

02 June 2016

OIL &amp; GAS



FY 2015 Results

Marketing Communication (Connected Research)

# Independent Oil & Gas<sup>#</sup>

BBG Ticker: IOG LN

Price: 14.9p

Mkt Cap: £13.5m

BUY

Year to Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
2014A	0.0	(11.0)	(12.1)	(19.2)	n/m	n/m	n/m
2015A	0.0	5.3	5.3	7.4	n/m	2.5	1.9
2016E	0.0	(1.5)	(1.8)	(2.0)	n/m	n/m	n/m
2017E	0.0	(1.6)	(1.9)	(1.4)	n/m	n/m	n/m

SOURCE: Company, VSA Capital estimates.

## Significant Progress in FY 2015

Independent Oil & Gas (IOG)<sup>#</sup> FY 2015 results showed a total profit for the year of £5.3m (vs a loss of £12.1m in 2014) largely due to the reversal of impairment provisions. Its cash position was £23k at the end of the period.

### Further Funding Completed Since Year End

Following the completion of the £5.5m funding from **London Oil & Gas** and **GE Oil & Gas UK** in December 2015, IOG secured an additional £10m convertible loan facility from London Oil & Gas in March 2016. The proceeds from these loans will be used to drill the appraisal well on the Skipper discovery, provide funding for G&A costs and also allow IOG to pursue an acquisition strategy to add value to IOG's existing portfolio.

IOG became 100% owner and operator of the Skipper licence after acquiring the other 50% in December 2015 increasing its 2C resources on the asset to 26.2mboe. Whilst the Skipper well was postponed from Q1 2016 the project remains a priority for IOG and it has extended the Skipper licence until 31 December 2016 so it can be re-scheduled for the earliest viable opportunity. IOG signed a rig contract with **Transocean** in December 2015 for the drilling of the Skipper well and this remains in place for the re-scheduling and has appointed **AGR Well Management** as the well operator.

### Blythe Acquisition

Following the £10m funding from London Oil & Gas in March 2016 IOG signed an SPA to acquire the remaining 50% of the Blythe discovery to become the sole owner and double its independently verified 2P reserves on the asset to 34.3BCF.

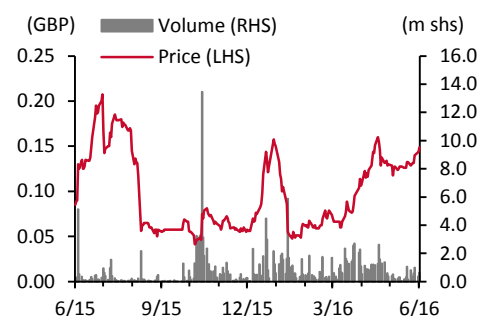
### Recommendation and Target Price

We maintain our **BUY** recommendation and update our **TP to 76p** to reflect the recent acquisition of the remainder of the Blythe discovery in line with our core NAV.

#### Company Description

E&P company focused on developing O&G assets in the UK North Sea.

#### One Year Price Performance



Price % chg	1mn	3mn	12mn
	14.4%	112.5%	75.0%
12mn high/low:			20.8 / 4.1

SOURCE: FactSet, as of 31/05/16 close.

Market:	LSE AIM
Price target:	76p
Shares in issue:	91.1m
Free float:	61.6%
Net debt (31/05/16):	£0m
Enterprise value:	£13m
Next news:	Skipper well

#### Major shareholders

Hargreaves Lansdown*	33.2%
(*Peter Young)	15.2%
TD Direct Investing Nominees*	11.0%
(*Mark Routh)	4.7%
Acura Oil & Gas	7.9%

Edward Vaughan, Equity Analyst, Oil &amp; Gas

+44 (0)20 3617 5184 | evaughan@vsacapital.com

#VSA Capital acts as Financial Adviser to Independent Oil &amp; Gas.

This research brochure is a **MARKETING COMMUNICATION**. It is not investment research and has not been prepared in accordance with legal requirements designed to promote investment research independence and is also not subject to any prohibition on dealing ahead of dissemination of investment research.

## Valuation

We have used a sum-of-the-parts methodology where we include the Blythe and Elgood gas fields and the Skipper heavy oil field into our core NAV as these discoveries form part of IOG's development programme in its hub strategy.

### NAV Table

Prospects	Timing	Type	Unrisked mmboe	Equity %	CoS %	EMV US\$m	Net risked p/sh	Potential Upside p/sh
Blythe	2017	Gas	6.2	100%	50%	20	13	13
Elgood	2017	Gas	2.0	100%	50%	6	4	4
Skipper	2018	Oil	26.2	100%	50%	92	59	59
<b>Core NAV</b>			<b>34</b>			<b>118</b>	<b>76</b>	<b>76</b>

SOURCE: VSA Capital estimates.

The bulk of IOG's core NAV comes from the Skipper project. Despite being delayed from its initial drill date in Q1 2016 it remains absolutely key to IOG and it is intended to reschedule the drilling for the earliest possible date. The Skipper field has independently verified 2C resources of 26.2mmboe, which we use for our modelling purposes. However, IOG management believe this to be conservative and considers 34.1mmboe as its own mid case estimate. As well as retrieving oil samples from the Skipper discovery, which will allow the company to build a competent reservoir model and progress to FDP submission, the appraisal well will also target two exploration prospects directly beneath which may contain 46mmboe. Clearly the Skipper appraisal well has the potential for significant upside.

IOG implements its hub strategy by building upon existing development assets and exploration prospects that can be developed through common existing infrastructure. To achieve this IOG intends to acquire producing fields or near-term production to complement its existing North Sea portfolio. IOG has also stated it will consider compelling opportunities outside of the North Sea.

IOG is executing its strategy by building a Southern North Sea (SNS) gas hub. In April 2016 IOG signed an SPA with **Alpha Petroleum Resources** to acquire its 50% stake in the Blythe licence. IOG will pay Alpha £1.5m on completion of the deal with a further US\$5m to be paid at first gas. As Blythe needs no further appraisal and IOG already owns the other 50% this transaction will immediately double IOG's 2P reserves on Blythe to 34.3BCF upon approval by the Oil & Gas Authority. This will add significant reserves at low cost equivalent to US\$2.31/boe. Being 100% owner and operator of Blythe will complement IOG's pending Cronx acquisition and the successful award of the Truman and Harvey licence to potentially generate significant economies.

Upon completion of the Blythe deal IOG intends to act quickly and submit the FDP for Blythe in H2 2016. The licence has already been extended by the OGA to 31 December 2016 and IOG expect a further licence extension will be granted after the FDP submission. We had previously forecast the Blythe field to generate revenue in 2017 but we have decided to push this back to 2018 in our model to reflect IOG's focus on the Skipper project.

IOG secured a £10m fully convertible loan facility from London Oil & Gas post its year end to take its total funding from London Oil & Gas to £13.55m. This loan facility will carry a coupon of LIBOR +9% and is repayable 36 months after the date of each drawdown. £3m of the funding may be drawn down in £100k instalments and will serve IOG's SG&A requirements up to July 2018 whilst £7m is dedicated to fund acquisitions.

This funding also enables shareholders to retain their interests without any direct dilution. However, warrants have been granted at a conversion price of 8p/sh but we do not take these into account at the moment. Following the Blythe deal **we have updated our TP to 76p and maintain our BUY recommendation.**

# Financials

## Income Statement

Year End Dec (£m)	2014	2015	2016e	2017e
Brent Oil Price Average (USD/bbl)	99.4	52.9	40.0	50.0
Production (kboe/d)	-	-	-	-
Revenues	-	-	-	-
EBITDA	(11.0)	5.3	(1.5)	(1.6)
Profit before income tax	(12.1)	5.3	(1.8)	(1.9)
Tax charge	-	-	-	0.6
Net income	(12.1)	5.3	(1.8)	(1.3)
<b>Per share data</b>				
Average number of shares outstanding (basic)	63.3	71.5	91.1	91.1
Average share price (p/sh)	21.6	7.0	7.0	7.0
EPS (£)	(0.19)	0.07	(0.02)	(0.01)

SOURCE: Company data, VSA Capital estimates.

## Cash Flow Statement

Year End Dec (£m)	2014	2015	2016e	2017e
Profit before tax	(12.1)	5.3	(1.8)	(1.9)
Impairment	8.3	(6.2)	-	-
Interest	0.1	0.1	0.0	-
Tax paid	-	-	-	0.6
Other items	2.3	0.2	0.0	(0.6)
<b>Cash flow from operations</b>	<b>(1.5)</b>	<b>(0.5)</b>	<b>(1.8)</b>	<b>(1.9)</b>
Disposals	-	-	-	-
Shares issued	0.5	0.3	-	-
LT Debt	0.4	(0.2)	-	-
<b>Total sources of funds</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(1.8)</b>	<b>(1.9)</b>
Capital expenditures	(0.5)	(0)	(8)	(300)
Dividends	-	-	-	-
<b>Total uses of funds</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(8)</b>	<b>(300)</b>
Working capital changes	0.2	0.1	0.8	-
<b>Cash Flow surplus/(deficit)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>(8.6)</b>	<b>(301.9)</b>

SOURCE: Company data, VSA Capital estimates.

## Balance Sheet

Year End Dec (£m)	2014	2015	2016e	2017e
Non Current Assets	7.5	14.8	22.3	322.3
Current Assets	0.7	1.5	1.3	20.4
of which: Cash	0.4	0.0	-	20.4
<b>Total Assets</b>	<b>8.2</b>	<b>16.3</b>	<b>23.6</b>	<b>342.7</b>
LT Debt	-	-	14.8	307.5
Other Long Term Liabilities	1.6	(2.6)	(2.6)	(2.6)
Current Liabilities	0.7	(0.3)	0.6	0.6
<b>Total Liabilities</b>	<b>2.2</b>	<b>(2.9)</b>	<b>12.9</b>	<b>305.6</b>
<b>Equity &amp; Minorities</b>	<b>6.0</b>	<b>19.2</b>	<b>10.8</b>	<b>37.2</b>
<b>Total Equity &amp; Liabilities</b>	<b>8.2</b>	<b>16.3</b>	<b>23.6</b>	<b>342.7</b>

SOURCE: Company data, VSA Capital estimates.

# Disclaimer

## Investment Analyst Certification

In my role as a Research Analyst for VSA Capital Limited, I hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

## Non-Independent Research

This is a marketing communication. It is non-independent research as it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

## Important Disclosures

This research report has been prepared by VSA Capital Limited, which is party to an agreement to be paid a fee as corporate finance advisors and arrangers with, or has provided investment banking services to, Independent Oil & Gas, or has been party to such an agreement within the last twelve months, and is solely for, and directed at, persons who are Professional Clients as defined under Annex II of the Markets in Financial Instruments Directive, Directive 2004/39/EC, or as defined in the FCA Handbook. Persons who do not fall within the above category should return this research report to VSA Capital Limited, New Liverpool House, 15-17 Eldon Street, London EC2M 7LD, immediately.

This research report is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. It is being supplied to you solely for your information and may not be reproduced, forwarded to any other person or published, in whole or in part, for any purpose, without our prior written consent.

This research report is exempt from the general restriction on the communication of invitations or inducements to enter into investment activity and has therefore not been approved by an authorised person, as would otherwise be required by Section 21 of the Financial Services and Markets Act 2000 (the "Act"), as amended by The Financial Services and Markets Act 2012.

Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities.

The information and opinions contained in this research report have been compiled or arrived at by VSA Capital Limited (the "Company") from sources believed to be reliable and in good faith but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates contained in the research report constitute the Company's judgments as of the date of the report and are subject to change without notice. The information contained in the report is published for the assistance of those persons defined above but it is not to be relied upon as authoritative or taken in substitution for the exercise of the judgment of any reader.

The Company accepts no liability whatsoever for any direct or consequential loss arising from any use of the information contained herein. The company does not make any representation to any reader of the research report as to the suitability of any investment made in connection with this report and readers must satisfy themselves of the suitability in light of their own understanding, appraisal of risk and reward, objectives, experience and financial and operational resources.

The value of any companies or securities referred to in this research report may rise as well as fall and sums recovered may be less than those originally invested. Any references to past performance of any companies or investments referred to in this research report are not indicative of their future performance. The Company and/or its directors and/or employees may have long or short positions in the securities mentioned herein, or in options, futures and other derivative instruments based on these securities or commodities.

Not all of the products recommended or discussed in this research report may be regulated by the Financial Services and Markets Act 2000, as amended by The Financial Services and Markets Act 2012, and the rules made for the protection of investors by that Act will not apply to them. If you are in any doubt about the investment to which this report relates, you should consult a person authorised and regulated by the Financial Conduct Authority who specialises in advising on securities of the kind described.

The Company does and seeks to do business with the companies covered in its research reports. Thus, investors should be aware that the Company may have a conflict of interest that may affect the objectivity of this report. To view our policy on conflicts of interest and connected companies, please go to: <http://www.vsacapital.com/policies/conflict-of-interest-policy>.

VSA Capital acts as Financial Adviser to Independent Oil & Gas, and is therefore classed as a connected company.

Investors should consider this report as only a single factor in making their investment decision.

The information in this report is not intended to be published or made available to any person in the United States of America (USA) or Canada or any jurisdiction where to do so would result in contravention of any applicable laws or regulations. Accordingly, if it is prohibited to make such information available in your jurisdiction or to you (by reason of your nationality, residence or otherwise) it is not directed at you.

## Definition of Ratings

VSA Capital Limited uses the following stock rating system to describe its equity recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock or investment fund should depend on individual circumstances and other considerations.

VSA Capital Limited's recommendations are defined as follows:

- BUY: The stock is expected to increase by in excess of 10% in absolute terms over the next twelve months.
- HOLD: The price of the stock is expected to move in a range between -10% and +10% in absolute terms over the next twelve months.
- SELL: The stock is expected to decrease by in excess of 10% in absolute terms over the next twelve months.

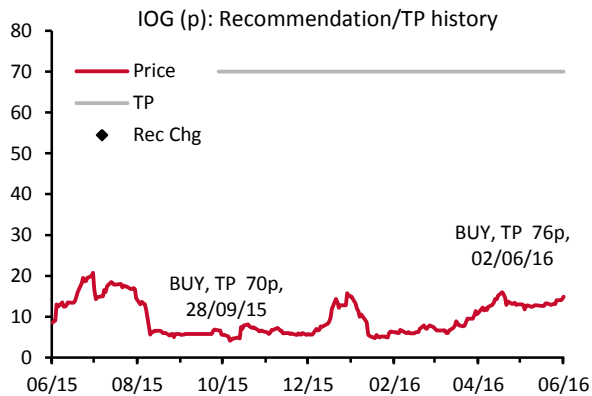
In addition, on occasion, if the stock has the potential to increase by in excess of 10%, but on qualitative grounds rather than quantitative, a SPECULATIVE BUY may be used.

## Distribution of VSA Capital Limited's Equities Recommendations

VSA Capital Limited must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "BUY", "HOLD", or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis.

Equities breakdown: 30 June 2015	Spec. BUY	BUY	HOLD	SELL
Overall equities coverage	26.3%	68.4%	5.3%	0.0%
Companies to which VSA has supplied investment banking services	25.0%	75.0%	0.0%	0.0%

## Recommendation and Target Price History



SOURCE: FactSet data, VSA Capital estimates.

### Valuation basis

We have used a sum-of-the-parts methodology where we include Blythe and Elgood gas fields as well as Skipper heavy oil field into our core NAV since these are expected to be the first developments undertaken by IOG in 2017-18.

### Risks to that valuation

The main risks to our valuation is related to commodity price uncertainty and development delays.

This recommendation was first published on 28/09/15.