

Renaissance Capital receives a fee from the company to produce sponsored research.

Sponsored research is not intended for nor should be utilised by retail or non-qualified investors.

Decklar Resources

Shipment of crude oil commences

Ticker: DKL CN

Valuation range: CAD1.05-1.75

Current price: CAD0.51

09 May 2022

Nikolas Stefanou
+44 (207) 005-7931
NStefanou@rencap.com

Alexander Burgansky
+44 (207) 005-7982
ABurgansky@rencap.com

Today's (9 May) announcement that Decklar Resources will commence inaugural crude sales and generate revenue represents a milestone for the company. The shares have pulled back in recent months, as investors rotated in other FCF-generating peers, amid the robust commodity environment, we believe. On the back of today's newsflow, we expect the shares to recover in the coming weeks. We are reviewing our model in order to reflect the recent newsflow.

Event: Decklar commences shipment of crude oil to market from the Oza field

Today Decklar announced that it has commenced crude trucking from Oza for delivery to Umugini Pipeline Infrastructure Limited (UPIL) crude handling facilities for further transfer to Forcados Terminal. Forcados is one of Nigeria's major export terminals to international markets.

Crude in storage facilities at Oza is ~22kbbbl. The company guides that once loading of crude oil from storage has reached 5kbbbl, it will resume production from the Oza-1 well.

Our view

Today's announcement marks a milestone for Decklar, as it will commence generating revenue, which could allow it to benefit from the currently robust commodity prices and drive growth at Oza and other fields. Trucking is a less optimal option for crude evacuation and more costly (we estimate ~\$15/bbl compared to ~\$5/bbl for pipeline usage); however, with record crude theft and low uptime at the Trans-Niger Pipeline (TNP) the company had to explore other options. We expect this to be temporary until theft and sabotage issues at the TNP are resolved.

2022 development plans for Oza

The company reiterated its 2022 guidance for Oza:

- Finalising arrangements with local communities and contractors to start construction of the access road and associated infrastructure for a new oil well drilling pad
- Drilling the first new development well
- Re-entry, re-completion and flow testing of the other two existing wells (Oza-2 and Oza-4), including tie-in to existing production facilities

Renaissance Capital receives a fee from the company to produce sponsored research and this document is deemed a marketing communication. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, nor is it subject to any legal prohibition on dealing ahead of the dissemination of investment research. We implemented procedures to ensure the production of Sponsored Research remains unbiased and unfettered. Our relationship with the company or issuer via the Sponsored Research agreement infers there is a greater potential for a conflict of interest as compared to independent research prepared by Renaissance Capital where no payment is made by the company. Sponsored Research should not be relied upon as financial or investment advice.

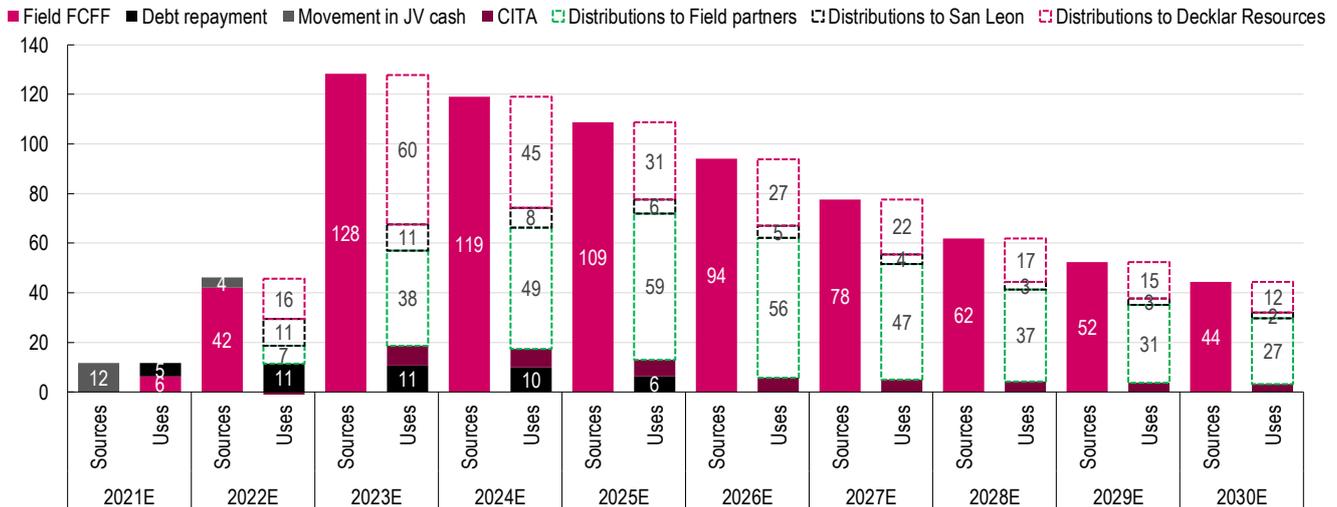
Renaissance Capital receives a fee from the company to produce sponsored research.

Sponsored research is not intended for nor should be utilised by retail or non-qualified investors.

- Installation of a Central Production Facility and infrastructure tie-ins for new well locations to replace the current Early Production Facility
- Drilling of up to two additional development wells

09 May 2022

Figure 1: Indicative Oza field sources and uses of cash at \$85/bbl, \$mn



Source: Company data, Renaissance Capital estimates

Valuation

We are reviewing our model in order to reflect the increase in commodity prices and recent newsflow. Our rounded valuation range for Decklar is CAD1.05-1.75/share, based on oil prices of \$50-75/bbl and 10-15% discount rates.

Figure 2: Decklar Resources valuation sensitivity, CAD/share

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	1.24	1.42	1.58	1.74	1.77
	11%	1.20	1.38	1.53	1.69	1.71
	12%	1.16	1.33	1.48	1.63	1.66
	13%	1.13	1.29	1.44	1.58	1.61
	14%	1.09	1.25	1.39	1.53	1.56
	15%	1.06	1.21	1.35	1.49	1.51

Source: Company data, Renaissance Capital estimates

The Institutional Investor survey is important to us. We would appreciate your vote.

Renaissance Capital receives a fee from the company to produce sponsored research and this document is deemed a marketing communication. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, nor is it subject to any legal prohibition on dealing ahead of the dissemination of investment research. We implemented procedures to ensure the production of Sponsored Research remains unbiased and unfettered. Our relationship with the company or issuer via the Sponsored Research agreement infers there is a greater potential for a conflict of interest as compared to independent research prepared by Renaissance Capital where no payment is made by the company. Sponsored Research should not be relied upon as financial or investment advice.