

20 April 2009

Gulfsands Petroleum

Year End	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/07	37.3	8.0	5.0	0.0	55.1	N/A
12/08	53.6	3.7	4.9	0.0	56.2	N/A
12/09e	67.4	20.3	14.8	0.0	18.6	N/A
12/10e	85.0	30.9	23.2	0.0	11.9	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. Exchange rate used: £1=\$1.45.

Investment summary: Impairments in the US, substantial upside in Syria

Although Gulfsands reported a loss due to exceptional items, in 2008 it delivered a strong performance with first oil at Khurbet East (KE) and then the new Yousefieh discovery. In the US the company impaired 3.1mmboe of reserves following poor production and low gas prices. With Syria now Gulfsands' primary focus, we expect 2009 catalysts to be first oil at Yousefieh and production ramp-up at KE.

Outlook: Still substantial upside in Syria

2008 was a very successful year for Gulfsands with the development of the KE field, now producing c 11,000bbl/d. This will continue through 2009 with a budgeted \$40m capex which will allow KE to reach an estimated year-end production of 16,000bbl/d, the development of Yousefieh with first oil targeted by the end of 2009, and permanent facilities processing up to 50,000bbl/d of fluids by 2010.

US assets: Impairments in the Gulf of Mexico

In 2008 US assets underperformed due to a combination of low oil and gas prices, poor well production and facility repairs following a harsh hurricane season. As a result the US subsidiary made a loss and impaired 2P reserves by 3.1mmboe to 5.1mmboe (WI) as of December 2008. Although disappointing, we believe these assets are not strategic anymore given the potential of the company's focus in Syria.

Financials: Strong underlying performance

Gulfsands made a loss at group level due to severance costs and share-based payments, however underlying performance was strong in Syria with group revenues up 44% and cash flow from operations up 218% y-o-y. The company also restated previous years' accounts to adjust for US depreciation, decommissioning costs and to reclassify the cash held in escrow accounts as financial assets.

Valuation: Waiting for the reserves update

Our core NAV and RENAV have slightly decreased to 125p and 147p respectively. The core NAV is based on a 2P net entitlement for the KE field of 10.9mmbbl, which looks increasingly conservative given the strong field performance. In the event that the reserves update due in May certifies existing KE reserves closer to the current 3P estimate of 22mmbbls (net entitlement), our valuation could increase by 101p to a potential RENAV of 248p. This update together with newsflow on production step-up in KE and the Yousefieh development are the expected 2009 catalysts.

Price 190p
Market Cap £225m

Share price graph



Share details

Code GPX
Listing AIM
Sector Oil & Gas
Shares in issue 118.55m

Price

52 week High 229.75 Low 94.25

Balance Sheet as at 31 December 2008

Debt/Equity (%) N/A
RENAV 147
Net cash (£m) 36.8

Business

Gulfsands Petroleum is involved in the production, exploration and development of oil and gas reserves in Syria, the US and Iraq.

Valuation

	2008	2009e	2010e
P/E relative	571%	201%	147%
P/CF	17.7	11.5	9.1
EV/Sales	5.3	4.4	3.4
ROE	5%	14%	18%

Geography based on revenues

UK	Europe	US	Other
0%	0%	52%	48%

Analysts

Alessandro Pozzi 020 3077 5727
apozzi@edisoninvestmentresearch.co.uk
Simon Smith 020 3077 5700
ssmith@edisoninvestmentresearch.co.uk

Exhibit 1: Financials

	\$'000s	2007	2008	2009e	2010e
Year end 31 December					
PROFIT & LOSS					
Revenue		37,309	53,600	67,367	84,992
Cost of Sales		(15,883)	(16,588)	(31,193)	(33,842)
Gross Profit		21,426	37,012	36,175	51,150
EBITDA		14,222	19,250	25,175	40,150
Operating Profit (before GW and except.)		8,241	4,156	20,352	31,117
Share based payments		(882)	(12,572)	(1,000)	(1,000)
Exceptionals		(1,856)	(2,750)	(1,750)	(1,250)
Operating Profit		5,503	(11,166)	17,602	28,867
Other		(1,475)	(1,667)	(1,084)	(1,225)
Net Interest		1,190	1,229	1,000	1,000
Profit Before Tax (norm)		7,956	3,718	20,269	30,892
Profit Before Tax (FRS 3)		5,218	(11,604)	17,519	28,642
Tax		(2,557)	1,932	(2,725)	(3,445)
Profit After Tax (norm)		5,399	5,650	17,544	27,447
Profit After Tax (FRS3)		2,661	(9,672)	14,794	25,197
Average Number of Shares Outstanding (m)		107.2	115.6	118.5	118.5
EPS - normalised (c)		5.0	4.9	14.8	23.2
EPS - FRS 3 (c)		2.5	(8.4)	12.5	21.3
Gross Margin (%)		57.4%	69.1%	53.7%	60.2%
EBITDA Margin (%)		38.1%	35.9%	37.4%	47.2%
Operating Margin (before GW and except.) (%)		22.1%	7.8%	30.2%	36.6%
BALANCE SHEET					
Fixed Assets		75,518	93,171	124,659	142,126
Intangible Assets		28,593	343	69,168	82,372
Tangible Assets		46,925	79,661	55,491	59,754
Investment in associates		0	0	0	0
Long-term financial assets		0	13,167	0	0
Current Assets		45,765	54,749	43,797	52,197
Stocks		0	2,401	0	0
Debtors		11,154	15,536	16,695	18,695
Cash		34,611	36,812	27,102	33,502
Other		0	0	0	0
Current Liabilities		(9,184)	(17,122)	(18,318)	(20,818)
Creditors		(9,184)	(11,245)	(15,318)	(17,318)
Other creditors		0	(5,877)	(3,000)	(3,500)
Short term borrowings		0	0	0	0
Minority interests		0	0	0	0
Long Term Liabilities		(11,407)	(20,430)	(21,326)	(22,495)
Long term borrowings		0	0	0	0
Other long term liabilities		(11,407)	(20,430)	(21,326)	(22,495)
Net Assets		100,692	110,368	128,812	151,010
CASH FLOW					
Operating Cash Flow		4,955	17,996	28,425	35,900
Net Interest		1,190	1,229	1,000	1,000
Tax		(356)	(524)	(300)	(2,000)
Capex		(21,483)	(20,380)	(37,500)	(28,500)
Acquisitions/disposals		0	0	0	0
Financing		23,581	19,958	0	0
Dividends		0	0	0	0
Other		0	0	0	0
Net Cash Flow		7,887	18,279	(8,375)	6,400
Opening net debt/(cash)		(26,724)	(18,533)	(36,812)	(27,102)
HP finance leases initiated		0	0	(1,335)	0
Other		0	0	0	0
Closing net debt/(cash)		(34,611)	(36,812)	(27,102)	(33,502)

Source: Edison Investment Research

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading independent investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by every major institutional investor in the UK, as well as by the private client broker and institutional investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority.

DISCLAIMER

Copyright 2009 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Gulfsands Petroleum and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.