Tennyson

Dissemination: 5 Jul 2024

United Oil & Gas (UOG LN)

MARKET DATA

Bloomberg	ticker	UOG LN
Share price	p/shr	0.19
Target	p/shr	1.00
TP upside	%	426%
Shares out	Million	1156.4
Fd shares	Million	1344.6
Mkt cap	US$m	2.8
EV	US$m	1.3

DESCRIPTION

United Oil & Gas is a Dublin based E&P business listed on AIM with a portfolio of development and E&A assets in the UK and Jamaica.

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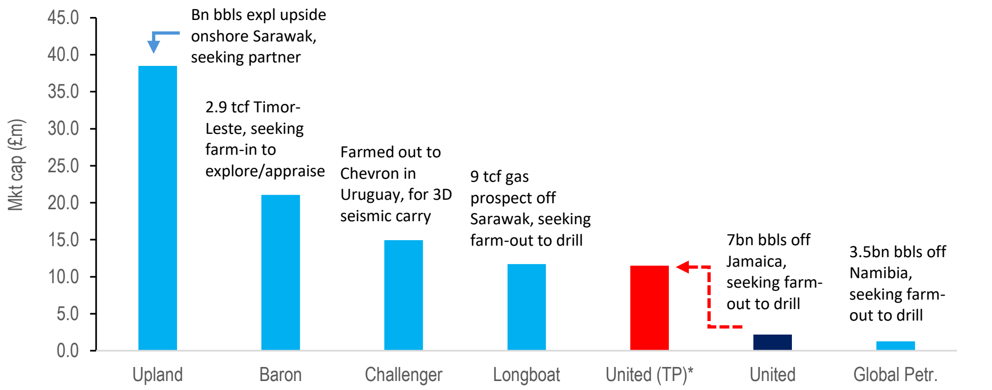
JAMAICAN GROOVE

In early 2024 United O&G (UOG) announced its intention to withdraw from its 22% stake in the Abu Sennan concession onshore Egypt, amidst the worsening macro-economic situation in country. In parallel with a £1m equity raise in March, the sale puts UOG on a surer financial footing to pursue opportunities across a slimmed down portfolio. The key focus now is the Walton-Morant exploration licence offshore Jamaica, which offers multi-billon bbl resource potential and running room on a scale of Exxon's Stabroek block offshore Guyana. An ongoing farm-out process has attracted interest from major oil industry players and is expected to yield funding to drill the first exploration well, potentially in late 2026-27. Meanwhile, the Waddock Cross redevelopment project onshore UK offers hope for near term production and cash flow. We re-initiate coverage of the stock with a BUY recommendation and 1.0p/shr target price – equivalent to ~5x the current share price.

Figure 1: Selected AIM-listed exploration comps by market cap



Source: Tennyson, Bloomberg. **United (TP) = MC of United O&G at target price of 1p/shr

Egypt exit; strengthened balance sheet: UOG is in the final throes of withdrawing from its sole producing asset, following a deterioration of macro-economic conditions in Egypt. The pinch point came in Q4 2023, with renewed conflict in the region, when UOG's oil sales were being made in Egyptian Pounds and the operator Kuwait Energy was demanding cash calls in USD. An inability to readily exchange Egyptian Pounds into USD led to a cash squeeze, leaving UOG in an ever-growing working capital deficit at the asset level. This culminated in Kuwait Energy exercising a default notice (relating to US$3.8m of unpaid invoices) in January 2024, which is expected to see UOG withdraw from the licence for nil cash consideration and the forgiveness of unpaid invoices. A final agreement in relation to withdrawal from the concession is expected to be finalised over the coming months.

The default notice and strategic decision to exit Egypt relieves UOG of a FCF negative asset, materially reducing its near-term funding needs. In addition, UOG retains a crude oil receivables position (related to historic sales, pre-default) with EGPC, totaling US$0.5m (at current Egyptian Pound exchange rates), which is expected to unwind over the coming months. We note that a USD payment of US$1m was made to UOG in April (reducing the figure to US$0.5m), so we are confident of the balance being met. Subsequently, UOG has agreed settlement terms for its outstanding debt with BP (US$0.8m). Following repayment, we estimate current PLC cash at US$1.5m (excluding receivables).

Exposure to multi-bn bbl exploration upside: UOG holds 100% of the vast ~22,400 sq km Walton-Morant licence (see map in Figure 3, below) in shallow waters offshore Jamaica.

Although the licence sits in a frontier basin, US$40m has been spent by previous owners on data acquisition (including a large 3D seismic survey over ~10% of licence area), generating a valuable and substantial dataset. In addition, 11 legacy wells have been drilled (onshore & offshore) across the basin (including one in the licence area), all of which encountered hydrocarbons. The block is subject to an ongoing farm-out process which has attracted interest from multiple parties and on success would see the group fully funded for one well (US$30-35m dry hole cost), adding a major drilling catalyst – potentially in late 2026-27. The drill ready Colibri prospect, lying within the 3D seismic area, is just one of many prospects & leads that account for ~7bn bbls of gross mean prospective resources. Illustrating the scale of the opportunity, below is a table showing a comparison of the Walton-Morant licence with Exxon's worldclass Stabroek block offshore Guyana, also in the Caribbean. Colibri itself contains 406 mmboe of gross mean prospective resources worth ~US$1.8bn unrisked (PV10 at US$65/bbl).

Figure 2: Walton-Morant block comparison with worldclass Stabroek block, offshore Guyana

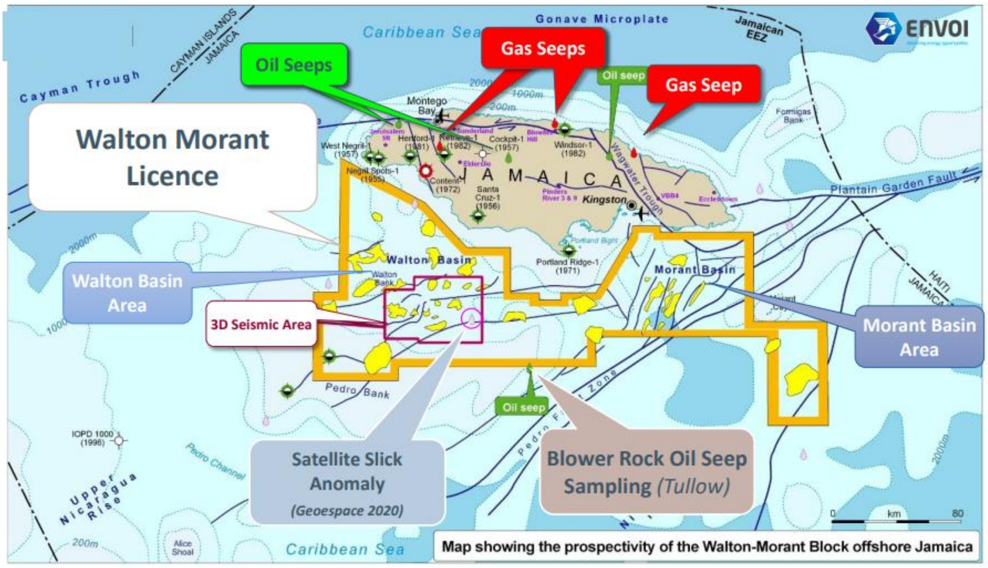
Characteristic	Stabroek, Guyana (1)	Walton-Morant, Jamaica
Block Size	26,800 km^2	22,400 km^2
Water Depth	1900m – 3350m	50m – 2000m
Drilling TD	5000m – 7000m	2000m – 4000m
Source Rock	Cretaceous Oceanic Anoxic Event 2	Cretaceous Oceanic Anoxic Event 2
Resource Potential	11 Billion Barrels (discovered)	7 Billion Barrels (Mean)
Number Prospects/Leads > 100 MMBO	33 Discoveries (so far)	21 Mapped (so far)
Average Resources (per Prospect > 100 MMBO)	c. 335 MMBO average per discovery	c. 300 MMBO average per prospect/lead
Conventional Development	FPSO Hubs with Multiple Discoveries & Drill Centres	FPSO Hubs with Multiple Prospects & Drill Centres
Discovery to First Oil	< 4 Years	<4 Years
Potential FPSO Hubs	10 FPSO Hubs	6 FPSO Hubs
Resource Potential per FPSO	1.1 BBO / FPSO Hub	1.2 BBO / FPSO Hub
Production Potential	> 1.2 Million BOPD from the First 6 FPSO's	> 1 Million BOPD from 6 FPSO's
Unit Development Cost	$7/bbl (Lisa Phase 1)	8.5 $/bbl
NPV10 Breakeven Oil Price	c. $25-35/bbl	c. $25/bbl

Source: UOG.

Whilst still relatively hard to come by, exploration farm-outs amongst smaller E&Ps have seen a gradual up-tick in recent times, as the Oil Majors refocus investment on their core business line and reassess the need for long term hydrocarbon supply. Namibia has been a particular hotspot, with Impact O&G's recent farm out to Total and Rhino Resources's exploration tie up with Azule Energy (BP-ENI JV). Meanwhile, AIM-listed Challenger Energy has recently partnered up with Chevron in Uruguay. We believe that UOG's Walton-Morant licence has the scale and follow-on potential to be of interest to major industry players. Plus, the relatively modest drilling costs and attractive fiscal terms (42% Government take vs. Guyana 50%) add to the investment allure.

Jamaica exploration survey; cash runway through end 2024: UOG's sole near-term capital commitment is a piston coring survey on the Walton-Morant licence, planned for Q3/Q4 2024, at an estimated cost of US$0.6-0.7m. The study is designed to identify evidence of hydrocarbons in the seabed at ~40 sampling locations around the Colibri prospect and wider 3D seismic area (see map in Figure 3, below). This would further materially de-risk the presence of an active petroleum system. To illustrate the de-risking impact, UOG estimates an upgraded CoS (chance of success) on the Colibri prospect of 25% if the survey finds hydrocarbons, versus 19% currently. Alongside the cost of the piston coring operations, which will be funded out of cash resources, UOG has a G&A burn rate of ~US$150k/month. Thus, we estimate a PLC cash runway through end 2024 (ex. US$0.5m of receivables in Egypt), allowing plenty of time to negotiate a farm-out.

Figure 3: Walton-Morant licence map



Source: UOG.

Waddock Cross adds near-term CF potential: Alongside exploration activities in Jamaica, UOG is keen to reestablish production and CF, following its withdrawal from Egypt. The Waddock Cross field, in which UOG holds a 26.25% stake, contains an estimated 57 mmbbls of gross OIP and was developed by Egdon Resources (current operator) with a single vertical well in 2013 which was shut-in after only a year due to high water cut. Following a licence extension out to 2029, UOG is in talks with Egdon to drill a horizontal well into the crest of the field, away from the oil water contact, thus avoiding the water ingress issue. Initial reservoir modelling work suggests a single well could produce 500-800 bopd with an EUR of 1 mmbbl. The well is expected to cost ~US$5m (US$1.3m net to UOG); the exact timing of drilling is uncertain at this stage, depending on planning & permitting permissions, funding and collaboration with Egdon.

Attractively valued vs peer group: we believe UOG is an outlier in the AIM-listed exploration sector, with outsized upside potential. At a MC of £2.2m it is amongst the smallest E&Ps on AIM. Fellow explorer Challenger Energy owns earlier stage assets offshore Uruguay and has just farmed-out to Chevron, for a US$15m carry on 3D seismic. At £15m its MC is more than 6x UOG's (see Figure 1, above). Meanwhile, Upland Resources has a Joint Technical Study (PSC application underway) over an exploration block onshore Sarawak with no major partner or drilling funds, yet its MC currently exceeds £35m. In our minds, if UOG is successful at farming down Jamaica its share price could easily rise 5x (implying a MC of £11.0m or 1p/shr), given the size of the prize and comparable listed exploration plays. We believe part of the reason for UOG's valuation disconnect is the large share price draw down in the lead up to exiting Egypt.

Figure 4: Valuation summary

NET ASSET VALUE									
Asset	**Gross**		**WI**		**Unrisked**			**Risked**	
	mmboe	**Interest**	**mmboe**	**US$/boe**	**US$m**	**p/share**	**CoS**	**US$m**	**p/share**
Egypt receivables					0.5	0.03	100%	0.5	0.03
Net cash					1.5	0.09		1.5	0.09
Warrant proceeds					0.7	0.04		0.7	0.04
Core NAV	**-**		**-**		**2.7**	**0.16**		**2.7**	**0.16**
UK – Waddock Cross	1**	26%	0	10.00	2.6	0.15	67%	1.7	0.10
Jamaica (Colibri-1 well)*	406	25%	102	4.32	438.9	25.70	19%	83.4	4.88
Total NAV	**407**		**102**		**444.2**	**26.01**		**87.8**	**5.14**

Valuation assumptions:

Brent: US$65/bbl flat

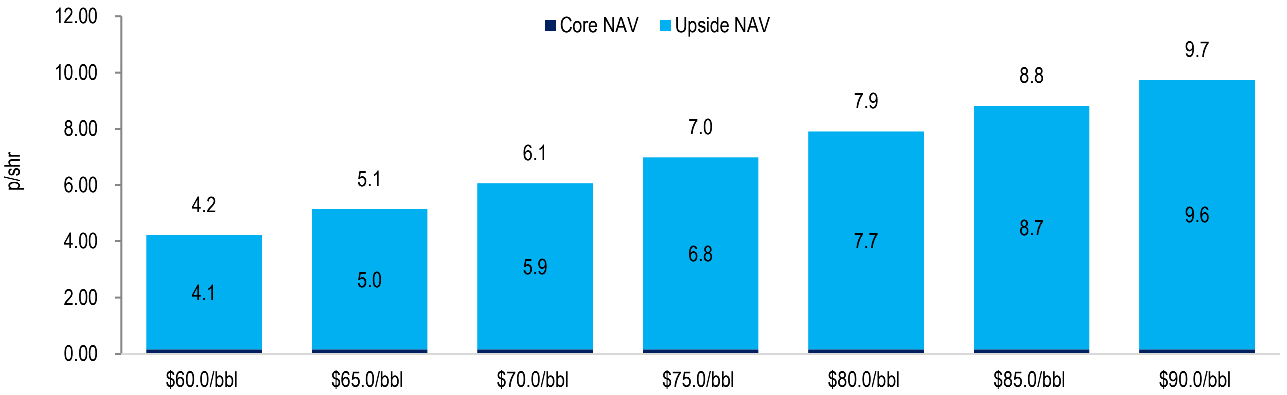
Discount rate 10%.

1.27 US dollar / £.

1,156.4m basic shares, plus 188.3m warrants & options = 1,344.6m fully diluted (ex 61.6m options at 4p).

Source: Tennyson Securities. *Assumes hypothetical farm-out reduces working interest to 25% for funding exploration well. **Assumes one well development, 1 mmbbl EUR.

Figure 5: Sensitivity table – NAV at various long term Brent oil price assumptions



Source: Tennyson Securities.

Dissemination: 5 Jul 2024

COMPANY BACKGROUND/OVERVIEW:

United Oil & Gas (UOG LN) was founded in 2015 by CEO Brian Larkin and listed on the LSE Main Board in 2015, later moving to AIM in 2019.

The company's principal asset is a high impact exploration position offshore Jamaica. In 2017 UOG farmed into Tullow Oil's Walton-Morant exploration licence and in 2020 took full control of the licence following Tullow's withdrawal. A farm-out process is currently underway to fund the first well.

UOG owns a non-operated interest in the Waddock Cross re-development project onshore UK.

UOG is in the process of finalising its exit from the Abu Sennan licence and no longer has an interest in Egypt.

SWOT ANALYSIS:

Strengths
Large exploration upside
No immediate need for funding

Weaknesses
No production or CF
Restricted investor audience for micro-cap E&Ps

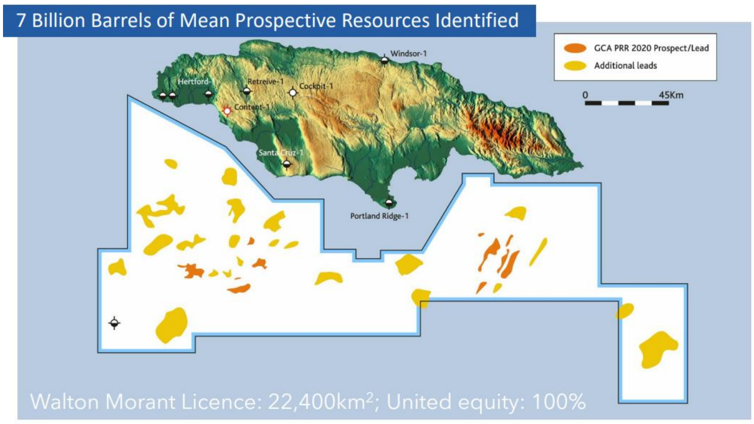
Opportunities
Jamaica farm-out
Additional acquisitions
Near term production (Waddock Cross)

Threats
Geopolitics
Commodity price volatility

RESERVES & PRODUCTION:

WI production:	n/a
WI 2P reserves:	n/a

EGYPT ASSET MAP:



SHAREHOLDERS:

Top shareholders*

James Brearley & Sons	13.6%
Hargreaves Lansdown	8.2%
Anthony Cappalonga	6.2%
Abrdn	6.2%
Jarvis	6.0%
HSBC	3.7%
Killik	3.4%
Directors	3.4%
Barclays	3.4%
Premier Miton	3.3%
LLoyds	3.3%

MANAGEMENT & BOARD:

Graham Martin, Non-Exec. Chairman: Energy lawyer, former Exec. Director of Tullow Oil (1997-2016). Present NED of UK-listed titanium producer Kenmare Resources.

Brian Larkin, CEO: Founder of United O&G. Trained accountant, formerly worked for Tullow Oil and Providence Resources in various key commercial and finance roles.

Iman Hill, NED: Petroleum Engineer, 30 years' industry experience. Exec. Director of International Association of O&G Producers (IOGP) and NED of Oil Spill Response Ltd (OSRL). Formerly held various senior mgnt roles at Shell, BG, Sasol and Dana Gas.

Source: Tennyson Securities, UOG. *As of 24 April 2024.

DISCLAIMER

RECOMMENDATIONS HISTORY

Market index : FTSE AIM ENERGY

Date	Market Index level	Share Price (p)	Target Price (p)	Opinion
UOG				
5 Jul 2024	598.13	0.19	1.0	BUY

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HOLD: The stock is expected to generate absolute price performance of between negative 10% and positive 10% during the next 12 months.

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