

26 June 2008

Forum Energy

Year End	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	PE (x)	Yield (%)
12/05	0.0	(1.1)	(4.4)	0.0	N/A	N/A
12/06	0.5	(3.3)	(8.5)	0.0	N/A	N/A
12/07	0.9	(3.7)	(9.3)	0.0	N/A	N/A
12/08e	1.5	(1.1)	(3.7)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Moving on

In two key developments yesterday Forum's Chief Executive, Russell Harvey, resigned and the company sold a 30% interest in the GSEC 101 joint venture to Philippine company Monte Oro with immediate effect. Separately, as a result of bad weather conditions due to Typhoon Fengshen, first production from its Galoc field has been delayed into Q3.

Resignation of Chief Executive

Yesterday Forum Energy's Chief Executive, Russell Harvey, resigned after two years with the company. The company's Non-Executive Chairman, Alan Henderson, will assume the role of acting Chief Executive until a new candidate is found.

Sale of 30% interest in GSEC

Forum also announced that it has sold a 30% interest in its 100% owned and operated GSEC 101 joint venture in exchange for \$1.7m cash in respect of past costs and expenses incurred by Forum. As a result of this transaction, Forum will own 70% in GSEC 101 and, given that Monte Oro is a Philippine company, the JV should qualify for the Filipino Participation Incentive Allowance (FPIA), giving it 7.5% gross proceeds from any future production.

Minor setback at Galoc

Separately, it was reported that first production at the Galoc oil field, in which Forum has a 2.27% stake, has been delayed after the Rubicon Intrepid floating production, storage and offloading unit (FPSO) was unplugged due to bad weather conditions caused by Typhoon Fengshen. Although this is a minor setback, the project is expected to come on stream in early July. First production from Galoc is an important milestone for Forum, providing a much needed source of cash to enable the company to move forward faster in developing its main asset, GSEC 101.

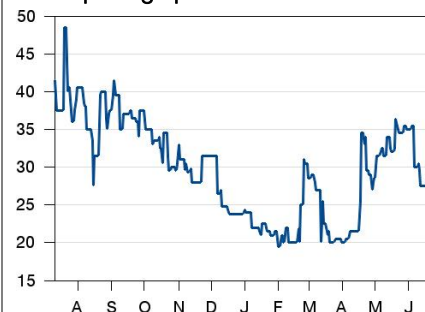
Valuation: Significant upside potential in GSEC 101

In our note of 18 June we set out our valuation of Forum of between 37–94p/share with significant upside potential within GSEC 101 worth an additional 366–697p/share if management is successful in securing a service contract for Sampaguita and an appraisal programme proves up its commercial potential. With the Monte Oro transaction now complete, we believe this is one step nearer.

Forum Energy is a research client of Edison Investment Research Limited

Price 29p
Market Cap £8m

Share price graph



Share details

Code FEP
Listing AIM
Sector Oil & Gas Producers
Shares in issue 28.7m

Price

52 week High 49.0p Low 19.5p

Balance Sheet as at 31 December 2007

Debt/Equity (%) N/A
NAV per share (c) 170
Net cash (\$m) 2.3

Business

Forum Energy, focused exclusively on the Philippines, is an AIM-quoted company developing oil and gas assets.

Valuation

	2006	2007	2008e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	5.4	8.0	4.7
ROE	N/A	N/A	N/A

Revenues by geography

	Europe	US	Other
0%	0%	0%	100%

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Future milestones

Although Forum's shares responded well to yesterday's news, key newsflow from here will be:

- The reconnecting of the FPSO in Galoc (due next week).
- The signing of the new GSEC 101 service contract by the Philippine President.
- More detail of the Sampaguita appraisal programme with specific timings and deliverables.

Forum has been waiting for the ending of the tri-partite agreement between China, Vietnam and the Philippines to convert the current GSEC 101 licence into a full service contract. Once this agreement lapses at the end of this month, Forum is looking for an early sign-off of the service contract from the Philippine government to enable the JV to start appraisal and development of the asset. A well-connected local partner is likely to exert significant influence on proceedings having now spent cash to gain access to the JV.

Exhibit 1: Financial summary

PROFIT & LOSS	\$'000s	2005	2006	2007	2008e
Year end 31 December					
Revenue		0	544	876	1,497
Cost of Sales		0	(340)	(1,013)	(70)
Gross Profit		0	204	(137)	1,426
EBITDA		(1,100)	(4,481)	(2,438)	(106)
Operating Profit (before GW and except.)		(1,315)	(3,559)	(2,354)	(1,140)
Goodwill Amortisation		0	(84)	(2)	0
Exceptionals		0	0	0	0
Share based payments		0	(789)	(843)	0
Operating Profit		(1,315)	(4,432)	(3,199)	(1,140)
Net Interest		246	1,064	(472)	82
Profit Before Tax (norm)		(1,069)	(3,284)	(3,669)	(1,057)
Profit Before Tax (FRS 3)		(1,069)	(3,368)	(3,671)	(1,057)
Tax		0	(7)	(39)	0
Profit After Tax (norm)		(1,069)	(2,502)	(2,865)	(1,057)
Profit After Tax (FRS3)		(1,069)	(3,375)	(3,710)	(1,057)
Minority interest		202	185	387	0
Net income (norm)		(867)	(2,385)	(2,658)	(1,057)
Net income (FRS 3)		(867)	(3,258)	(3,503)	(1,057)
Average Number of Shares Outstanding (m)					
		19.9	28.2	28.7	28.6
EPS - normalised (c)		(4.4)	(8.5)	(9.3)	(3.7)
EPS - FRS 3 (c)		(4.4)	(11.3)	(11.6)	(3.7)
BALANCE SHEET					
Fixed Assets		39,575	47,060	46,927	46,986
Intangible Assets		39,220	43,264	41,900	41,900
Tangible Assets		355	2,675	5,002	5,086
Investment in associates		0	1,121	25	0
Current Assets		14,511	9,328	6,648	1,268
Stocks		105	154	117	117
Debtors		1,771	276	4,212	0
Cash		12,635	5,739	2,319	1,151
Current Liabilities		(460)	(1,036)	(283)	(283)
Creditors		(460)	(1,036)	(283)	(283)
Short term borrowings		0	0	0	0
Long Term Liabilities		(1,238)	(3,501)	(4,374)	(1,238)
Long term borrowings		0	0	0	0
Other long term liabilities		(1,238)	(3,501)	(4,374)	(1,238)
Net Assets		52,388	51,851	48,918	46,733
CASH FLOW					
Operating Cash Flow		(1,627)	(2,448)	(2,141)	(1,140)
Net Interest		260	330	(137)	82
Tax		0	0	(37)	0
Capex		(9,102)	(54)	(1,105)	0
Acquisitions/disposals		0	(5,443)	0	0
Financing		22,823	(17)	0	0
Dividends		0	0	0	0
Other		281	0	0	0
Net Cash Flow		12,635	(7,632)	(3,420)	(1,057)
Opening net debt/(cash)		0	(12,635)	(5,739)	(2,319)
Other		0	736	0	70
Closing net debt/(cash)		(12,635)	(5,739)	(2,319)	(1,332)

Source: Company accounts, Edison Investment Research

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