Tullow Oil

4 September 2025

Current price
10.5p

TICKER
TLW

Market Cap
£154m

Net debt (30 June 2025)
US$1.6bn

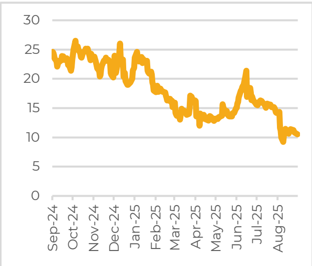
Free Float
82%

3mo Av. Daily Volume
5.0m

Brokers
Barclays
Peel Hunt

Index
FTSE All-Share

Share Price Performance



Source: Bloomberg

Tullow is an independent energy company with deep operating experience building a better future through responsible oil and gas development in Africa.

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Revising Brent forecast

Leading West African deep-water oil and gas operator

We are revising our Brent price forecast to US$70/bbl for 2025 and to US$72.5/bbl for 2026 with US$75/bbl flat thereafter, from US$75/bbl held flat from 2025. Despite fears of oversupply there is little evidence of a glut emerging and evident pressure on US drilling signals the need for higher prices to maintain activity. We have also reduced our production forecast by c4% to reflect recent Jubilee underperformance. In combination, that leads to material reductions in our forecasts for 2025/26, although we continue to anticipate that Tullow has now returned to profitability with net debt falling. Our risked net asset value (NAV) calculation drops to 53p, which is still five times the current share price and forward multiples remain exceptionally low. Successful refinancing would remove a key uncertainty that should allow the shares to trade significantly higher, we expect.

For 2025/26, the changes to our Brent price outlook and production forecast result in an average 10% reduction in our revenue forecast which flows down to a 67% reduction in our net profit and a much less marked 14% reduction in our net cash flow forecasts. Our risked NAV falls to 53p (from 64p), mainly reflecting the change in our production forecast.

Depsite the distinctly bearish tone to market commentary oil prices have held up well with Brent trading at or above US$70/bbl for most of the year. There is little sign of the feared glut emerging and the physical increase in production from the V8 has lagged the unwinding of the additional voluntary production reductions by far. Ongoing geopolitical uncertainty remains fairly high, although that carries both bullish and bearish potential risks for oil prices. From our perspective, there are clear signs that current price levels are putting pressure on US production, which we consider to be the full-cycle marginal supplier to the market, signalling the need for higher prices to maintain activity.

The difficult 1H25 results belie the underlying strategic progress Tullow has made towards refinancing its debt this year. That includes receipt of US$300m for the Gabon disposal, being on track to receive a further US$80m from the Kenya disposal this year, signature of an MoU to extend the Ghana licences to 2040 and significant cost cutting with more to come.

Tullow remains focused on refinancing its balance sheet and management remain confident that will be achieved this year, which we expect would remove a key uncertainty for investors and potential investors.

At a glance (Yr to Dec)	Production (kboed)	Net profit (US$m)	Net debt (US$m)	Leverage (x)	P/E[1] (x)	EV/Debt Adj CF[1] (x)
FY23A	62.7	(109.6)	1,608.4	1.4	n/a	2.6
FY24A*	52.1	(55.0)	1,452.3	1.4	n/a	2.6
FY25E	41.3	62.7	1,041.4	1.6	3.1	2.2
FY26E	44.6	73.5	1,072.7	1.4	2.6	1.8
FY27E	45.5	162.3	879.6	1.1	1.2	1.5

*Source: Bloomberg, Tullow, CAG Research. 1) Uses annual averages for historic share price and EV data. *Restated to treat Gabon as a discontinued operation.*

Revising estimates

We are revising our Brent forecast to US$70/bbl for 2025 and to US$72.5/bbl for 2026, held flat at US$75/bbl thereafter from US$75/bbl flat from 2025. In addition we have reduced our production forecast by c4% to reflect recent Jubilee underperformance. For 2025/26 that results in a 10% reduction in our revenue forecast which flows down to a 67% reduction in our net profit and a 14% reduction reduction in our net cash flow forecasts. Our risked NAV falls to 53p (from 64p), which is still five times Tullow's current share price.

We have been more bullish than consensus on the trajectory of oil prices but it is increasingly evident that our US$75/bbl Brent forecast for 2025 is likely to prove too optimistic for this year and we are reducing it to US$70/bbl which reflects the YtD average with the current price held flat for the balance of the year. We are also choosing to be more cautious for 2026, given the uncertainty over the impact of the ongoing unwinding of additional voluntary reductions in production by eight members of OPEC and signatories to the Declaration of Cooperation (OPEC+). However, with current oil prices evidently insufficient to maintain the pace of drilling in the US, which we regard as the full-cycle marginal supplier to the market, and the potential for a decline in US production, we maintain our flat US$75/bbl longer term price assumption for Brent after US$72.5/bbl in 2026.

We recognise that commentary in the market is generally more bearish than our view, but the widely anticipated surplus of supply has not materialised, visible inventory numbers remain well controlled and Brent remains in a reasonably steep backwardation. Moreover, ongoing geopolitical uncertainty remains fairly high, although that carries both bullish and bearish potential risks for oil prices.

Besides adjusting our oil price assumption we have also reduced the forward profile on our estimates for production from the Jubilee field as a result of the higher than expected water cut at the field, following the return from maintenance in 1H25. Through 2027, we now forecast average total production for Tullow, at 43.8kboed, down c4%, treating Gabon as a discontinued operation.

On that basis, we forecast an average reduction in our revenue forecast for 2025/26 of 10% which flows down to a 67% reduction in our forecast of net profit. The impact on net cash flow is much less marked, with an average 14% reduction over those years and an average 13% increase in our forecast for net debt (Figure 2) and see Summary financial statements.

Figure 2: Revised forecasts

Line item	Unit	FY24A*	FY25E	FY26E	FY27E
Brent	US$/bbl	80.3	70.0	72.5	75.0
Production	kboed	52.1	41.3	44.6	45.5
Revenue	US$m	1,287	914	1,005	1,050
Net profit cont ops	US$m	(55)	63	73	162
Net cash flow from ops	US$m	759	546	600	636
Net debt	US$m	1,452	1,041	1,073	880
Leverage	X	1.4	1.6	1.4	1.1

*Source: Tullow, CAG Research. *Restated to treat Gabon as a discontinued operation.*

The impact on our NAV calculation from the change in oil price assumption is limited, since the changes are most impactful for only two years. However, the reduction in our forecast profile for production from Jubilee is more significant.

Our risked NAV falls to 53p (from 64p) and our unrisked NAV falls 12p to 66p/share (Figure 3). However, our revised risked NAV is still five times Tullow's current share price.

Figure 3: Short form NAV10

Location	Total mmboe	Risked NAV (p/share)	Unrisked NAV (p/share)
Ghana	222	108	108
Côte d'Ivoire	1	(1)	(1)
Producing fields	**223**	**106**	**106**
Net (debt)/cash FY24[1]		(61)	(61)
Gash G&A (2 years)		(4)	(4)
Corporate		**(65)**	**(65)**
Core NAV	**223**	**41**	**41**
Uganda royalty		7	20
Kenya[2]		5	5
Guyana residual		0	0
Tangible NAV	**223**	**53**	**66**
Exploration prospects	0	0	0
All sources NAV	**223**	**53**	**66**

Source: Tullow, CAG Research. 1) Pro forma net of Gabon disposal. 2) Discounted disposal value.

Besides trading at a fraction of our NAV, Tullow is also trading at exceptionally low forward multiples, on our forecasts (Figure 4).

Figure 4: Valuation multiples[1]

		FY24A*	FY25E	FY26E	FY27E
P/E	X	n/a	3.1	2.6	1.2
Debt adj CF multiple	X	2.6	2.2	1.8	1.5
EV/Adj EBITDAX	X	2.3	2.2	1.7	1.3

Source: Tullow, CAG Research. 1) Uses 2024 annual averages for historic share price and EV data.
* Restated to treat Gabon as a discontinued operation.

Management remain confident that they will achieve the refinancing of the capital structure this year which we expect would remove a key uncertainty for investors and potential investors.

Oil price view

Despite the distinctly bearish tone to market commentary over projections of substantial oversupply from the IEA and the EIA, there is little evidence of an actual glut emerging in the market. There is also concern that the unwinding of the additional voluntary production restrictions by the V8 will put further pressure on prices, but the physical increase in production has lagged the nominal increase in sanctioned production by far and we expect that to continue. Moreover, there are clear signs that current price levels are putting pressure on US production, which we consider to be the full-cycle marginal supplier to the market. Hence, while we are reducing our Brent price forecast to US$70/bbl for 2025 and to US$72.5/bbl for 2026, we remain cautiously optimistic in a recovery to US$75/bbl.

Despite a distinctly bearish tone to market commentary occasioned by forecasts of large excess-supply imbalances, fears of US trade policy on the global economy and, latterly, the unwinding of additional voluntary production reductions by eight members of OPEC+, the market has held up well with Brent trading at or above US$70/bbl for most of the year.

Nevertheless, it has become increasingly evident that our US$75/bbl Brent forecast for 2025 is likely to prove too optimistic and we have reduced our forecast to US$70/bbl for 2025 and to US$72.5/bbl for 2026 before reverting to US$75/bbl held flat forward.

Markets have been concerned about potential oversupply based on forward projections, particularly from the IEA and the EIA, both of which forecast large, continuous surpluses through 2026. However, OPEC's own projections, assuming current OPEC+ production holds flat is for continuing draws with most of the difference between it, the IEA and the EIA resulting from higher estimates for global oil demand by OPEC (Figure 5).

Figure 5: Projected surplus/(deficit) (mmbd)

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
IEA[1]	1.0	1.4	1.2	2.5	3.5	3.0	1.7	1.9
EIA	1.5	1.4	1.6	2.1	2.3	1.5	0.8	1.2
OPEC[2]	(0.7)	(0.1)	(1.5)	(2.1)	(1.0)	(0.9)	(2.1)	(2.0)

Source: EIA, IEA, OPEC, CAG Research. 1) Assumes July OPEC production held flat prospectively. 2) Assumes OPEC+ July production held flat prospectively.

However, despite the forecasts of oversupply, there is no significant evidence of any meaningful build occuring in the reasonably reliable data for OECD inventories. The picture for the non-OECD is inevitably murkier given the data issues. Moreover, the strength of oil prices in the face of negative sentiment and a reasonably steep backwardation in Brent through 2027 do not suggest a market facing a problematic level of over-supply.

A significant concern has been the decision by Algeria, Iraq, Kuwait, Saudi Arabia, the UAE, Kazakhstan, Oman and Russia (the V8) to roll back the additional voluntary reductions in production first instituted in May 2023. These originally totalled 1,657kbd, and were subsequently increased by 2.2mmbd to 3.9mmbd as of January 2024. The V8 began to unwind the second tranche from April of this year and this tranche is set to unwind fully from 25 September, well ahead of the initial plan to complete the unwinding by August 2026.

As of July, the last month for which production data are currently available, 1,233kbd of the additional voluntary production reductions had been formally reinstated but production from the V8 had only increased by 332kbd from March, based on EIA data, confirming that many members of the V8 were already likely producing at their maximum output. We expect that actual production increases will continue to lag the roll-back of the additional voluntary production restrictions.

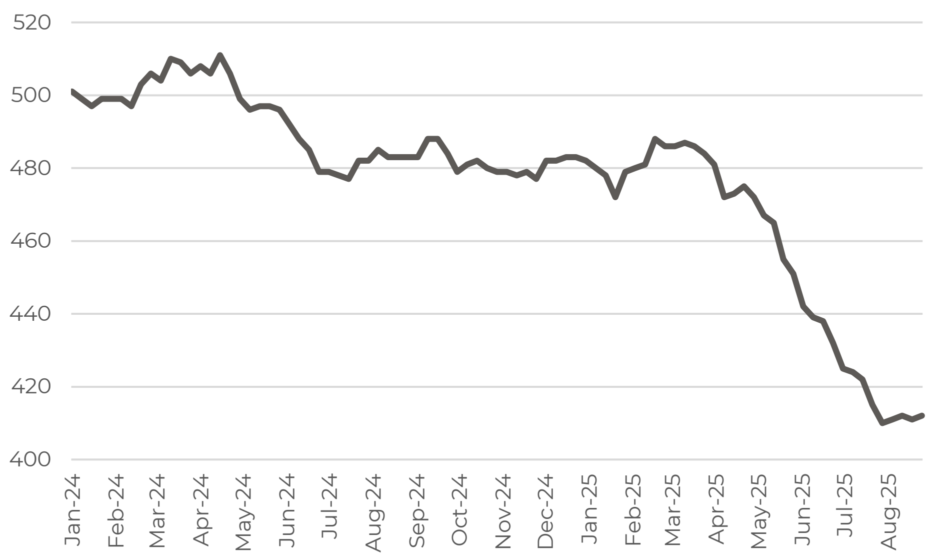
Some have argued that the decision to commence the roll-back and then accelerate it mark a potential shift in stance by OPEC+ to take a more aggressive position on defending market share. However, it is also likely that the more disciplined members, particularly Saudi Arabia were getting increasingly frustrated at the overproduction versus commitments by some of the other V8 countries, most notably Kazakhstan, where the Tengiz Future Growth Progamme expansion commenced comissioning in January, and Iraq. Hence the unwind, could be seen both as helping to bring production commitments back within scope of the nominal production allocations and a reminder that Saudi Arabia is one of the very few members actually able to increase production. The V8 continue to cite the steady global economic outlook and current healthy market fundamentals as the basis of their discision to unwind the voluntary adjustments.

The V8 are due to meet on 7 September when they may decide to start rolling back the first tranche of additional voluntary production restrictions. OPEC+ itself is next scheduled to meet on 30 November.

What gives us confidence in the outlook for an oil price in the mid-US$70s for Brent is the evident pressure on US shale drilling activity given current price levels, being also mindful of the cUS$4/bbl discount WTI trades at relative to Brent.

The US oil rig count began to fall sharply from March, following the price drop in the spring and is down 15% since then although showing signs of stabilising (Figure 6).

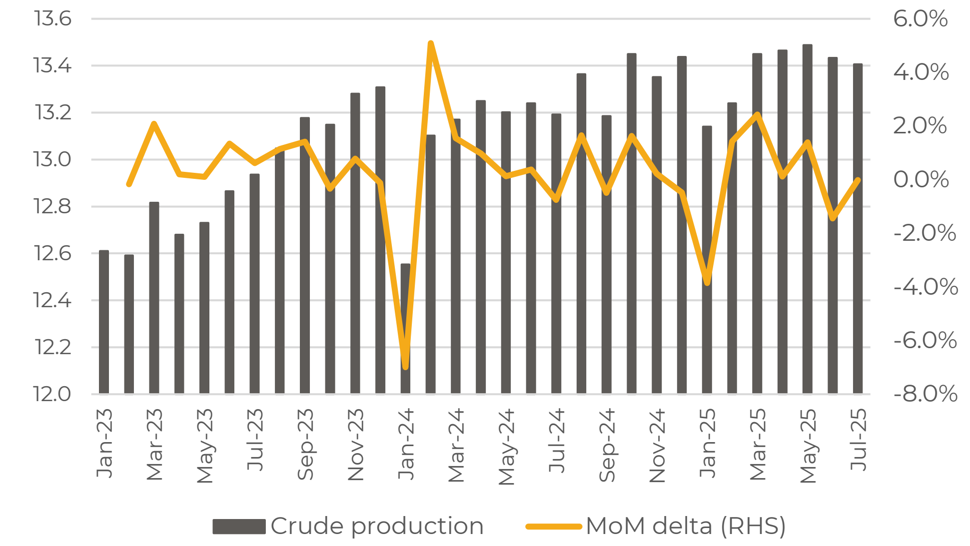
Figure 6: US oil rig count



Source: Baker Hughes, Bloomberg, CAG Research

While drilling and completion technologal advance mean record US shale oil production can be maintained with a smaller operational drilling fleet, nevertheless the nature of shale oil is that sustained drilling activity is required given the high decline rate. Althgough current forecasts are for US oil production to grow, there are signs that it is beginning to flatten out, if not actually start to decline (Figure 7). In our view, that is a clear indication that oil prices above US$70/bbl Brent are likely to be required to reinstate even a modicum of growth in what we regard as the full-cycle marginal supplier to the market.

Figure 7: US crude production (mmbd), MoM change (%)



Source: EIA, CAG Research

Ongoing geopolitical uncertainty remains fairly high, although that carries both bullish and bearish potential risks for oil prices. On the bullish side, ongoing conflict in Ukraine could draw further sanctions on Russia while the E3 (UK, France, and Germany) are in the process of activating the 'snapback' sanctions mechanism on Iran over its failure to comply with the terms of the Joint Comprehensive Plan of Action signed in 2015. On the bearish side, US trade policy in general, and the increase in tariffs on India to 50% in particular continue to threaten economic activity and hence the demand for oil.

Summary financial statements

December year end, US$m	FY23A	FY24A*	FY25E	FY26E	FY27E
Production (kboed)	**62.7**	**52.1**	**41.3**	**44.6**	**45.5**
Brent price (US$/bbl)	**82.18**	**80.30**	**70.00**	**72.50**	**75.00**
Profit & Loss					
Revenue	1,634.1	1,287.2	913.8	1,004.9	1,049.6
Other operating income	0.0	0.0	4.2	0.0	0.0
Cost of sales	(869.2)	(652.5)	(540.4)	(545.9)	(558.7)
Gross profit	**764.9**	**634.7**	**377.6**	**459.0**	**490.9**
Administrative expenses	(56.1)	(52.2)	(41.0)	(37.0)	(34.0)
Disposals	0.0	0.0	113.0	0.0	0.0
Other gains/(losses)	0.2	(6.6)	(1.9)	0.0	0.0
Exploration costs written of	(27.0)	(202.3)	(5.0)	(5.0)	(5.0)
Impairment charges	(408.1)	11.8	(39.1)	0.0	0.0
Provisions (reversal)/(expense)	22.0	63.3	(10.6)	0.0	0.0
Operating profit	**295.9**	**448.7**	**393.0**	**417.0**	**451.9**
(loss)/gain on hedging instruments	(0.4)	0.0	0.0	0.0	0.0
Gain on bond buyback	86.0	0.0	0.0	0.0	0.0
Net finance	(285.6)	(275.0)	(205.2)	(199.2)	(133.1)
Profit before tax	**95.9**	**173.7**	**187.8**	**217.8**	**318.7**
Income tax expense	(205.5)	(228.7)	(125.1)	(144.4)	(156.5)
(loss)/profit for the year - cont ops	**(109.6)**	**(55.0)**	**62.7**	**73.5**	**162.3**
(loss)/profit for the year - reported	**(109.6)**	**54.6**	**86.4**	**73.5**	**162.3**
Basic adjusted EPS - cont ops (USc/share)	(7.6)	(3.8)	4.3	5.0	11.1
Diluted adjusted EPS - cont ops (USc/share)	(7.6)	(3.8)	4.2	5.0	11.0
Basic reported EPS - reported (USc/share)	(7.6)	3.7	5.9	5.0	11.1
Diluted reported EPS - reported (USc/share)	(7.6)	3.6	5.8	5.0	11.0

*Source: Tullow, CAG Research. *Restated to treat Gabon as a dicontinued operation.*

Summary financial statements (cont)

December year end, US$m	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow					
Profit before tax	95.9	321.5	187.8	217.8	318.7
DD&A	436.6	444.2	327.5	340.0	347.1
Disposal (gains)/losses	0.0	(38.9)	(113.0)	0.0	0.0
Other gains	(0.2)	0.0	1.9	0.0	0.0
Taxes paid in kind	(11.0)	(6.3)	(9.0)	(8.0)	(7.0)
Exploration W/O	27.0	212.6	5.0	5.0	5.0
Impairment of PP&E	408.1	(11.8)	39.1	0.0	0.0
Provisions reversal/(expense)	(22.0)	(63.3)	10.6	0.0	0.0
Payments for provisions	(0.6)	(0.7)	0.0	0.0	0.0
Decommissioning expenditure	(78.1)	(45.0)	(15.0)	(15.0)	(10.0)
Share-based payments	6.0	6.9	5.4	5.4	5.4
(Loss)/gain on hedging instruments	0.4	0.0	0.0	0.0	0.0
Gain on bond buyback	(86.0)	0.0	0.0	0.0	0.0
Net finance	285.6	274.1	205.2	199.2	133.1
Operating cash flow before WC	**1,061.7**	**1,093.3**	**645.6**	**744.4**	**792.4**
Delta working capital	89.0	25.5	50.0	0.0	0.0
Cash generated from operations	**1,150.7**	**1,118.8**	**695.6**	**744.4**	**792.4**
Tax received/(paid)	(274.5)	(360.3)	(150.0)	(144.4)	(156.5)
Net cash inflow from operating activities	**876.2**	**758.5**	**545.6**	**600.0**	**635.9**
Proceeds from disposals	0.7	0.0	380.0	0.0	0.0
Purchase of additional interest in joint op	0.0	(8.1)	0.0	0.0	0.0
Purchase of intangible E&A assets	(30.2)	(27.8)	(10.0)	(10.0)	(10.0)
Purchase of PP&E	(262.3)	(196.7)	(175.0)	(265.0)	(265.0)
Finance income	23.3	19.5	0.0	0.0	0.0
Net cash outflow from investing	**(268.5)**	**(213.1)**	**195.0**	**(275.0)**	**(275.0)**
Debt arrangement fees	(5.0)	0.0	0.0	0.0	0.0
Repayment of borrowings	(432.2)	(100.0)	0.0	0.0	0.0
Proceeds from borrowings	129.7	0.0	0.0	0.0	0.0
Lease liability repayments	(195.0)	(169.0)	(195.0)	(195.0)	(60.0)
Interest paid	(240.0)	(223.2)	(166.2)	(161.3)	(107.8)
Dividend paid	0.0	0.0	0.0	0.0	0.0
Net cash from financing activities	**(742.5)**	**(492.2)**	**(361.2)**	**(356.3)**	**(167.8)**
Implied delta net debt (exc leases)	**(253.7)**	**(153.2)**	**(379.3)**	**31.3**	**(193.1)**
Summary balance sheet					
Total non-current assets	3,178.0	2,827.2	2,679.7	2,609.7	2,532.6
Net assets	(359.4)	(272.7)	(204.6)	(125.8)	41.9
Total equity	(359.4)	(272.7)	(204.6)	(125.8)	41.9
Net (cash)/debt (excluding leases)	**1,608.4**	**1,452.3**	**1,041.4**	**1,072.7**	**879.6**

Source: Tullow, CAG Research.

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