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United Oil & Gas Plc*

26 April 2018

BUY

Stock Data

Share Price:	4.65p
Market cap.:	£13.5m*
Shares in issue:	291.1m*
Fully diluted equity:	328.3m*

*Pro forma until 11 May 2018

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 and Italy. Management strategy is to expand the current portfolio with value accretive acquisitions focused primarily on stable international jurisdictions.

Performance Data

Directors

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

Important Notice

Company update

On 20 April 2018, United conditionally raised £2.5m with which to advance the current phase of its high impact exploration and appraisal programme. Of these new funds, we anticipate that the company will utilise c.£1.1m to fund its share of 3D seismic work on the Walton-Morant licence in Jamaica and a further £1.0m has been earmarked to fund United's share of drilling costs related to the upcoming Corallian-operated Colter exploration well in the UK.

On 20 April 2018, United conditionally placed approximately 58.8 million new shares at 4.25p per share in order to raise gross proceeds of £2.5m. The issue of these new shares, which will represent 25.33% of the existing share capital, is subject to shareholder approval at a General Meeting being held on 10 May 2018. New Chairman, Graham Martin, who was previously an Executive Director of Tullow for almost 20 years and was appointed to the United board in February, participated in the placing, subscribing for over 1.4 million shares.

United completed the farm-in agreement and the transfer of a 20% interest in the Walton-Morant licence offshore Jamaica with Tullow Jamaica Limited on 1 March 2018 and followed this up with news that seismic acquisition on Walton-Morant had commenced in early April. The 'Polarcus Adira', vessel, which has been contracted to acquire 2,250 km^2 of 3D seismic data, arrived in Jamaica's capital, Kingston on 23 March 2018 and the data acquisition programme commenced on 2 April 2018.

This programme is expected to take approximately eight weeks and will be focused on the high-graded Colibri prospect. In our note dated 27 November 2017, we estimated that Colibri could contain mean recoverable resources in excess of 200 mmbbls of oil. However, this is an early stage estimate and we anticipate that the results of the 3D survey will add considerable clarity to our nascent resource estimates.

In the UK, United announced that it had extended its option to acquire an additional 10% interest in three southern UK oil and gas assets from Corallian Energy Limited on 3 April 2018. The original deal, which was agreed in January 2018, entitled United to a 10% interest in licences P1918, PEDL330 and PEDL345 in return for paying 13.33% of the costs associated with an exploration on the exciting Colter prospect.

The option expired at the end of March 2018 but was renewed until the end of April. We note that the terms of the farm-in agreement with Corallian remain unchanged and United retains an option to purchase an additional 10% interest by way of paying 13.33% of the costs of a well on Colter.

Corallian plans to drill an appraisal well on Colter in Q2/Q3 2018, updip of the original discovery well, drilled by BP in 1986, in order to assess the full potential of Colter. United has ascribed a conservative mean base case of approximately 19 mmbbls for Colter which we understand is below the operator's estimate and a well, planned to be drilled from an offshore jack-up rig is expected to cost approximately US$9.4m (c.US$2.5m net to United).

It is very important to note that United is now fully funded for its exciting exploration and appraisal activities in the current year. We estimate that a successful result at Colter alone could be worth in excess of US$40m to United on an unrisked basis, equivalent to over 8.8p per share (fully diluted). It is also important to note that we have not yet ascribed any potential upside for United's interest in Jamaica at this stage. However, the establishment of early prospective resource estimates for Walton-Morant in the event that the 3D survey yields positive results could enable us to instigate an indicative risked valuation for the asset representing several multiples of the current share price.

Company valuation summary

Our updated valuation assumptions based on United's pro forma fully diluted equity, which will consist of almost 291.1 million shares and a further 37.2 million warrants priced at 2.5p each are outlined in the table below. These equity numbers assume that the company will receive shareholder approval to issue 58.8 million new shares at its General Meeting to be held on 10 May 2018. The company anticipates that admission of the new shares will take place on 11 May 2018.

This summary currently assumes that United takes up its full 20% interest in licence P1918 (Colter) and includes the new funds expected to be raised from the recent placing. The company also notes that it has existing cash of approximately £1.2m prior to the receipt of the recent placing funds with which to fund working capital and general company expenses. The impact of new placing shares has diluted our per share valuation of United. However, this has been offset to an extent by several factors. Firstly in the UK, we have increased our valuation of Colter by approximately 0.6p given that we have increased our mean base case recoverable reserves estimate from 17.5 mmbbls to 19 mmbbls in line with the company's conservative expectations.

In Italy, we increased the ascribed chance of success (CoS) for the East Selva prospect from 15% to 30% to reflect the positive implications of the well test data from the Selva gas field. This has resulted in an increased indicative valuation of 0.7p, up from 0.3p prior to the Selva field well data. Our valuation of the Selva field itself has also edged up by 0.1p given that the higher than expected pressures encountered during testing means that compression facilities are unlikely to be required in the early years of production and consequently ongoing opex is expected to be lower for the first 5-6 years of production.

Given the early stage nature of the Jamaican asset, we believe that ascribing a valuation to United's interest would be more appropriate after the initial data from the current 3D seismic programme is known. However, we believe that a notional 200 mmbbls development could generate a gross unrisked NPV in excess of US$600m (US$120m net to United's interest). It is important to note that indicative NPVs should not be examined on a standalone basis given that exploration success will de-risk future drilling significantly and has the potential to open up a new multi-billion barrel offshore play in Jamaica.

The Sterling valuation of United is based on the current US Dollar/Sterling exchange rate of approximately US$1.40: £1.00. Considerable additional detail regarding those assets outlined in this report and those not discussed directly in this note can be accessed in previous research notes dated 30 May 2017 (initiation research), 27 November 2017 (Jamaica), 17 January 2018 (Colter) and 24 January 2018 (Acle).

United Oil & Gas valuation summary

Item	Country	Status	Valuation US$m	Valuation £m	Undiluted p	Diluted p
PL090 (Waddock Cross field)	UK	Appraisal/Development	3.5	2.5	0.9	0.8
PL090 (Broadmayne prospect)	UK	Exploration	3.4	2.4	0.8	0.7
Podere Gallina (Selva field)	Italy	Development	6.5	4.7	1.6	1.4
Podere Gallina (East Selva)	Italy	Exploration	3.2	2.3	0.8	0.7
P1918 (Colter)	UK	Appraisal	26.2	18.8	6.5	5.7
P2264 (Acle)	UK	Exploration	13.3	9.5	3.3	2.9
Walton-Morant licence	Jamaica	Exploration	0.0	0.0	0.0	0.0
Overheads		Corporate	-0.5	-0.4	-0.1	-0.1
Cash (debt)		Corporate	5.2	3.7	1.3	1.1
Warrants		Corporate	0.9	0.6	0.0	0.2
Total			**61.7**	**44.2**	**15.0**	**13.5**

Source: Optiva Securities estimates *Provisionally includes Acle assuming that the option to farm-in is exercised

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