UBA Global Markets

OPR Refining & Petrochemicals Company Limited

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Offer Price: N100.00

FYE	2009e	2010e	2011e
EPS, N	45.24	41.34	42.72
NAPS, N	86.48	97.81	105.54
RoE, %	82.3	44.9	42.0
P/E, x	2.2	2.4	2.3
P/B, x	1.2	1.0	0.9
Div. Yield, %	25.0	30.0	35.0

Forecast Financial data, FY09	
FYE	December
Revenue, N'm	218,109
PBT, N'm	39,607
PAT, N'm	38,815
Net assets, N'm	74,198
Market cap., N'm	85,800
Issued shares, 000	85,800

Stock data	
NSE	N/A
Sector	N/A
Yr. high/low, N	N/A
Free float	N/A
Av. Daily Turnover, N'm	N/A

SUMMARY

The world's existing petroleum products refineries are concentrated in North America, South America, Western Europe and the Middle East with none claiming to have an overwhelming share of the worldwide market. The industry is however dominated by large multinational energy companies with crude oil reserves and operating facilities all over the world. Products are viewed by consumers as commodities and with very little differentiation between suppliers. Competition between companies for market share and demand exists largely only on the basis of pricing and cost of production.

The West African petroleum products refining market has (9) functional refineries operating at below average capacities. As in other developing countries of the world, most of these refineries are government–owned, with attendant problems associated with neglect, poor Turn Around Maintenance (TAM) and bad management.

Presently, four (4) of the refineries in West Africa are situated in Nigeria. Of these four, there is none that is private. Government has however demonstrated its determination to nurture private sector participation through its licensing of private refineries and partial deregulation of petroleum product prices, in order to improve local capacity. Notwithstanding, the effective refining capacity of the refineries remains low and varies from one refinery to the other. This is due mostly to inadequate maintenance and poor management of these Federal Government owned refineries. In recent times, crude oil supply to most of the 4 existing refineries has been adversely affected by supply pipeline sabotage and the problems in the Niger Delta, which have adversely affected the production of crude oil.

The OPR Refining & Petrochemicals Company Limited (OPR-R&P) schedule commenced in year 2000 with the acquisition of land, surveying, Environmental Impact Assessment (EIA), acquisitions of oil blocks, granting of Approval to Construct the Refinery and other preliminary activities which will culminate in the start-up and commencement of production by late 2008. The Orient refinery, with a design capacity of 55,000 bpd, will produce gasoline, diesel, kerosene, jet fuel and LPG, which are scarce in the country and are currently being imported in large quantities from overseas. To date, OPR-R&P is the only one, of the 18 operators granted licenses, that had made good progress towards refining crude oil.

In order to part-finance the establishment and construction of a private refinery, following the liberalization of the downstream sector of the oil & gas industry, OPR-R&P had in 2005/2006 issued 150 million shares of 50 kobo at N100 per share through a private placement of which only 7.5 million, representing 5% of the issued shares, were subscribed. Towards making up the difference, the company is now offering 120 million ordinary shares of 50kobo each at N100 per share through another private placement.

Investment case

⇒ OPR-R&P already has the first comer advantage in the domestic private refineries market. We expect the company to leverage on its pioneer efforts towards gaining market share and leadership. The company's understanding of the refinery terrain since 2000, in our view, puts it in good stead towards delivering value when it eventually commences operations.

⇒ OPR-R&P will have competitive edge price-wise over imported petroleum products, since the overseas refiners incur double transportation cost to take the crude oil from and then return refined products to Nigeria. Also the labour costs of the overseas refineries, in Europe for example, are higher than those in Nigeria. Price incentives will therefore be used to attract and retain both bulk and retail customers of OPR-R&P.

⇒ The company's projected return on equity is attractive.

⇒ Whilst we believe that the initial costs for setting up a refinery might affect OPR-R&P's margin, higher sales volume on the back of both domestic and sub regional demand should unlock the door to higher profit margins.

⇒ The company forecasts a dividend yield of 25.0% in its first year of operation. This is in spite of a proposed retention rate of 45.0%, which is by far the highest by any quoted firm in the downstream petroleum marketing sector.

⇒ EV/EBITDA multiple of 2.7x compares favourably to an average multiple of 10.3x for the six downstream major players.

⇒ Post construction, OPR-R&P's refinery capacity of 55,000 bpd will translate to ~12.4% of Nigeria's total refinery capacity. This is expected to confer strong advantage to the company in domestic competition.

⇒ Refinery is designed to produce gasoline, diesel, kerosene, jet fuel and LPG. By diversifying its products, the company is positioned to generate high sales volume thus ensuring robust cashflows and steady income.

⇒ Orient's OPL blocks 915 and 916 will serve as the main source of feedstock supply, which will ensure steady supply of crude oil to the refinery as well as saving the company the likely costs arising from frequent modification of the refinery on the back of changing composition of oil feedstock

⇒ Inland location of the refinery gives it an advantage over other refineries – except Kaduna Refinery which is also located inland.

⇒ However, we are concerned about the company's organizational structure which indicates that the internal audit department reports to the corporate affairs manager. To enhance corporate governance, we are of the opinion that internal audit should report to the managing director or board of directors.

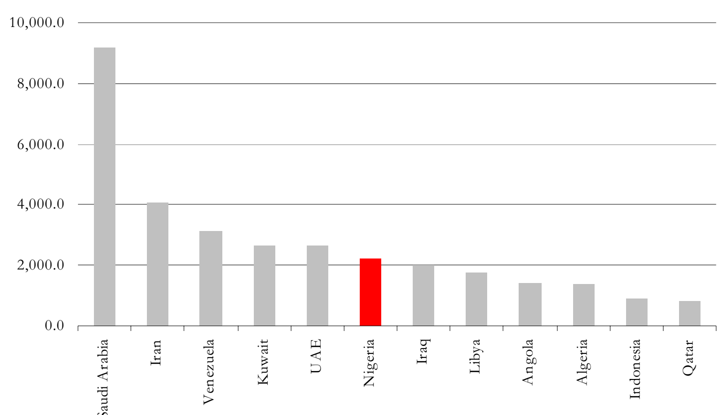
Global Petroleum Refining Market

The global petroleum refining industry may be classified as active, dynamic and mature, with the capacity to produce and transport refined products to and from refining markets considered adequate. The petroleum refining industry is highly regulated by a variety of governmental agencies. The level of capital intensity is also very high as the production process is heavily dependent upon capital equipment, rather than labour inputs. The technological approach being adopted and the precise configuration of any single refinery vary and largely depend on the size, location, the desired products and the type of crude oil used as feedstock. The mix of products from any particular refinery depends to a large extent on the composition of crude oil feedstock it processes. Refineries usually require modification if the type of feedstock used is changed markedly.

The performance of the world's petroleum refining industry depends on the interaction of a wide range of factors. The most important of these are the demand for transport fuel (gasoline, diesel and jet fuel), the price of fuel, crude oil prices and changes in government regulations. The key success factors in the industry include a strong presence in the retail market for petroleum product with direct sales outlets, flexible refinery configuration that can accept a wide range of crude oil as feedstock thereby reducing reliance on particular suppliers and ability to quickly adopt cost-lowering technology thereby providing cost advantage and higher profitability.

The world's existing petroleum products refineries are concentrated in North America, South America, Western Europe and the Middle East with none claiming to have an overwhelming share of the worldwide market. The industry is however dominated by large multinational energy companies with crude oil reserves and operating facilities all over the world. Products are viewed by consumers as commodities and with very little differentiation between suppliers. Competition between companies for market share and demand exists largely only on the basis of pricing and cost of production.

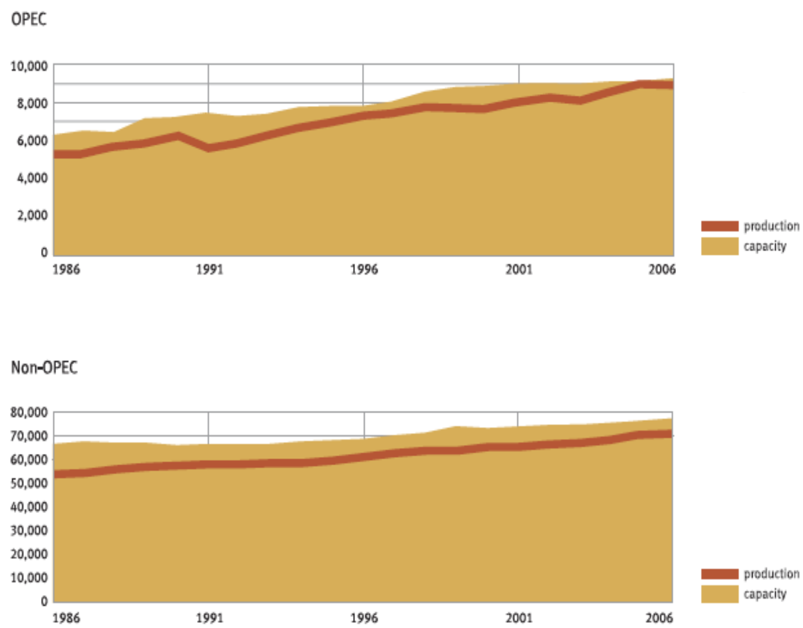
Fig. 1: Total crude oil production by companies in OPEC Member Countries, 2006 (1,000 bpd)



Source: OPEC Annual Statistical Bulletin 2006, UBAGM Research

The Organization of Petroleum Exporting Countries (OPEC) while highlighting the demand and supply situation in the short to medium term emphasizes the need to improve investment in the refining sector, stating that constraints occasioned by refinery bottlenecks as well as geopolitical developments have had considerable impact on the oil market. The recent rise in crude oil prices to new record highs — triggered by a series of refinery outages that have aggravated downstream constraints in the face of increased geopolitical tensions — only highlights the pressing need to enact concrete measures that would encourage rapid and sizeable investments in the refining sector. OPEC however noted that it will take several years to deliver the projects needed to ease current bottlenecks and prepare the appropriate refining capacity to meet expected demand. Analysts are of the view therefore that the world needs to have a minimum of twenty (20) additional refineries, each with very large refining capacity, to meet the current demand for refined petroleum products.

Fig. 2: Output of refined products vs. refinery capacity, 1986-2006 (1,000 bpd)



Source: OPEC Annual Statistical Bulletin 2006

West African Petroleum Products Refining Market

The West African petroleum products refining market is dominated by small refineries operating at below average capacities. As in other developing countries of the world, most of these refineries are government–owned, with attendant problems associated with neglect, poor Turn Around Maintenance (TAM) and bad management. Presently, there are nine (9) functional refineries located in the West African sub-region, four (4) of which are situated in Nigeria. The remaining five (5) existing refineries in West Africa have a combined installed capacity of 162,200bpd and they are:

Fig. 3: West Africa: Refineries and their installed capacities

Refinery	Location	Installed Capacity, b/d
Tema Refinery	Ghana	45,000
SIR Refinery	Cote D'Ivoire	65,200
SAR Refinery	Senegal	27000
West African Refinery	Sierra Leone	10,000
Monrovia Refinery	Liberia	15,000
Total		**162,200**

Source: Offer private placement memorandum

Unfortunately, these five (5) refineries are operating at less than 50% of their installed capacities thereby creating a huge demand gap being filled by import of subsidized refined petroleum products from European and Mediterranean refineries into these West African countries.

The products of the Orient Refinery will be targeted primarily to meet the demands of the Nigerian local market. In addition, the West and Central African inland cross-border market, currently dominated by fuel smugglers will provide additional business opportunity for the Orient Refinery.

Fig. 4: Africa refined products by country, 2002-2006 (1,000 bpd)

	2002	2003	2004	2005	2006
Africa	532.7	575.0	631.7	657.8	673.4
Egypt	52.0	52.1	53.5	55.2	57.0
Morocco	29.1	29.2	30.0	31.0	32.2
Nigeria	102.0	123.9	127.1	139.1	140.1
Senegal	9.8	9.8	10.1	10.3	10.6
Tunisia	50.7	50.8	52.1	53.6	55.3
Others	289.2	309.3	358.9	368.4	378.1

Source: OPEC Annual Statistical Bulletin 2006.

Nigerian Petroleum Products Refining Market

The four (4) petroleum refineries, owned and managed by the Federal Government through the Nigerian National Petroleum Corporation (NNPC) have a total installed capacity of 445,000 bpd, which is estimated to be sufficient to satisfy most of the current domestic demand for refined products if working at full capacity. These are 1) Warri Refinery and Petrochemical Company, 125,000 bpd; 2) Port Harcourt Refining Company (1&2), 210,000 bpd and; 3) Kaduna Refinery and Petrochemical Company, 110,000 bpd.

Fig. 5: Refinery capacity in Nigeria by location, 2002-2006 (1,000 bpd)

	Location	2002	2003	2004	2005	2006
Nigeria		445.0	445.0	445.0	445.0	445.0
WRPC	Warri	125.0	125.0	125.0	125.0	125.0
KRPC	Kaduna	110.0	110.0	110.0	110.0	110.0
PHRC	Port Hartcourt	60.0	60.0	60.0	60.0	60.0
	Port Hartcourt New	150.0	150.0	150.0	150.0	150.0

Source: OPEC Annual Statistical Bulletin 2006

The effective refining capacity of these refineries is however low and varies from one refinery to the other. This is due mostly to inadequate maintenance and poor management of these Federal Government owned refineries. In recent times, crude oil supply to most of the 4 existing refineries has been adversely affected by supply pipeline sabotage and the problems in the Niger Delta, which have adversely affected the production of crude oil.

Fig. 6: Refining capacity of OPEC Members, 2000-2006 (1,000 bpd)

	2000	2001	2002	2003	2004	2005	2006
Algeria	462.2	462.2	462.2	462.2	462.2	462.2	455.2
Angola	39.0	39.0	39.0	39.0	39.0	39.0	39.0
Indonesia	1,057.0	1,057.0	1,057.0	1,057.0	1,055.5	1,057.0	1,057.0
IR Iran	1,474.0	1,474.0	1,474.0	1,474.0	1,474.0	1,474.0	1,566.0
Iraq	603.0	603.0	603.0	603.0	603.0	603.0	638.5
Kuwait	899.0	899.0	899.0	831.0	936.0	936.0	932.0
SP Libyan AJ	380.0	380.0	380.0	380.0	380.0	380.0	380.0
Nigeria	445.0	445.0	445.0	445.0	445.0	445.0	445.0
Qatar	63.0	63.0	80.0	80.0	80.0	80.0	80.0
Saudi Arabia	1,825.0	1,825.0	1,825.0	2,064.0	2,077.0	2,091.0	2,135.5
United Arab Emirates	420.0	491.3	491.3	466.3	466.3	466.3	466.3
Venezuela	1,183.2	1,183.2	1,199.0	1,003.8	1,045.7	1,054.3	1,039.8
OPEC	8,850.4	8,921.7	8,954.5	8,905.3	9,063.7	9,087.8	9,234.3

Source: OPEC Annual Statistical Bulletin 2006

The result of the low capacity utilization of these four (4) refineries is a huge deficit in the supply required to meet the current local demand of refined products. The result is the heavy dependence on importation of refined products and consequently high landing cost. Social pressure had been brought in the past to bear on the Federal Government to subsidize the difference between landing cost and regulated pump price. The government is now moving gradually but steadily towards full de-regulation of fuel pump prices in Nigeria.

Fig. 7: Consumption of refined products in OPEC Members (1,000 bpd)

	2000	2001	2002	2003	2004	2005	2006
Algeria	187.7	188.7	203.7	218.3	232.9	245.9	255.2
Angola	36.4	41.3	42.5	48.5	49.6	53.7	60.8
Indonesia	996.4	1,026.0	1,075.4	1,112.9	1,143.7	1,139.9	1,061.3
IR Iran	1,189.1	1,220.5	1,257.9	1,313.8	1,374.8	1,459.2	1,578.6
Iraq	452.4	490.9	477.3	415.9	504.0	536.9	563.7
Kuwait	152.9	140.8	146.0	206.7	230.8	248.7	263.3
SP Libyan AJ	201.7	212.8	215.7	221.5	230.2	242.5	250.2
Nigeria	213.7	244.5	242.0	230.6	241.6	252.5	256.3
Qatar	35.1	37.5	45.7	43.7	68.9	73.2	82.1
Saudi Arabia	937.0	982.0	1,053.7	1,140.5	1,187.2	1,227.4	1,311.6
United Arab Emirates	144.5	154.8	170.7	190.1	194.1	204.3	213.9
Venezuela	485.9	496.1	480.3	465.2	477.4	505.6	532.1
OPEC	5,032.7	5,235.8	5,411.0	5,607.5	5,935.2	6,189.7	6,429.0

Source: OPEC Annual Statistical Bulletin 2006

The gap created by the supply shortfall has been filled, over the years, by imports. Currently, over 70% of the domestic consumption is supplied by importation of products. NNPC imports about 80% of these products, while major and independent marketers import the balance.

Up till 2002, refining was monopolized by NNPC, representing the Federal Government of Nigeria. In May 2002, 18 private companies were granted preliminary licences to establish petroleum refineries in the country. Of this number, only Orient Refining and a couple of others had progressed to obtain the second licence, **Approval to Construct**, as at October 2004.

Fig. 8: 18 Firms granted licenses to establish petroleum refineries in Nigeria

Licenced Private Refineries in Nigeria	
1	Tonwei Refinery, Bayelsa State
2	Orient Petroleum Resources Limited
3	Obat Petroleum and Oil Ltd
4	Amake Modular Refinery, Akwa Ibom State
5	Badagry Petroleum Refinery
6	Ilaje Refinery and Petrohemicals
7	Niger Delta Refinery and Petrochemicals
8	NDP Refineries and Oil Services
9	Ode-Aye Refinery
10	Owena Oil and Gas
11	Rivgas Petroleum and Energy
12	Sapele Petrochemicals and Southland Associates
13	Southwest Refineries and Petrochemical
14	Starex Petroleum Refining
15	Chasewood Consortium
16	Cleanwaters Refinery Limited
17	Total Support Refineries
18	Union Atlantic Petroleum Limited

Source: Newspaper cuttings

Refined Product Market Split

Asphalt: A dark brown-to-black cement-like material obtained by petroleum processing and containing bitumen as the predominant component; used primarily for road construction.

Aviation Gasoline (Finished): A complex mixture of relatively volatile hydrocarbons with or without small quantities of additives, blended to form a fuel suitable for use in aviation reciprocating engines.

Coke (Petroleum): A residue high in carbon content and low in hydrogen that is the final product of thermal decomposition in the condensation process in cracking. This product is reported as marketable coke or catalyst coke. The conversion is 5 barrels (of 42 U.S. gallons each) per short ton. Coke from petroleum has a heating value of 6.024 million Btu per barrel.

Conventional Gasoline: Finished motor gasoline not included in the oxygenated or reformulated gasoline categories.

Diesel fuel: are used in on-highway diesel engines, such as those in trucks and automobiles, as well as off-highway engines, such as those in railroad locomotives and agricultural machinery.

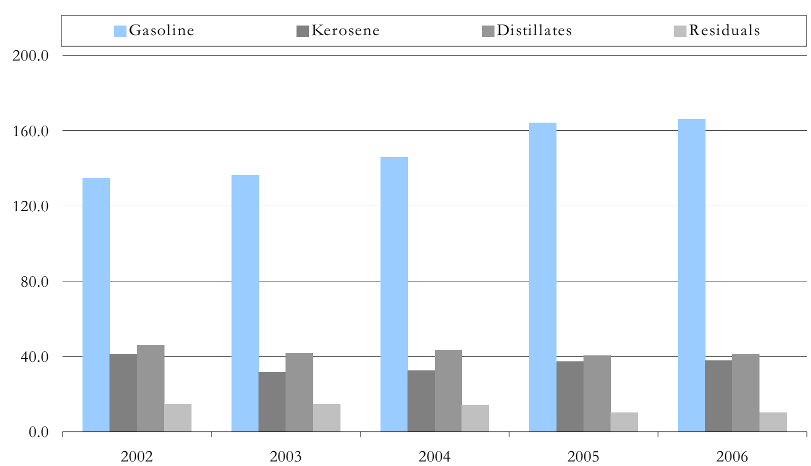
Distillate: A light petroleum distillate that can be used as either a diesel fuel or a fuel oil.

Kerosene: A light petroleum distillate that is used in space heaters, cook stoves, and water heaters and is suitable for use as a light source when burned in wick-fed lamps.

Liquefied Petroleum Gas (LPG): A group of hydrogen-based gases derived from crude oil refining or natural gas fractionation. They include ethane, ethylene, propane, propylene, normal butane, butylene, isobutane, and isobutylene. For convenience of transportation, these gases are liquefied through pressurization.

Lubricants: Substances used to reduce friction between bearing surfaces, or incorporated into other materials used as processing aids in the manufacture of other products, or used as carriers of other materials. Petroleum lubricants may be produced either from distillates or residues. Lubricants include all grades of lubricating oils, from spindle oil to cylinder oil to those used in greases.

Fig. 9: Nigeria: Consumption of refined products, (1,000 bpd)

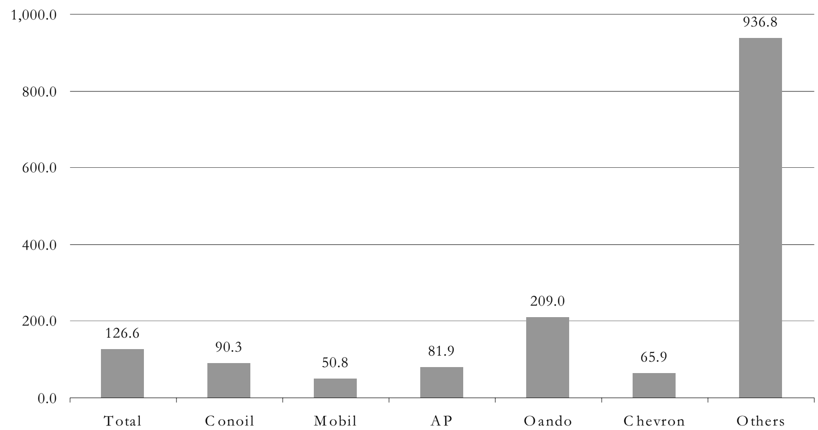


Source: OPEC Annual Statistical Bulletin 2006, UBAGM Research

Competition

There are two groups of companies involved in product marketing in Nigeria, namely the 6 major and over 7000 independent marketers. The major marketers now have about 40% of the market share, a significant drop from 65% in 1990, and own over 80% of the private sector storage capacity, outside the retail outlets. The major marketers also own more than 2,000 retail service stations in the country. The independent marketers' share of the market has risen from 35% in 1990 to 60% at the present time. The independents' retail service stations number about 15,000 currently. NNPC went into retail marketing in August 2002 and controls less than 1% market share.

Fig. 10: Market share by sales, N'billions



NB: "Others" is made up of over 7,000 independent marketers.

History and Business of OPR-Refining & Petrochemicals Co. Ltd.

OPR-Refining & Petrochemicals Company Limited (OPR-R&P) was incorporated as a subsidiary of Orient Petroleum Resources Plc ("OPR") on 22nd July, 2005 for the purpose of establishing a refinery to process crude oil produced by OPR from its oil and gas concessions into refined petroleum products. OPR conceived the refinery project as a means of harnessing the vast but largely untapped mineral, agricultural and human resources, especially hydrocarbon deposits in Anambra State, for the industrialization of the area and improvement of the socio-economic well being of the people.

The establishment of the Orient Refinery was in direct response to the invitation of the Federal Government of Nigeria following government's resolve in 2001 to seek alternatives to fuel importation. One of its decisions was to break the monopoly of the NNPC in the downstream petroleum industry by several measures, including throwing open the refining business to private entrepreneurs and privatizing the state owned refineries.

Orient Petroleum Resources Plc (OPR) was one of 18 successful private companies, out of 65 applicants, to be granted the license to establish refineries in Nigeria in May 2002. In February 2004, OPR became the first Nigerian company to obtain a license from the Federal Government of Nigeria (FGN) to construct a private petroleum refinery in Nigeria. OPR was also granted two petroleum prospecting license blocks by the FGN, to provide a dependable source of crude oil feedstock to the Orient Refinery and thus provide long term security for the huge investment in the refinery. OPR, having completed successfully the Environmental Impact Assessment (EIA), has obtained EIA certification from the Federal Ministry of Environment to proceed with the construction of its refinery, again the first company in Nigeria to achieve this milestone.

The scope of operation of OPR-R&P will cover the following core business areas: petroleum products refining, marketing, distribution and power generation.

Fig. 11: Shareholding structure

Beneficial Owners	No. of shares	%
Orient Petroleum Resources Plc	638,088,400.0	94.1
Anambra State & 21 Local Govts.	32,331,316.0	4.8
Nigerian citizens and other investors	7,580,284.0	1.1
Total	**678,000,000.0**	**100.0**

Source: Placement memorandum

The Refinery Project

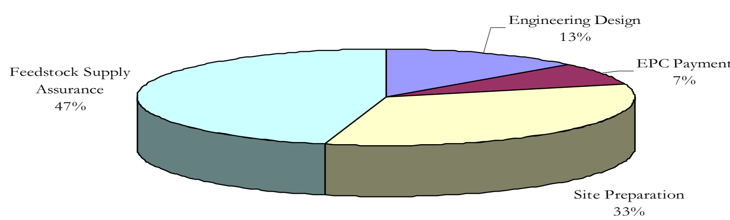
The proposed Orient Refinery, with a proposed installed capacity size of 55,000 barrels per day, will be located at Nsugbe-Umuleri, on the eastern bank of Anambra River. The main source of feedstock supply to the Refinery will be the oil and gas fields in Oil Prospecting License (OPL) blocks 915 and 916.

The Orient Refinery schedule commenced in year 2000 with the acquisition of land, surveying, Environmental Impact Assessment (EIA), acquisitions of oil blocks, granting of Approval to Construct to the Refinery and other preliminary activities which will culminate in the start-up and commencement of production by late 2008. The Orient refinery will produce gasoline, diesel, kerosene, jet fuel and LPG, which are scarce in the country and are currently being imported in large quantities from overseas.

The location of the proposed Orient Refinery within 30 km of the oil and gas fields discovered in the relatively unexplored Anambra basin has given added impetus to the development of land-locked hydrocarbon reserves, by improving vastly the economics of developing these fields.

Pre launch capex for the refinery to date is estimated at US$22,760,000 (N2, 958,800,000). This covers the costs relating to Front End Engineering Design (FEED) by Shaw Stone & Webster of the United States of America (US$3million), site preparation by Julius Berger Nigeria Plc (US$7.61 million) Feedstock Supply Assurance (US$10.5 million) and Engineering, Procurement, Construction and Commissioning (EPC) mobilization payment to Beijing Petrochemical Design Institute (BPDI), China (US$1.65m).

Fig. 12: Composition of Pre Launch Capex to date



Source: Placement memorandum, UBAGM research.

Crude Oil Feedstock Supply

To guarantee regular supply of crude oil feedstock, Orient Refinery design is based on three (3) alternative sources of crude namely;

⇒ barging Brass blend crude up from the Niger and Anambra rivers;

⇒ construction of a bye-pass from the NNPC Auchi to Enugu pipeline; and

⇒ development of nearby oil and gas fields in Oil Prospecting Licenses ("OPLs") 915 & 916.

The main source of feedstock supply to the Refinery will be the oil and gas fields in Oil Prospecting Licence (OPL) blocks 915 and 916, part of the Anambra River geological basin surrounding the refinery location.

Product Slate

In view of the inland location of the Orient Refinery, the current supply/demand imbalance and acute scarcity of critical products, opportunities for import substitution and a zero waste environmental concept.

On completion, the refinery will produce the following:

⇒ Petrol

⇒ Diesel

⇒ Kerosene

⇒ Jet fuel

⇒ LPG

Product Distribution and Marketing

The two groups of companies (6 major marketers and over 7,000 independent marketers) involved in petroleum-product marketing in Nigeria are proposed customers of OPR-R&P. OPR-R&P is negotiating an Off-take Agreement with the Independent Marketers Association of Nigeria (IPMAN). Initially, the refinery will make maximum use of the existing distribution channels. Subsequently, it will develop its own retail network, comprising tankers and barges, bulk distribution depots and retail service stations.

Product Pricing

By October 2003, the crude oil cost for domestic consumption was deregulated to the international crude oil price, implying market-determined product prices, using the import parity approach, in which the basic cost elements are:

⇒ Cost of product based on Platt's Quotation

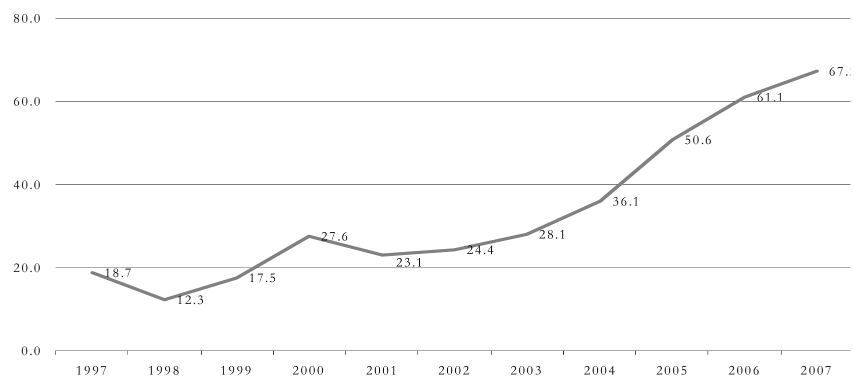
⇒ Insurance & Freight cost

⇒ Exchange rate prevailing at the time of import, used to convert to Naira

⇒ Add distribution costs, margins and taxes

This summation now produces the current domestic pump price for each imported product. Even though a market-determined product price regime has not been fully achieved to date, owing to several social and economic considerations, the policy of the government is consistent in this direction of full price deregulation which OPR-R&P intends to adopt in its products pricing.

Fig. 13: OPEC yearly average price of crude oil, 1997-2007 (US$)



Source: OPEC, UBAGM Research.

Marketing Strategy

The main marketing thrust of the Orient Refinery is import substitution. Against the back drop that over 70% of the current national demand of 30 million litres per day of premium motor spirit (PMS) is imported, the Orient Refinery will, on completion, produce less than 4 million litres per day of PMS, which will still leave room for additional refining capacity to be installed to cater for the country's fuel needs.

Of the 18 proposed new refineries and the 4 existing NNPC refineries, only the Kaduna and the proposed OPR-R&P refineries are located inland while the others are located on the Atlantic coast. Limited partly by its capacity, as well as the inefficiencies of the existing NNPC refineries, the Kaduna refinery has not been able to satisfy inland demand, including Nigeria's far North, Niger Republic, Chad, Cameroon, etc. This leaves a gap in the inland market for the Orient Refinery to fill.

The target market of the Orient Refinery, therefore, is the hinterland of Nigeria, starting with Onitsha and its environs in Anambra State and widening to the surrounding inland states of Kogi, Benue, Nassarawa, Plateau, Taraba, Ebonyi, Enugu, Imo, Edo and the Federal Capital Territory of Abuja. Also, the West and Central African inland cross-border market, currently dominated by fuel smugglers will provide additional business opportunity for the Orient Refinery.

Estimated Project Cost (EPC)

The Orient Refinery project is estimated to cost $550 million. Consequently, this activity will require some debt financing while future expansion to a refining/petrochemical facility will be financed from the proceeds of refined product sales, without recourse to additional borrowing. Operating costs are estimated at $2.5 per barrel of oil refined.

Fig. 14: Project Funding Structure

EPC contract	%	N'000	US$'000
Equity (ord. shares)	15	9,817,500	82,500
Debt (Term loan)	85	55,632,500	467,500
Total	**100**	**65,450,000**	**550,000**

Source: Offer memorandum

As indicated above, the capital structure being adopted for the EPC contract comprises equity and debt funding in the ratio 15:85 approximately. This structure takes advantage of the strong cash flows generated by the refinery project. Equity funding for the refinery is being raised from this private placement and an earlier one issued in 2005/2006, with total gross proceeds from both private placements estimated at about N12.75 billion ($98.08 million).

China Eximbank will provide US$467.5 million or 85% of the required total project cost as a loan, while OPR Plc will provide its oil concession licences (OPL 915 and 916) as collateral for the loan. The parent company is also required to provide the balance of 15% of the project cost amounting to US$82.5 as internal counterpart funding for which OPR-R&P will pay up to US$207,193,372 as financial charges over a period of 8 years (average of US$25,899 per annum).

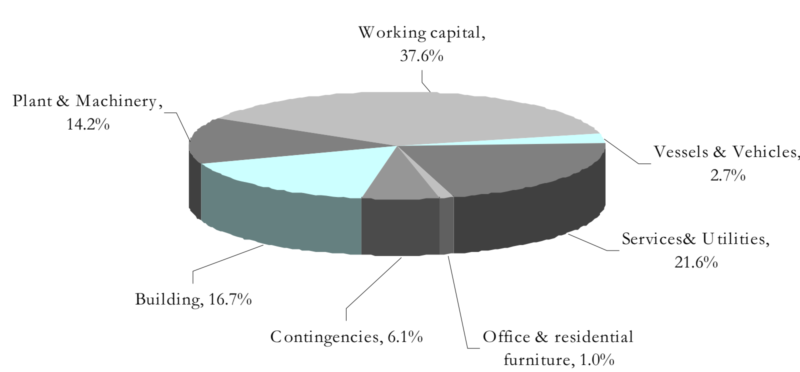
United Bank for Africa (UBA) has been nominated and has accepted to serve as the Repayment Guarantor.

In addition to the EPC contract cost of $550 million, expenditure of $14.4 million (equity) had been incurred prior to the EPC contract and $95.5 million is projected to be spent on items not covered by the EPC contract. The latter, non-EPC contract, projected costs, comprising contingency, statutory land and licence fees, office movables, marine and land transport vehicles and working capital will be financed by a combination of equity and short term debt.

Purpose of the Offer

In order to part-finance the establishment and construction of a private refinery, following the liberalization of the downstream sector of the oil & gas industry, OPR-R&P had in 2005/2006 issued 150 million shares of 50 kobo at N100 per share through a private placement of which only 7.5 million, representing 5% of the issued shares, were subscribed. Towards making up the difference, the company is now offering 120 million ordinary shares of 50kobo each at N100 per share through another private placement. After deducting total estimated offer cost of ₦664.5 million i.e. 5.54% of the issue proceeds, the net proceeds of ₦11.336 billion shall be applied as follows:

Fig. 15: Use of offer proceeds



Source: Placement memorandum, UBAGM research.

NB: No application has been made to the Council of the Nigerian Stock Exchange for admission of the Ordinary shares to the official list and there is no intention to submit one at the moment. The Board of Directors however reserves the right to apply for quotation at a later date if and when the company goes public.

Risk Factors & Mitigants

Project Completion Risk

The project completion risk is mitigated by the fact that the project will be developed in phases, thereby making it more manageable as requirements for each phase have been reasonably quantified. The experience of the contractor, BPDI on similar projects is expected to bear on this project. The construction contractors will be well-experienced in the construction of similar projects and the construction contract agreement will contain violation terms for untimely completion. Moreover, the risk of non-supply of raw materials to be used such as cement, sand, steel, timber; etc is mitigated by the availability of the bulk of these materials locally within the country.

Technical Operation of the Refinery Risk

The choice of BPDI, a reputable, engineering company as construction contractor will mitigate the risk of plant operability. By tendering for a fit-for-purpose refinery, the company aims to keep its costs at the barest minimum and to eliminate unnecessary waste and overhead costs.

Supply of Feedstock Risk

The supply of feedstock risk is mitigated as the company plans to secure its feedstock supply by vertical integration with the upstream petroleum business; and this has been guaranteed by the award by the Federal Government to OPR-R&P (the holding company) of two licence blocks, OPLs 915 and 916 adjacent to the refinery site. In addition, the Federal Government (through NNPC) has equally agreed to supply crude from the NNPC/Agip Joint Venture Operation in Brass, as a back-up.

Increase in Crude Price Risk

With expected price volatility in raw materials, mainly crude oil, constituting a risk, OPR-R&P will price its products to maintain its margins, while remaining within the price band of the rest of the Nigerian refined products market. The Company, by its Refinery location inland, plans to establish and maintain niche markets, in a densely populated part of Nigeria and provide products, which are scarce in the country. The company will rely on the efficiency of its operations to provide products reliably for a growing market, which will potentially spread to the West Africa region.

Liquidity Risk

There is an apparent risk stemming from the lack of marketability of the shares to be created from this private placement. As the Management of OPR-R&P has stated their intention not to seek the immediate listing of the company's shares on the NSE, investors willing to realize their investment might not be able to so as as quickly as they want to. The company has however not ruled out the possibility of applying for quotation at a later date.

Infrastructural Deficiency Risk

The Anambra State Government as the host state of the project is committed to providing infrastructures such as roads network, power and water supply to the project site. However, being an integrated project, the company plans to develop these infrastructures independent of the State Government.

Oil Community Agitations Risk

The company has adopted a participatory community relations policy in its operation by, among other measures, encouraging the host communities to be part-owners. In the same vein, OPR-R&P plans to involve the communities in the provisions of social amenities based on the priorities of these communities.

Political/ Unfavorable Government Policy Risk

This risk is reduced significantly by the relative stability provided by the democratic rule in the country. The Federal Government policy on deregulation and liberalization of the downstream sector of the oil & gas industry will be sustained as government intends to continue to provide support for a private-sector led participation by ensuring that the prices of petroleum products are market-driven.

Also, this risk is further mitigated by the fact that the shares of OPR-R&P would be listed on the Nigerian Stock Exchange (NSE) by way of listing by introduction immediately after commencement of operations.

Market Output Risk

There is a diversified target market for the company's products. This risk will be mitigated with the execution of long-term Off-Take Agreement with the independent petroleum marketers who control about 60% of the market.

Health, Safety and Environmental Risk

The negative environmental impacts of the project and a means of managing them have been provided for in the Environmental Impact Assessment (EIA) study on the project and approved by the Federal Ministry of Environment. In the same vein, the company will adopt Health, Safety and Environment (HSE) Policy that conforms with international standard and global best practice from time to time.

Forecast Income statement			
N'000	**2009**	**2010**	**2011**
Turnover	218,109,045	218,109,045	218,109,045
Direct cost (feed stock)	162,662,500	162,662,500	162,662,500
Gross profit	**55,446,545**	**55,446,545**	**55,446,545**
Operating expenses	6,256,250	6,256,250	6,256,250
Pre-operating cost written off	2,538,327	0	0
Operating profit before interest & depreciation	**46,651,968**	**49,190,295**	**49,190,295**
Interest paid	122,119	6,077,500	4,862,000
Depreciation	6,922,663	6,922,663	6,922,663
Profit before taxation	**39,607,186**	**36,190,132**	**37,405,632**
Taxation	792,143	723,802	748,112
Profit after taxation	**38,815,043**	**35,466,330**	**36,657,520**
Dividend	21,450,000	25,740,000	30,030,000
Retained profit/(loss)	17,365,043	9,726,330	6,627,520

Forecast Balance sheet			
N'000	**2009**	**2010**	**2011**
Fixed assets	62,372,970	55,450,307	48,527,643
Deferred revenue expenses	0	0	0
Current assets	141,794,553	152,356,855	160,497,347
	204,167,523	**207,807,162**	**209,024,990**
Creditors:			
under 1 year	69,194,243	75,262,552	79,576,862
Net current assets/(liabilities)	**72,600,310**	**77,094,303**	**80,920,485**
Total assets less current liabilities	134,973,280	132,544,610	129,448,128
Creditors:			
more than 1 year: Term loans	60,775,000	48,620,000	38,896,000
Total assets less total liabilities	74,198,280	83,924,610	90,552,128
Capital & Reserves:			
Share capital	429,000	429,000	429,000
Share premium account	56,404,240	56,404,240	56,404,240
General reserves	17,365,040	27,091,369	33,718,887
Shareholders' funds	**74,198,280**	**83,924,609**	**90,552,127**

Source: Placement memorandum, UBAGM Research estimates.

Ratios	2009	2010	2011
EPS	45.24	41.34	42.72
DPS (Cash)	25.00	30.00	35.00
NAV/Share	86.48	97.81	105.54
Sales/share	254.2	254.2	254.2
Gross Profit Margin	25.4%	25.4%	25.4%
Pre tax Margin	18.2%	16.6%	17.1%
Net Profit Margin	17.8%	16.3%	16.8%
EBITDA Margin	21.4%	22.6%	22.6%
ROA	27.1%	17.2%	17.6%
ROAE	82.3%	44.9%	42.0%
ROCE	36.8%	31.6%	32.3%
Total Asset Turnover	1.5x	1.1x	1.0x
Interest Coverage	325.3.x	7.0.x	8.7.x
Debt/Equity	81.9%	57.9%	43.0%
P/E	2.2x	2.4x	2.3x
P/Sales	0.4x	0.4x	0.4x
P/B	1.2x	1.0x	0.9x
Div. Yield	25.0%	30.0%	35.0%
Div. Cover	1.8	1.4	1.2
EV/EBITDA	1.6x	1.5x	1.5x
EV/Sales	0.3x	0.3x	0.3x

Source: Placement memorandum, UBAGM Research estimates.

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