

28 November 2019

Stock Data

Ticker	UJO LN
Share Price:	0.165p
Pre-issue Market Cap:	£20.6m
Upside from current price:	318%

Source: Bloomberg (prior trading day's close)

Company Description

Union Jack Oil is an AIM-quoted conventional oil and gas exploration, development, and production company with a number of onshore licence interests in the UK, all centred around the East Midlands and East Yorkshire.



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Fully funded for upcoming work programme

Union Jack Oil ("Union Jack" or the "Company") has raised £5m by way of a placing and subscription at a price of 0.15p/share. The proceeds will be deployed across the Company's interests in highly accretive projects including the drilling and testing of two further appraisal wells and the acquisition and reprocessing of new seismic data at the Company's flagship West Newton project. In addition to West Newton, Union Jack has other material conventional assets in its balanced portfolio including Biscathorpe and Wressle which will see strong activity over the coming months, either of which could be transformational for the Company in their own right. Our updated TP purely reflects the equity dilution following yesterday's placing, with all other metrics remaining the same. We therefore maintain our **STRONG BUY** recommendation, setting a new 0.70p TP (from 0.84p).

West Newton – potential to be the largest onshore UK discovery

Recently updated volumetrics for West Newton indicate a significant upgrade to the 2017 figures contained within the current Competent Persons Report. The headline numbers estimate an in-place Base Case of 146.4MMbbls of oil and 211.5Bcf of gas; and an in-place Upside Case of 283MMbbls of oil and 265.9Bcf of gas. The estimated resource volumes therefore firmly categorise West Newton as having significant 'company maker' potential in our view.

Fully funded for 2020 West Newton appraisal and testing programme

The placing enables Union Jack to progress the technically and financially compelling West Newton project under a planned two well drilling (B-1 and B-2) and testing programme for H1 2020 which could add significantly to the earlier successes seen at the A-1 and A-2 discoveries. The Company also has the necessary funding to complete a seismic acquisition programme over other structures that have been highlighted over the licence area, that could hold significant additional upside potential.

All eyes on the upcoming planning approval at Wressle

As previously announced, North Lincolnshire Council did not present evidence at the 7 November Public Enquiry. We would expect a final decision to be made after 12 December UK general election, but before the end of 2019. If successful, first commercial oil is expected to flow at a constrained rate of 500bopd gross, and therefore could generate c.US\$3m per annum net to Union Jack in the current oil price environment (c.US\$60/bbl).

Biscathorpe could yield as much as 40MMbbls gross

Funds are anticipated to be used to drill a side-track well at Biscathorpe (UJO 22% WI), where revised petrophysical analysis of the suspended Biscathorpe-2 results (drilled in Jan/Feb 19), confirmed the likely presence of a 35m column of good quality, high API gravity oil. Union Jack plans to drill a side-track well at Biscathorpe, which could yield as much as 40MMbbls gross, another transformational hydrocarbon accumulation to complement West Newton.

UPDATED VALUATION AND RECOMMENDATION

Our sum-of-the-parts valuation infer a 318% upside case to the Company's current share price

Our updated valuation of Union Jack implies a risked sum-of-the-parts of 0.70p/share. The TP change is solely attributable to the equity dilution of yesterday's placing, with all other valuation metrics remaining the same.

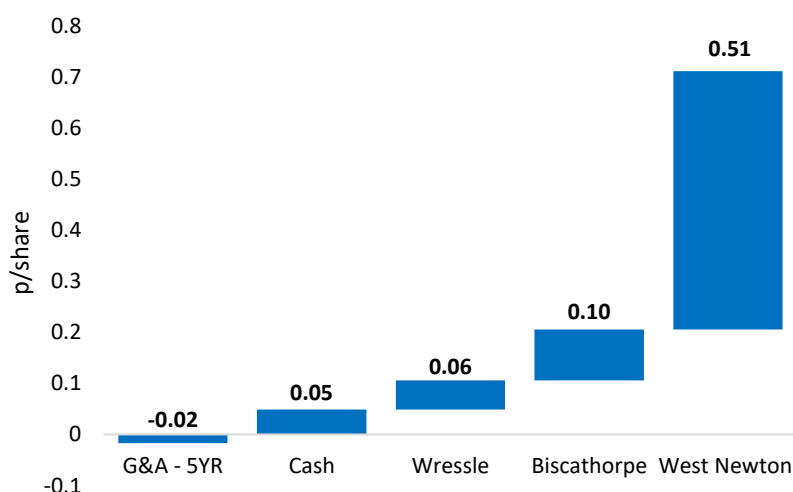
SOTP Valuation Matrix

NAV	£m	p/shr
Wressle DCF	3.25	0.02
Biscathorpe - Appraisal	15.40	0.10
W. Newton – Appraisal - Oil	61.58	0.40
W. Newton – Appraisal - Gas	16.62	0.11
Wressle - Appraisal	5.55	0.04
Cash	7.50	0.05
G&A - 5YR	(2.67)	(0.02)
Total NAV	107.23	0.70

Source: SP Angel estimates

The Company's portfolio is diversified across lower risk production and appraisal projects, underpinned by medium risk exploration assets, in known basins. Following yesterday's successful placing, Union Jack and its partners will turn their attention to the ongoing Extended Well Test of the recently drilled A-2 appraisal well. Longer term, the Company and its partners will look to place Wressle on production by the end of Q2 2020, yielding a material boost to operating cash flows and the potential to explore its wider asset base onshore UK.

SOTP Waterfall Chart



Our core valuation focuses on UJO's interests in West Newton, Biscathorpe, and Wressle

Source: SP Angel estimates

Our core valuation focuses on Union Jack's interests in West Newton, Biscathorpe, and Wressle where the Company holds material 2P reserves and 2C contingent resources. Whilst West Newton makes up the bulk of Union Jack's Risked NAV, the Company's forward plan includes the simultaneous maturation of all three positions.

Valuation Methodology

In line with our coverage universe, we value UJO using a combination of DCF and RENAVAL valuation techniques

We value Union Jack using a combination of a Discounted Cash Flow (DCF) (Reserves) and Risked Net Asset Valuation (RNAVAL) (Contingent Resources). At this stage we do not value the Company's prospective resource base given the early stage nature of these assets. We also include a valuation of the Company's financial assets and liabilities. We use the following assumptions in our financial model:

Metric	Assumption
Shares in issue (m)	15,441
LT exchange \$/£	1.26
Bcf/Mmboe	5.80
LT Oil Price/bbl	US\$58/bbl - flex 2% per annum
NBP gas pricing	US\$6/Mcf
NPV/boe discount factor	10%
Inflation	2%
Recovery rate at West Newton	24%
First commercial oil at Wressle	1H 2020

Source: SP Angel estimates

As previously, we use a conservative 24% recovery rate at West Newton. The identification of two major depositional cycles within the West Newton Kirkham Abbey reservoir 2, indicate strong similarities to the Ca2 carbonate platform/slope analogues from Northwest Germany; and two major depositional cycles and the Main Dolomite of the LMG field complex in Poland (gas and oil distribution). The recovery rates here range from 19% to 28%, we have therefore taken the prudent stance of inferring the median view of the two rates to infer a 24% recovery rate for West Newton.

Risked Net Asset Valuation (RNAVAL)

Field	Interest	Gross Recoverable Oil (MMbo)	Net Recoverable Oil (MMbo)	Net Recoverable Gas (Bcf)	Geological CoS	NPV 10% \$/boe	Unrisked NPV US\$m	Risked NPV US\$m	Net Risked £m	Net Risked p/shr
Reserves										
Wressle	27.50%	0.65	0.18		100%	22.91	4.10	4.10	3.25	0.02
Total Reserves		0.65	0.18				4.10	4.10	3.25	0.02
Appraisal & Development										
Biscathorpe - Appraisal	22.00%	14.00	3.08		75%	8.40	25.87	19.40	15.40	0.10
West N. – Appraisal - Oil	16.665%	35.18	5.87		90%	14.70	86.22	77.60	61.58	0.40
West N. – Appraisal - Gas	16.665%			50.76	90%	2.75	23.26	20.94	16.62	0.11
Wressle - Appraisal	27.50%	1.86	0.51		90%	15.20	7.77	7.00	5.55	0.04
Total Appraisal & Development		51.04	9.46	50.76			143.13	124.93	99.15	0.64
Total RNAVAL		51.69	9.64	50.76			147.22	129.03	102.4	0.67

Source: SP Angel estimates

The recent updated resource report also provides an upside case for the in-place oil and gas volumes at West Newton. The report estimates a Upside Case 283MMbbls of OIIP and 266Bcf of GIIP.

Field	Interest	Gross Resource (Mmboe)	Net Resource (Mmboe)	Geological CoS	NPV 10% \$/boe	Unrisked NPV US\$m	Risked NPV US\$m	Net Risked £m	Net Risked p/shr
West Newton – Base Case	16.665%	43.94	7.32	90%	14.70	107.66	96.90	76.90	0.64
West Newton – Upside Case	16.665%	78.92	13.16	90%	14.70	193.40	174.06	138.14	1.14

Upside to Base Case

78.1%

Source: SP Angel estimates

Typically, we would expect the actual resource volumes to arrive somewhere in between the Base Case and Upside Case and therefore the above table provides an indication of the upside potential investors could expect at West Newton in our view.

Financial Assets and Liabilities

We also include an appraisal of Union Jack's financial assets and liabilities. In addition to the Company's current net cash position (c.£7.5m or 0.05p/share), we provide for an NPV10 of the Company's non-field related post tax G&A expenditure.

5-year post-tax G&A

£'000	FY19	FY20	FY21	FY22	FY23
Post tax G&A	(679.4)	(693.0)	(706.8)	(721.0)	(735.4)
NPV10	(2,670.4)				
p/shr	(0.02)				

Source: SP Angel estimates

Union Jack is fully funded to embark on an aggressive, value accretive appraisal programme in 2020. The recent placing will primarily focus on West Newton and Biscathorpe.

Placing: Use of Proceeds

Activity	£'000
PEDL 183 - West Newton	
West Newton B-1 (vertical)	800
West Newton B-2 (lateral)	1,200
West Newton B-1 (EWT)	600
West Newton B-2 (EWT)	800
Seismic Acquisition and Re-processing	340
G&A	200
10% Contingency	400
PEDL 253 - Biscathorpe	
Sidetrack Well	600
10% Contingency	60
Total Use of Proceeds	5,000

Source: SP Angel estimates

Given the modest financial outlay outlined above, relative to the potential value of West Newton ascribed on page 3, we highlight Union Jack's acreage position

as having some of the most exciting project economics compared to its wider sector peer group.

We retain our **STRONG BUY** recommendation, setting a new **0.70p TP**

We set a new TP of 0.70p/share

In our view, Union Jack's shares offer investors a low-cost entry point into a growing producer with an Upside impact appraisal and production testing programme. Yesterday's placing leaves Union Jack fully funded to mature three major conventional UK projects into 2020. The share price fell sharply ahead of the Company's placing whilst the core fundamentals remained the same, as such, we see the current share price as a compelling entry point for investors ahead of multiple near-term, fully-funded catalysts.

KEY RISKS

Please see our 28 October 2019 report *“Poised for a re-rating”* for an overview of the key risks identified for Union Jack Oil.

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