and other debt providers.

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