

United Oil & Gas Plc*

15 April 2021

Stock Data

Share Price:	5.0p
Market cap.:	£31.3m
Shares in issue:	625.2m
Fully diluted equity:	749.5m

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
Tom Hickey:	Non-Exec. Director
Ms. Iman Hill:	Non-Exec. Director

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

Abu Sennan concession reserves update

United has announced a significant increase to reserves on the Kuwait Energy-operated Abu Sennan concession in Egypt in which United holds a 22% working interest. In particular, a 24% increase in gross 2P reserves from 13.5 mmboe at the end of 2019 to 16.8 mmboe at the end of 2020 represents a highly commendable near 200% reserves replacement ratio. With the current figures not yet including recent drilling success, we anticipate further progress in this regard over the current year.

In an independent reserves and resources report published by Gaffney Cline & Associates in April 2021, the competent person reported a 24% increase in Abu Sennan gross 2P reserves from 13.5 mmboe at the beginning of 2020 to 16.8 mmboe at the end of last year. Of this total, approximately 15% of the volumes are gas.

This is a highly material increase in reserves on Abu Sennan particularly given the step-up in production on the concession over the course of 2020. Exploration and revisions to estimates primarily as a result of wells drilled in 2019 and 2020; most notably ASH-2 and El-Salmiya-5 in addition to the ASH gas development moving contingent resources to reserves has resulted in a reserve replacement ratio of 198%.

Applying United's 22% working interest to the reserves estimates provides the company with net reserves of 3.7 mmboe, up from 2.97 mmboe at the end of 2019. Within the numbers, 1P gross reserves increased by 59% to 6.7 mmboe and 3P reserves were up by 21% to 34.7 mmboe at the end of 2020. The numbers net to United in this regard are therefore 1.5 mmboe (1P) and 7.6 mmboe (3P).

The detailed report published by Gaffney Cline also outlined an evaluation of 21 exploration prospects located within and outside the existing development areas within the Abu Sennan concession. We have calculated that these prospects contain unrisked prospective resources of at least 26.5 mmbbls of which the largest prospect, SW Al Ahmadi, could contain over 5 mmbbls alone with a 35% chance of success. We have estimated that the weighted average chance of success for the full portfolio of 21 prospects is an attractive 41%.

In a production update on 12 April 2021, United announced that the recently completed ASH-3 development well had been averaging over 4,000 boepd (880 boepd net to United) since coming on stream in early March 2021 and United's net production in Q1 2021 was over 2,500 boepd with nearly one month's contribution from ASH-3. We also note that testing of the successful ASD-1X exploration well is also planned in the coming weeks and could contribute to additional production on Abu Sennan later this year.

With ASH-3 now on production, we estimate that United's share of production from Abu Sennan in the current year will be significantly above the H1 guidance of 2,300–2,500 boepd that was provided on 1 February 2021 prior to any further production upside from ASD-1X and wells yet to be drilled. As such, we have increased our valuation of the company's interest in Abu Sennan to US\$46.5m, which on a per-share basis more than covers the current share price. With the inclusion of United's wider portfolio, our current company valuation of over 24p per share suggests that there is a significant degree of additional upside not yet reflected in United's stock price.

Reserves upgrade at Abu Sennan

An independent reserves and resources report published by Gaffney Cline & Associates in April 2021 has increased 2P reserves at Abu Sennan by 24% from 13.5 mmboe at the beginning of 2020, to 16.8 mmboe at the end of 2020. United holds a 22% working interest in Abu Sennan and of the reserves totals outlined, approximately 15% is estimated to be gas. We note that these updated numbers do not include reserves that are likely to be included from recent drilling success in regard to the ASH-3 and ASD-1X wells.

The table below outlines the increase in 1P reserves from 1.2 mmboe at the end of 2019 to 6.7 mmboe at the end of 2020. Similarly, 3P reserves have been upgraded from 28.9 mmboe to 34.7 mmboe over the course of 2020. Exploration and revisions to estimates have more than offset production over 2020. The increase through revisions was primarily as a result of wells drilled in 2019 and 2020; most notably ASH-2 and El-Salmiya-5 in addition to the ASH gas development moving contingent resources to reserves. The second table breaks the Abu Sennan reserves down in more detail, including details of volumes by field and reservoir and also the gas component of the aggregate volumes.

Summary of Abu Sennan reserves (gross)

Mboe Status	End 2018	Exploration	2019 production	Revisions	End 2019
1P	2,373	259	-1,647	3,191	4,179
2P	12,004	702	-1,647	2,463	13,526
3P	19,624	2,213	-1,647	8,395	28,859

Mboe Status	End 2019	Exploration	2020 production	Revisions	End 2020
1P	4,179	0	-3,297	5,773	6,655
2P	13,526	134	-3,297	6,391	16,754
3P	28,859	269	-3,297	9,123	34,685

Source: Gaffney Cline & Associates

Reserves by field and reservoir

Field	Reservoir	Oil (mmbbls)			Gas (BCF)		
		1P	2P	3P	1P	2P	3P
Al Jahraa	AR-C	2,752	5,736	9,969	0.00	0.00	0.00
	AR-D	57	227	570	0.00	0.00	0.00
	AR-G	71	205	1,145	0.00	0.00	0.00
	L Bahariya	65	389	1,508	0.54	2.60	7.64
	AR-E (Jah-7)	13	21	35	0.00	0.00	0.00
	U Bahariya	18	61	203	0.00	0.00	0.00
	L Bahariya II	10	33	135	0.00	0.00	0.00
	Sub total	2,986	6,672	13,565	0.54	2.60	7.64
El Salmiya	AR-C	13	234	774	0.00	0.58	2.16
	AR-E	273	849	1,751	0.00	0.00	0.00
	AR-G	0	134	261	0.00	0.00	0.00
	Karita	250	414	909	1.40	2.86	9.94
	Sub total	536	1,631	3,695	1.40	3.44	12.10
ASA	AR-C	32	0	0	0.00	0.00	0.00
	AR-E	144	348	750	0.00	0.00	0.00
	Sub total	176	348	750	0.00	0.00	0.00
ASH	AEB	1,830	5,116	9,162	2.20	6.78	13.56
ASZ	AR-C	298	421	852	0.00	0.00	0.00
Total		5,825	14,189	28,024	4.15	12.83	33.31

Source: Gaffney Cline & Associates

Prospective resources

The Gaffney Cline CPR also provides details of 21 individual oil exploration prospects that are located within and outside the existing development area of Abu Sennan. We have calculated that these prospects, most of which are represented by multiple reservoir targets, contain unrisks prospective resources of at least 25.8 mmbbls of which the largest prospect, SW Al Ahmadi, could contain over 5 mmbbls alone with a 35% chance of success. We have estimated that the weighted average chance of success for the full portfolio of 21 prospects is an attractive 41%.

Egyptian activities update

As noted earlier, the recent Gaffney Cline report does not include recent drilling success regarding the ASH-3 development well, which was brought in stream in early March, and the discovery reported from the ASD-1X exploration well in early April 2021.

ASH-3 was spudded in January 2021 and subsequently tested a maximum flow rate of 6,379 bopd of oil and 6.7 mmcfpd of gas from the Alam El Bueib (AEB) reservoir. This translates to 7,720 boepd on a 64/64" choke of which United holds a 22% interest (equivalent to 1,700 boepd). On a reduced chokes of 30/64", more representative flow rates of 3,591 bopd of oil and 2.9 mmcfpd of gas were recorded (910 boepd net to United).

In a recent production update from the company on 12 April 2021, ASH-3 had been averaging over 4,000 boepd (880 boepd net to United) since coming on stream on 5 March 2021. This contributed to United's Q1 production net to the company's working interest, of 2,520 boepd (of which 2,053 bopd was oil) which was slightly ahead of previous guidance.

ASD-1X exploration success

On 8 March 2021, the operator of Abu Sennan spudded ASD-1X, a vertical exploration well located 12km north-east of the producing Al Jahraa Field, targeting several stacked sandstone reservoirs to a depth of approximately 3,750 metres measured depth (MD). On 6 April, the company announced that ASD-1X had encountered at least 22 metres of net oil pay across the AR-C, AR-C, Lower Bahariya and Kharita formations and well testing is now planned in the coming weeks. If successful, the Abu Sennan partners will then apply to EGPC for a development lease over this new discovery.

Italy - Selva field update

We note that on 6 April 2021, the Italian government gave Environmental Approval for the development of the Selva gas field concession located in northern Italy in which United holds a 20% interest.

An Environmental Impact Assessment (EIA) of Selva Malvezzi were approved and signed by the Ministers of MITE (Ministry of Ecological Transition) and MIC (Ministry of Culture) in early April 2021. Environmental approval paves the way for the grant of full production licences for Selva and the operator, Po Valley Energy will submit the required documentation during the current quarter.

In the case of Selva Malvezzi, an application will be made for an INTESA between the regional government and the national government which is a standard development procedure for onshore gas fields. Following this process, we expect Po Valley to be able to move towards a grant of a final production concession.

Upgrade to valuation of Abu Sennan

With ASH-3 now on production, we estimate that the latest development well on Abu Sennan will contribute approximately 3,000 boepd per day to gross production. As such, we anticipate that United's net average production for the full year will be significantly ahead of the company's H1 guidance of 2,300-2,500 boepd issued on 1 February 2021. We note that this does not yet include potential production from ASD-1X and any subsequent wells yet to be drilled which could increase output further in the event that they come on stream prior to the end of 2021.

Consequently, we have increased our valuation of the company's interest in Abu Sennan from US\$34.4m as of December 2020, to a current level of US\$46.5m. This is based on a flat average oil price of US\$60.00 per barrel over the life of the field. On a per share basis, we note that this valuation more than covers the current share price.

Outlined below is our sum of the parts valuation for the company. We note that the per-share estimate of 24.1p is slightly below that of our last published assessment of 25.1p in December 2020. However, this is a function of a c.8% decline in the value of the US dollar relative to Sterling in the intervening period and our valuation on a stable currency basis would be approximately 26p per share for comparative purposes.

Company valuation summary

Licence	Country	Status	Valuation	Valuation	Undiluted
			US\$m	£m	p
Abu Sennan	Egypt	Production/Development	46.5	33.7	5.4
Abu Sennan	Egypt	Prospective resources	14.7	10.7	1.7
Podere Gallina (Selva field)	Italy	Development	6.5	4.7	0.8
Podere Gallina	Italy	Contingent resources	1.4	1.0	0.2
Podere Gallina	Italy	Prospective resources	2.1	1.5	0.2
Walton-Morant	Jamaica	Exploration	94.5	68.5	11.0
P2366 (Crown)	UK	Appraisal	3.8	2.8	0.4
PL090 (Waddock Cross)	UK	Appraisal/Development	4.1	3.0	0.5
PL090 (Broadmayne)	UK	Exploration	3.1	2.2	0.4
UKCS 31st Licensing Round	UK	Exploration	6.5	4.7	0.8
UKCS 32nd Licensing Round	UK	Exploration	24.0	17.4	2.8
Overheads		Corporate	-1.0	-0.8	-0.1
Cash (debt)		Corporate	1.2	0.9	0.1
Options and warrants		Corporate	7.7	5.6	0.0
Core valuation			215.4	156.2	24.1

Source: Optiva estimates

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