

CORPORATE

Current price 3.00p

Sector Oil & Gas

Code (CLNR.L)

Listing AIM

SHARE PERFORMANCE



Source: Fidessa, Allenby Capital

SHARE DATA

Market cap (£m) £6.0m

Shares in issue (m) 199.2m

52 weeks High Low

5.25p 2.63p

Financial year end December

Source: Company Data, Allenby Capital

KEY SHAREHOLDERS

Henderson Global Investors 9.99%

Guinness Asset Management 8.37%

Hargreaves Lansdown Nom 7.34%

John Gordon Cluff 5.76%

Waverton Investment Management 4.70%

BCM International Ltd 3.91%

Source: Company Data, Allenby Capital

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CLUFF NATURAL RESOURCES PLC (CLNR.L)

Substantial North Sea resource base

CLNR, the natural resources investment junior, has made a major announcement highlighting the excellent potential of its 100% owned natural gas development interests in the Southern North Sea Basin. A CPR regarding these reveals P50 un-risked prospective resources of 845 bcf based on Carboniferous sandstone and Permian play zones. This is about twice the EUR (estimated ultimate recovery) of a typical Southern North Sea gas discovery. Furthermore, CLNR sees scope for upside in both the Carboniferous and Permian carbonate Zechstein formations. Appraisal, remains at an early stage and CLNR will clearly require a joint venture partner for development. Following the Scottish government's recent decision to implement a UCG (underground coal gasification) moratorium, which impacts CLNR's Kincardine project, the stock should now be seen very much as a play on its North Sea assets. We see excellent potential for news flow in the months ahead.

- Location.** CLNR'S natural gas development interests comprise five promote licences located in relatively shallow water towards the north western margin of the Southern North Sea Basin. Significantly, they are in close proximity to a rapidly emerging Carboniferous sandstone play. Key discoveries in recent years have been Breagh, Cygnus and Pegasus. Technical advances in seismic and drilling/completion technology have enabled the new play to be unlocked.
- Historical drilling activity.** Between 1994 and 2007 three vertical wells were drilled on CLNR's licences. In 1994/5 Marathon tested the Lytham prospect. Hydrocarbons were encountered in both the Zechstein and Carboniferous formations. CLNR believes that based on the subsequent experience elsewhere and in the absence of technical errors, superior results would have been achieved with modern horizontal drilling and fracking technology. The other two wells were dry with marginal reservoir quality.
- Resource base.** The CPR provides lower (P90) and upper (P10) limits for the range of prospective resources of 325bcf and 1,801bcf respectively. Using the CPR risk factors, we would estimate risked P50 resources at 166bcf The near-term work programme involves the acquisition, processing and interpretation of proprietary 3-D seismic and the detailed petro-physical analysis of on-block and analogue wells. This, together with the CPR, will form the basis for seeking investor interest. According to the terms of the promote licences, a firm commitment on drilling will need to be made by end 2016.
- Balance sheet.** We believe that CLNR's cash position is comfortable presently given the absence of major work commitments and the equity raise earlier in 2015. The suspension of the Kincardine UCG project is relevant in regard to the former point. We believe the 2015 year-end cash position will now be over £1m against £0.6m previously.
- Valuation.** We estimate the value of CLNR's North Sea assets at \$50m or £33m gross. This is based on our assessment of risked resources of 166bcf and a US valuation benchmark for early stage natural gas developments of \$0.3mcf/e. Note that to facilitate development CLNR will likely need to concede equity in the North Sea assets. Assuming this is 50%, the net valuation would be £17m at the current status of de-risking.

SUMMARY FINANCIALS

| Year-end December (£'000) | 2012  | 2013    | 2014    | 2015E   | 2016E   |
|---------------------------|-------|---------|---------|---------|---------|
| EBITDA                    | (730) | (1,737) | (1,612) | (1,633) | (1,769) |
| PBT                       | (822) | (1,928) | (1,725) | (1,766) | (1,903) |
| NET CASH/(DEBT) END YEAR  | 2602  | 2931    | 1208    | 1,050   | (1,221) |

Source: Company data, Allenby Capital

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## RESEARCH RECOMMENDATION DISCLOSURE

Peter Dupont is the author of this research recommendation. Peter is employed by Allenby Capital Limited as an Equity Analyst.

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Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication.

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