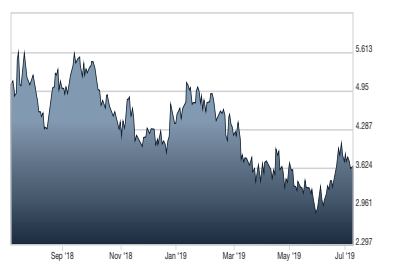
Oil & Gas



Source: LSE

Market Data

EPIC	UOG
Current Share Price	3.85p
52 Week High	5.65p
52 Week Low	2.6p
Market Cap	£13.48m
Shares in issue	346m
Market	AIM

Description

Oil and gas exploration, development and production company with existing assets in the UK, Italy and Jamaica. Management strategy is to expand the current portfolio with value accretive acquisitions focused primarily on stable international jurisdictions.

Directors & Company Info

Graham Martin, Non-executive Chairman
Brian Larkin, Chief Executive Officer

Contact

https://www.uogplc.com
sasha@flowcomms.com

United Oil & Gas building a 'formidable' and 'increasingly well balanced' portfolio (UOG)

United Oil & Gas (LSE:UOG) has taken significant steps forward in the development of its business since the beginning of 2019. Alongside licencing milestones and reserve/resource upgrades at its appraisal/development assets in the UK, Italy, and Jamaica, the firm has expanded its interests with new exploration properties, including one in Benin.

In a recent research note, Optiva Securities hailed United's 'formidable' progress and 'increasingly well-balanced' portfolio before giving it a risked and un-risked valuation of 11.4p and 51p per share respectively. Meanwhile, the broker also valued United's portfolio at £49.6m.

At 3.85p per share, United's market capitalisation is £13.48m. If Optiva's "sum of the parts" estimates for the value of the business stand true, the path to value creation for the company is clear. In the following report, we summarise Optiva's findings and provide a detailed review of United's assets.

United Oil & Gas Valuation Summary

Asset	Country	Status	Valuation (£m)
Colter	UK	Appraisal/development	8.6
Crown	UK	Appraisal	8*
Waddock Cross	UK	Appraisal/development	3.9
Broadmayne	UK	Exploration	2.9
UKCS Licencing Round	UK	Exploration	-
Podere Gallina (Selva)	Italy	Development	5.1
Podere Gallina	Italy	Contingent resources	1.3
Podere Gallina	Italy	Prospective resources	1.8
Walton-Morant	Jamaica	Exploration	10.8
Block B	Benin	Exploration	-
Overheads	-	Corporate	-0.8
Cash (debt)	-	Corporate	3.5
Unexercised Warrants	-	Corporate	4.4
Total	-	-	49.6

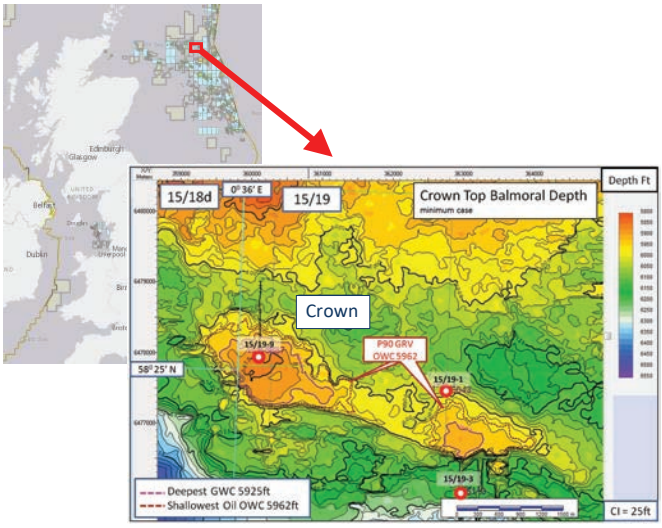
**On 17 July 2019 United announced the proposed sale of its Crown asset for a consideration of up to US$5million*

Source: Optiva estimates

Crown

In the UK, United is currently the 95pc owner of UKCS licence P2366 covering c.13.km^2 in the central North Sea. Although the permit contains numerous hydrocarbon targets, the prospect of primary interest to United and its investors is the Crown oil discovery. In a maiden competent persons report (CPR) released in February 2019, Crown was estimated to contain gross unrisked 2C contingent resources 6.35MMbbls oil.

Location of P2366 and the Crown Discovery



Source: United Oil & Gas

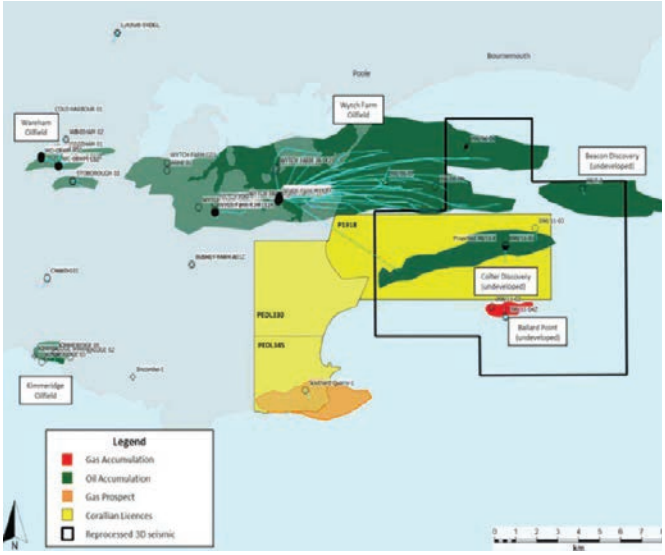
On 17 July 2019, United announced that it had signed non-binding heads of terms on an agreement to sell the Crown discovery to a business called Anasuria Hibiscus UK for up to $5m ($4.75m net to United). If the sale passes, United will receive an initial, immediate and non-refundable payment of $0.95m. Assuming that several milestones are achieved, it will then be paid a further $2.85m before the end of 2020. Finally, the firm will receive $0.95m when the field is on production. As at writing, the deal is subject to the completion of satisfactory due diligence, regulatory approval, and definitive documentation.

Colter

Beyond Crown, United also owns a 10pc interest in the Colter appraisal project, which is operated by Corallian Energy and adjacent to the prolific Wytch Farm oilfield in south England. In February 2019, Corallian announced that appraisal sidetrack drill, targeting the Colter feature north of the fault boundary, was unlikely to yield commercial volumes of hydrocarbons. This led it to plug and abandon the well.

However, the business unexpectedly encountered oil and gas shows over a 9.4m gross interval on the southern side of the prospect-bounding fault, representing a new discovery called Colter South. Although Colter South's estimated gross mean recoverable resource of 15MMbbls is considerably smaller than Colter's original targeted size, United said it still comfortably exceeds the threshold for commerciality. As such, the licence's owner will complete further work to progress the new discovery.

Location of the undeveloped Colter prospect



Source: Corallian Energy

Using its aforementioned oil price and production date assumptions, Optiva assigned United's stake in Colter South an indicative, un-risked valuation of $21.6m. However, to reflect the further exploration work that will be required to de-risk the prospect in full, the broker halved this figure to $10.8m on a technically risked basis.

Waddock Cross/Broadmayne

Elsewhere in the UK, United owns a 26.25pc in Waddock Cross, a shallow discovery containing oil-in-place volume estimates of up to 29MMbbls at a depth of c.600m. Meanwhile, an independent consultant has estimated that the field, which is operated by Egdon Resources, contains unrisked gross 2C contingent resources of 1.55MMbbls within two productive intervals. Of this, 0.4MMbbls can be ascribed to United's stake.

Informed by publicly-released information, Optiva expects Waddock Cross's current owners will drill a sidetrack well and an additional development well to access the bulk of these contingent resources. After factoring in assumed drilling and infrastructure costs- as well as what it described as 'modest' production estimates- it gave United's Waddock Cross stake an unrisked NPV of $6.2m ($5m on a risked basis).

United also owns an 18.95pc stake in the broader PL090 licence surrounding Waddock Cross, which contains an exploration prospect called Broadmayne. Although highly speculative given the lack of work completed to date, Optiva assigned Broadmayne a net NPV of $14.9m. This is based on a full 4MMbbls field development with around five development wells costing $3m each. However, after applying a 25pc Chance of Success (CoS) to the field to reflect the likelihood that the prospect will be unable to reach this potential, this net valuation falls to $3.7m on a risked basis.

UKCS 31st Licensing Round

Finally, United's earliest-stage UK opportunities entered its portfolio in June 2019, as part of the UK Continental Shelf 31st Offshore Licensing Round. The business was provisionally awarded a 100pc interest in three North Sea blocks called 14/15c, 15/11c, 15/12a, and 15/13c covering an area of c.500km^2. United was awarded its North Sea blocks based on a work programme designed to improve chances of success and reduce the uncertainty of the oil volumes ahead of any drilling commitment.

United's new North Sea acreage contains numerous targets located just 10km from its Crown discovery as well as the Marigold and Yeoman discoveries and the large Piper, MacCulloch and Claymore producing fields. Of particular note within these permits is Zeta, a low-risk prospect based in the same play as Crown with a mean case, in-place resource estimate of more than 90MMbbls.

Meanwhile, the firm was also offered a 10pc interest in blocks 98/11b and 98/12 in the English Channel as part of a partnership with operator Corallian Energy. As a result of this, the company now provisionally holds acreage covering the entirety of the Colter South discovery. Although the assets are at too early of a stage for Optiva to assign a valuation, the broker was highly optimistic about United's efforts to expand its UK position, stating:

> "The award of these licences, which contain a range of potentially exciting prospects and leads, is highly strategic given that several of the new blocks are adjacent to and contiguous with the Crown discovery in the Central North Sea and the Colter discovery in the English Channel."

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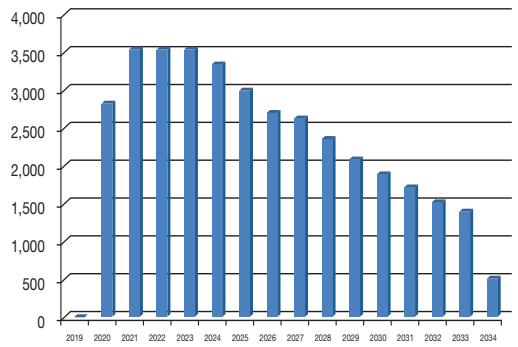
Podere Gallina

Beyond the UK, United owns a 20pc position in the Podere Gallina exploration permit, based in the proven and mature Po Valley hydrocarbon province in northern Italy.

Podere Gallina contains a vast field called Selva, which was declared a commercial discovery in January 2018 following the successful flow testing of an appraisal/ development well called Podere Maiar-1d. Alongside its partners Prospex Oil & Gas (LSE:PXOG) and ASX-listed Po Valley Energy, United plans to install final production facilities within the next 12 months to kick off production in mid-2020.

Anticipated gross gas production profile for the Podere Maiar well (mcfpd)



This year has already seen the partners make considerable progress at Selva. In January 2019, their production concession for Selva Malvezzi (the area containing the Selva field among other opportunities) received preliminary approval from Italy's government. Then, in February 2019, Selva was attributed its first gas reserves (2.7Bcf net to United) in an upgraded CPR.

Selva Field Reserves

	Gross	BCF		Net	BCF	
Sand	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**
C1	1.7	4.6	7.4	0.3	0.9	1.5
C2	2.4	8.8	22.5	0.5	1.8	4.5
Total	**4.1**	**13.4**	**29.9**	**0.8**	**2.7**	**6.0**

Source: CGG

In its note, Optiva said historic gas production at Selva led it to the assumption that United and its partners will be able to develop the field and recover most of its 2P gas resources from Podere Maiar-1d. Combined with assumed flat long-term gas prices of €6.51/ mcf and fixed opex of €300,000 p.a., the broker ascribed a value to United's position in the field of €5.7m, more or less in line with other independent estimates.

Selva North and Selva South Resources

	Gross	BCF		Net	BCF	
Prospect	**1C**	**2C**	**3C**	**1C**	**2C**	**3C**
Level B North	3.5	8.9	17.8	0.7	1.8	3.6
Level B South	1.0	3.4	9.3	0.2	0.7	1.9
Level A South	1.0	1.8	3.6	0.2	0.4	0.7
Total	**5.5**	**14.1**	**30.7**	**1.1**	**2.8**	**6.2**

Source: CGG

The Podere Gallina permit contains plenty of contingent resources beyond the Selva field. Most of this potential is housed with two prospects called Selva North and Selva South, which both sit within the Selva Malvezzi production concession area and rely on the same stratigraphic concept as Podere Maiar-1d.

As Optiva highlights, despite being called prospects, the two structures have already produced gas to surface in commercial quantities from previous wells, leaving significant volumes of gas updip in each accumulation. As such, the broker views them as 'attractive low-risk, potential additions to the longer-term Selva production profile'. Indeed, Selva North and Selva South boast collective 2C resources of 2.8Bcf (as well as 1.1Bcf of 1C and 6.2Bcf of 3C) alongside attractive chances of success of 70pc and 60pc respectively. After taking various costs into account, Optiva assigned the prospects net unrisked and risked valuations of €4.3m and €2.8m respectively, highlighting that successful drilling will boost these numbers further.

Alongside its contingent resource base, Podere Gallina also houses impressive best-case prospective resources of 18.3Bcf net to United (91.5Bcf gross). The bulk of this is housed in two significant prospects on the Selva Malvezzi production concession called Riccardina and East Selva.

With best-case prospective resources of 7.8Bcf net to United (38.8Bcf gross), Riccardina is the largest of the pair. The Podere Gallina partners believe that previous drilling at the prospect, which is based just 5km from Podere Maiar-1d, missed the area that is interpreted to contain gas. As such, they are keen to acquire addition 3D data over the prospect's structure to increase its CoS from 21pc.

East Selva, meanwhile, is identical in concept to the more advanced Selva field, meaning the success of Podere Maiar-1d increased its chance of success from 30pc to 40pc. The main difference between the two areas is that, with gross best-case prospective resources of 34.8Bcf (7Bcf net to United), East Selva could be twice the size of Selva.

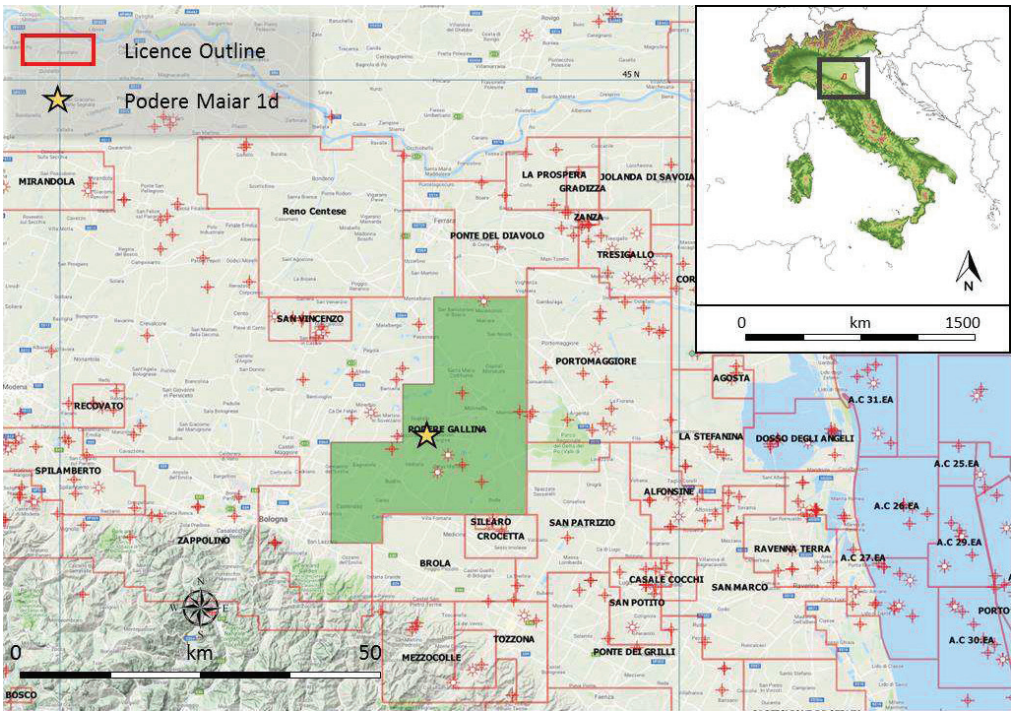
Podere Gallina prospect inventory

Prospect	Gross BCF Low	Gross BCF Best	Gross BCF High	Net BCF Low	Net BCF Best	Net BCF High	CoS
East Selva	29.1	34.8	40.6	5.8	7.0	8.1	40%
Fondo Perino	10.2	14.6	20.5	2.0	2.9	4.1	34%
Cembalina	2.1	3.3	4.7	0.4	0.7	0.9	51%
Riccardina	13.0	38.8	128.9	2.6	7.8	25.8	21%
Total	**54.4**	**91.5**	**194.7**	**10.9**	**18.3**	**39.0**	

Source: CGG

Although mostly hypothetical at this stage given the lack of work undertaken to date, Optiva assigned Podere Gallina's prospect inventory an unrisked and risk valuation of €27.8m and €8.7m respectively net to United. Handily, the broker added that it believes that cash flow from Podere Maiar-1d will be able to cover United's share of exploration costs at these prospects moving forward.

Location of the Podere Gallina Exploration Permit

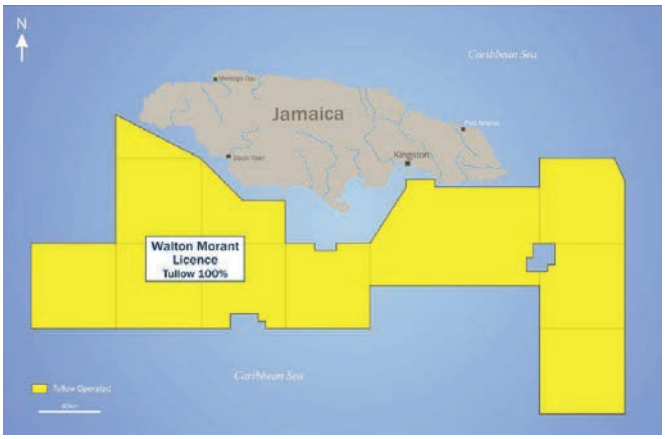


Jamaica – Walton-Morant

United also has a highly exciting presence in offshore Jamaica, a frontier exploration play where only 11 wells have ever been drilled despite all but one exhibiting hydrocarbon shows.

Building on management's longstanding relationship with Tullow Oil, United has agreed to farm-in for a 20pc interest in a high potential licence called Walton-Morant. Operated by Tullow, Walton Morant covers 32,065km2 and comprises ten exploration blocks in water depths ranging from 20m to 2,000m.

Location of the Walton-Morant Licence



Source: Tullow

In its note, Optiva praised the '*very good deal*' struck by United but said it is likely that the firms will be forced to farm down their stakes to a global major due to the hefty costs of drilling an offshore exploration well. That being said, it added that '*even a modest 10% carried interest in the first exploration well could provide United with huge potential upside in relation to its comparatively modest initial investment.*'

As it stands, the partners' key focus at Walton-Morant is Colibri, a prospect based on a well-defined, fault-bounded structure. Colibri took a major step forward in February, where an updated CPR increased its gross unrisked mean prospective resource estimate from 219MMbbls to 229MMbbls (46MMbbls net to United). It also boosted its CoS from 16pc to 20pc on the back of 3D seismic acquired last year.

Although Colibri alone is exciting, Optiva said that the Walton-Morant licence as a whole could offer a game-changing amount of potential thanks to its numerous leads:

> "It is very important to note that the first exploration well in Jamaica since 1982 would be highly momentous as a successful result has the potential to open up a new multi-billion barrel hydrocarbon play and would also serve to de-risk considerably any follow-on structures that Tullow opts to drill.
>
> This strategy has been demonstrated by Exxon's ongoing exploration success in Guyana where the company has made a string of substantial discoveries in the offshore region. With this in mind, it is important to note that Tullow has also identified a range of additional Lower Eocene targets on its acreage including numerous leads on the Morant Basin."

After noting that predictions for exploration targets should not be given 'excess credence', Optiva assigned United's current interest in Walton-Morant a mean indicative valuation of $13.7m based on Colibri alone. However, it added that it expects the value of the organisation's stake to increase significantly over the next 18 months as additional exploration are inserted into its assumptions as drilling begins.

Benin

Finally, United signed an option agreement with private oil and gas firm Elephant Oil in March to farm into its Block B onshore licence in Benin, West Africa. Block B is located in an area called the Dahomey Embayment, which, despite surrounded by prolific producing regions, has had no wells drilled on it to date.

Under its deal with Elephant, United can potentially take a 20pc interest in a production sharing contract for an area that is believed to have the potential to hold more than 200MMbbls. In exchange, it has agreed to fund a passive seismic survey and field studies up to a value of $175,000. Although it is too early to ascribe an initial valuation to Block B, Optiva said United's move into Benin is promising, commenting:

> "The management has again leveraged its extensive experience in a potentially exciting region known to the company. As with United's Jamaican interests, Bénin represents entry to high potential impact frontier exploration at very modest initial cost."

Finances

Elsewhere, Optiva used its note to praise United's overall financial position. Indeed, it complemented the firm on its ability to construct a 'formidable' portfolio through the use of relatively modest financial resources, with raises taking place at consistently higher prices. As it highlighted, since July 2017 United has raised £3m at 2.5p a share, £1.25m at 4p a share, £2.5m at 4.25p a share, and – most recently in September last year - £3m at 5.5p a share.

United also looks to be fully funded throughout the remainder of 2019. As Optiva highlights, Waddock Cross, Walton-Morant, and exploration activity on Podere Gallina have no immediate or significant near-term funding requirements this year.

Meanwhile, the broker said United could use existing cash to fund the €0.5m to €0.6m likely due at Selva for final field infrastructure facilities and can use administration costs to support ongoing farm-in efforts at Crown. Finally, it added that the organisation's new North Sea and English Channel exploration interests would not require any substantial capital outlay over the next year.

Management

Optiva highlighted United's '*highly experienced management team*', with both CEO Brian Larking and COO Jonathan Leather enjoying long careers at Tullow Oil where they both held senior positions. What's more, United recently appointed David Quirke as its chief financial officer and secretary. Quirke established and led the Tullow Oil Group Treasury function between 2003 and 2015.

United's board also offers a great deal of experience beyond the Tullow alumni, which also includes non-executive chairman Graham Martin. For example, non-executive director Alberto Cattaruzza has spent time at Chevron and Oilinvest Group and started his own technical and business consultancy services business for the oil sector. His clients include a large number of oil companies in Europe and the Middle East, as well as international consulting companies such as Accenture and The Boston Consulting Group.

Conclusion

In summarising United, Optiva highlighted the business's 'increasingly well balanced' portfolio. Specifically, it praised the firm's blend of near-term development potential with appraisal upside in Italy, its range of UK appraisal and exploration opportunities, and its frontier exploration upside in Jamaica and Benin.

To reflect this optimism, the broker gave United a risked valuation of 11.4p per share on a fully diluted basis and an unrisked valuation of over 51p per share. It also valued the business's portfolio at £49.6m. It is worth noting that the broker added that this figure could increase significantly if its early-stage opportunities – particularly Walton-Morant – start to realise their potential over coming months and years. Regardless, with United's share price currently sitting at 3.85p and its market cap at £13.48m, any of Optiva's valuations suggest a considerable amount of potential upside for investors.

> "With the company continuing to demonstrate a track record of completing value-adding asset acquisitions and an ongoing pipeline of new potential opportunities continuously under examination, we believe that United has established the foundations of a solid mid-tier E&P company with significant growth potential."

Disclaimer

Authors: Daniel Flynn

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Contact Us

Email: contact@valuethemarkets.com
Telephone: +44 (0) 208 226 5175
Website: www.valuethemarkets.com

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