



# ReconAfrica Ltd.

(RECO-V, RECAF-OTCQX, OXD – Frankfurt)

SECTOR: Energy

STOCK PRICE	\$9.70
RATING	BUY
TARGET PRICE ↑	\$12.50
Previous	\$10.00

## COMPANY UPDATE

### Spuds Second Exploration Well in Namibia

**OUR TAKE:** ReconAfrica (RECO-V) announced overnight that it has spud the 6-1 exploration well located 16 kms north of the Company's first exploration well (6-2) in the Kavango Basin in North East Namibia.

The well is part of an initial 3-well exploration program and follows positive results from the 6-2 well that confirmed an active conventional petroleum system in mid-April. The well will be drilled to 12,500 ft (3,800 m) and will take 45-60 days to drill with results expected in the summer. The target is the thickest part of the discovered petroleum system and is being drilled in one of five major sub-basins within the larger, Permian aged deep Kavango basin.

While we maintain our view that it is early days in the exploration of the basin, with the combination of early exploration success and a fully funded program, we continue to like the risk/reward opportunity ReconAfrica offers to investors. The Company has entered a period of significant activity with the drilling of the 6-1 exploration well, ongoing interpretation of data from the 6-2 well, and acquisition and interpretation of 450 kms of 2D seismic, which should provide a steady stream of high-impact news flow over the coming months and could lead to significant partnering potential in 2H21.

#### OTHER HIGHLIGHTS

- ◆ **6-1 Exploration Well Spudded.** Similar to the 6-2 well, the 6-1 well is being drilled into one of five major sub-basins of a larger, more extensive, Permian aged deep Kavango Basin. The Company plans to take whole core, side-wall cores as well as logging both conventional and source rock zones of interest. Additionally, a Vertical Seismic Profile (VSP) will be used to help tie-in with the Company's upcoming 450 km 2D seismic program which is scheduled to commence in June.

#### RECOMMENDED ACTION

*Encourage investors to add to or initiate new positions ahead of a catalyst rich 2021*

- ◆ **Maintaining our Buy rating and Top Pick status; increasing target to \$12.50/sh.** Following the mid-April announcement confirming the existence of an active petroleum system in the Kavango Basin, ReconAfrica has, in our view, significantly enhanced the risk/reward profile, even after the rally in the share price. The investment proposition remains, as we see it, one of the most interesting and compelling opportunities in the energy sector and includes 1) a well-funded investment case with ~\$30 MM in cash (1Q21E); 2) a potentially massive resource at play; and 3) visible high-impact near-term catalysts. A powerful combination for investors!
- ◆ **Our new target price of \$12.50/sh (\$10/sh previously) is based on a higher long-term Brent oil price of US\$65/bbl (up from US\$55/bbl). See Figure 1 for our valuation methodology.**

#### PROJECTED RETURN

29%

#### RISK FACTOR

Very High

#### SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.00	\$9.70	\$12.50
↓100%		↑29%

#### KEY STATISTICS AND METRICS

52-Week High/Low	\$10.40/\$0.35
YTD Performance	336.9%
Dividend Yield	N/A
Shares O/S	178.7 MM (fd)
Market Capitalization	\$1,733 MM
Cash (Q1/21E)	-\$29 MM
Enterprise Value	\$1,704 MM
Daily Volume (3 mos.)	869,000
Currency	C\$ unless noted

#### HAYWOOD ESTIMATES (CAD)

	2020A	2021E	2022E
Production (boe/d)	0	0	0
% Oil	nm	nm	nm
CAPEX - E&D (MM)	\$16.8	\$22.7	\$25.0
Cash Flow (MM)	nm	nm	nm
CFPS (fd)	nm	nm	nm
D/CF	nm	nm	nm
EV/DACF	nm	nm	nm
EV/BOE/D	nm	nm	nm

#### VALUATION

**RECO trades at 0.7x our heavily risked NAV of \$12.50/sh with an unrisked upside ~\$24/sh at a modest field discovery of 500 mmbbls. See page 2 for our sensitivity to chance of commercialization and field size.**

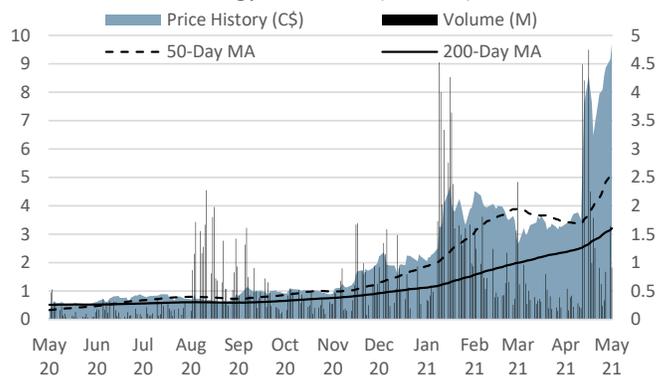
## INVESTMENT THESIS

Our investment drivers are as follows:

- The Kavango Basin – This Could Be Big:** RECO holds a 90% interest (NAMCOR holds 10%) in 6.3MM acres in northeast Namibia and 100% (50% WI if farm-out option exercised) in an additional 2.22MM acres in adjacent Botswana. An early 2020 assessment from Sproule underlined the potential with 1,044 mmbbls of oil and 44.9 Tcf of working interest best estimate prospective resource gas. More recently, noted source rock expert Dan Jarvie has estimated that the basin is capable of generating 100 Billion+ barrels of oil. In our view, the team is positioning themselves as leaders of understanding the basin, and on success, given the scale of the Kavango Basin, we believe RECO could have plenty of opportunities to enter strategic joint-ventures (farm-outs) which could sanction further de-risking of the basin without dilution to existing shareholders.
- Early Stage, but All the Necessary Ingredients:** The Company has all the ingredients to establish the existence of a working hydrocarbon system (in a relatively short cycle time) and subsequently evaluate and exploit the potential of the Kavango Basin. These include a fully funded three well program, nearly 100% working interest in acreage across a vast, relatively straight forward land access, an owned drilling rig, a committed and capable management and technical team, stable governments with attractive fiscal terms and proven commitment to responsible development, and finally a strong social licence and access to water. The initial 400 km of 2D seismic will be acquired in Q2/21 to tie to the first well. All of these factors increase the chance of development should a commercial discovery be made.
- High-Risk/High-Reward Opportunity.** We believe that at current levels and considering major potential catalysts on the horizon, the stock represents an attractive high-risk/high-reward investment opportunity. We outline examples in the report where an initial oil discovery during the exploration phase delivered between 380-1,000% upside. With an initial discovery, ReconAfrica could experience rapid value accretion. It is in this phase; share price growth can be rapid on success and/or anticipation of success.

## SCENARIO ANALYSIS

### Reconnaissance Energy Africa Ltd. (RECO-V)



Source: Capital IQ, and Haywood Securities

### TARGET PRICE

ReconAfrica is an early-stage resource exploration resource play. As such, we focus on our total risked NAV, which includes our upside estimate of the best prospective resource potential in the Kavango Basin. In arriving at our 12-month target price of \$12.50/share, we have risked this upside potential by an ~73% chance of commercialization.

### DOWNSIDE CASE

Should exploration drilling be unsuccessful, we estimate the downside to the stock could be nil (\$0.00/share) as a negative outcome would make securing or finding a JV partner to carry further appraisal drilling challenging. Should the team, however, be successful in proving the presence of oil and economic viability of its resource, we think that the stock could be worth multiples of its current valuation.

*Our downside scenario price is a theoretical case based on notional valuation metrics and market assumptions. The downside price is solely intended for demonstrative purposes and is not to be regarded as a reflection of all market possibilities. It is not a guarantee that this company's share price will not drop below this price level and hence should not be taken as such.*

### KEY RISKS

- Liquidity risk.** Early-stage companies face liquidity challenges in maintaining sufficient capital to meet working capital and government commitment obligations and may require outside capital (debt/equity) to meet any shortfall.
- Exploration/Commerciality risk.** A sole driver of our resource value is attributable to the prospective resource potential of the Company's newly discovered Kavango Basin. The exploration and appraisal of this resource is at an early stage and will require substantial amounts of capital and resources to develop and move to commercialization. Failure to prove the presence of hydrocarbons or commerciality could very likely result in significant share price deterioration.
- Delays:** Any delay or cost increases at the upcoming appraisal drilling campaign would be considered to be negative by investors and may cause concerns about the company's funding.

### Company Profile

**ReconAfrica Ltd.** is a junior oil and gas explorer with rights to mineral licenses across 8.5MM acres in NE Namibia and NW Botswana with the goal of proving the presence of a working hydrocarbon system and eventual commercialization of large quantities of hydrocarbons. The company is set (and funded) to drill three back-to-back exploration wells beginning in December 2020, that on success could unlock a material resource and shareholder value.

### Company Website

[www.ReconAfrica.com](http://www.ReconAfrica.com)



## Valuation: Material Upside as Kavango Play is De-risked

ReconAfrica is an early-stage resource exploration resource play. As a result, we focus on our total risked NAV for RECO, which includes full value for the prospective recoverable resource potential in the Kavango Basin in NE Namibia and NW Botswana as reported by a NI 51-101 compliant resource report prepared by Sproule, which shows a total net un-risked mean prospective resource of 1,256 MMbbls of oil.

In arriving at our 12-month target price of \$12.50/share, we have risked this upside potential by ~73%.

Figure 1: RECO Net Asset Value

	Field Interest	Oil mmbbl <sup>1</sup>	Unrisked \$/boe	Unrisked US\$MM <sup>2</sup>	Risk Factor CoC % <sup>3</sup>	Risk US\$MM	Risk C\$/share <sup>4</sup>
<b>Exploration Assets</b>							
Kavango Basin							
	Namibia - aggregate working interest	90%	831				
	Botswana - aggregate working interest	50%	212				
	<b>Total net mmbbl</b>		<b>1,044</b>	<b>\$6.39</b>	<b>\$6,672</b>	<b>27%</b>	<b>\$1,801</b>
							<b>\$12.50</b>

(1) Based on net unrisked prospective resource potential from a NI 51-101 compliant resource report prepared by Sproule

(2) PV12.5% on long-term Brent price of US\$65/bbl

(3) Chance of commerciality is a product of the risk of a successful commercial discovery and risk of development; CoC = CoSD\*CoD, or 45%\*60%=27%

(4) Calculated on a fully diluted share count of 178.7 MM shares and USD/CAD exchange rate of \$0.80

Source: Haywood Securities Inc.

**Sensitivity to Chance of Commercial Success:** The chance of commerciality (CoC) is the product of chance of commercial discovery and chance of development. Prospective resources carry material risk related to geological chance of success (chance of discovery), as well as chance of development, should a discovery be made. Should the reader wish to test our risked NAV/share, we provide a sensitivity table below for resource levels ranging from 10-1,200 MMbbls and varying risk factors (CoC).

Figure 2: Chance of Commerciality Sensitivity

Recoverable Resources (mmbbls)	Chance of Commerciality																			
	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
10	\$0.03	\$0.05	\$0.08	\$0.10	\$0.13	\$0.16	\$0.18	\$0.21	\$0.23	\$0.26	\$0.29	\$0.31	\$0.34	\$0.37	\$0.39	\$0.42	\$0.44	\$0.47	\$0.50	\$0.52
50	\$0.12	\$0.24	\$0.36	\$0.47	\$0.59	\$0.71	\$0.83	\$0.95	\$1.07	\$1.18	\$1.30	\$1.42	\$1.54	\$1.66	\$1.78	\$1.89	\$2.01	\$2.13	\$2.25	\$2.37
100	\$0.30	\$0.60	\$0.90	\$1.20	\$1.50	\$1.81	\$2.11	\$2.41	\$2.71	\$3.01	\$3.31	\$3.61	\$3.91	\$4.21	\$4.51	\$4.81	\$5.12	\$5.42	\$5.72	\$6.02
250	\$0.52	\$1.03	\$1.55	\$2.06	\$2.58	\$3.10	\$3.61	\$4.13	\$4.64	\$5.16	\$5.68	\$6.19	\$6.71	\$7.22	\$7.74	\$8.26	\$8.77	\$9.29	\$9.80	\$10.32
500	\$1.47	\$2.95	\$4.42	\$5.90	\$7.37	\$8.84	\$10.32	\$11.79	\$13.27	\$14.74	\$16.22	\$17.69	\$19.16	\$20.64	\$22.11	\$23.59	\$25.06	\$26.53	\$28.01	\$29.48
700	\$2.09	\$4.19	\$6.28	\$8.37	\$10.47	\$12.56	\$14.65	\$16.74	\$18.84	\$20.93	\$23.02	\$25.12	\$27.21	\$29.30	\$31.40	\$33.49	\$35.58	\$37.68	\$39.77	\$41.86
925	\$2.37	\$4.74	\$7.11	\$9.47	\$11.84	\$14.21	\$16.58	\$18.95	\$21.32	\$23.68	\$26.05	\$28.42	\$30.79	\$33.16	\$35.53	\$37.89	\$40.26	\$42.63	\$45.00	\$47.37
1,200	\$2.63	\$5.27	\$7.90	\$10.53	\$13.17	\$15.80	\$18.43	\$21.06	\$23.70	\$26.33	\$28.96	\$31.60	\$34.23	\$36.86	\$39.50	\$42.13	\$44.76	\$47.40	\$50.03	\$52.66

Note: \$/sh figures based on fully diluted share count of ~178 MM

Source: Haywood Securities Inc.



## Investment Risks

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While this is not an exhaustive list, we view the following risks as being noteworthy to investors in ReconAfrica Ltd.

**Liquidity risk.** Early-stage companies face liquidity challenges in maintaining sufficient capital to meet working capital and government commitment obligations and may require outside capital (debt/equity) to meet any shortfall. The company has significantly mitigated this risk with the recent exercise of warrants which has brought in an additional \$33 MM of cash into the coffers.

**Commerciality risk.** A sole driver of our resource value is attributable to the prospective resource potential of the Company's newly discovered Kavango Basin. The exploration and appraisal of this resource is at an early stage and will require substantial amounts of capital and resources to develop and move to commercialization. Failure to prove commerciality could very likely result in significant share price deterioration.

**Delays.** Any delay or cost increases at the upcoming appraisal drilling campaign would be considered to be negative by investors and may cause concerns about the company's funding.



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### Analyst Certification

I, Christopher Jones, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

### Important Disclosures

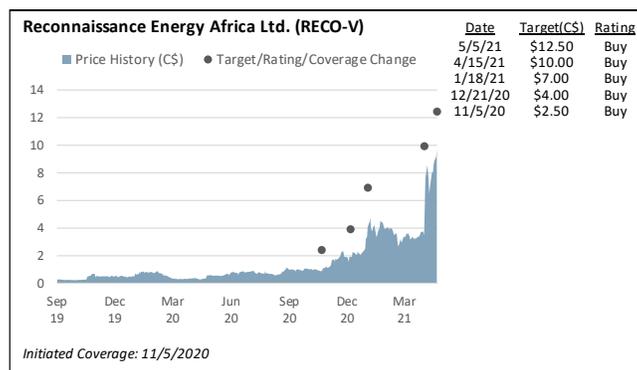
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### Distribution of Ratings (as of May 5, 2021)

	%	#	IB Clients (TTM)
<b>Buy</b>	84.8%	78	92.1%
<b>Hold</b>	7.6%	7	7.9%
<b>Sell</b>	0.0%	0	0.0%
<b>Tender</b>	3.3%	3	0.0%
<b>UR (Buy)</b>	0.0%	0	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	4.3%	4	0.0%

### Price Chart, Rating and Target Price History (as of May 5, 2021)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
Source: Capital IQ and Haywood Securities

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