

Capital Drilling Ltd

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Capital Drilling "well positioned" to benefit from likely increase in exploration budgets, says Peel Hunt as it initiates at 'buy'

Capital Drilling Limited (LON:CAPD) is "well positioned" to benefit from a likely increase in exploration spending amid an uptick in metals prices, according to analysts at Peel Hunt, who initiated coverage on the firm on Thursday with a 'buy' rating and 76p target price.

In its initiation note, the broker said the stronger metal prices and cash flows "should lead to further increases in exploration budgets", particularly for gold, which has mostly recovered from a slump last summer, which took it below US\$1,200 an ounce to around US\$1,277 today.

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As the firm has around one-third of its drilling rigs in West Africa, a region that accounts for 45% of the continent's gold exploration spend, analysts said the predicted rise in spending could "lift utilisation rates and revenues".

If historic peak utilisation rates were reached for Capital's rigs, Peel Hunt said as much as 50% could be added to their base case of US\$28mIn in underlying (EBITDA) earnings for 2019.

Analysts added that the US\$11mIn in cash the group had in the bank at the end of its last fiscal year, gave it "significant flexibility" to reinvest in the business, which in turn would "put it in a better position to win West Africa mining service contracts".

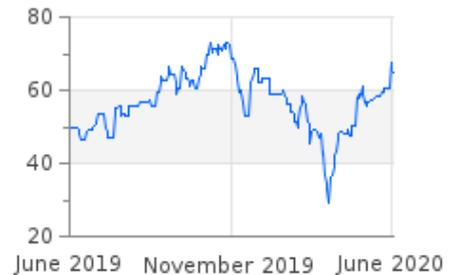
The strong net cash position also allowed the company to continue paying dividends in addition to these investments, Peel Hunt said.

In late-morning trading on Thursday, Capital Drilling shares were steady at 51.5p, a 48% discount to the brokers target price.

Price: 65.5

Market Cap: £89.72 m

1 Year Share Price Graph



Share Information

Code: CAPD

Listing: LSE

52 week High Low
75 25

Sector: Business & education services

Website: www.capdrill.com

Company Synopsis:

At Capital, we provide full service drilling solutions to customers within the global minerals industry, focussing on the African markets. Our drilling services include: blast hole, delineation, directional, exploration, grade control and underground drilling.

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