

## United Oil & Gas Plc\*

## 29 September 2020

### Stock Data

Share Price:	2.85p
Market cap.:	£17.8m
Shares in issue:	625.2m
Fully diluted equity:	730.9m

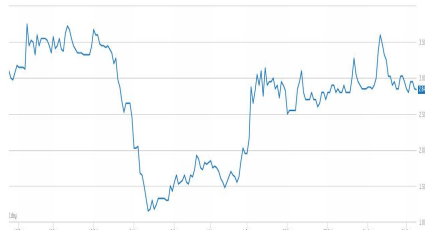
### Company Profile

Sector:	Oil & Gas
Exchange:	AIM
Ticker:	UOG

### Activities

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

### Share price performance



Source: LSE

### Directors

Graham Martin:	Non-Exec. Chairman
Brian Larkin:	Chief Executive Officer
Jonathan Leather:	Chief Operating Officer
David Quirke:	Chief Financial Officer
Alberto Cattaruzza:	Non-Exec. Director
Ms. Iman Hill:	Non-Exec. Director

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

## Interim results comment – target price increased to 20.5p

**The first half of 2020 has been transformational for United. In spite of the twin headwinds of the current Covid-19 pandemic and a slump in global oil prices, the company is now a full-cycle oil and gas company with a diverse portfolio of production, near-term development projects and appraisal opportunities in Egypt, Italy and the UK. These assets are complemented by potentially high impact exploration plays in the UK and particularly Jamaica which could provide significant longer term growth opportunities.**

Since the completion of the acquisition of Abu Sennan in Egypt, United's net production has increased from 1,709 boepd on 28 February 2020 to 2,716 boepd at the end of June having reached a peak of 3,142 boepd earlier in June during the testing of the El Salmiyah-5 (ES-5) well. This increase was driven by the ES-5 and ASH-2 wells coming on stream in H1.

ES-5 exceeded expectations significantly and was producing at gross levels of 2,900 bopd of oil and 9 mmcfpd (968 boepd net to United) at the end of the period. The ASH-2 well which came on stream on 2 January 2020 has also produced at a substantial rate of 660 bopd net to the company during the first half. In addition to this, United's production was also boosted by the development of new low cost gas pipeline infrastructure at the Al Jahraa field which has delivered additional revenue and eliminated flaring from that field.

Although drilling activity in Egypt has been on hold over recent months, United notes that operations are scheduled to re-commence with the prioritised ASH-3 development well in late 2020/early 2021 and a potential exploration well on the Abu Sennan concession in 2021. A gas pipeline is also expected to be installed at the ASH field which, like the infrastructure at Al Jahraa, will bring an additional 7 mmcfpd gross of gas on stream and reduce flaring.

In Italy, Covid-19 has understandably slowed down activity. However, the operator of the Selva gas field has indicated that it expects final environmental approval for the development of Selva to be granted in October 2020. As such, we maintain our expectation that production will come on stream in 2021.

In the UK, United is building an exciting portfolio of low risk exploration and appraisal/development assets. In January, the company purchased a high quality 3D seismic data set covering Licence P2480 in the Central North Sea, acquired in the 31<sup>st</sup> Licensing Round. This position has now been augmented by the provisional award of two additional blocks in the 32<sup>nd</sup> Licensing Round. We examine these assets in greater detail within this report.

Post period end, United assumed full operatorship of the Walton Morant licence in Jamaica following Tullow Oil's decision to relinquish its 80% interest. With 100% of the asset, United has now acquired a hugely prospective licence with c.US\$30m of historical investment by the previous operator. For additional detail on Walton Morant, we would direct investors to our report dated [3 August 2020](#). We also note that post period end; Rockhopper's 18.3% shareholding in United was placed with new institutional investors and the company has strengthened its board with the appointment of Ms. Iman Hill as a Non-Executive Director.

**The next twelve months promise further activity including the recommencement of development drilling operations and an upgrade to gas infrastructure on the ASH field in Egypt in addition to a potential exploration well on the same asset in 2021. United also expects to commission a new CPR on the Walton Morant licence in Jamaica covering at least 10 targets additional to the Colibri prospect in H2 2020. This has the potential to enhance considerably the prospectivity of the licence ahead of a drill decision and a parallel farm-out process. With events remaining on track and the provisional award of two exciting UK North Sea assets containing confirmed discoveries, we are increasing our valuation of United from 17.7p to 20.5p per share.**

# Interim results summary

United reported revenue of US\$2.4m and gross profit of US\$0.3m in the first half of 2020 although it is important to note that these numbers actually represent only four months of financials dating from the completion of the Rockhopper Egypt acquisition on 28 February 2020. The company's pre-payment facility with BP provides downside price protection by hedging 6,609 barrels of oil per month at US\$60/bbl. This has been in place since March 2020 and will remain effective until September 2022. As a consequence of this mechanism, United reported a fair value gain of US\$2.8m in H1 to reflect oil price movements in H1.

Cash operating costs were low at US\$4.36 per boe and DD&A charges amounted to US\$1.1m in the period. After interest charges of approximately US\$0.7m relating to the financing of the acquisition of Rockhopper Egypt, United reported a profit before tax of almost US\$1.8m in H1.

Group cash was US\$1.2m at the end of June 2020. However, the company anticipates a payment of US\$2.85m in December 2020 as Hibiscus Petroleum completes the second staged payment following United's sale of the Crown discovery to Hibiscus for a total consideration of up to US\$5.0m in 2019.

## **Egyptian production**

First half oil and gas production net to United averaged 1,975 boepd all of which was from Abu Sennan in Egypt in which the company holds a 22% interest. (Note that this metric covers the period from the completion of the acquisition on 28 February 2020 to 30 June 2020). The increase in net production from 1,709 boepd on 1 March 2020 to 2,716 boepd at the end of the period was driven by drilling success at the ASH-2 well spudded at the end of 2019 and the ES-5 well which delivered highly impressive flow rates upon testing.

Guidance from the operator of Abu Sennan suggests that H2 production will be approximately 2,300 net to United as the company derives the benefit of a full six months of output from ASH-2 and ES-5. As noted previously, output is likely to be augmented next year by the ASH-3 development well expected to spud in late 2020/early 2021 and the Abu Sennan JV partners are in discussions on further development drilling on the ASH field in 2021.

## **Commodity prices**

Realised oil prices collapsed in March leading to a temporary low of US\$9.00 per barrel in April before recovering over the remainder of the period to average US\$28.26 in H1. Following negotiations between the operator of Abu Sennan and EGPC post period end, there has been a significant reduction in the Western Desert discount to the Brent benchmark from US\$2.90/bbl in early 2020 to a current discount of only US\$0.60/bbl. This provides the potential to generate a US\$0.6m-US\$0.8m uplift in revenue at current production levels on an annualised basis.

We note that approximately 25% of United's production is gas with an average realised price of US\$2.61 over the period. Factoring in gas prices implies that United realised an average price of US\$25.94 per barrel of oil equivalent during H1.

## **Abu Sennan reserves upgraded in 2020**

In a reserves report, published by independent consultant Gaffney Cline & Associates at the end of 2019 and released by United in June 2020, United reported a 12.5% increase in Abu Sennan gross 2P reserves to 13.5 mmboe (15% gas) compared to the volumes reported in early 2019. Gross 3P reserves were up substantially by 46% to 28.6 mmboe compared to only 19.6 mmboe in early 2019. We note that this upgrade does not include the successful ES-5 well and the company anticipates that this upside will be included in the 2020 year-end report.

### Other important post period events

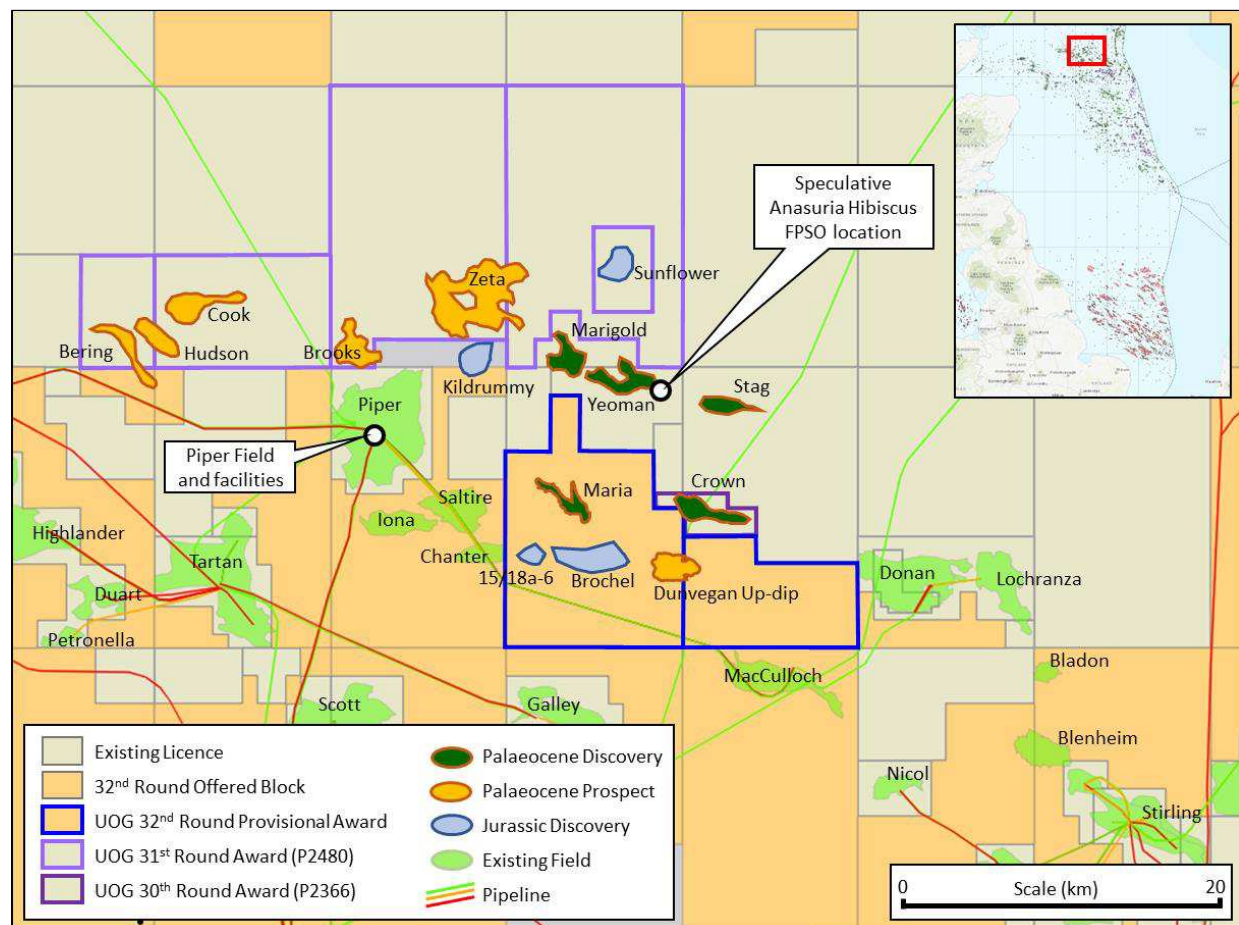
We note that post period end; Rockhopper Exploration’s 18.3% shareholding in United was successfully placed with new institutional investors in August 2020 and in early September, United strengthened its board of Directors with the appointment of Ms. Iman Hill as a Non-Executive Director.

With over 30 years of experience with Shell, BP, BG Group and Energen, with which she recently served as COO, Ms Hill has extensive experience in Egypt and the Mediterranean as well as the North Sea and South America which is expected to prove invaluable to United.

## Recent provisional award in the UK

On 3 September 2020, United was provisionally awarded 100% interests in Blocks 15/18e and 15/19c in the UK 32<sup>nd</sup> Licensing Round. The combined blocks cover an area of approximately 225 km<sup>2</sup> in the northern region of the Central North Sea close to the Marigold and Yeoman discoveries and also the large Piper, MacCulloch and Claymore oil fields. The location of United’s new acreage in the context of its growing UK portfolio is outlined on the map below.

### Location of Blocks 15/18e and 15/19c in the Central North Sea



Source: United Oil & Gas

### **Prospectivity on the new blocks**

The new acreage, which adds several potential targets to the company's prospect portfolio, is located less than 10km away from United's P2480 licence located to the north. As outlined in previous research updates, P2480 contains the Zeta prospect which is estimated to contain 27 mmboe of recoverable resources. However, Blocks 15/18e and 15/19c also contain several exciting accumulations which merit further analysis.

Block 15/18e contains the Palaeocene Forties 'Maria' discovery which was originally discovered by Shell/Esso in 1976. The accumulation was later appraised by two further wells and United's own analysis, performed as part of the application process, suggests that Maria could contain approximately 6 mmboe of recoverable resources. Although modest by historical benchmarks, the company believes that the commercial threshold for oil developments with proximity to infrastructure in this region of the North Sea is only 4-5 mmbbls, indicating that a commercial development could be viable.

We note with interest that United has a track record of successful divestment of assets in this region exemplified by the sale of North Sea Blocks 15/18d and 15/19b for a total gross consideration of up to US\$5.0m to Anasuria Hibiscus UK Limited in December 2019. This deal was of particular significance given that the acreage contains the Crown discovery which is a similar size to Maria and located in close proximity. We also note that Hibiscus has acquired further acreage in the 32<sup>nd</sup> Round, suggesting that Hibiscus has a continued high level of interest in securing assets in this part of the North Sea.

Block 15/18e also contains two discoveries in the Jurassic interval called 'Brochel' and '15/18a-6', the latter of which was drilled by Shell in 1987 and flow tested 2,000 boepd from two separate Jurassic reservoirs. A further Palaeocene prospect, termed 'Dunvegan' has also been mapped on the boundary between Blocks 15/18e and 15/19c.

### **Forward work programme**

Both of United's new blocks were awarded on the basis of a work programme which includes the purchase of an existing high quality 3D seismic data set and detailed geological and geophysical analysis. This work will be conducted to reduce the uncertainty on the estimated oil volumes across the prospect inventory ahead of making a drilling commitment. We note that capital outlay for the portion of the pre-drill work programme is likely to be modest and the company anticipates that the work programme will commence in early 2021.

## **United valuation summary**

We have updated our summary valuation table since our last publication on 3 August 2020 to include an initial valuation of 3.0p for United's 100% provisional interests in Blocks 15/18e and 15/19c. This assessment is currently based solely on the Maria discovery for which there is essentially an appraised contingent resource. With any further activity likely to be development drilling, we believe that the operational and commercial risk factors for Maria are comparatively low.

We have applied similar methodology to that used to provide an initial assessment of the Zeta prospect acquired during the 31<sup>st</sup> Licensing Round. However, at this stage, we have maintained United's 100% interest in the licences on the basis that a successful divestment remains an attractive alternative strategy to conducting a farm-down ahead of drilling activity as was assumed with our valuation of Zeta.

## Valuation summary

Licence	Country	Status	Valuation US\$m	Valuation £m	Undiluted p
Abu Sennan	Egypt	Production/Development	34.1	26.9	4.3
Abu Sennan	Egypt	Prospective resources	20.6	16.2	2.6
Podere Gallina (Selva field)	Italy	Development	6.1	4.8	0.8
Podere Gallina	Italy	Contingent resources	1.3	1.0	0.2
Podere Gallina	Italy	Prospective resources	1.9	1.5	0.2
Walton-Morant	Jamaica	Exploration	56.1	44.1	7.1
P2366 (Crown)	UK	Appraisal/Divestment	3.8	3.0	0.5
PL090 (Waddock Cross)	UK	Appraisal/Development	4.1	3.3	0.5
PL090 (Broadmayne)	UK	Exploration	3.1	2.4	0.4
UKCS 31st Licensing Round	UK	Exploration	6.5	5.1	0.8
UKCS 32nd Licensing Round	UK	Exploration	24.0	18.9	3.0
Overheads		Corporate	-1.0	-0.8	-0.1
Cash (debt)		Corporate	1.2	1.4	0.2
Options and warrants		Corporate	6.4	5.1	0.0
<b>Core valuation</b>			<b>168.4</b>	<b>132.9</b>	<b>20.5</b>

Source: Optiva estimates

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