

Touchstone Exploration: Fully funded to execute its strategy at Ortoire

Touchstone: on the cusp of world-class discoveries?

Touchstone Exploration (LSE:TXP) has had an outstanding few months. Initial results from Coho-1 and Cascadura-1 have far surpassed expectations. Early indications are that the firm is on the cusp of confirming world-class gas and oil discoveries. The market finally seems to have woken up to this potential, with Touchstone's stock surging to 21p on the Cascadura discovery. However, the question now is how much higher might the company's shares rise?

Currently valued at £32 million, Touchstone has enjoyed a great deal of success since it listed on AIM in summer 2017. The company has delivered consistent production growth, building up its cash position and strengthening its balance sheet in the process. Its share price has nearly trebled in response, but this could prove to be only the beginning.

Touchstone Exploration one-year price chart

Market Data

EPIC	TXP
Current Mid Price	20p
52 Week High	23.25p
52 Week Low	9.75p
30MA Volume	998,014
Market Cap	£32m
Shares in issue	161m
Market	AIM/TSX



After all, *Touchstone is fully funded.*

The company could not be clearer on the issue.

Speaking exclusively to ValueTheMarkets.com, Touchstone CEO Paul Baay confirmed this, saying:

“ We do not need to raise money. Our operations continue to add to our cash position from our existing production of 1,800 barrels of oil a day. We are due a US\$5 million VAT refund from the government in Trinidad and Tobago and have recently extended our credit facility to US\$20 million. On top of this, not only was Coho-1 drilled within budget, but we are also fully funded to pay for its commercialisation.

The early indications are that Coho-1 could double our total production in the first half of next year, and we can now look forward to the testing of Cascadura-1. Any speculation that we will soon come to market to raise money is completely out of touch with the great progress we have made. ”



Unlocking the Ortoire block's world-class potential

Before analysing Touchstone's financial position, it is worth doing a quick recap of the company's expansive Ortoire block and its significant exploration potential.

Ortoire is the jewel in Touchstone's crown.

The block covers 35,786 acres in east Trinidad, and the organisation's primary target is a highly prospective geological formation called 'turbidites'.

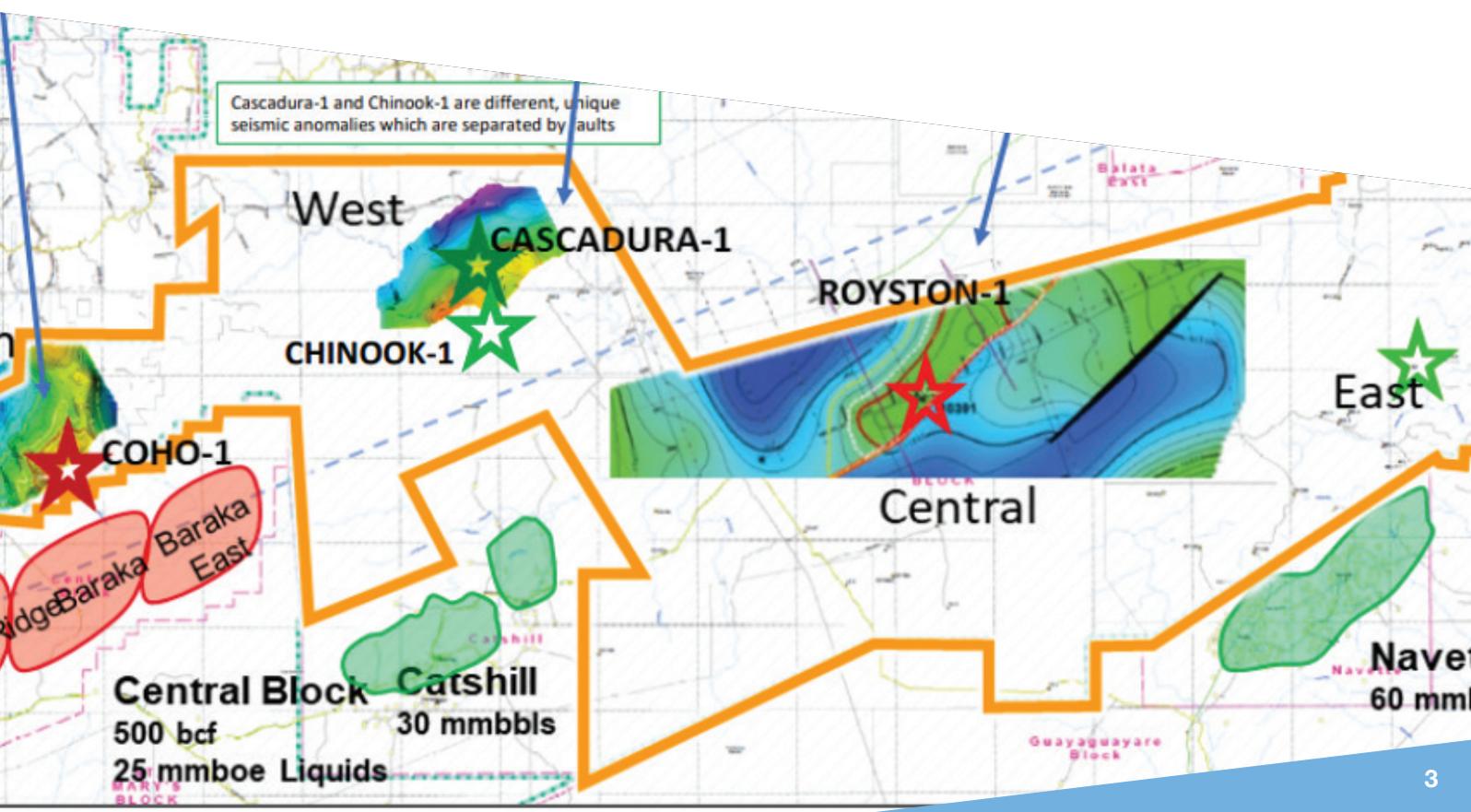
Thanks to technological developments, the popularity of turbidites - which can turn into sizeable hydrocarbon reserves over time - began to increase from the 1970s onwards. As a result, the deposits have been responsible for some of the world's most significant oil and gas discoveries over the last 20 years alone. What's more, many are found in previously-well-explored areas like New Mexico and Scandinavia - the technology needed to locate them simply did not exist historically!

Thankfully for Touchstone, limited, sporadic drilling at Ortoire between the 1950s and 1970s mostly preceded this 'turbidite boom'. As such, the block's potential was overlooked, and no operator has initiated extensive development since.

Until now.

Touchstone has identified three key, initial oil and gas drilling locations across Ortoire: Corosan (gas), Ortoire West (oil, containing the Cascadura and Chinook prospects), and Ortoire Central (oil, including the Royston prospect). Numerous additional exploration targets - including a deeper Corosan gas prospect and another called Ortoire East - will be drilled at a later date.

To help prepare for its Ortoire drill campaign, Touchstone [commissioned](#) GLJ Petroleum Consultants to complete an independent evaluation of its three initial prospects. This work gave the prospects total risked recoverable volumes, for the combination of prospective and contingent resources, of 9,237 million barrels of oil equivalent ("MBOE") net in the best estimate case and 23,337MBOE net in the high estimate case. These figures equate to a Net Present Value 10 ("NPV10") of C\$108.3 million in the best estimate case and C\$302.5 million in the high estimate case - all far higher than Touchstone's market cap at writing.



A strong start at Coho-1

With all this potential on offer, investors were encouraged to see Touchstone launch its maiden Ortoire exploration campaign in August 2019.

The firm kicked things off with exploration well Coho-1, targeting the Corosan prospect that GLJ has assigned estimated unrisksed contingent resources, net to Touchstone, of 2,058MBOE in the best estimate case and 3,387MBOE in the high estimate case. In other words, Corosan accounts for just 15% of Ortoire's total estimated recoverable resource volumes.

When it spudded, Coho-1 was targeting gas prospects in the Herrera sands underlying the prospect at depths of between 5,200 and 8,500 feet.

In November 2019, Touchstone's share price rose from 11p to 15.5p when it [revealed](#) that production testing on Coho-1 had far exceeded expectations, marking a 'new era' for its operations. Touchstone said the average natural gas flow rate for the final testing period on the well was 17.5 million cubic feet of gas a day ("MMCFD"), equivalent to 2,917 barrels of oil equivalent a day ("BOEPD"). The average stabilised test rate over 11 hours was 11.8 MMCFD (1,963 BOEPD).

Within a month, Touchstone had completed production testing of Coho-1. The [results](#) were extremely encouraging. The company confirmed that the production model for Coho-1 gave an indicative gross flow rate for the well of 10 to 12 MMCFD, equivalent to 1,667 to 2,000 BOEPD. The net figures to Touchstone work out at 8 to 9.6 MMCFD (1,333 to 1,600 BOEPD).

With current average daily production across Touchstone's portfolio running at 1,871 BOEPD, the upside potential that Coho-1 could deliver is clear.

Reassuringly, water production averaged 23 barrels per MMCF of natural gas - notably below Touchstone's expectations based on offset well data - and no physical subsurface boundaries were observed during the test period. This suggests that it should not be too challenging from an engineering perspective to commercialise Coho-1.

As at writing, Touchstone is in the process of connecting the well, via a 3-kilometre pipeline, to an existing production facility with the capacity to handle the well's estimated flow rates. The company then plans to bring it on stream into production during the first half of 2020.

Gas flaring at Coho-1 exploration well



Source: Touchstone Exploration

Switching exploration focus to the larger Ortoire West prospects

On completion of Coho-1 at Corosan, Touchstone's exploration focus turned to Ortoire West.

In November 2019, the company revealed that it had commenced drilling at the Cascadura oil prospect, with a well called Cascadura-1. Here, historic wells have enjoyed significant production, making it a prime exploration target. Cascadura is one of two individual fault block prospects at Ortoire West, offsetting another prospect called Chinook.

In oil equivalent terms, Ortoire West presents a much larger opportunity than Corosan. It is estimated to hold net combined contingent and prospective unrisks resources of 7,184MBOE in the best estimate case and 20,958MBOE in the high estimate case. To provide a true sense of scale, the NPV10 for Cascadura's combined contingent and prospective resources sits at C\$108.9 million in the best estimate case and C\$343.6 million in the high estimate case (both net).

Cascadura-1 exploration well



Source: Touchstone Exploration

In December 2019, Touchstone saw its share price soar by nearly 60% to an all-time high of 21.6p after announcing a 'milestone' discovery from Cascadura-1 that Baay expects to establish 'a new development stage for onshore drilling in Trinidad'.

The firm revealed that cased-hole wireline logs from the well had indicated crude oil pay totalling 1,037 feet from 1,374 feet of gross sand. Specifically, 80 feet of oil pay was hit in the regional Lower Cruse sands at between 1,030 and 2,134 feet, and 180 feet was encountered in the Upper Herrera between 4,198 and 4,994 feet for the first-ever time. Meanwhile, 600 feet of oil pay was met in the Middle Herrera at between 5,516 and 6,162 feet – also for the first time – and 177 feet was hit in the Lower Herrera at between 6,162 and 6,350 feet.

Touchstone now expects to complete and test the successful well in the first quarter of 2020 – something it is fully-funded to do.

Beyond Cascadura-1 and Coho-1, Touchstone plans to drill two further high-impact wells on Ortoire. The first, targeting the Chinook prospect, will be called "Chinook-1". The second, designated "Royston", will be drilled at Ortoire Central. This last well is potentially the largest of all of the four Ortoire exploration wells, with its objective at a deeper horizon. In preparation for this, Touchstone's engineering team is continuing to work on the well design and a decision is expected on rig requirements in early 2020.

Touchstone: Fully-funded for exploration

With Coho-1 ready to enter production, Cascadura-1 to complete and test, and more exploration wells to drill next year, there seems to be one question on the market's mind about Touchstone.

Will the firm need to raise money through a placing to fund its ambitious work programme?

In short, Baay's definitive answer is "no".

He says the company is underpinned by more than enough cash to meet its current work requirements. Let's break this down.

First, having exited the third quarter of 2019 with cash of \$3.4 million, Baay says Touchstone currently has \$7 million in cash equivalents lining its coffers. This includes money generated from operations and the \$5 million VAT rebate it is due.

Second, Touchstone has established a stable production baseline in east Trinidad following a busy 2018 that saw it become Trinidad's most active onshore upstream company. After surpassing 2,000 BOEPD in early 2019, average output sat at 1,781 BOEPD by October 2019 thanks to a reduction in the initial 'flush rates' buoying several new wells and a series of conversions and recompletions. Regardless, this production will continue to support the funding of all future exploration work – a cash-generative position that few of Touchstone's peers can boast. What's more, this force is likely to increase over the short-term, with Coho-1 and Cascadura-1 set to boost production – and, in turn, revenues – dramatically in 2020.

Third, in anticipation of successful exploration efforts across the Ortoire Block, Touchstone increased its credit facility by C\$5 million to C\$20 million at a fixed interest rate of 8% per annum. This represents modestly priced working capital available to the organisation.

Fourth, Baay tells us that, when it comes to the remaining wells in Touchstone's exploration campaign, time is on the firm's side. As it is unable to lease the drill rig needed for Chinook-1 until Q2 2020, the company will have a further two-quarters of cashflow at its disposal before its next round of drilling begins (from writing). This will be a dominant influence in the mitigation of any drill funding-related concerns that could have arisen if the exploration campaign had taken place over a shorter period.

In his own words, Baay summarises Touchstone's strong current funding position as follows:

“ The one question out there in the market for Touchstone seems to be: ‘Are you going to raise money?’ I can definitively say that we are not. First, we have enough cash in the bank to develop Coho-1 and bring it into production and also to complete and evaluate Cascadura-1. In addition to this, as long as oil prices stay where they are, we are funded to drill Chinook. Even if they do not, we will have another two-quarters of cash generation from our existing production at our disposal before we continue drilling, meaning our cash position only looks set to strengthen. It is pretty simple maths. As a company, we do not need cash right now, so why would we raise? It is purely dilutive. ”

Given that market conditions remain tough for junior oil and gas plays, Baay's comments make sense. So far, the market doesn't appear to have grasped the significance of Touchstone's results on the ground fully. Not only does Coho-1 look like it could be a game-changer, but the company is also fully funded to bring the well into production in the first half of 2020. Production testing has confirmed the results of the initial flow testing, so it is feasible that this well alone could double Touchstone's overall production to more than 3,500 BOEPD. Now that Touchstone has also made what looks like a sizeable conventional oil discovery at Cascadura-1 (provided completion and testing confirm commerciality) then a quick and sharp share price re-rate could be on the cards. Since Touchstone is fully funded to develop these two wells and also continues to generate plenty of free cash flow on a quarter-by-quarter basis, it looks extremely well-positioned to deliver outstanding results throughout 2020.

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