

United Oil & Gas Plc*

24 August 2018

BUY

Stock Data

Share Price:	5.2p
Market cap.:	£15.1m
Shares in issue:	291.1m
Fully diluted equity:	339.2m

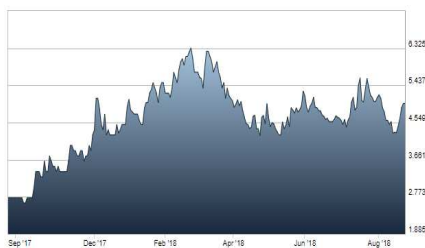
Company Profile

Sector:	Oil & Gas
Exchange:	LSE Standard List
Ticker:	UOG

Activities

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.

Performance Data



Directors

Graham Martin:	Non-Exec Chairman
Brian Larkin:	Chief Executive Officer
Jonathan Leather:	Chief Operating Officer
Alberto Cattaruzza:	Non-Exec. Director

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*Optiva Securities acts as broker to United Oil & Gas Plc

Award of UKCS Blocks

The UK Oil and Gas Authority (OGA) has awarded United a 95% interest in UKCS Licence P2366 in the Central North Sea which contains blocks 15/18d and 15/19b. These licences contain multiple hydrocarbon targets. However, of primary interest is the Crown oil discovery which could contain recoverable reserves of up to 16.0 mmbbls of oil. The licence term for P2366 commences on 1 October 2018 and the company is now poised to commence discussions with potential farm-in partners in order to expedite the future development of the asset.

These blocks, which cover an area of approximately 13.6 km², contain several interesting oil and gas targets of which the most exciting is the Palaeocene Crown oil discovery on Block 15/19b. The Crown discovery was made by well 15/19-9 drilled by ConocoPhillips in 1998 and United's internal estimates suggest a range of recoverable volumes for Crown of 4-16 mmbbls with a mid-case estimate of approximately 9.0 mmbbls. United's blocks are located close to the Piper, MaCulloch and Dumbarton/Donan oil fields.

We understand that there were a number of competing bids for the acreage. However, United was awarded the blocks on the basis of a work programme focused on seismic reprocessing in order to reduce the uncertainty of the estimated oil volumes and also to optimise the location of a future development well. We estimate that the initial costs for this work will be modest for United and unlikely to exceed £150,000.

We believe that Crown would have been considered too small for development upon discovery. However, with significant advances in technology since 1998, we believe that Crown could be suitable for a single horizontal well development and a subsea completion tied back to an existing platform, the closest of which is located less than 12km away.

With the confirmation of the award of the licence to United, it is possible to ascribe a preliminary valuation to the Crown discovery. Using a conservative oil price assumption of \$65/bbl over the life of a 9.0 mmbbls development as described above, we arrive at net valuation of \$80.9m for United's 95% interest. We expect that United will ultimately hold a smaller equity interest which could still be subject to a funding requirement in the event of a partial carry. However, for the purposes of illustrative value we have assumed that United will retain a 20% carried interest which represents 3.7p per share on a fully diluted basis; a very sizable asset to the company.

In our previous note dated 24 May 2018, we highlighted the inclusion of an initial indicative valuation for United's 20% interest in the Walton-Morant licence in Jamaica within our core valuation. We note that the operator Tullow has now delivered fast track 3D seismic data following the 2,250 km² survey over the licence and the high graded Colibri exploration target (200 mmbbls+) is clearly identified on the dataset. This survey is the first to be acquired in Jamaica and constitutes an early stage of the programme to de-risk this potentially multi-billion frontier hydrocarbon play.

With the inclusion of our estimated value of a 20% carried in Crown, we have increased our core valuation for United's shares from 15.7p to 17.1p on a fully diluted basis. This uplift also incorporates the impact of a significantly weaker Sterling/US dollar exchange rate since May which has provided a supplemental boost to our target price. At this pre-farm out discussion stage, we reserve the right to adjust our valuation of United's interest in P2366 upon the completion of a farm-in agreement.

Appendix – Valuation summary

Outlined in the table below is our sum of the parts valuation for United Oil & Gas. Our updated valuation assumptions are based on United's fully diluted equity which consists of almost 291.1 million shares and a further 48.1 million warrants at various levels from 1.43p to 4.25p. Our valuations have been generated in US dollars and converted into a Sterling equivalent at the current exchange rate of approximately US\$1.29: £1.00.

This summary is particularly conservative as we have assumed that United will be participating in the upcoming Colter well on licence P1918 in Q4 2018 with a 10% equity interest at this stage. Our valuation also assumes that United will exercise its option to farm into UKCS licence P2264 which contains the exciting Acle prospect.

United Oil & Gas valuation summary

Item	Country	Status	Valuation £m	Undiluted p	Diluted p
PL090 (Waddock Cross field)	UK	Appraisal/Development	2.7	0.9	0.8
PL090 (Broadmayne prospect)	UK	Exploration	2.6	0.9	0.8
Podere Gallina (Selva field)	Italy	Development	5.7	2.0	1.7
Podere Gallina (East Selva)	Italy	Exploration	2.8	1.0	0.8
P1918 (Colter)	UK	Appraisal	10.2	3.5	3.0
P2264 (Acle)	UK	Exploration	10.3	3.5	3.0
Walton-Morant licence	Jamaica	Exploration	8.2	2.8	2.4
P2366 (Crown)	UK	Appraisal	12.6	4.3	3.7
Overheads		Corporate	-0.6	-0.2	-0.2
Cash (debt)		Corporate	3.2	0.9	0.7
Warrants		Corporate	1.1	0.0	0.3
Total			58.1	19.6	17.1

Source: Optiva estimates

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