

Egdon Resources

Licences Update

Developments at Wressle and Resolution

Egdon Resources started the year with two important developments. The first was the announcement of the positive result of Egdon's appeal against the refusal of planning consent at the Wressle oil field, which will allow the company to proceed with project development. The second was the farm-in agreement for the P1929 and P2304 licences with Shell. In November 2019, Egdon announced it had signed an exclusivity agreement for the licences, which contain the Resolution and Endeavour gas discoveries. The farm-down to Shell will allow Egdon to retain a 30% working interest in the licences and proceed with a 3D seismic survey planned for 2020. Our updated RENAV increases from 10.8p/share to 13.2p/share as we had previously assumed that Egdon would only retain a 15% working interest in the project.

Year-end	Revenue (£m)	PBT* (£m)	EPS* (p)	EBITDA (£m)	Net cash (£m)	Operating cash flow (%)
07/18	1.2	(2.0)	(0.8)	(2.2)	2.7	(1.6)
07/19	2.2	(1.7)	(0.2)	(0.6)	1.6	(0.9)
07/20e	1.9	(0.9)	(0.8)	(0.6)	0.2	(0.1)
07/21e	4.1	(1.5)	(0.8)	1.5	1.0	2.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Joining forces with a major E&P player

Under the terms of the farm-in agreement, Shell will become the operator and will acquire 70% in both P1929 and P2304, with Egdon retaining a 30% interest. Shell will also pay 85% of the costs (70% after the \$5m threshold) of a 3D seismic survey covering the Resolution and Endeavour gas discoveries, estimated to contain mean contingent resources of 231bcf and 18bcf, respectively. Shell will also pay 100% of all studies and manpower costs up to a well investment decision. The farm-in is conditional upon approval from the Oil & Gas Authority.

Green light for development planning at Wressle

Egdon announced that its appeal against the refusal of planning consent at the Wressle oil field has been upheld and it has now been granted planning permission. The project has incurred numerous delays due to rejected planning applications but Egdon now has the green light to start working on development planning. Wressle has the potential to add c 150bopd of oil production to Egdon's portfolio.

Valuation: RENAV at 13.2p/share

Our risked NAV valuation remains at 0.7p/share for producing assets and cash net of SG&A, rising to 13.2p/share (from 10.8p) if we include risked exploration potential. Our RENAV now accounts for a 30% working interest at Resolution versus the previously assumed 15% participating interest. A more detailed description of Egdon's assets can be found in our recently published [outlook note](#). Egdon's FY19 cash position of £1.6m should cover its share of 3D seismic, however in case of a drilling decision at Resolution, additional funding would have to be secured.

Oil & gas

27 January 2020

Price **4.55p**
Market cap **£14m**

US\$1.26/£

Net cash (£m) at end July 2019 1.6

Shares in issue 303.3m

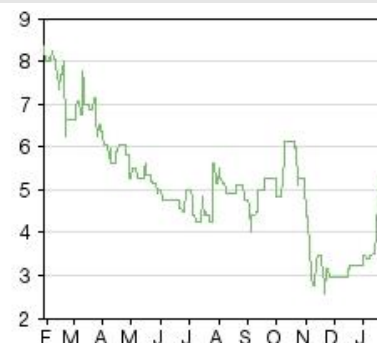
Free float 55%

Code EDR

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	40.0	(13.3)	(41.9)
Rel (local)	40.9	(17.0)	(48.2)
52-week high/low		8.22p	2.55p

Business description

Egdon Resources is an AIM-listed onshore oil and gas exploration company. The group has conventional and unconventional assets in the UK.

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Valuation

We value Egdon's asset base using a conventional risked net asset value (NAV) approach, with a risked valuation for proven undeveloped reserves, contingent and prospective resources. We use publicly available sources for our key assumptions, including company guidance, analysis of analogous field developments and government data.

We employ a 12.5% cost of capital to reflect the through-cycle cost of funding. We incorporate the end-FY19 net cash position and G&A for the next three years, and include Egdon's conventional asset base in our valuation. We see greater value in the company's exploration and appraisal portfolio compared to the producing assets, in particular its interest in the appraisal of the Resolution gas discovery, which makes up the bulk of our RENA. We have updated our valuation to incorporate a retained working interest of 30% in Resolution versus our previous estimate of 15%. A full valuation breakdown is provided in Exhibit 1 below, including producing assets and risked exploration and appraisal.

Exhibit 1: Egdon valuation breakdown							
Assets	Country	WI	CCoS	Net	NPV/boe	NPV_{12.5}	Risked
		%	%	mboe	\$/boe	\$m	p/share
Net cash at 31 July 2019						2.0	0.5
G&A (3 years)						(3.4)	(0.9)
Production							
Ceres	UK	10%	100%	0.39	4.0	1.6	0.4
Fiskerton	UK	80%	100%	0.07	1.0	0.1	0.0
Keddington	UK	45%	100%	0.07	(8.6)	(0.6)	0.0
Wressle (Ashover Grit)	UK	25%	60%	0.14	25.3	2.2	0.6
Core Nav						1.9	0.7
Exploration							
Broughton	UK	25%	23%	0.11	19.0	0.4	0.1
Louth	UK	65%	20%	0.85	12.4	2.1	0.6
North Kelsey	UK	80%	12%	4.94	13.1	7.8	2.0
Resolution	UK	30%	50%	11.11	6.4	35.7	9.3
Wressle (upside)	UK	25%	25%	0.38	19.0	1.8	0.5
RENAV						49.8	13.2

Source: Edison Investment Research. Note: Number of shares in issue: 303.3m.

Exhibit 2: Financial summary

	£000s	2017	2018	2019	2020e	2021e
Year-end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		1,039	1,215	2,197	1,915	4,108
Cost of Sales (inc DD&A)		(1,576)	(2,190)	(2,876)	(1,634)	(4,448)
Gross Profit		(537)	(975)	(680)	281	(339)
EBITDA		(1,193)	(2,219)	(628)	(589)	1,529
Operating Profit (before amort. and except.)		(1,657)	(1,938)	(1,668)	(812)	(1,459)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(1,657)	(1,938)	(1,668)	(812)	(1,459)
Net Interest		(42)	(41)	(49)	(52)	(52)
Profit Before Tax (norm)		(1,699)	(1,978)	(1,717)	(864)	(1,511)
Profit Before Tax (FRS 3)		(1,699)	(1,978)	(1,717)	(864)	(1,511)
Tax		0	0	0	0	0
Profit After Tax (norm)		(1,699)	(1,978)	(1,717)	(864)	(1,511)
Profit After Tax (FRS 3)		(1,699)	(1,978)	(1,717)	(864)	(1,511)
Average Number of Shares Outstanding (m)		249	260	303	303	303
EPS - normalised (p)		(0.7)	(0.8)	(0.2)	(0.8)	(0.8)
EPS - normalised fully diluted (p)		(0.7)	(0.8)	(0.2)	(0.8)	(0.8)
EPS - (IFRS) (p)		(0.7)	(0.8)	(0.6)	(0.3)	(0.5)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		28,495	30,105	31,477	32,530	30,735
Intangible Assets		19,231	19,572	21,781	22,503	23,249
Tangible Assets		9,264	10,534	9,696	10,027	7,485
Investments		0	0	0	0	0
Current Assets		7,613	4,020	3,293	1,877	2,660
Stocks		0	8	0	0	0
Debtors		1,507	1,240	1,675	1,675	1,675
Cash		6,057	2,772	1,618	202	985
Other		50	0	0	0	0
Current Liabilities		(1,216)	(1,150)	(1,379)	(1,379)	(1,379)
Creditors		(1,216)	(1,150)	(1,379)	(1,379)	(1,379)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(2,187)	(2,249)	(2,397)	(2,397)	(2,397)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(2,187)	(2,249)	(2,397)	(2,397)	(2,397)
Net Assets		32,705	30,727	30,994	30,631	29,619
CASH FLOW						
Operating Cash Flow		(422)	(1,629)	(907)	(89)	2,029
Net Interest		0	0	(0)	(52)	(52)
Tax		0	0	0	0	0
Capex		(1,054)	(1,825)	(2,220)	(1,275)	(1,193)
Acquisitions/disposals		0	137	0	0	0
Equity Financing		4,865	0	1,974	0	0
Other cash flow		5	8	4	0	0
Net Cash Flow		3,394	(3,308)	(1,150)	(1,417)	784
Opening net debt/(cash)		(2,678)	(6,056)	(2,748)	(1,599)	(182)
HP finance leases initiated		0	0	0	0	0
Other		16	0	0	(0)	0
Closing net debt/(cash)		(6,056)	(2,748)	(1,599)	(182)	(966)

Source: Company data, Edison Investment Research

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