

Cairn Energy

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CNE

GBP £1.709

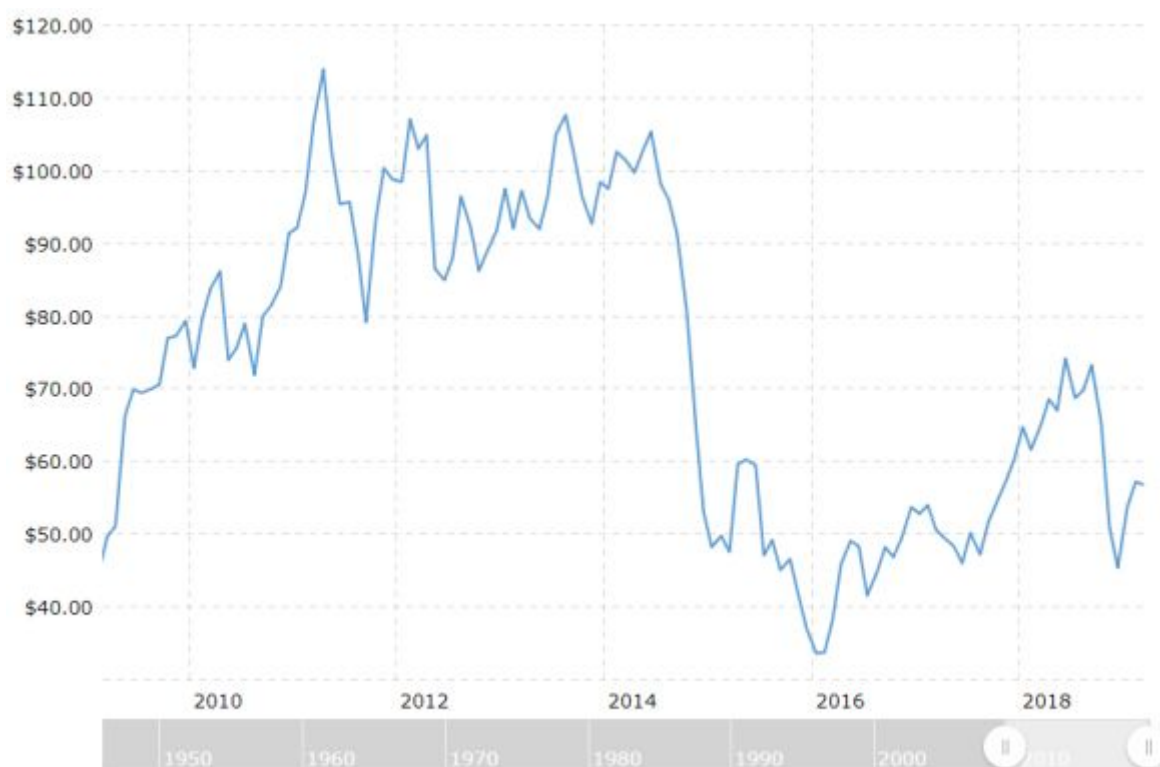
Spec.

HIGH**S**

Moving on

We were attracted to Cairn Energy on its ability to explore, develop and on-sell fields. The energy environment over the course of the last decade is, and especially in recent years, now in the midst of a sea change around carbon energy sources. With the onset of this change, critical production mass and an exposure to natural gas are future keys to success. A lack of operational mass and distractive corporate issues warrant our abrupt change in view on Cairn Energy.

The oil price has been a real headwind in the company's approach to generating value. The following chart shows the crude oil price (in US Dollars):

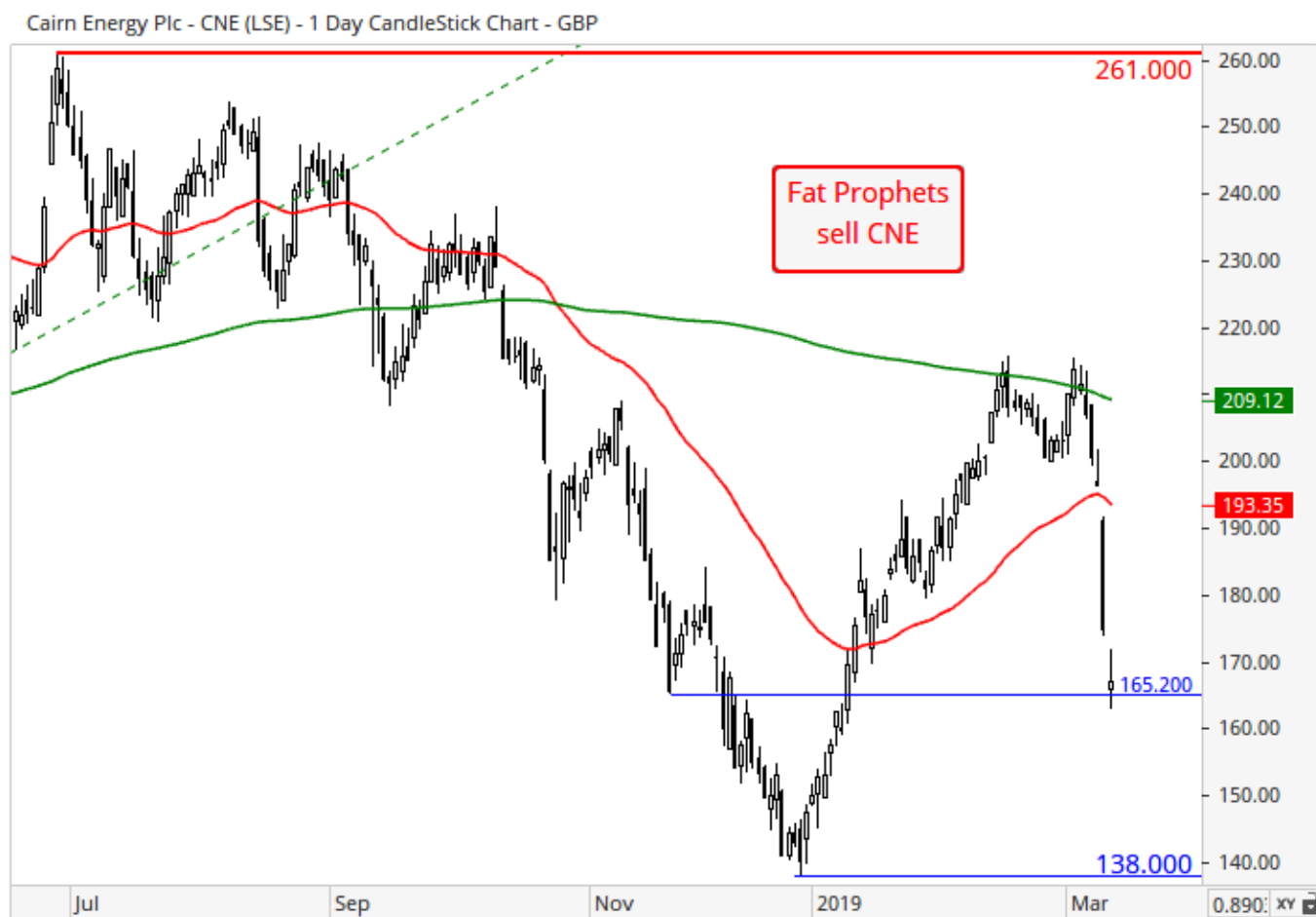


Source: Macrotrends

Volatility in the oil price and the step down to lower oil prices has not been a panacea to Cairn Energy's business approach. Oil fields can still be discovered and developed. The risk metrics in discovering and developing fields are rising and the rewards have diminished.

The company is establishing itself as a producer with average production for 2018 coming in at circa 17,533 barrels of oil equivalent per day (boepd) and rising to a forecast in the range of 19,000 to 22,000 boepd for

2019. Revenues came in at US\$369 million for 2018. As a result of impairment charges, the company reported a net loss for 2018 of US\$1.1 billion compared to a profit of US\$217.8 million from a year earlier.



The balance sheet is in good shape; but is deteriorating in quality. The company had a net debt of US\$35.4 million at 31 December 2018, which compares unfavorably with the net cash position of US\$56.7 million from a year earlier.

The reserve estimate downgrade at the company's Kraken field of 6.4 million barrels of oil equivalent was offset by an increase in Nova reserves of 6.8 million boe. Overall reserves increased by 2.5 million boe to 56.3 million boe and post depletions of 6.4 million boe.

The Indian taxation dispute had an impact on the company's 2018 result, with the matter still in the hands of Indian authorities with a timetable for completion unknown. The company is looking to late 2019 before the issuance of the award by Indian authorities.



We will use the rise in the oil price and now that the company is establishing itself as an emerging oil producer, use these as an opportunity to exit the stock. The corporate issues that have beset the company are an added and unwanted distraction. **We recommend Members who hold Cairn Energy sell their holding at the current market price.** Fat Prophets will cease coverage of Cairn Energy immediately.

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Gold Miners ETF, Volkswagen, Walt Disney, Wynn Macau, Wynn Resorts, XTD, Yaskawa Electric, Zillow. These may change without notice and should not be taken as recommendations.

Snapshot CNE

Cairn Energy

Cairn Energy's activities are focused on oil and gas in India, and exploration in Greenland. The company operates in India through its 62.4% owned Cairn India Limited (CIL). CIL is listed on the Bombay stock exchange and generates a strong cash flow.

Capricorn Oil is a wholly subsidiary with core assets in Greenland, Mediterranean and South Asia. The company has been very successful exploring in South Asia where it has made more than 40 oil and gas discoveries. Cairn made a major oil discovery in Northwest India in 2004.

Market Capitalisation:£989.92m

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