



# Leni Gas Cuba

8<sup>th</sup> April 2016

**First mover advantage in the Cuban investment revolution. Opportunity now at a small premium to NAV.**

Leni Gas Cuba (LGC) was founded in March 2015 as the first specialist investment company in the world to focus on the country of Cuba. It listed on the ISDX Growth Market in November having raised a total of £4.725 million in order to implement its investment strategy. So far, investments have been made in five Cuba based companies, giving LGC a head start in one of the world's most prospective national economies.

## ■ Cuba – ripe for investment

Cuba remains a communist country with a largely centrally planned economy. But the government has an increased desire to attract foreign investment to the country and has passed laws to this effect. This provides excellent opportunities for LGC to grow a large and profitable portfolio.

## ■ First mover advantage

LGC's first investments are in the tourism, trading and oil & gas sectors. We see the potential for each business in the non-oil & gas sectors to be multi-million dollar revenue company makers, with the oil and gas assets providing speculative "bonanza" upside. Crucially, the investments provide key relationships with Cuban government departments – an overlooked and difficult to achieve pre-requisite to doing business in the country.

## ■ Early stage investment opportunity for long term gains

Given the early stage nature of the business, and the speed at which deals are being done, we are not introducing forecasts at this stage but will do so in due course. In addition, Leni Gas Cuba is a highly speculative investment – please refer to the risks section on page 13. However, we see significant potential upside from current levels given the deals already done and further ones in the pipeline and in particular with the stock trading close to NAV.

Table: Financial overview

Year to end Sept	2015A <sup>1</sup>	2016E	2017E	2018E
Revenue (£m)	0	N/A	N/A	N/A
PBT (£m)	(0.05)	N/A	N/A	N/A
EPS (p)	(0.03)	N/A	N/A	N/A

<sup>1</sup>Source: Company audited accounts

*This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered as independent research.*

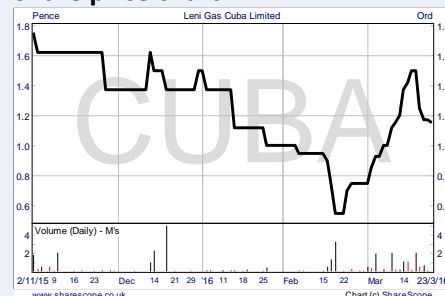
## INITIATION



### Key data

EPIC	CUBA
Share price	1.15p
52 week high/low	2.5p/0.5p
Listing	ISDX
Shares in issue	494m
Market Cap	£5.68m
Sector	Investment

### Share price chart



### Analyst details

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## The Business

Leni Gas Cuba (LGC) was founded in March 2015 by serial entrepreneur David Lenigas and others in order to make investments and acquisitions in the country of Cuba. The opportunity has been seen on the back of a fast growing economy, improving political relations with the US and other nations, and the opening up of the economy to foreign investment.

LGC listed on the ISDX Growth Market in November 2015, making it the first public company in the world to have a sole focus on Cuba. LGC has stated that it was important to be listed on a regulated stock exchange in order to show global investors and governments that it could operate in Cuba in an accountable, regulated and fully transparent manner. The ISDX platform is expected to implement on-line trading of the stocks that are listed there in the near term and we anticipate this being transformational for the trading in LGC in terms of boosting liquidity. **A gross £4.725 million has been raised to date for the company to spend on implementing its investing policy.**



So far LGC has made investments in five companies, these operating in the tourism, trade and oil & gas sectors. The investment approach seems to be a shrewd move as getting into established Cuban companies is much easier and faster than setting them up from scratch. The firm's sector remit is wide, with others being considered for investment including agribusiness, manufacturing, industrial, transport and logistics, biotech, construction, utilities, business services, support services and retail.

To assist in identifying further investment opportunities LGC has entered into arrangements with two local partners. The company is a member of the **Caribbean Council**, a highly influential trade body which supports investment into the region, giving access to a range of local business & government connections, research and advisory services. LGC has also entered into a strategic alliance with strategic consultants **Rushmans** in order to identify Cuban investment opportunities.

David Lenigas is known for creating good liquidity in the portfolio of companies he runs in London, and we see LGC as no exception. To attract further investors, boost liquidity in the shares and improve access to capital, the company is currently looking at listing on a North American exchange, with the company hopeful of achieving this in the first half of this year. Following this an Asian listing may also be sought to enhance liquidity even further.

## Cuba and the Cuban economy

Cuba is an island nation located in the Caribbean Sea, just 90 miles from the south coast of Florida. The country has been run by the Communist Party of Cuba since the 1960s and has a reasonably well developed and diversified economy. According to figures from the World Bank GDP was \$77.15 billion in 2013, having grown at a compound annual rate of 7.95% over the previous ten years.

Several events in Cuba have made the news recently, with the visit of Barack Obama to the country (the first by a US President in 88 years), the re-opening of respective embassies in Havana and Washington, and a free concert by the Rolling Stones in Havana receiving significant media attention.

While these events may be a clue as to which direction the country is heading in, the fact remains that Cuba is a communist country, operating one of the world's only remaining centrally planned economic systems. It is estimated that the state controls around 90% of the economy and 85% of the workforce. Foreign companies operating in the county will find that bureaucracy is high, decision making slow and payment terms can be protracted, amongst many other challenges.

### The Investment Opportunity

However, changes currently being made are slowly transitioning the Cuban economy from one that is state run to one that is welcoming more private sector involvement and foreign investment. This began in 2011, when at the Cuban Communist Party Congress, a wide range of economic reforms were announced, including more freedom for Cubans to buy previously restricted goods and the opening up of the self-employment market.

**Arguably the most important development of the past two years was the passing of Cuba's New Law on Foreign Investment in April 2014.** Its aim is to attract new investment from foreign companies by providing greater incentives to attract foreign businesses, in order to increase domestic production and better position Cuba to export to international markets. Most sectors have been opened up for investment but not public health, education or defence.

**Under the new rules, only Cuban companies approved by the government can partner with foreigners. Any investment from a foreign firm must be approved by the Council of State, or the Council of Ministers and its appointed authorities.**

The key points of the New Law include:

- The setting of corporation tax at between 15% and 30%. A previous 25% tax on labour costs has also been eliminated.
- 100% of foreign ownership of Cuban companies is now not only fully legal but also encouraged.
- There will be an eight year tax holiday on profits for investors in joint-ventures.
- Foreign investors will be able to transfer abroad net profits, dividends and proceeds from company/share sales, in convertible currency free from taxes, withholding or deductions.

**Here is where the opportunity for Leni Gas Cuba has arisen.**

## Sector Opportunities & Investee Companies

### TRAVEL & TOURISM

According to figures from the World Bank the number of tourist visitors to Cuba increased by a compound annual rate (CAGR) of 4% between 2007 and 2013.

But stronger growth has been seen since following a relaxation of restrictions on US visitors and continuing strong demand from Canadian travellers. The Cuban Ministry of Tourism recently reported that 3.5 million foreign tourists visited the country in 2015 up by 17.8% compared to 2014 (Source: <http://www.caribbeannewsdigital.com/en/noticia/cuba-received-35-million-tourists-2015>). Further, in the first 71 days of 2016, 1 million visitors came to the country, reaching the milestone 11 days more quickly than last year.

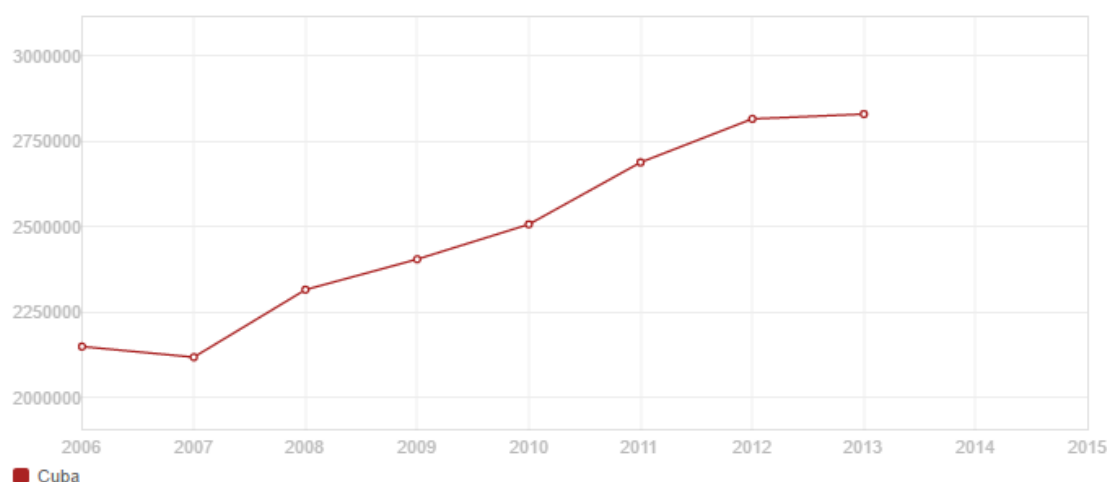


Chart source: World Bank

While travel for the sole purpose of “tourism” to Cuba remains restricted to US citizens under the Helms-Burton Act, growth trends are expected to remain strong in the short/medium term. This should be facilitated by the expected resumption of commercial airline flights between the two countries later this year.

This strong rise in tourist numbers provides excellent opportunities for foreign businesses to invest in both infrastructure and the provision of services. There are estimated to be only 63,000 hotel rooms in the country (lower than demanded), with the government seeking more foreign investment to increase this number to 85,000 by 2020.

**inCloud9/Travelwelcome Group – 40% - [www.incloud9.com](http://www.incloud9.com)**

Leni Gas Cuba's first investment in the Cuban travel sector has been made in inCloud9/Travelwelcome Group, also known as iC9, which has a long established history in the country, having successfully operated in Cuba for in excess of ten years.

LGC acquired its 40% stake in Travelwelcome in September 2015 for \$60,000. The business specialises in providing personal and customised travel services for clients visiting Cuba in order for them to make the most of their visit. Offerings include making hotel/restaurant bookings for clients, providing transport, local tours and guides, along with more specialised activities such as art tours, horse riding, deep sea fishing, fly fishing and scuba diving. Travelwelcome also assists with the organisation of special events such as conferences, weddings and activities around Cuban festivals such as the Cigar and Film Festivals.

In November the business then effectively merged with inCloud9, a business which provides bespoke film, TV and music production services in Cuba. LGC is assisting the growth of the business by providing up to £150,000 in working capital loans, if required. For the year to 31<sup>st</sup> October 2014 the company made revenues of £352,940 and net profits of £9,690.

**Accounts for 2015 have not yet been released but strong growth has been reported by LGC this year.**

According to management accounts, for the 4 months to 31st January 2016 the business made revenues of \$260,000 after handling over 250 visitors. The outlook is positive, with bookings confirmed for February and March being ahead of the prior 4 months. These included bookings for over 200 visitors for the Havana Cigar Festival in March. Elsewhere, the company has taken firm bookings for three new TV/film groups and expects to see significant growth in this market given the changes in US government policy in respect to US artistic productions in Cuba.

## **EMPLOYMENT, CULTURE, EVENTS, TV & FILM PRODUCTION**

### **Cuba Professionals – 49% - [www.cubaprofessionals.com](http://www.cubaprofessionals.com)**

Founded in 2009 Cuba Professionals is an employment agency specialising in the culture industry and also provides consulting services. Based in Havana, and also having an office in Spain, the company provides clients around the world with Cuban artists in the fields of music, entertainment, dance, circus and choreographed productions.

Clients include major production companies, cruise lines, circuses and cultural events. It also provides logistical support and production services for visitors to the country, consultancy services and business analysis to foreign entities looking to invest and do business in Cuba. Crucially, the business has a number of hard to achieve collaboration agreements with the appropriate government agencies.

In the year to December 2015 the business made revenues of \$197,000 and a net profit of \$35,000. Leni Gas Cuba is investing €180,000 (\$200,000) in the business for its 49% stake, over a nine month period. The funds will be used to invest in larger offices in Havana and to take on more specialist management staff in the entertainment and consultancy sectors. LGC is also providing a short-term working capital loan of up to €200,000 which can be drawn down as required.

**Significant growth is expected in the business in 2016, with it also set to benefit from synergies with the inCloud9/Travelwelcome businesses.**



## OIL & GAS

Cuba is a net oil exporter, producing an estimated 49,000 barrels per day (bbl/d) in 2014 but consuming 171,000 bbl/d (Source: <https://www.eia.gov>). The majority of production is currently operated by the national oil business Cuba Petroleo Union, with there being just one foreign company, Sherritt International from Canada, producing oil in Cuba.

The country imports most of its supply from Venezuela, with whom it has had a preferential deal since 2000, receiving around 100,000 bbl/d on subsidised terms and in return for various services including the provision of health workers.

The Cuban Ministry of Foreign Commerce and Investment is currently looking for investment in a number of oil projects, both onshore and offshore, in order to increase domestic production and become less reliant on exports. **There look to be good opportunities here given that Cuba has made limited use of modern exploration technologies and has a low operating cost environment of c.\$9 a barrel (according to Sherritt International and amongst one of the lowest in global regions excluding the Middle East), which supports high profitability even in the current low cost oil environment.**

MEO Australia Limited – 15.8% - <http://www.meoaustralia.com.au/>

LGC is the single largest shareholder in ASX listed Cuba focussed oil explorer MEO Australia. **The opportunity at MEO has been described by LGC as the 800lb gorilla in the room.**

MEO is one of the few foreign companies which are prequalified as a foreign onshore and shallow water operator in Cuba. Its flagship asset is a 100% interest in the 2,380km<sup>2</sup> onshore oil block, Block 9 Production Sharing Agreement (PSC) with national oil firm Cuba Petroleo Union in Cuba. This is located on the north coast of the country, around 130km east of capital city Havana.

In February 2016 LGC invested AUD\$1.4 million (£730,000) for its stake, which is being used by MEO for exploration and assessment work on Block 9. LGC also holds a 15% interest in Petro Australis Limited (refer below) which holds a conditional 40% back-in option in to Block 9. The investment by LGC in MEO significantly increased LGC's underlying interest in Block 9 over and above its interest through Petro Australis. MEO also has oil exploration and development assets in New Zealand and Australia although these are seen as secondary to the Cuba opportunity.

### **Cuba is believed to have exceptional oil and gas prospectivity**

The Block 9 PSC area is located in a proven hydrocarbon system with multiple discoveries having been made within close proximity. **This includes the Varadero oil field which is geologically on trend with Block 9 and estimated to have around 11 billion barrels of oil in place.** Block 9 also contains the Motembo field, which was the first oil field discovered in Cuba.

MEO is currently undergoing a technical review of the Block and expects to complete its preliminary assessment of prospectivity and reprocessing of 2D seismic data by the middle of 2016. Work to date has confirmed the significant prospectivity of the PSC area, with initial analysis identifying recovered oil from a number of previously drilled wells and a number of structural leads and prospects. **MEO has commented that a “widespread and prolific petroleum system” is indicated within its Block.**

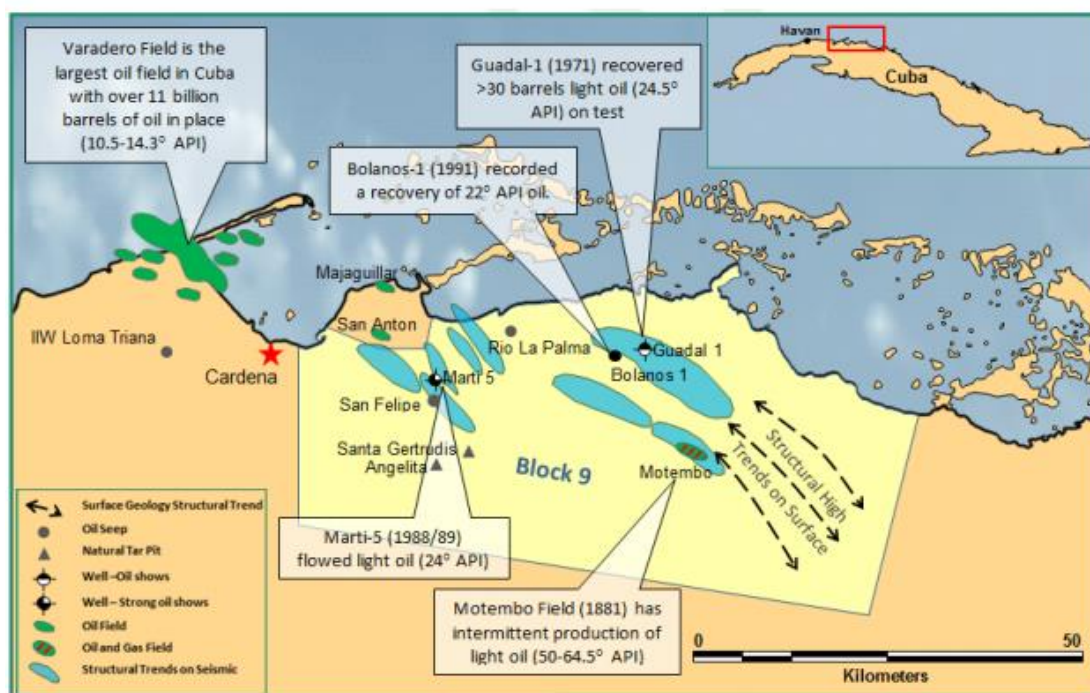


Figure 1 – Initial interpretation of prospective trends in Block 9

Source: MEO Australia

**Petro Australis Limited – 15%**

[www.petroaustralis.com](http://www.petroaustralis.com)

In July/August 2015 LGC made its first investment in the Cuban oil & gas sector by acquiring a 15% stake in unlisted firm Petro Australis for £790,000. In the event that the company qualifies for participation in Cuba it will have a 24 month option to secure a 40% participation interest in Block 9 by reimbursing a share of the costs which MEO incur. As yet Petro Australis has not qualified as an operator for participation in Cuba, but we understand they have two years to qualify from September 2015 (the date of granting of Block 9). The company also brings with it significant management experience and contacts in the Cuban oil & gas sector.

Petro Australis is also free to pursue other activities in Cuba, away from the MEO Australia deal, and this is where we see additional opportunities in the Cuban oil and gas sector.

## TRADING

### **Groombridge Trading Corporation, joint venture – 50%**

Cuba runs a large negative trade balance, with the country highly dependent on imported goods. According to the World Bank imports were \$6.72 billion in 2013, compared to exports of \$2.43 billion.

To take advantage of this situation LGC has formed an unincorporated joint-venture along with Canada based business Groombridge Trading Corporation (GTC). The business is looking to supply products, machinery and equipment to the Cuban tourism sector and export agricultural products from Cuba. The venture has first right of refusal to participate in any current and new transactions originated and operated by GTC and will also help to develop a number of agricultural projects and assist with the export of agricultural products to Europe and Canada.

For its stake in the business LGC is investing £50,000 into the venture plus monthly overhead contributions of £7,500 for the first 12 months. **These will be repaid to LGC before any profits are distributed from the joint venture.**

GTC was founded in 2013 to carry out international trading, with a specific focus on countries in the Caribbean. It provides LGC with access to some of the largest businesses in Cuba. The company has a strong pipeline of deals on its order book, mainly focused on importing equipment from Europe, Asia and South America, for the Cuban hotel sector. Providing yet another barrier to entry, GTC is approved to trade in the country by the Cuban Ministry of Foreign Trade and Investment and the Ministry of Agriculture and is authorised to trade with other Cuban Government entities.

In late March the joint venture was awarded its first import contract. The deal is from a tourist sector client and worth c.\$30,000. While relatively small in value the deal is the first of several import contracts which are expected to be signed in the coming months, with the company having a number currently under negotiation.

## **Financials – low operating costs and material leverage to diversified portfolio**

LGC's first set of results as quoted company reported on the period from incorporation on 3<sup>rd</sup> March 2015 to 30<sup>th</sup> September 2015. These are largely academic given the early stage nature of the business.

For the record, no revenues were made and administrative expenses were kept low at just £50,188, which also equated to the net loss for the period. The directors were paid no fees for the period, with their remuneration for services commencing on admission to ISDX in November.

### **Funding and issuance history**

We expect corporate administration costs in 2016 to be in the range of £0.5 million to £0.7 million. We also expect that the company has sufficient funds at present in order to execute its investment plans for the current financial year, with the balance sheet showing cash of £3.25 million as at 30<sup>th</sup> September and net assets of £4.1 million.

The cash raised to date came primarily from a £4.2 million fundraising at 2p per share, which was followed by a £200,000 raising at 5p per share on admission to ISDX. In addition, 250 million shares have been issued to the founders (representing 50.6% of the company) **and we note that they are subject to a 2 year lock in period from the date of admission to ISDX.**

David Lenigas, the key executive and Chairman, now holds 143 million shares in the company (28.94%) after making a number of acquisitions on the market in December 2016. All of his shareholding, including shares purchased since listing, are subject to the same lock-in provisions. Lenigas has a history of holding shares in his companies for many years. This is highlighted by the situation at LGO Energy, which he founded 8 years ago, where he has in fact increased his holding in addition to the original 132 million founder's shares issued at the company's formation.

## **Risks**

Leni Gas Cuba is a highly speculative investment with many risks involved. We see the main ones as being:

### **Sole focus on Cuba**

While this is the main opportunity for LGC it is also the main risk. Any company which focuses on only one jurisdiction concentrates risk and lacks geographic diversification. Cuba is also exposed to a hurricane season between July and November which may disrupt operations, although disaster plans are in place.

### **Cuba political risk**

The country retains an essentially planned economy and there is no guarantee that recent government policies will be successfully executed or opportunities which come from them capitalised on. The maintenance of a positive attitude towards foreign investment by the government will be critical for LGC.

### **US Government policy**

Positive moves are being made to restore links between Cuba and the United States, a country which has the potential to be a significant trading partner. However, a general embargo against Cuba enacted in the 1960s (extended by the 1996 Helms-Burton Act) remains in place. The embargo applies to almost all transactions involving Cuba or Cuban enterprises and forbids "US Persons" from participating in such transactions unless such specific licences are obtained from the US Department of the Treasury.

President Obama has expressed a desire to lift the embargo but will need the support of Congress to achieve this. In addition, with the US presidential election set for November this year, there is no guarantee that a new administration will have a similar positive attitude to restoring ties with Cuba.

### **Oil industry risks**

Given LGC's oil & gas sector investments the company is exposed to exploration risk and the effects of a changing oil price. More specifically, if MEO Australia makes a successful discovery then further funds will be needed and/or a farm in partner will need to be brought on board.

### **Successfully implementing the investing policy**

There is no guarantee that LGC will be able to successfully implement its investing policy. However, we believe that the current deal pipeline is strong, with the relationships with the Caribbean Council and Rushmans providing further opportunities.

### **Exchange rate risks**

LGC's main operations are expected to involve transactions in US Dollars, Cuban Peso and Cuban Convertible Peso. Therefore movements in these currencies will have an effect on the company's accounts on translation to Sterling.

## Assessment

Leni Gas Cuba has been operating for just over a year and has achieved a lot in that time. It has built up a portfolio with a mix of:

- in iCloud9/Travelwelcome and Cuba Professionals two already profitable companies which should grow quickly given the expansion funds put in place.
- in GTC a company with strong relationships in the country and potential to grow in Cuba's huge import market.
- in MEO Australia and Petro Australis the potential for an oil "bonanza".

We believe that each of the current three non-oil & gas investments have the potential to be multi-million dollar revenue businesses making good margins, and, despite currently being at an early stage, all are potential company makers.

Given the firm's head start in Cuba and strong relationships with government and business owners we see the potential for a consultancy services offering to be launched for foreign businesses looking to enter the country. We also see LGC as being attractive to larger companies looking to do business in Cuba, whether it be via corporate activity or smaller investment deals.

Although no deal has been announced as yet, we also see excellent opportunities to be developed via the firm's strong relationship with Rushmans. Reflecting the value that the consulting firm could bring to the business Rushmans has been issued options over 50 million shares in LGC with exercise prices ranging up to 20p per share – over 17 times the current market mid-price.

## Valuation

LGC is currently capitalised at £5.68 million based upon a mid-price of 1.15p per share. There is modest asset backing at current levels, with net assets as at 30<sup>th</sup> September covering 72% of the market cap. We also note that shares in MEO Australia currently trade at 1.6c on the ASX, up from LGC's subscription price of 1c per share.

Given the early stage nature of the business, and the speed at which deals are being done, we are not introducing forecasts at this stage but will do so in due course. However, we see significant upside from current levels given the opportunities discussed above.

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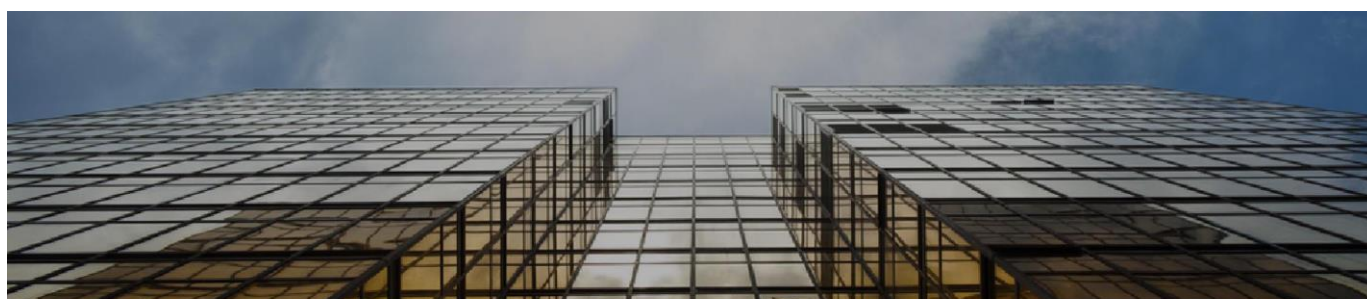
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