



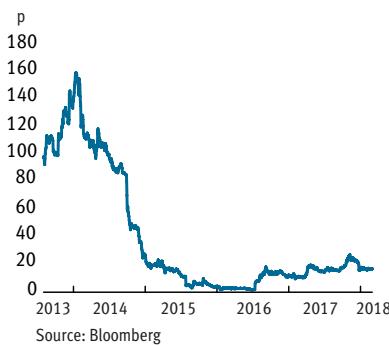
Trinity Exploration & Production: Resurrection points to strong recovery

The Caribbean oil explorer is cashed-up to ramp production growth, operating profits could more than treble over the next two financial years. This is simply not in the price

Trinity Exploration & Production (Aim: TRIN)

Ticker	TRIN
Current price (p)	17.45
Target price (p)	28
Market cap (£m)	67
52-week high (p)	27.9
52-week low (p)	9.9
Net cash (\$m)	18.5 (pro forma)
Shares in issue (m)	384
Financial year-end	31 Dec
Next event	2018 half-year results in late September 2018
Company website	trinityexploration.com

Trinity's share price in bargain territory



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Simon Thompson's view:

The Caribbean junior oil producer and explorer is debt-free and freed from legacy balance sheet issues. However, investors have yet to cotton on to the transformation in its fortunes, with the shares still trading 47 per cent below risked net asset value (NAV). In fact, on any valuation metric there is value on offer and that value is likely to be recognised by investors as the stream of positive newsflow builds up over the next year. Offering 60 per cent potential upside, the shares make for a compelling investment at this depressed level.

Bull points

- Debt-free and well-capitalised balance sheet post-restructuring.
- Pure play on Trinidad & Tobago offers attractive geopolitical risk:reward profile.
- Accelerated and fully-funded drilling programme underpins double-digit annual production growth target.
- Near-term programme to boost high-margin productions.
- High internal rate of return on new wells.
- Onshore oil production break-even of only \$16.60 per barrel.
- Offshore acreage offers potential for step change in production.
- Significant director shareholdings and participation in recent equity raise.
- Valuable tax losses to offset tax liability on future profits.
- Favourable fiscal regime.

Bear points

- Chequered history.
- Execution of ramping up production.
- Exposed to oil price volatility and global economic uncertainty.
- Liquidity.

Two years ago, **Trinity Exploration and Production (TRIN)** was in financial distress and in a fight for survival, having been forced to suspend its Alternative Investment Market (Aim)-traded shares and file a Notice of Intention under the Bankruptcy and Insolvency Act of Trinidad & Tobago, the wealthiest country in the Caribbean. Understandably, the company's chequered history has kept investors cautious.

However, with its legacy issues sorted, and a recent \$20m (£15.5m) equity raise at 15p a share wiping out all borrowings and providing Trinity with a pro forma cash pile of \$18.5m (£14.3m) to embark on a high-margin low operating expenditure programme to boost production, there is a very attractive investment opportunity to exploit here.

Trinity is an independent oil and gas exploration and production company focused solely on Trinidad and Tobago. It operates producing and development assets both onshore and offshore, in the shallow water west and east coasts of Trinidad. The portfolio includes current production, significant near-term production growth opportunities from low-risk developments and multiple exploration prospects which have potential to deliver meaningful reserves/resources growth. In aggregate, the company has nine licences encompassing 1,165 wells, of which 140 are active onshore and 40 active offshore. The operating environment is very favourable.

Trinidad and Tobago has the third lowest business tax rates amongst Latin America and Caribbean countries, is the seventh largest producer of liquefied natural gas (LNG) in the world, and boasts significant proven energy reserves of petroleum and natural gas. The economy is heavily reliant on the energy sector, which accounts for 45 per cent of GDP and 83 per cent of exports. Trinidad and Tobago has a long history of oil production and more recently has established itself as a significant exporter of natural gas from its offshore fields. It is also the largest producer and exporter of methanol and ammonia in the world. There are four LNG trains, four iron and steel mills, six power plants, 11 ammonia plants and one urea plant, together with a crude oil refinery (160,000 barrels of oil per day throughput refinery capacity; the bulk of the feedstock is imported to supplement indigenous crude). These are all positive characteristics and supportive of Trinity's activities in the region. The company accounts for 4.3 per cent of Trinidad and Tobago's total annual oil production.

Key performance indicators

Year to 31 Dec	2017	2016	Change (%)
Average realised oil price (per barrel)	\$48.6	\$39.4	23
Average net production (bopd)	2,519	2,542	(1)
Annual production (barrels)	0.92m	0.92m	-
Revenues	\$45.2m	\$35.3m	28
Operating earnings**	\$11.0m	\$6.2m	77
Operating earnings per barrel	\$12.0	\$6.7	77
Operating earnings margin	24.3%	17.6%	39
Consolidated operating break-even (per barrel)	\$30.9	\$29.3	6
Net cash (\$m)	0.1	(38.6)	10

**'Operating earnings' is defined by Trinity as revenues less royalties, less production costs, less general and administration expenses, less other expenses. It's a proxy for cash profits.

Source: Trinity Exploration & Production annual report

Time to exploit the resurrection of the Trinity

To understand why the company makes for an attractive investment opportunity now after almost collapsing two years ago, it is important to consider how its fortunes have been transformed since the shares returned from suspension at the start of 2017. The reason why Trinity was forced to seek protection from its creditors in late 2016 dates back to its reverse takeover of Aim-traded Bayfield Energy in 2013, which enabled Trinity to become a listed company. Up until that point, Trinity had a successful track record as one would expect given that it is led by Bruce Dingwall, the founder and former chief executive of Venture Production, a leading UK oil and gas company that was acquired by Centrica for £1.3bn in 2009.

Mr Dingwall left Venture Production in 2004 and led a management buyout of Venture's Trinidad & Tobago assets. Through a series of mergers and acquisitions he built up a business that was producing 1,500 barrels of oil per day (bopd) by the time the reverse takeover with Bayfield was announced in October 2012. Bayfield had been formed by the former executives of Burren Energy and held the valuable Galeota licence, off the south east coast of Trinidad. However, having encountered slower than expected growth in production and facing significant rig liabilities, Bayfield merged with Trinity to form a company which boasted 2P reserves of 31m barrels and 2C reserves of 38m barrels. Alongside the merger, the company raised £57m at 120p a share in order to drill 14 offshore development wells, 27 onshore development wells and six offshore exploration wells in 2013 and 2014. Trinity successfully unwound Bayfield's expensive rig liabilities, and poorly negotiated offtake contracts.

That's where the major problems for Trinity started to unfold as Bayfield's production from new wells on the Trintes field, located offshore in its East Galeota block, failed to live up to management's expectations prompting the company to cease drilling. It did, though, have success

Defining proven, probable and contingent reserves

- 2P means proven and probable oil reserves. Proven means reserves with a 90 per cent probability of being extracted profitably and probable reserves are those with at least a 50 per cent chance of being profitably extracted.
- 2C are reserves that, if particular contingencies are removed or overcome, will be classified as 2P.

on the TGAL-1 exploration well within the Galeota license. This block lies in the shallow waters (17m-45m) in the established Columbus Basin. Activity commenced in 1953, and 94 wells have been drilled to date, of which 61 are development wells. There is significant untapped potential from both shallower and deeper targets such as the Teak, Samaan and Poui fields, which are on trend from Trinity's acreage, having produced over 850m barrels of oil to date.

However, with oil prices plunging in 2016 to their lowest level since the 2008 global financial crisis, Trinity was in no position to exploit the potential of the Galeota license. In fact, the shortfall in production coupled with increased costs forced a financially distressed Trinity to seek a settlement with its creditors.

Fundraise a game changer

Trinity is now at a pivotal moment of its recovery. That's because the company's \$20m fundraising in June 2018 – an institutional placing, open offer for existing shareholders, and a subscription offer to management – has wiped out all of Trinity's liabilities to the convertible loan note (CLN) holders who part funded its rescue plan in December 2016. Interestingly, holders of \$6.44m of CLNs, representing 88 per cent of the issue, decided to convert their loan stock into equity. Holders of the remaining \$900,000 of CLNs who opted not to convert their loans into equity have been paid off in full as have the \$4.6m of liabilities outstanding to the Ministry of Energy of Trinidad & Tobago, and the island's tax authorities.

This has left Trinity with a clean and debt-free balance sheet boasting pro forma net cash of \$18.5m (£14.3m) and a pro forma net asset value (NAV) of \$68.6m (£53m). It was reassuring to see that all five main board directors participated in the equity raise and in a big way, purchasing almost 15m shares at 15p each. They have combined equity stakes of 22 per cent of the issued share capital, so have significant skin in the game. It's easy to see why they backed the equity raise so heavily.

Directors back the summer equity raise in a big way

Director	Position	Number of existing ordinary shares (m)	Number of subscription shares subscribed (m)	Total shareholding (m)	Percentage of enlarged share capital
Bruce Dingwall	Chairman	12.2	1.3	13.5	3.51
Jeremy Bridgalsingh	Chief financial officer	0.1	0.1	0.2	0.05
Angus Winther	Non-executive director	23.1	6.6	29.7	7.73
James Menzies	Non-executive director	0.7	0.3	1.0	0.25
David & Christina Segel Living Trust	Non-executive director	33.9	6.6	40.5	10.55

Source: London Stock Exchange RNS

“Trinity holds a 100 per cent operated working interest in five onshore licences”

High operating margin production

Trinity's operational acreage consists of five onshore licenses and one offshore license, which have combined 2P reserves of 23.2m stock tank barrels (stb) and 2C contingent resources of 23.98m stb.

Trinity holds a 100 per cent operated working interest in the five onshore licences under a programme introduced by Petrotrin, the national oil company, to reactive idle wells. The current licences run until 31 December 2020, and can be extended for a further five-year term on expiry. They have been extended several times in the past, and there is every reason to expect this to continue in the future given the tax take for the Trinidad and Tobago government. They are located in the south of Trinidad, in the Forest Reserve area, which commenced production in 1910.

It's relatively low maintenance and high operating margin production, so is highly profitable in the current oil price environment. Indeed, Trinity's consolidated break-even on last year's average daily output of 2,519 bopd was just \$30.9 per barrel, well above the average realised oil price of \$48.6 per barrel and the current spot price of **West Texas Intermediate (WTI)** of \$70 per barrel. All sales are made to state oil company Petrotrin under a sales agreement. Trinity generates a very healthy cash profit on its production. It refers to this as its 'Operating earnings' as defined by revenues less royalties, less production costs, less general and administration expenses, less other expenses. To all intents and purposes a proxy for cash profits (Ebitda) and gives an accurate idea of the overall cash profitability of the business.

On this basis, the company's profit margin increased from 17.6 per cent in 2016 to 24.3 per cent in 2017 with 'operating earnings' surging by 77 per cent to \$11m after adding back a non-cash \$7.05m total charge for depreciation, amortisation and depletion expense to its \$3.93m operating profit before petroleum taxes. This improved financial performance partly reflects the ongoing oil price recovery, but also an \$832,000 cut in the company's annual production costs to \$14.7m and only modest growth in its administration expenses. A key take was the surge in the 'operating earnings' per barrel from \$6.70 to \$12, highlighting the improvement in profitability, a trend that has continued into 2018.

Five-year trading summary

Details	2013	2014	2015	2016	2017
Realised Price (USD/bbl)	91.6	85.8	45.5	39.4	48.6
Production (bopd)	2013	2014	2015	2016	2017
Onshore	2,088	2,005	1,601	1,343	1,347
West Coast	493	491	312	190	212
East Coast	1,110	1,105	983	1,009	961
Consolidated	3,691	3,601	2,896	2,542	2,519
Operating break-even (USD/bbl)	2013	2014	2015	2016	2017
Onshore	19.0	21.3	23.3	17.4	16.6
West Coast	21.2	24.5	40.7	37.7	26.6
East Coast	69.8	55.9	41.3	26.3	24.9
Consolidated	62.9	64.6	47.4	29.3	30.9
Metrics (USD/bbl)	2013	2014	2015	2016	2017
Operating expenditure – Onshore	12.8	14.4	15.7	11.8	11.1
Operating expenditure – West Coast	17.4	20.2	33.8	31.6	22.1
Operating expenditure – East Coast	52	41.6	31.6	20.1	18.9
General & administration expenses – consolidated	13.8	11.4	9.9	4.5	4.7

Source 2017 Annual Report

A plan for output growth

By carrying out a programme of recompletions, workovers and reactivation of idle wells, Trinity increased its average production by 10 per cent to 2,641 bopd in the second half of 2017. This positive trend has continued into 2018 with average production rising to 2,721 bopd in the first quarter of 2018, and to 2,821 bopd in the second quarter. Combined, this means that the company's average production has risen by 16 per cent to 2,771 bopd in the first half of 2018, compared with the same period of 2017. The forthcoming interim results at the end of this month are likely to make for a good read.

Furthermore, there is a plan in place to ramp up production sharply from this point onwards. That's because apart from paying off liabilities to the government and the expensive CLN notes before January 2019 when the CLN holders could have converted into equity at 6p a share – the fact that 88 per cent of the holders opted to take equity at 15p to maintain an interest highlights the transformation of the company's fortunes in the past two years – the main reason for this summer's equity raise was to provide the funding to accelerate the company's onshore drilling.

The aim is to target between eight and 10 new wells each year on an ongoing basis, and at a cost of \$12m, in order to grow annual production by 10 per cent from an initial targeted base of 3,000 bopd. The onshore assets had an operating cost of just \$11 per barrel last year and a break-even point of \$16.60, so this ultra low operating cost structure offers significant scope to leverage up Trinity's profit margins on higher output. Indeed, as the company's cost base is 80 per cent fixed, rising production combined with higher oil prices have a significant operational

gearing effect on the company's profitability.

The senior management team have already identified 14 drilling locations, in addition to the two that were drilled in the first quarter of 2018, which produced a combined 142 bopd in the first 21 days of production. At the end of August 2018, the company announced that, onshore Trinidad, it has spudded the first well of a six infill well programme. The preparation for infill drilling operations has been ongoing with Trinity's subsurface teams working up incremental locations for future drilling. This work resulted in a 45 per cent increase in onshore 2P reserves to 5.78m barrels in 2017, but actual proven reserves could be 50 per cent higher than this reported figure. That's because the 2P reserves do not take into account the company's significantly increased drilling campaign, and Trinity only books reserves once drilling locations have been identified and budgeted for.

Unaudited 2017 2P reserves (stock barrels in millions)

	31 Dec 2016	Production	Revisions	31 Dec 2017
Onshore	3.98	(0.49)	2.29	5.78
East Coast	14.68	(0.35)	0.45	14.78
West Coast	2.59	(0.08)	0.14	2.65
Total	21.25	(0.92)	2.88	23.21

Source: 2017 Annual Report

There is no problem finding oil in Trinidad & Tobago, the challenge is producing it economically. Bearing this in mind, Trinity is the lowest cost onshore producer among its listed Trinidad peers, which include **Touchstone Exploration (TXP)** and **Columbus Energy Resources (CERP)**.

Importantly, the geology doesn't require complex completion techniques or fracking. Initial production rates from wells tend to range between 50 and 100 bopd, with decline rates of around 10 per cent each year. If all goes to plan then Trinity should be able to lift production by a quarter from 2,821 bopd in the second quarter this year, to 3,500 bopd by 2020 from its accelerated onshore drilling activities. The economic returns are eye-catching with the pay-back period only 10 months on each well based on an oil price of \$60 a barrel.

The potential for a sharp ramp-up in production is highlighted in the chart from equity advisor Whitman Howard.

So, with Trinity cashed up to deliver substantial output growth, and benefiting from a favourable oil price environment, then it's reasonable to expect investors to warm to the unfolding recovery story safe in the knowledge that the financial distress that previously dogged the company is no longer an issue.

Offshore upside too

Trinity has a 100 per cent interest in the Trintes field (2P reserves of 14.78m barrels) and a 65 per cent interest in the aforementioned TGAL discovery, both of which are located offshore in its East Galeota block. The Trintes field consists of five main reservoir zones across a 1,230 hectare block comprising good quality shoreface, estuarine channel and fluvial sands, ranging in depth from less than 150m to 1,500m.

Following Bayfield's previous drilling programme, Trinity has undertaken an extensive geological and geophysical review of the area and licence and has reprocessed the 3D seismic data set. The subsurface model now fits much better with historic production data. Trintes produces stable production of around 1,000 bopd with the main reservoirs enjoying high recovery factors, reflecting natural water influx from a down dip aquifer over many years. There is potential to recover further volumes by improving field management practices and completions.

True, reservoir pressure is low, but the wells have high productivity and a modest reduction in the bottom hole flowing pressure of a well can yield decent production gains. Trintes has a relatively benign reservoir to produce from, and given the high API of the oil (an industry measure to quantify how heavy or light a petroleum liquid is compared to water), low formation temperatures and effective sand control, the life of electric submersible pump systems is in excess of 1,300 days. These factors explain why Trinity's offshore operating cost was only \$25 a barrel in 2017.

Moreover, with additional capital resources at its disposal, and freed from the financial distress which held back ramping-up output from its portfolio in the past, Trinity's management have scope to revise the Trintes drilling plan. Trinity has an inventory of 16 drilling locations for Trintes, of which four have already been planned for and are capable of initial production rates of 300 bopd per well, offering potential for a material change in the company's total production. It's worth flagging up that although Trintes has 2P reserves of 14.78m barrels, and 2C contingent resources of 6.37m barrels, Trinity's management estimate that the field has stock tank oil initially in

Unaudited 2017 2C resources (stock barrels in millions)

Asset	31 Dec 2016	Revisions	31 Dec 2017
Onshore	1.00	1.18	2.18
East Coast	19.54	1.33	20.87
West Coast	0.52	0.41	0.93
Total	21.06	2.92	23.98

Source: 2017 Annual Report

“Trintes 2P reserves represent only a small amount of the likely recovery”

place (an industry measure) of 249m barrels, so the 2P reserves represent only a small amount of the likely recovery from the total targeted resource.

Trinity's TGAL discovery East of Trintes has 2C Resources of 14.5m barrels, representing only 12 per cent of the estimated oil in place of 186m barrels. The TGAL discovery offers potential for a phased development for the Galeota Ridge area, albeit this is a medium-term prospect and Trinity's management team have commenced work on revisiting the previously developed Field Development Plan with a view to reducing the capital requirements. One option is to deploy a jack up using the Trintes drilling rig with umbilical power and a walkway to Trinity's Alpha offshore marine platform.

On the East Coast, Trinity has an established production hub with four offshore marine platforms (Alpha, Bravo, Charlie & Delta) that operate a combined 61 platform wells. Work on TGAL could be completed in multiple stages and the wells offer potential initial production rates of 500 bopd. Industry experts at the company's adviser Whitman Howard believe that there is potential for a blended capital expenditure of \$7 to \$8 a barrel to first oil.

Unaudited 2P reserves and 2C resources (stock barrels in millions)

	2P reserves	2P resources	2P + 2C reserves and resources
Onshore	5.78	2.18	7.96
East Coast	14.78	20.87	35.65
West Coast	2.64	0.93	3.57
Total	23.20	23.98	47.18

Source: 2017 Annual Report

West Coast assets

Around 8 per cent (212 bopd in 2017) of Trinity's total production last year was from its West Coast operations: the Point Liguore-Guapo Bay-Brighton Marine (PGB) and Brighton Marine (BM) fields. This represented a 12 per cent year-on-year increase in production facilitated by undertaking a pipeline change-out programme.

Trinity had entered into a sale agreement in the summer of 2017 to dispose of its non-core interests in the PGB and BM licences and related fixed assets to Aim-traded Range Resources (RRL), another of the small UK-listed operators in Trinidad & Tobago, for a cash consideration of \$4.55m. However, the transaction was unable to complete due to the requisite regulatory approvals not being forthcoming. Trinity's management is examining a range of options regarding the sale of these assets, but in the meantime they continue to generate positive cash flow and profits (operating break-even of \$26.6 a barrel in 2017). The land-

based wells across both the PGB and BM fields will be targeted for reactivations to boost production further. It's worth pointing out that there were other interested parties last year, and the oil price is sharply higher too, so there is likely to be upside to the \$4.55m price tag in the event of a disposal taking place with another operator.

Attractive valuation

Trinity's chequered past has clearly deterred some investors, but what is not in doubt is that there is a plan in place to scale up output and generate significant profit growth for shareholders. Trinity's management team (see below) have the experience to execute the plan successfully, so it's reasonable to expect revenues and profits to ramp up sharply too as production targets are met.

Trinity Exploration & Production (Aim: TRIN)

Ord Price: 17.45p	Market Value: £67.0m
Touch: 17.05-17.45p	12-Month High: 27.9p Low: 9.9p
Discount Yield: nil	PE Ratio: 9
Net Asset Value: 17.8¢*	Net Cash: \$18.5m

Year to 31 Dec	Revenue (\$m)	Operating profit (\$m)	Pre-tax profit (\$m)	Post tax profit (\$m)	Earnings per share (¢)
2016***	35.3	-2.9	-9.35	-7.5	-8.0
2017***	45.2	1.9	25.32	25.4	9.0
2018**	56.1	6.3	4.10	-2.1	-1.0
2019**	65.1	11.2	9.20	2.6	1.0
2020**	78.3	20.3	18.30	9.2	2.0
% change	+20	+81	+99	+254	-

Normal market size: 20,000 SETS

*Includes intangible assets and goodwill of \$25.6m, or 6.7¢ a share

**Whitman Howard forecasts

***2017 pre-tax profits includes exceptional gain of \$25.7m, mainly resulting from creditor compromise agreements as part of restructuring; 2016 pre-tax profits includes exceptional losses of \$1.67m.

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Source: Trinity Exploration & Production annual report, London Stock Exchange

To put this in perspective, analysts at the company's equity adviser Whitman Howard predict that Trinity's operating profit will treble to \$6.3m this year, based on revenues increasing by 24 per cent to \$56m. They forecast operating profit will almost double again to \$11.2m in 2019 and will reach \$20.3m in 2020, based on revenues rising by 40 per cent over the next two financial years.

This means Trinity's net profits after tax could be \$9.2m in 2020, implying that the shares are rated on a modest nine times the net earnings forecast for that year. The fact that operating profits are forecast to more than treble (from \$6.3m to \$20.3m between 2018 and 2020) on a 40 per cent revenue increase highlights the operational gearing of the business. As revenues grow, a higher proportion of incremental gross profit drops straight to the bottom line. With next year's output unhedged, the company is set to benefit from a much higher oil price which is also supportive of forecasts.

Trinity's gross margin set to surge

	Financial year to 31 Dec				
	2016	2017	2018	2019	2020
Revenues (\$m)	35.3	45.2	56.1	65.1	78.3
Gross profit (\$m)	7.4	9.6	10.7	15.6	24.7
Gross margin (%)	21.0%	21.2%	19.1%	24.0%	31.5%

Source: Trinity Exploration & Production annual report; Whitman Howard forecasts

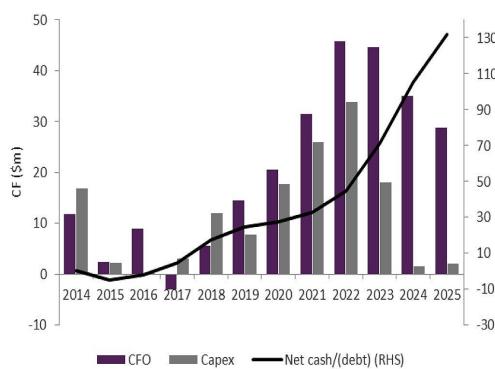
Furthermore, given that the new wells have such a short pay-back period, the company can recycle operating cash flows into ramping-up production even further to boost its return on equity. Indeed, with 2019 forecast operating profits of \$11.2m stated after deducting a \$9m non-cash depreciation and depletion charge, next year's cash profits of \$20.2m will exceed Trinity's planned capital expenditure of \$12m (based on 10 wells being drilled at \$1.2m each), leaving the company with \$8m surplus cash to invest back in the business.

The chart (left) from the company's equity advisor Whitman Howard highlights how the company's cash flow profile is improving with cash flow from operations (CFO) forecast to exceed capital expenditure (Capex) in the coming years and lead to a cash build to recycle back into the business.

Also, Trinity had \$226m of tax losses to utilise at the end of December 2017, which do not have an expiry date and can be used to offset against Trinidad & Tobago's Petroleum Profits Tax (PPT). Analysts at Whitman Howard believe that based on current legislation the company will not pay any PPT until 2023. This means that Trinity only pays Supplemental Petroleum Tax (SPT) which is charged when realised oil prices are higher than \$50 a barrel. SPT is charged at a rate of 18 per cent and 26 per cent on net revenues (gross revenue less royalties less incentives) on onshore and offshore assets, respectively. SPT reform has been earmarked by the government of Trinidad and Tobago, but has not yet been effected.

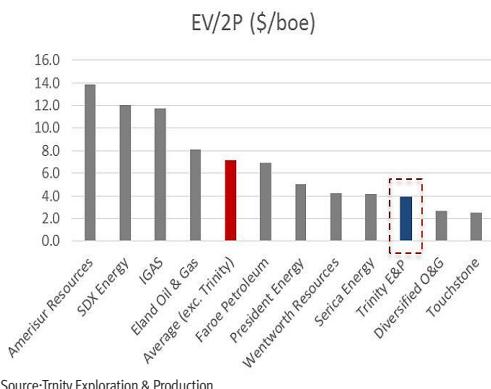
Any changes to SPT could work in Trinity's favour given that the government is keen to increase oil production. Potential changes could include making SPT charged in line with profitability rather than just the oil price. This would be positive on Trinity's valuation.

Trinity cash flow profile (\$m)



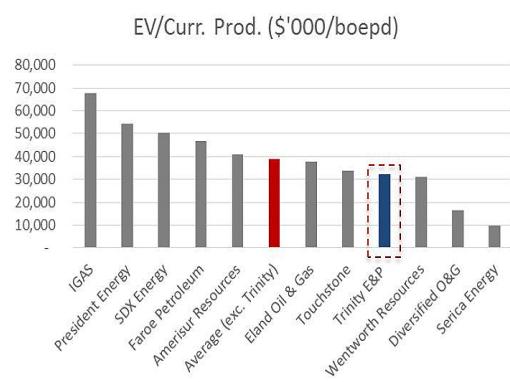
Source: Whitman Howard estimates

Bargain basement valuation for Trinity's proven reserves



Source: Trinity Exploration & Production

Trinity current production undervalued



Source: Trinity Exploration & Production

Massive discount to larger peers

Trinity's low forward earnings multiple aside, the company is the lowest rated stock in its peer group on almost any other metric. Based on Whitman Howard's risked NAV of 33p, Trinity's shares are priced on a 47 per cent discount compared to a peer group average of 16 per cent.

It's massively underrated compared to larger rivals too. For instance, big exploration and production companies like **Cairn Energy (CNE)** are rated on 0.75 times risked NAV, and **Faroe Petroleum (FPM)** is priced on 1.14 times risked NAV, a reflection of the bid interest in the latter from **DNO ASA (DNO:ASA)**, the Norwegian oil and gas operator that has built up a 29 per cent stake in Faroe.

The company is also massively undervalued if you compare Trinity's enterprise value (market capitalisation less net funds) to its 2P resources (EV/2P ratio). On this basis, its £53m enterprise value equates to just \$3 for every one of its 23.2m barrels of proven resources. That's less than a quarter of the valuation of small-caps **SDX Energy (SDX)**, **Amerisur Resources (AMER)** and **IGAS Energy (IGAS)** which have market capitalisations of £200m, £180m and £124m, respectively. Trinity's peer group of 10 small-caps also includes **Eland Oil & Gas (ELA)**, **President Energy (PPC)**, **Wentworth Resources (WRL)**, **Serica Energy (SQZ)**, **Diversified Oil & Gas (DGOC)** and **Touchstone (TXP)**. The average EV/2P multiple for these 10 peers is more than double Trinity's valuation. Even taking into account that Trinity's market value of £66m is at the lower end of the peer group, the share price discount to peers on this metric is extreme.

On an enterprise value to current production basis the company is being valued on a very low multiple too. Its second quarter daily output of 2,821 bopd is being valued at only \$24,500 based on Trinity's enterprise value of \$69m. On the same metric, the average for the aforementioned peer group of 10 companies is \$40,000, or almost two-thirds higher than Trinity's valuation on the same basis.

Experienced management

It's reassuring that Trinity's management team have a wealth of experience. Founder and executive chairman Bruce Dingwall is a geologist and has more than 30 years experience with multi-national companies such as Exxon and Lasmo. He is not the only one, though, as non-executive director James Menzies founded Salamander Energy in 2004 (it was acquired by Ophir Energy for \$850m) and has more than 30 years industry experience, too. He is currently chairman of TAP Oil.

Other non-executive directors include Angus Winther, co-founder of Lexicon Partners, a London-based investment banking advisory firm, and David Segel, a founding partner of Mako Group, a London-based financial services business. Chief financial officer James Bridglalsingh previously worked in financial services at PricewaterhouseCoopers (Trinidad & Tobago), mainly in an advisory role on various transactions across a number of jurisdictions.

The main board directors are backed up by a senior management with significant industry experience. Operating officer Rajesh Rajpaulsingh is a petroleum engineer with more than 15 years experience, having previously worked at the state oil company, Petrotrin. Commercial director Danesh Ramnarace has held roles as a petroleum engineer and operations manager at Primera Oil and Parex Resources.

Production and technical director Graham Stuart worked as a field engineer at Schlumberger for 19 years and then at Venture Production. Corporate development director Tracey Mackenzie previously worked in investment banking with Brewin Dolphin prior to joining Trinity in 2014. This vast industry experience is reassuring in light of Trinity's plans to ramp-up production sharply.

Target price

Interestingly, Trinity's share price fell off sharply after the company announced the discounted share placing and offer for subscription to raise \$20m in late June 2018. This was a knee-jerk reaction as the primary purpose of the fundraise was to accelerate production and it certainly wasn't a sign of financial distress. The share price has been moving sideways in a narrow range between 16p and 18p ever since then as investors reassess the investment case, and the upside from the ramp up in production. Bearing this in mind, last week's spudding of the first of a six infill well programme planned for the second half sent Trinity's share price moving up again towards the top of the trading range.

With first-half results scheduled for the end of September set to make for a good read, production and profits ramping up, then the distress risk still embedded in the current valuation is likely to unwind markedly in the coming months as investors cotton on to the revival in the company's fortunes.

From both a technical and fundamental perspective, a return to the 28p summer peak looks highly likely to narrow the unwarranted share price discount to risked NAV back to 15 per cent, in line with the company's peer group. Offering 60 per cent potential share price upside, Trinity shares rate a **strong buy** at this level.

Risk Assessment

Of course, no company is without risk and there are several to consider here.

■ **Licences:** Trinity's onshore licences run until 31 December 2020, and can be extended for a further five-year term on expiry. This is a formality as the country has a pro-energy policy, Trinity produces 4.3 per cent of its annual output, and the policy to ramp up production from inactive wells is in line with government policy.

■ **Petromin restructuring:** The national oil company has just announced a restructuring of its operations including the planned closure of its oil-refinery operations and a redesign of its exploration and production business. Petrotrin is phasing out the refining of crude oil from October this year and future production volumes will be exported for processing at other facilities. This will not impact Trinity as all sales made to Petrotrin are under a sales agreement and the company expects to continue to sell crude oil production to Petrotrin under existing contracts which Petrotrin will export on the international market.

■ **Geopolitical risk:** Unlike territories in the Middle East and Africa, Trinidad and Tobago offers a more stable and safer environment to operate in and one that could attract increasing awareness in the coming years given the government's pro-energy policies. It's also a relatively wealthy country with average GDP in excess of \$12,500 and a work force of 657,000 accounting for almost half the 1.4m population.

■ **Execution risk:** Scaling up of output always carries risk, but Trinity is unusual in so far that it's not a case of finding the oil – it's plentiful – but identifying target wells which will provide commercial quantities to justify the drilling programme. The short pay-back period on the drilling programme is unusual too as it actually de-risks the investment case. Single well risk is mitigated by drilling from 140 onshore wells and 40 offshore wells.

■ **Oil price volatility:** Trinity is less exposed than many small operators given that its onshore wells have an average operating break-even of just \$16.60 per barrel, so could boost output profitably even if the oil price falls sharply. Also, under the current Supplemental Petroleum Tax regime the company would not pay any tax at oil prices below \$50. Its substantial tax losses also shield it from the Petroleum Profits Tax too.

■ **Hedging the oil price:** Trinity hedged its 2018 oil production under a cap and collar arrangement (\$45 and \$59.80 per barrel, respectively), so will benefit from the higher spot price next year given that WTI is currently trading at \$70 a barrel. This adds weight to the expected sharp increase in profits.

■ **TGAL discovery East of Trintes:** There is no guarantee that Trinity will be successful in developing the prospect, and may need to find a partner to fund it. Bearing this in mind, several large companies have been looking to increase their exposure to the region. Indeed, Perenco, a leading player in shallow water, acquired an offshore production license on trend with Trinity's offshore acreage and wants to do more deals in the country.

■ **Liquidity:** The top 11 shareholders control just under 60 per cent of the issued share capital of 384m shares which means there is a lower than average free float. This accentuates price moves in both directions. However, with the company's production and profits set to increase markedly in the coming years, the liquidity factor could act as an added driver to a re-rating, and one that could lead to sharp share price gains on positive news flow. The shares are readily tradable in bargains up to 100,000 shares and the bid-offer spread is less than 0.3 per cent, so trading them is not an issue.

Major shareholders

Shareholder	Shares held (m)	Percentage of share capital
David and Christina Segel Living Trust (non-executive)	40.5	10.6%
Angus Winther (non-executive)	29.7	7.7%
Gavin White	29.3	7.6%
Hargreave Hale	21.1	5.5%
Interactive Investor Clients	19.1	5.0%
Hargreave Lansdown Asset Management Clients	17.0	4.4%
Jan-Dirk Leuders	16.1	4.1%
Scott Casto	15.7	4.1%
Tim & Lisa Robinson	14.6	3.8%
Bruce Dingwall (chairman)	13.5	3.5%
Joseph Piers Jennings	13.2	3.5%
Total	59.8%	

Source: 2017 Annual Report

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