

## United Oil & Gas Plc\*

5 June 2020

### Stock Data

|                       |        |
|-----------------------|--------|
| Share Price:          | 2.55p  |
| Market cap.:          | £15.8m |
| Shares in issue:      | 619.2m |
| Fully diluted equity: | 716.2m |

### 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.

### 12 month 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      |

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

## El Salmiyah well delivers significant flow rates

The recently completed El Salmiyah development well on the Abu Sennan concession in Egypt has demonstrated that the main target of the well is potentially much larger than originally anticipated. During testing, El Salmiyah delivered flow rates of approximately 4,100 bopd of oil and 18 mmcfpd of gas from the Kharita Reservoir. With these additional volumes on stream, the company estimates that United's net production from its 22% interest in Abu Sennan is likely to exceed 2,500 boepd within the coming weeks.

The El Salmiyah-5 development well was spudded on the Abu Sennan concession (United: 22%) on 3 February 2020. The well reached a total depth of 4,400 metres measured depth (3,911 TVDSS – true vertical depth sub surface) with the primary target being the previously undrained reservoirs of the Kharita Formation. Secondary objectives within the well included the Abu Roash C and Abu Roash E formations.

Net pay totalling over 120 metres was encountered in all of the targeted reservoirs which exceeded pre-drill estimates by a considerable margin. Of particular note, the main Kharita target interval encountered c.16 metres shallow to prognosis which indicated a larger than expected undrained area updip of existing wells on the field.

This data was augmented significantly by well test results which delivered flow rates of 4,100 bopd of oil and an additional 18 mmcfpd of gas. As yet, United notes that it is too early to draw definitive conclusions regarding the oil volumes associated with the well. However, the company is confident that El Salmiyah could be brought on stream close to the headline test rates, although over the longer term the operator Kuwait Energy may choke back volumes to deliver sustainable production through the existing field facilities. It should be noted that, the El Salmiyah test results relate only to the Kharita reservoir and that there is likely to be further upside from the additional zones in the well, where test results have yet to be announced.

With oil prices recovering somewhat from a major trough in April, United states that output from El Salmiyah will contribute to net production rising to over 2,500 boepd in the coming weeks. This compares to 1,850 boepd as recently as early April when the successful ASH-2 well came on stream. Even at low oil prices, Abu Sennan is expected to generate solid operating margins as a function of low operating costs of only c.\$6.50 per bbl across Abu Sennan.

We estimate that 35%-40% of United's Egyptian oil and gas production is contracted at fixed prices in 2020 including a floor price of \$60/bbl for 6,600 bbls of oil per month for the next 30 months as part of the company's pre-payment facility with BP. Additionally we estimate that when gas production from El Salmiyah is on stream, up to 30% of total production will be gas sold under fixed price contracts that are relatively insensitive to oil price movements.

**Despite the impact of considerably lower oil prices, compared to the earlier part of the year, and a deferred drilling programme in Egypt, Abu Sennan is proving to be an incredibly robust asset and at our valuation of 4.4p per share, we calculate that the value of Abu Sennan alone exceeds the level of the current share price comfortably. We also believe that the deferral of capex in Egypt and Italy, the reduction of group level administration costs and the potential for several divestments in the Wessex Basin of the UK places United in a strong position to conserve cash and weather the current industry headwinds. With this solid foundation in place, we are establishing a refreshed valuation of 8.1p per share now that a semblance of stability is returning to the sector. Note that this does not include any value for the Walton Morant licence in Jamaica. Should discussions with the relevant authorities lead to an extension for United on this licence, it would add at least a further 1.8p, bringing United's valuation to 9.8p per share.**

# United valuation summary

Outlined in the table below is current our sum of the parts valuation for United. Our indicative valuations have been generated in a combination of US dollars (Euros in the case of Podere Gallina in Italy) and converted into a Sterling equivalent at an average exchange rate of US\$1.26: £1.00. Within our valuation, we have adjusted our valuation for the company's interest in Abu Sennan to reflect the recent turmoil in the market precipitated by the global coronavirus pandemic and the recent sharp decline in oil prices. We have also removed valuations for several exploration assets in the UK and Jamaica for reasons outlined below.

Our aggregate valuation table below is based on 619.2 million shares in issue and our fully diluted calculation factors in an additional 97.0 million warrants and options at exercise prices of between 1.0p and 8.0p per share.

## Valuation summary

| Licence                           | Country        | Status                 | Valuation<br>US\$m | Valuation<br>£m | Undiluted<br>p | Diluted<br>p |
|-----------------------------------|----------------|------------------------|--------------------|-----------------|----------------|--------------|
| Abu Sennan                        | Egypt          | Production/Development | 34.1               | 27.1            | 4.4            | 3.8          |
| Podere Gallina (Selva field)      | Italy          | Development            | 6.0                | 4.7             | 0.8            | 0.7          |
| Podere Gallina                    | Italy          | Contingent resources   | 1.3                | 1.0             | 0.2            | 0.1          |
| Podere Gallina                    | Italy          | Prospective resources  | 1.9                | 1.5             | 0.2            | 0.2          |
| P2366 (Crown)                     | UK             | Appraisal              | 3.8                | 3.0             | 0.5            | 0.4          |
| PL090 (Waddock Cross)             | UK             | Appraisal/Development  | 5.0                | 4.0             | 0.6            | 0.6          |
| PL090 (Broadmayne)                | UK             | Exploration            | 3.7                | 3.0             | 0.5            | 0.4          |
| UKCS 31st Licensing Round         | UK             | Exploration            | 6.5                | 5.1             | 0.8            | 0.7          |
| Overheads                         |                | Corporate              | -0.9               | -0.8            | -0.1           | -0.1         |
| Cash (debt)                       |                | Corporate              | 1.6                | 1.3             | 0.2            | 0.2          |
| Options and warrants              |                | Corporate              | 5.9                | 4.7             | 0.0            | 0.7          |
| <b>Core valuation</b>             |                |                        | <b>68.8</b>        | <b>54.6</b>     | <b>8.1</b>     | <b>7.6</b>   |
| <i>Walton-Morant</i>              | <i>Jamaica</i> | <i>Exploration</i>     | <i>13.7</i>        | <i>10.9</i>     | <i>1.8</i>     | <i>1.5</i>   |
| <b>Potential upside valuation</b> |                |                        | <b>82.6</b>        | <b>65.5</b>     | <b>9.8</b>     | <b>9.1</b>   |

Source: Optiva estimates

## Egypt - Abu Sennan

In our initial assessment of United's interest in Abu Sennan, we ascribed an initial valuation of US\$34.8m for the company's 22% working interest in February 2020. However, one should note that this was based the assumption that oil prices would average \$60 per barrel over the life of the field and the company would participate in a full four well drilling programme over the course of 2020 with a commensurate increase in production thereafter.

Much has changed over the last three months. In particular, the simultaneous global impact of the Covid-19 pandemic coupled with the collapse in demand for crude precipitated a significant reduction in oil prices over the last three months and an almost total cessation of near term drilling activity across the oil and gas sector. United has outlined that drilling activity on Abu Sennan has been deferred for the time being although the planned programme is ready to be reinstated by the operator should market conditions improve. Consequently, we have not factored any further drilling on Abu Sennan into our assumptions over the next six months.

Oil prices have recovered significantly from the nadir of \$20 per barrel in late April 2020 and Brent is currently testing the \$40 per barrel benchmark as of the date of this report. Although, we expect that average oil prices will be a shade over \$30 per barrel in Q2, the Q1 average was actually over \$51 and we anticipate that an average of c.\$40 over the second half of 2020 indicates that an average crude prices could be at least \$40 per barrel in the current year as demand and supply begin to rebalance. This pricing is factored into our valuation of United's interest in Abu Sennan for 2020.

With regard to our oil price estimates looking further ahead, we anticipate a recovery in oil prices in 2021 and 2022 as average crude prices strengthen to average \$50 and \$60 per barrel respectively. For the remaining life of the Abu Sennan field, we have held prices flat at the 2022 level.

### **Oil prices and drilling deferment offset by production increases**

With the ASH-2 well currently producing at over 3,000 bopd and El Salmiyah likely to come on stream at a similar rate within the coming weeks, we believe that gross production across the Abu Sennan concession could comfortably exceed 11,300 boepd in H2 2020. This implies a net production level of at least 2,500 boepd for United which we have factored into the second half of the current year.

Despite the impact of considerably lower oil prices in 2020 and a deferred drilling programme, our valuation of United's 22% interest in Abu Sennan is still a robust \$34m. This is supported by the fact that over one third of United's Egyptian oil and gas production is contracted at fixed prices. This includes a floor price of US\$60/bbl for 6,600 barrels of oil per month for the next 30 months as part of the company's pre-payment facility with BP. Additionally, we estimate that once El Salmiyah is on stream, up to 30% of Egyptian net production will be gas sold under fixed price contracts.

## **Other assets**

### **Divestments**

United has outlined previously that it will not be continuing its option for Block B in Benin and has written down the value of the Colter discovery on UK licence P1918. As such, we have removed these from our summary valuation. The company is also seeking to divest its assets in the Wessex Basin onshore UK, which include the Waddock Cross and Broadmayne fields on licence PL090. As we perceive that these assets still represent value to the company, these remain in our aggregate calculations until such a time when market conditions improve and United can effect a divestment.

### **Jamaica**

United also notes that Tullow Oil has written down the value of the Walton Morant licence in Jamaica within its last preliminary results statement. United has initiated discussions with the Jamaican government in regard to a path forward for Walton Morant. However, we believe that with Egypt progressing so positively despite the current tough market conditions, United is likely to focus on delivering further upside from Abu Sennan for the foreseeable future.

Consequently, we have removed valuation for Walton Morant from our core valuation although it is represented as potential valuation upside should circumstances change over the next few months.

## **Italy**

In Italy, the approval process for the Selva gas field is continuing although the Italian government's response to the Covid-19 pandemic has slowed down overall progress. The target for first gas from Selva has now been deferred to H1 2021 and although United is keen to complete the development of Selva, the deferral of the remaining capex is expected to retain US\$0.5m in the company until 2021. As such, the impact on our valuation of Selva is marginal at this stage.

## **UK Central North Sea**

Finally, we have included a modest valuation for United's licence P2480 located in the UK Central North Sea (UOG: 100%) which was acquired in the UK 31<sup>st</sup> Offshore Licensing Round in September 2019. Although this is at an early stage of development currently, the licence includes the promising Zeta prospect which is estimated to contain over 90 mmbbls of oil in place.

To this volume, we have assumed a recovery rate of 30% to generate recoverable resources of 27mmbbls and to this we have applied a CoS of 40%, a unit NPV of \$5.00 per barrel of oil in the ground and a commercial chance of success of 60%. Assuming that United can expedite a farm down to a 20% carried interest in the prospect at a later stage; we have generated an initial valuation of \$6.5m for United's notional interest in the Zeta prospect.

We believe that this early valuation is justified given the success that the company had in completing the \$5m (gross) sale of the North Sea Blocks 15/18d and 15/19b to Anasuria Hibiscus UK Limited in December 2019, which contained the considerably smaller Crown discovery.

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