

## H1 Results: Another Strong Performance

### CAPD LN

22 August 2019

Last price: 50.5p  
Target price: 91.0p

### Target Price Maintained – 91p

Capital Drilling (LSE: CAPD) this morning released its 2019 H1 financial results, having already provided a trading update on 17 July 2019 including revenue and utilisation figures.

#### Continued strong earnings

Net Income after tax of US\$5.1 million was 39% higher than our forecast of US\$3.7 million, primarily due to a lower than expected depreciation charge for the half year and lower financing charges. EBITDA for the half year of US\$12.6 million was 5% below our forecast of US\$13.2 million. Capital's EBITDA margin of 23% is in line with both Tamesis estimates and H1/2018 despite the additional overheads in establishing the West African business. Cash from operations of US\$10.5 million was 22% lower than our expected US\$13.3 million – attributable to a larger than expected change in working capital.

#### Further contract wins in West Africa

The West African business continues to win new contracts; the company announced the award of three new exploration drilling contracts with Arrow Minerals' (ASX: AMD) Divole project in Burkina Faso, Awale Resources' (TSV-V: ARIC) Bondoukou project in Cote d'Ivoire, and Desert Minerals' (TSX-V: DAU) Senegal-Mali Shear Zone project in Mali. This is in addition to the six new contract awards in H1/2019 previously announced.

#### Dividend increased, debt reduced

The interim dividend has been increased by 17% to 0.7cps (H1/2018 0.6cps). This implies a dividend yield of 3.3% inclusive of the final dividend of 1.5cps paid on 3 May 2019. Additionally, the company continued to repay its revolving credit facility with Standard Bank, reducing the balance by US\$2 million leaving US\$7 million outstanding. Net cash is up 150% year-on-year to US\$8.5 million versus US\$3.4 million in H1/2018. The value of Capital Drilling's investments has risen to US\$7.7 million over the period (from US\$5.9 million in H2/2018) as the company's drill for equity programme continues.

#### Underpinned by blue-chip contacts, encouraged by rising gold prices

The majority of Capital's earnings are derived from long-term contracts at Sukari (Centamin), Tasiast (Kinross), Geita (Anglogold Ashanti), Syama (Resolute) and North Mara (Acacia). Recent improved in the gold price to above US\$1,500/oz (90% of the company's overall business is gold related) is expected to encourage exploration and junior development in the sector. Capital is ahead of the curve through establishing its West African business and is poised to take advantage of an improving gold exploration environment.

#### Price target maintained at 91p/share

Even with strong recent share price performance, Capital Drilling continues to look undervalued. The company is underwritten by core long-term contracts, a balance sheet that has never looked better, a proven record of growing the dividend, and continued opportunities to grow the contract base with new wins in West Africa. We forecast full year 2019 free cash flow of US\$8.7 million (pre-investments) which implies a 9.6% FCF yield at the current share price. We estimate that Capital Drilling is trading on 3.0x 2019E EV/EBITDA and 9.1x 2019E P/E multiples.

We value Capital Drilling at 91p/share, representing 5x forecast 2019 EV/EBITDA of US\$26.8 million and a 1.6x multiple on the current share price.

#### Summary

Last price:	55.5p
Target price	91.0p
Projected return (%)	63.9%

#### Share Data

Shares o/s (mm)	135.8
52 week high/low (£)	0.58 / 0.34
3-mth avg. daily vol (k)	91.1
3-mth avg. daily val (£k)	46.1
Market cap (US\$m)	90.4
Cash (US\$m)	15.5
Net cash/(debt) (US\$m)	8.5
Enterprise value (US\$m)	79.5

#### Financial Data

	2018A	2019E	2020E
Revenue (US\$m)	116.0	112.9	117.3
EBITDA (US\$m)	28.3	26.8	28.8
EBIT (US\$m)	14.8	15.6	15.4
PBT (US\$m)	12.6	14.8	15.0
PAT (US\$m)	7.7	9.9	10.3
EPS	0.06	0.07	0.08
CFPS	0.06	0.07	0.10
Dividend (US\$/sh)	0.02	0.02	0.02
Dividend yield	2.7%	3.2%	3.2%
P/E	11.7x	9.1x	8.8x
P/FCF	11.1x	6.7x	7.6x
EV/EBITDA	2.8x	3.0x	2.8x

#### Share Price Performance



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## H1/2019 Results

As announced in the operating update released on 17 July 2019, Capital Drilling achieved H1/2019 revenue of US\$54.8 million, and reiterated revenue guidance of US\$110-120 million for FY 2019. EBITDA for the half year of US\$12.6 million was 5% below our forecast of US\$13.2 million, however a lower than expected depreciation charge had a significant flow-through impact to EBIT and Net Profit, which at US\$7.9 million and US\$5.1 million were 30% and 39% above our estimates respectively.

Operating cashflows prior to working capital adjustments of US\$13.5 million was in line with Tamesis expectations. A working capital outflow of US\$3.1 million was primarily driven by increase in prepayments and other expenses. This accounts for the US\$2.9 million difference in net cash from operating expenses in our forecasts, offset in part by lower finance charges.

During the half year period, Capital repaid a further US\$2 million of the revolving credit facility with Standard Bank leaving an outstanding balance of US\$7 million. Additionally, US\$2.1 million was invested as part of the company's drill for equity programme reflecting increased contract wins in West Africa, and US\$2.0 million was paid as the FY-2018 final dividend.

The company's net cash balance improved to US\$8.5 million, below our forecast due to the aforementioned working capital overflow and drill for equity, but still a substantial improvement on the H1/2018 net cash balance of US\$3.2 million.

A summary and comparison of the key operating items versus our forecasts and H1/2018 actuals are:

Figure 1 – CAPD Key Operating Items

	Actual	Forecast	Δ	H1/2018	Δ
<b>EBITDA (\$ m)</b>	<b>12.6</b>	<b>13.2</b>	<b>(5%)</b>	<b>12.5</b>	<b>1%</b>
EBIT (\$ m)	7.9	6.0	30%	5.8	36%
Net Profit (Loss) After Tax (\$ m)	5.1	3.7	39%	2.2	137%
Capex (\$ m)	6.4	5.5	(16%)	5.4	(18%)

	Actual	Forecast	Δ	H1/2018	Δ
Operating cash flows before working capital changes	13.5	13.3	1%	12.9	5%
Adjustments for working capital changes	3.1	0.0	(100%)	5.7	46%
<b>Cash from operations</b>	<b>10.5</b>	<b>13.3</b>	<b>(22%)</b>	<b>7.2</b>	<b>53%</b>
Finance charges	(0.4)	(0.5)	26%	(0.5)	26%
Taxation	(2.2)	(2.1)	(4%)	(1.5)	(50%)
<b>Net cash generated from operating activities</b>	<b>8.0</b>	<b>10.9</b>	<b>(27%)</b>	<b>5.2</b>	<b>53%</b>
<b>Net cash used in investing activities</b>	<b>(8.1)</b>	<b>(5.5)</b>	<b>(46%)</b>	<b>(5.0)</b>	<b>(63%)</b>
Net Borrowing/(Repayment)	(2.0)	(0.0)	-	(0.0)	-
Dividend paid	(2.0)	(2.0)	-	(1.6)	24%
<b>Net cash used in financing activities</b>	<b>(4.1)</b>	<b>(2.0)</b>	<b>(100%)</b>	<b>(1.7)</b>	<b>(143%)</b>
<b>Net increase (decrease) in cash</b>	<b>(4.1)</b>	<b>4.0</b>	<b>(203%)</b>	<b>(1.4)</b>	<b>(199%)</b>
<b>Closing cash balance</b>	<b>15.5</b>	<b>22.8</b>	<b>(32%)</b>	<b>15.4</b>	<b>1%</b>
<b>Long Term Liabilities</b>	<b>(7.0)</b>	<b>(9.0)</b>	<b>22%</b>	<b>(12.0)</b>	<b>41%</b>
<b>Net Cash Balance</b>	<b>8.5</b>	<b>13.8</b>	<b>(38%)</b>	<b>3.2</b>	<b>151%</b>

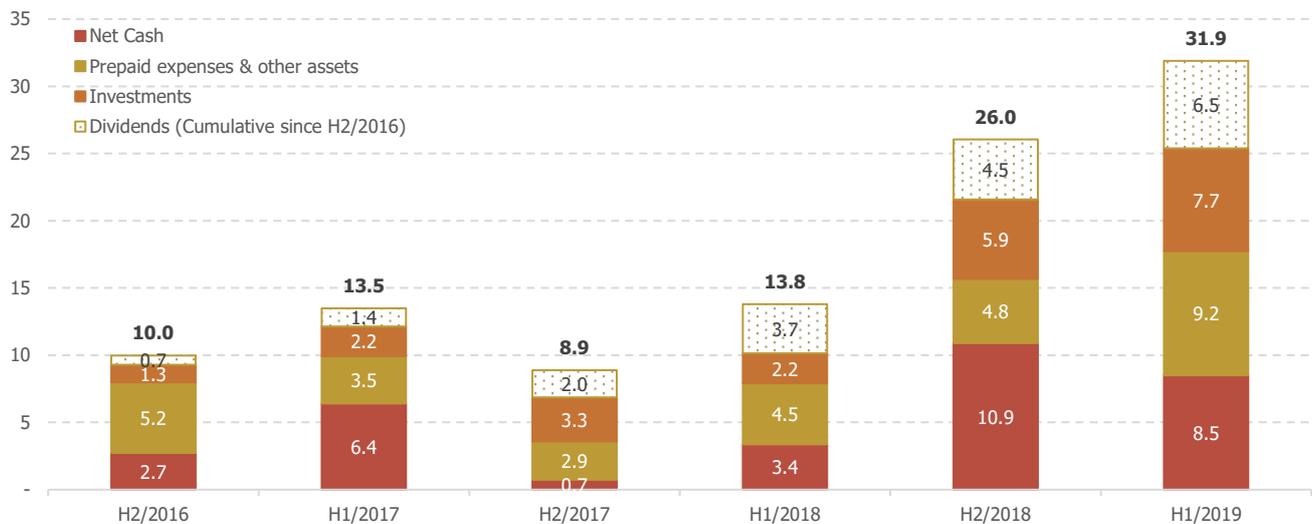
Source: Capital Drilling, Tamesis

## Strong Balance Sheet

Strong financial performance over the last three years has both improved the balance sheet and return cash to Capital Drilling shareholders in parallel. Looking at the cash and balance sheet evolution since H2/2016, the company has grown its net cash balance to US\$8.5 million, from US\$2.7 million, whilst also paying US\$6.5 million in dividends to shareholders over the same period.

As part of the West African growth strategy, the drill for equity programmes has expanded without compromising cash generation – and exposes the company to exploration success in a rising gold price environment. The balance of prepaid expenses and other assets have also increased, of which we would expect to see a return on invested capital in future periods.

Figure 2 – CAPD Assets Evolution (US\$m)

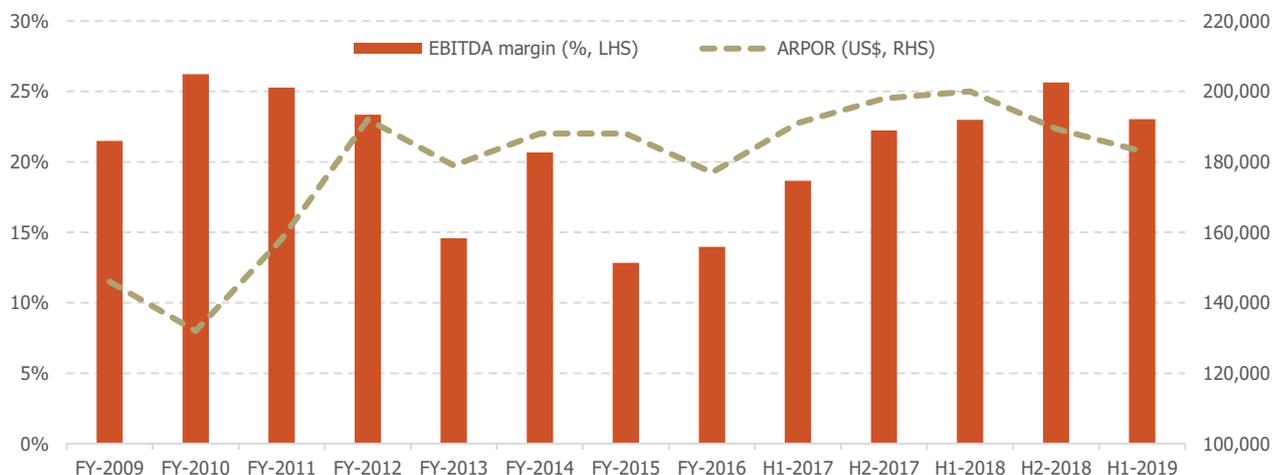


Source: Capital Drilling, Tamesis

## Margins Maintained

Capital Drilling has managed to maintain recent strong EBITDA margins in spite of lower Average Revenue Per Operating Rig (ARPOR) over H1/2019, to be expected as the company expands to newer contracts in the West African business strategy. We are confident in management’s ability to maintain margins through the cycle.

Figure 3 – EBITDA margin (%) vs ARPOR (US\$m)



Source: Capital Drilling, Tamesis

## Peer Comparison

Relative to its peers, Capital Drilling continues to trade at a discount on a multiples basis, trading at 3.0x forecast 2019 EBITDA versus an identified peer universe average of 5.0x.

Capital is the only company in the identified peer group outside Ausdrill that pays a dividend, which remains well covered at current and forecast earning levels.

Figure 4 – Peer Comps

Company	Mkt. Cap. (US\$m)	Net Cash (US\$m)	Ent. Val. (US\$m)	EBITDA (US\$m)		EV / EBITDA (x)		Div. Yield (%)	Perf. (12M) (%)
				2019a/e	2020e	2019a/e	2020e		
Ausdrill	959.0	(385.6)	1,344.6	223.9	289.7	6.0x	4.6x	2.8%	(4.3%)
Boart Longyear	139.9	(637.5)	777.3	118.4	155.1	6.6x	5.0x	-	(20.0%)
Energold Drilling	2.5	(12.9)	15.4	-	-	n/a	n/a	-	(77.2%)
Foraco International	22.8	(130.4)	153.3	-	-	n/a	n/a	-	7.1%
Geodrill	51.5	1.2	50.2	20.8	24.0	2.4x	2.1x	-	(5.8%)
Major Drilling Group	281.6	15.4	266.3	40.7	47.9	6.5x	5.6x	-	(4.8%)
Mitchell Services	85.9	1.4	84.5	15.6	19.0	5.4x	4.5x	-	51.2%
Orbit Garant Drilling	23.9	(25.9)	49.8	8.6	13.2	5.8x	3.8x	-	(56.0%)
Swick Mining Services	44.0	(30.1)	74.1	17.6	19.8	4.2x	3.7x	-	15.9%
<b>Mean</b>						<b>5.5x</b>	<b>4.3x</b>	-	-
<b>Capital Drilling Ltd.</b>	<b>90.4</b>	<b>8.5</b>	<b>79.5</b>	<b>28.6</b>	<b>28.8</b>	<b>3.0x</b>	<b>2.8x</b>	<b>3.3%</b>	<b>35.4%</b>

Source: Tamesis, FactSet, Company Reports

## Block Model

Capital Drilling		CAPD LN	
As at	19-Aug-19		
<b>Share Price (GBp)</b>	<b>50.0</b>	<b>Target Price (GBp)</b>	<b>91</b>
Ordinary Shares (M)	135.8	Market Cap (US\$m)	\$82.2
Options + Notes (M)	2.4	Enterprise Value (US\$m)	\$79.5

ASSUMPTIONS	2017A	2018A	2019E	2020E	2021E
Average Fleet Size	93	93	93	93	93
Fleet Utilisation	53%	51%	53%	52%	52%
Average Revenue per Operating Rig (US\$)	194,500	194,000	186,500	190,000	190,000

FINANCIAL SUMMARY	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	<b>119.4</b>	<b>116.0</b>	<b>112.9</b>	<b>117.3</b>	<b>117.3</b>
EBITDA	24.3	28.3	26.8	28.8	28.8
Profit before Tax	9.7	12.6	14.8	15.0	14.4
<b>Profit after Tax</b>	<b>5.2</b>	<b>7.7</b>	<b>9.9</b>	<b>10.3</b>	<b>9.7</b>
Earnings per Share (US¢)	0.04	0.06	0.07	0.08	0.07
<b>Operating Cashflow per share (US¢)</b>	<b>0.15</b>	<b>0.17</b>	<b>0.17</b>	<b>0.17</b>	<b>0.21</b>
Free Cash Flow (unlevered) per Share (US¢)	0.05	0.06	0.07	0.10	0.10
P/E	17.3x	11.7x	9.1x	8.8x	9.3x
EV/EBITDA	3.3x	2.8x	3.0x	2.8x	2.8x
Price / Operating Cash Flow	4.0x	3.7x	3.5x	3.5x	3.0x
Price / unlevered FCF	13.2x	9.8x	8.3x	6.4x	6.1x

PROFIT AND LOSS STATEMENT - US\$m	2017A	2018A	2019E	2020E	2021E
Sales Revenue	119.4	116.0	112.9	117.3	117.3
Operating Costs	(80.2)	(70.7)	(68.8)	(71.5)	(71.5)
<b>Gross Profit</b>	<b>39.3</b>	<b>45.3</b>	<b>44.0</b>	<b>45.8</b>	<b>45.8</b>
Administration Costs	(14.9)	(17.0)	(17.3)	(17.0)	(17.0)
<b>EBITDA</b>	<b>24.3</b>	<b>28.3</b>	<b>26.8</b>	<b>28.8</b>	<b>28.8</b>
Depreciation	(12.6)	(13.5)	(11.2)	(13.4)	(14.1)
<b>EBIT</b>	<b>11.7</b>	<b>14.8</b>	<b>15.6</b>	<b>15.4</b>	<b>14.7</b>
Finance Charges and Other	(5.2)	(3.7)	(2.3)	(2.8)	(3.3)
<b>Pre-Tax Profits</b>	<b>9.7</b>	<b>12.6</b>	<b>14.8</b>	<b>15.0</b>	<b>14.4</b>
Less Tax	(4.5)	(4.9)	(4.9)	(4.7)	(4.7)
<b>NPAT</b>	<b>5.2</b>	<b>7.7</b>	<b>9.9</b>	<b>10.3</b>	<b>9.7</b>

CASH FLOW ANALYSIS - US\$m	2017A	2018A	2019E	2020E	2021E
<b>Cash Flows From Operating Activities</b>					
Cash from Operations	23.8	26.7	26.5	29.0	27.9
Working Capital inflow/(outflow)	1.4	1.5	2.3	(0.2)	1.4
Net Interest	(1.0)	(0.7)	(0.4)	(0.3)	(0.3)
Tax	(3.5)	(5.1)	(4.6)	(4.7)	(4.7)
<b>Cash Flows From Investing Activities</b>					
Acq. of Property, Plant and Equip.	(10.8)	(11.9)	(11.8)	(10.8)	(10.8)
Other	(3.9)	(2.2)	(1.7)	-	-
<b>Cash Flows From Financing Activities</b>					
Net Change in Borrowings	-	(3.0)	(2.0)	-	-
Dividends Paid	(2.0)	(2.4)	(2.8)	(2.8)	(2.8)
Other	-	-	-	-	-
<b>Net Increase In Cash Held</b>	<b>4.2</b>	<b>2.9</b>	<b>5.1</b>	<b>10.1</b>	<b>10.6</b>
Cash At End of Year	16.9	19.9	25.0	35.1	45.7

BALANCE SHEET ANALYSIS - US\$m	2017A	2018A	2019E	2020E	2021E
<b>Current Assets</b>					
Cash and Liquids	16.9	19.9	25.0	35.1	45.7
Inventory	21.7	19.8	19.4	19.9	19.9
Prepaid and Receivables	19.4	15.8	15.9	16.1	16.1
Other	3.4	6.0	8.2	8.2	8.2
<b>Non-Current Assets</b>					
Investments	2.8	5.4	7.5	7.5	7.5
Fixed Assets	41.4	43.5	44.1	41.5	38.2
Other	0.0	0.0	0.0	0.0	0.0
<b>Current Liabilities</b>					
Borrowings	0.1	0.1	0.1	0.1	0.1
Creditors	19.7	18.1	20.1	20.6	20.6
Other	0.4	0.4	0.4	0.4	0.4
<b>Non-Current Liabilities</b>					
Borrowings	12.0	9.0	7.0	7.0	7.0
Other	-	-	-	-	-
<b>Equity</b>	<b>70.1</b>	<b>79.8</b>	<b>89.2</b>	<b>96.9</b>	<b>104.2</b>
Net Cash/(Debt)	4.9	10.9	18.0	28.1	38.7

VALUATION	
<b>EBITDA Multiples Basis</b>	
2019E EBITDA	26.8
Multiple	5.0x
<b>Valuation (US\$m)</b>	<b>134</b>
Plus net cash/debt	8.5
Plus investments	7.7
<b>Valuation (US\$m)</b>	<b>150</b>
Target Price (US\$)	1.10
Target Price (GBp)	0.91

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