

Union Jack Oil#

Catalysts continue in 2021

Union Jack is an E&P company focused on conventional assets onshore UK. The company's key asset is its West Newton project, where the A2 and B1Z wells are about to be flow tested and could subsequently be progressed towards development. West Newton is a significant field for onshore UK, located close to oil and gas demand centres. Union Jack is also active in its wider portfolio, now close to first oil at Wressle and looking at wider drilling in due course. The portfolio should generate regular, material news flow going forward. We have a Buy recommendation and 0.45p target price.

- ◆ **Significant West Newton asset further proved up via recent drilling.** Union Jack's key West Newton asset has been further proved up by the recent B1/B1Z wells, helping underpin the 212bcf of GIP and 146mmbbl of OIP expected in the Kirkham Abbey formation.
- ◆ **Upcoming West Newton flow testing could open up development planning.** Upcoming flow testing of B1Z and the A2 well could confirm the producibility of West Newton, and the dominant hydrocarbon type, potentially opening up early stage development planning during 2021.
- ◆ **Onshore location gives several development options.** West Newton is well placed to commercialise both oil and gas, with the onshore location also likely to help limit CAPEX and OPEX costs.
- ◆ **Wider portfolio drives additional catalysts.** Wressle first oil is expected shortly, with potential for wells on Biscathorpe and North Kelsey in due course, all adding to news flow.
- ◆ **Solid funding position.** We forecast an end 2020 cash position of £6.3m (zero debt), with new cash flows from Wressle upcoming.
- ◆ **Shares well below our target.** We have a target price of 0.45p based on Union Jack's active West Newton, Wressle, Biscathorpe and North Kelsey assets. All of these have potential forward news flow that could help push the shares towards our target. We retain our Buy recommendation.

Financial Forecasts

Year To: December	2018A	2019A	2020E	2021E
Net Production (mboe/d)	0.0	0.0	0.0	0.2
Oil Price (US\$/bbl)	71	64	46	50
Sales (£m)	0.2	0.1	0.2	2.5
EBITDA (£m)	(0.9)	(1.4)	(1.4)	0.7
Free Cash Flow (£m)	(1.7)	(4.8)	(5.3)	(1.7)
Net Cash/(Debt) (£m)	3.1	6.6	6.3	3.6
DPS (p)	--	--	--	--

Valuation

Core NAV (p/share)	0.05
Total Risked NAV (p/share)	0.46
Total Unrisked NAV (p/share)	1.40

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Buy

Target Price: 0.45p

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Current Price: 0.19p

Key Data

Market Capitalisation	£37.7m
Shares in Issue	19,815.9m
Free Float	93.9%
Average Daily Volume (k)	249,403
12 Month Trading Range	0.08p - 0.30p

Price Performance (p/share)



Source: Bloomberg

In-depth Report ✓

Forecast Change ✗

Recommendation Change ✗

Target Price Change ✗

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Investment case overview

West Newton a significant asset, further proved up by recent drilling

Union Jack's key asset is a 16.7% stake in the West Newton project, onshore UK to the north of Hull. Existing discoveries here in the Kirkham Abbey carbonate formation are currently interpreted to contain gross P50 GIP of 212bcf and OIP of 146mmbbl. These resource sizes, combined with the likely limited levels of CAPEX and OPEX achievable onshore UK, mean that West Newton has the potential to be a significant new UK field.

Union Jack recently reported the results of its B1 well and B1Z side-track well, with B1Z encountering 62m of gross hydrocarbon pay in the Kirkham Abbey, porosities of up to 14% and no hydrocarbon/water contact. This compares favourably with the 65m of gross pay in the A2 discovery well, which was drilled 2.5km from B1Z, helping prove up the field between these two points. Overall, the recent drilling has helped further underpin the West Newton project and de-risk eventual development of the asset.

West Newton flow testing could pave the way for early stage development planning

Union Jack is now preparing to move forward with a flow testing programme on West Newton, focused on the B1Z and A2 wells. The original A2 well result implied that there could be oil as well as gas in the Kirkham Abbey, though this remains uncertain, and we expect ongoing full analysis of the B1 and B1Z results to help the West Newton JV form a stronger view on this, and hence design the upcoming flow testing programme. We expect clarity on whether the flow testing will focus on gas or oil (or, potentially, both) in the coming weeks, followed by commencement of the actual work programme.

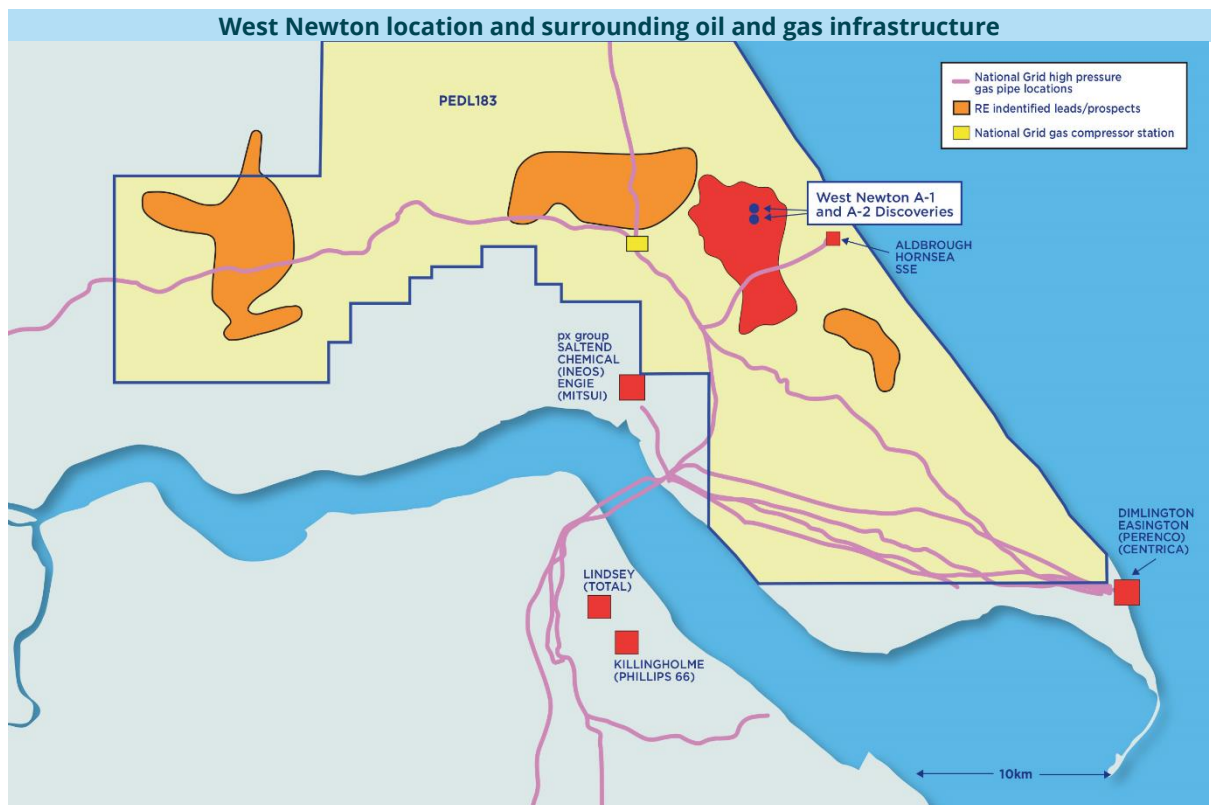
The flow testing will be all important in both showing that the Kirkham Abbey can flow at commercial rates, and also in helping define whether oil or gas will be the main focus for any development of the discoveries. As such, the testing results will not only be an additional de-risking event, but they will also give an important steer as to the next steps on the licence, the timeline of any development planning and the nature (oil or gas) of any development. This will be important news flow for the stock, likely to attract significant market attention, in our view.

Several development options for West Newton give flexibility for progression

West Newton's onshore location and proximity to infrastructure and potential demand centres give various options for development and commercialisation. If West Newton is found to contain significant oil volumes, then initial production using tanks and offtake via trucking could potentially begin relatively quickly, potentially even before the end of 2021. Production could then be gradually ramped up via drilling of more wells and installation of further tanks.

If West Newton is progressed primarily as a gas development, the discovery is located near to the UK gas grid and Dimlington and Easington gas terminals, potentially providing access to the wider UK gas market. In addition, West Newton is also located proximal to industrial gas demand, with regional gas fired power stations with an aggregate 4.7GW of capacity as well as the Saltend Chemical Park, which hosts facilities owned by companies including Ineos and Engie, all nearby. Finally, there is the Zero Carbon Humber energy and chemicals cluster project, an attempt to create a carbon neutral industrial cluster that could receive government funding and to which West Newton could contribute via gas supply.

In addition to the potential for commercialisation of oil and gas at West Newton, the low onshore cost environment, coupled with the potential for a simpler permissions procedure given the project's focus on conventional resources, both represent further factors that could expedite development going forward.



Source: Union Jack.

Proving up West Newton provides optionality for Union Jack

Further proving up West Newton via the recent drilling and upcoming flow testing programme should give Union Jack significant optionality on the asset. The lower onshore cost structure, potential for a phased development (particularly if it is oil focused) and the relatively modest level of the stake held by Union Jack would all act to make funding requirements more manageable for a smaller company, potentially giving Union Jack the option to remain in West Newton for the long term. Otherwise, having proved up the discovery and progressed development planning, Union Jack could take the opportunity to exit, monetising the value that the work already carried out has created, and allowing the company to re-deploy capital into its wider portfolio and/or new assets. Having this kind of flexibility is a positive for Union Jack.

Catalysts from Union Jack's other assets going forward

Despite the materiality of West Newton, Union Jack has several other assets in its portfolio that are important for the company and have the potential to generate materially positive news flow going forward. First, the Wressle development (Union Jack 40%) is due onstream shortly, with gross production of 500bbl/d expected once this is ramped up. This will transform Union Jack's cash flow profile, allowing the company to cover its G&A costs and generate additional cash flow for deployment elsewhere in the portfolio.

Second, there is the potential for drilling of a side-track well to the Biscathorpe-2 well (Union Jack 45% post recently agreed 15% stake acquisition). This was originally drilled in 2019, and further analysis has led the JV to identify ongoing prospectivity at the Dinantian Carbonate and shallower Westphalian Sandstone levels. Gross mean OIP of 24.3mmbbl is targeted in the Dinantian, alongside gross mean prospective resources of 4.0mmbbl in the Basal Westphalian. Submission of a planning application for drilling, testing and production is planned for February 2021, with drilling to follow in due course.

Third, there is the potential for an exploration well on the North Kelsey asset (Union Jack 50%), targeting mean prospective resources of 6.5mmbbl across four stacked targets. We expect a farm out process to be carried out in order to fund drilling.

All of the above helps fill the news flow schedule for going forward over and above activity on West Newton.

Secure funding position

Union Jack held £4.6m of cash at the end of June 2020 (zero debt) and then augmented this via a £7.0m placing in September 2020. Since then the company has expended CAPEX on the West Newton B1 well and B1Z side-track well. We forecast an end 2020 cash holding of £6.3m, and Wressle is due onstream shortly to provide further funds.

Upcoming catalyst potential across the portfolio

Union Jack has the potential for a regular news flow schedule over 2021 and beyond. Most important is likely to be the upcoming flow testing programme on West Newton (which may be preceded by an announcement of further analysis of the B1 and B1Z well results and the implications for the design of the flow testing programme), and on success this could be followed by updates on initial development planning. In addition, we have first oil from Wressle in the coming weeks, and then the potential for drilling on Biscathorpe and North Kelsey in due course. Union Jack also has a track record of regular asset deals, and we may also see further transactions during the year.

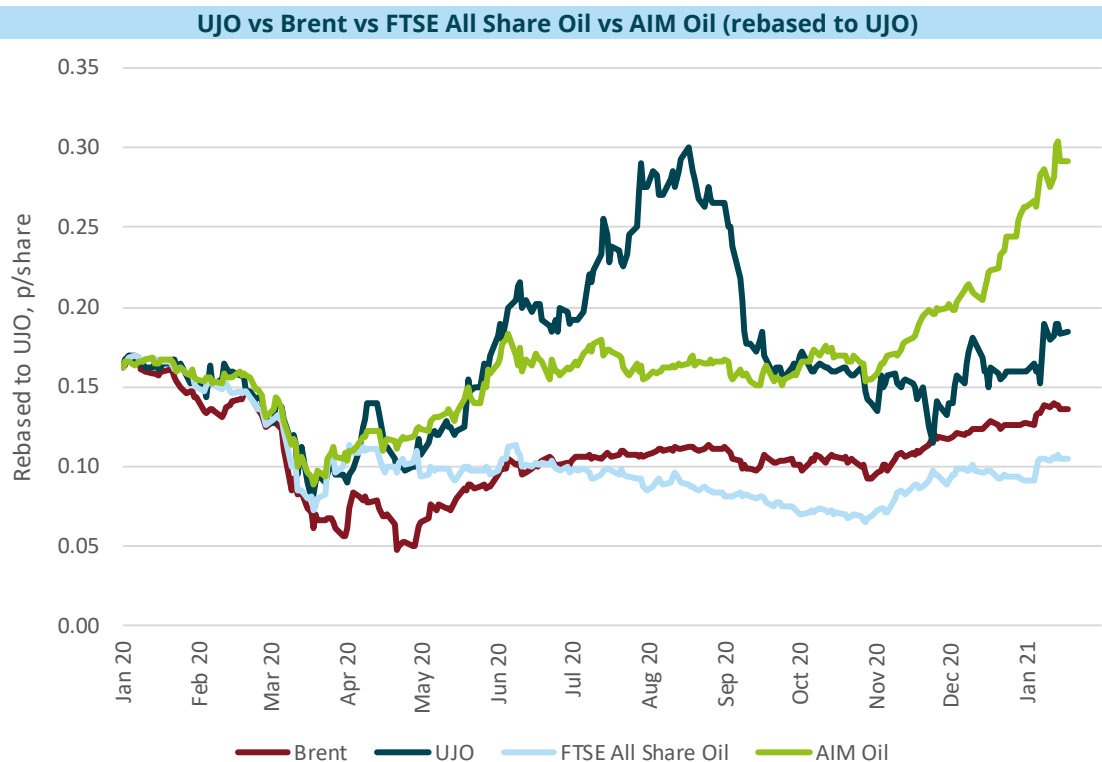
Shares trading well below our 0.45p 12-month price target

Our 0.45p price target is based on our total risked NAV, which includes values for all of Union Jack's key assets: West Newton, Wressle, Biscathorpe and North Kelsey. We expect to see news on all of these assets during 2021, which could help push the value allotted to each asset in the share price closer to our total risked NAV numbers, and hence the total share price towards our 0.45p target. We remain with a Buy recommendation.

Potential upcoming catalysts

- **Wressle first oil** – late January 2021
- **West Newton B1 and B1Z well results further analysis and flow testing programme details** – Q1 2021
- **A2 and B1/B1Z flow tests** – H1 2021
- **Potential West Newton early stage development planning** – H2 2021
- **Potential Biscathorpe side-track well** – H2 2021 to 2022
- **Potential North Kelsey exploration well** – H2 2021 to 2022

Share price performance



Source: Bloomberg.

Union Jack share performance was only loosely tied to Brent during 2020, with the shape of the share price chart broadly shadowing the oil price for the first few months of the year, albeit at a premium. This mirrored the performance of the AIM oil index, which began to outperform Brent in Q2 as oil prices fell away as a result of the coronavirus pandemic really taking hold. Union Jack then began to perform even more strongly than the AIM oil index around mid-year as drilling and flow testing on the company's key West Newton asset began to approach. Performance began to be arrested around the time of the 0.16p equity raise in September (which has set the company up for continued work on West Newton going into 2021), and the shares have only partially taken part in the strong recovery of the AIM oil index and Brent seen since November (in part boosted by the positive West Newton drilling results).

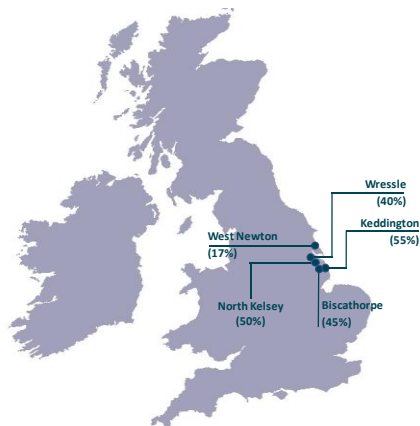
As such, if the upcoming news flow across Union Jack's portfolio is positive, there is plenty of scope for strong performance for the shares before they would begin trading in-line with the wider AIM oil sector.

Summary

Market Data

Share Price	0.19p
Market Capitalisation	£37.7m
Shares Out	19,816m
Net Cash/(Debt) end Jun 2020	£4.6m
Target Price	0.45p

UK Key Asset Locations



Summary Income Statement (£m)

Year to Dec	2018A	2019E	2020E	2021E	2022E
Sales	0.2	0.1	0.2	2.5	3.2
OPEX	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)
DD&A	(0.0)	(0.0)	(0.1)	(0.8)	(0.8)
G&A	(0.9)	(1.3)	(1.4)	(1.4)	(1.5)
Op Profit	(0.9)	(1.4)	(1.5)	(0.0)	0.6
EBITDA	(0.9)	(1.4)	(1.4)	0.7	1.3
EBITDAX	(0.9)	(1.4)	(1.4)	0.7	1.3
Net Interest	0.0	0.0	--	0.1	0.1
PBT (Adj)	(0.9)	(1.4)	(1.5)	0.1	0.7
Tax	--	--	(0.1)	(0.5)	(0.5)
PAT (Adj)	(0.9)	(1.4)	(1.5)	(0.5)	0.1
EPS (Adj)	(0.01)	(0.01)	(0.01)	(0.00)	0.00
DPS	--	--	--	--	--

Summary Cashflow Statement (£m)

Year to Dec	2018A	2019E	2020E	2021E	2022E
EBITDA	(0.9)	(1.4)	(1.4)	0.7	1.3
Op C/F	(0.9)	(1.5)	(1.3)	0.4	0.9
Expl CAPEX	(0.8)	(3.3)	(3.4)	(2.0)	--
Dev't CAPEX	(0.1)	(0.0)	(0.6)	(0.1)	(1.2)
Investment CF	(0.8)	(3.3)	(6.0)	(3.2)	(1.2)
Free CF	(1.7)	(4.8)	(5.3)	(1.7)	(0.2)
Net Equity Issue	3.2	8.3	7.0	--	--
Net Debt Drawings	--	--	(1.0)	--	1.0
Financing CF	3.2	8.3	6.0	0.1	1.1
Net Change in Cash	1.5	3.5	(1.3)	(2.7)	0.8
Net Cash/(Debt)	3.1	6.6	6.3	3.6	3.5

Summary Balance Sheet (£m)

Year to Dec	2018A	2019E	2020E	2021E	2022E
Intangibles	3.5	6.7	10.2	12.2	12.2
PPE	0.6	0.6	3.0	3.4	3.9
Cash and Equivalents	3.1	6.6	5.3	2.6	3.5
Total Assets	7.5	14.2	18.8	18.5	19.8
Total Liabilities	(0.8)	(0.9)	0.1	0.1	(0.9)
Equity	6.6	13.4	19.0	18.7	19.0
Liabilities + Equity	7.5	14.2	18.8	18.5	19.8

Source: Arden Research.

Valuation and Production Data

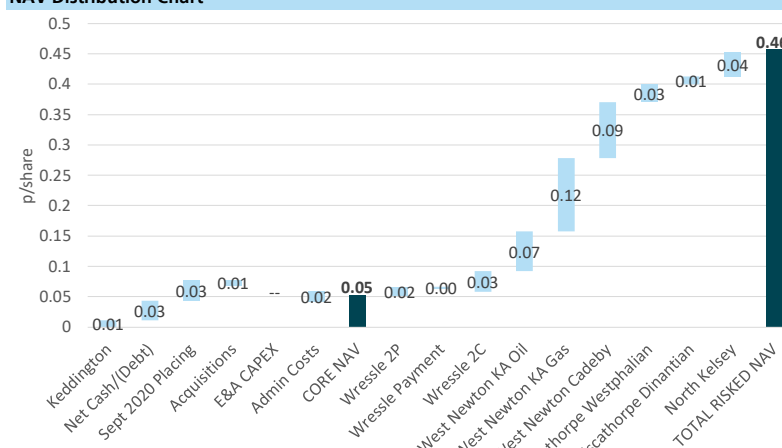
Discount Rate	10.0%
LT US\$/£	US\$1.30
Diluted NOSH (m)	20,648m

Year to Dec	2018A	2019E	2020E	2021E	2022E
Net Oil Production (mmbbl/d)	0.01	0.01	0.02	0.18	0.17
Net Gas Production (mmcf/d)	--	--	--	--	--
Total Net Production (mboe/d)	0.01	0.01	0.02	0.18	0.17
Brent Oil Price (US\$/bbl)	71.2	64.0	45.7	50.0	65.0
UK NBP Gas Price (p/therm)	60.5	41.5	25.1	43.0	43.9
Unit OPEX (US\$/boe)	(83.1)	(64.9)	(33.2)	(6.3)	(7.2)

Summary NAV

	Interest (%)	Net Unrisked (mmboe)	Unrisked value (US\$/boe)	Unrisked value (p/share)	Risked value (US\$m)	Risked value (p/share)
Production						
Keddington	55%	0.6	5.6	0.01	3.1	0.01
Total Production		0.6		0.01	3.1	0.01
Net Cash/(Debt)					8.6	0.03
September 2020 Placing					9.1	0.03
Acquisitions					(2.5)	(0.01)
E&A CAPEX					--	--
Admin Costs					(4.6)	(0.02)
CORE NAV				0.05	13.7	0.05
Development						
Wressle 2P	40%	0.2	18.8	0.02	4.2	0.02
Wressle Calmar Payment				(0.01)	(1.2)	(0.00)
Wressle 2C	40%	0.6	18.8	0.04	9.2	0.03
Total Development		0.9		0.06	12.2	0.05
Exploration/Appraisal Upside						
West Newton KA Oil	17%	3.7	12.1	0.16	17.7	0.07
West Newton KA Gas	17%	4.1	12.1	0.19	32.3	0.12
West Newton Cadeby	17%	11.7	14.1	0.61	24.7	0.09
Biscathorpe Westphalian	45%	1.6	14.3	0.08	7.9	0.03
Biscathorpe Dinantian	45%	1.0	14.3	0.05	3.5	0.01
North Kelsey	50%	3.4	15.7	0.20	10.5	0.04
Total Exploration/Appraisal		25.4		1.30	96.6	0.36
TOTAL CORE + UPSIDE NAV				1.40	122.5	0.46

NAV Distribution Chart



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ADD	Between 5% and 10% increase in share price expected over 12 months
NEUTRAL	Between -5% and 5% change in share price expected over 12 months
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SELL	More than 10% decrease in share price expected over 12 months

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