

Nostrum considers strategic options including the sale of the company

Dropping coverage

Altynay Ibraimova — June 26, 2019

On Monday, Nostrum announced the launch of a strategic review by the Board of Directors (BoD), which, in our understanding, means the need to look for new opportunities to increase Nostrum's shareholder value.

The press release notes that one of the possible scenarios for Nostrum is the sale of the company. At the same time, Nostrum has not yet received any offers to buy and does not give guarantees regarding the receipt of offers in the future.

Nostrum also concluded an agreement on the acquisition of a 50% stake in POSITIV INVEST LLP, which owns the right to use the subsoil of the Stepnoy Leopard group of fields:

- *The acquirement cost is \$500ths;*
- *The remaining 50% share will be purchased at a price of \$0.27/boe of 2P reserves, but not more than \$52.995mn;*
- *The geological reserves of the Stepnoy Leopard amount to 452mn boe.*

Nostrum, among other things, is considering options for concluding additional agreements and acquiring existing and adjacent fields, which may require further investments.

Our view

We estimate the news as very ambiguous and note its negative impact on the market value of the shares (-11% for 2 days). The statements of the company in our opinion are vague and do not introduce clarity with respect to the future prospects of Nostrum.

Recall that last year unforeseen difficulties in mining in the northeastern part of the Biysk collector and in the western part of the Chinarevskoye field led to a reduction in Nostrum reserves, and therefore the technical expertise of the main strata was initiated. Nostrum attracted an independent expert (Shlumberger) and expects the results in 3Q2019. In retrospect, the company repeatedly reduced its production forecasts, postponing the achievement of a level of 100ths boepd from 2017 to 2019, which subsequently dropped to 30ths boepd in 2019. Systematic failure to achieve planned production levels was accompanied by production difficulties and adverse market conditions at different periods of time. We do not exclude the possibility that the results of the technical expertise may be unpromising, which, probably is the main reason for the increase of the BoD activity.

The NOG LN shares continue to update historic lows and are trading at a 53% discount to our target price, at GBP47.95/share. We note rather weak financial results and a high debt load of the company and believe that any new acquirements may adversely affect its creditworthiness.

Noting deteriorating operating performance and the lack of growth drivers, as well as taking into account the high uncertainty regarding Nostrum's prospects, we stop analytical coverage of Nostrum Oil and Gas shares.

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