

Corporate

Current price **0.0725p**

Sector **Oil, Gas & Coal**

Code **BOIL.L**

AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **8.4**

Shares in issue (m) **11,584**

52 weeks **High** **Low**

0.135p **0.055p**

Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

Hargreaves Lansdown Noms 17.62%

Interactive Investor Serv Noms 11.96%

JIM Noms 11.18%

Sundagas Pte 9.99%

HSDL Noms 9.52%

Barclays Direct Inv Noms 5.90%

Vidacos Noms 4.48%

Source: Company Data, Allenby Capital

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Baron Oil plc (BOIL.L)

Exposure to interesting Dunrobin prospect increases

Baron Oil has increased its interest in the Inner Moray Firth licence P2478 from 15% to 32%. In exchange it has agreed to finance 100% of the remainder of the Phase A work programme on the licence up to a maximum of £160,000. Importantly, P2478 contains the Dunrobin prospect which is believed by Baron to be one of the few remaining large undrilled structures in the UK sector of the North Sea. Baron estimates gross prospective resources of over 100mm barrels which is highly significant in the context of an E&P junior. Baron's decision to raise its interest in P2478 suggests increasing confidence in Dunrobin's prospectivity. It should be remembered that the results of a regional technical study undertaken by a 'large European E&P company' released in Q1 2021 corroborated the view of the P2478 joint-venture partner's concerning the potential scale of the Dunrobin prospect. Baron's increase in its P2478 interest is consistent with its strategy of boosting exposure to potentially high-impact projects.

- P2478 joint-venture partners:** Following the Baron farm-in agreement, the P2478 licence interests are as follows: privately held Corallian Energy (Reabold Resources RBDR.L 49.99%) 36.0%, Upland Resources (UPL.L) 32.0% and Baron Oil 32.0%. Corallian remains the operator while Baron assumes the role of technical overseer for the Phase A work programme. Baron's farm-in enables the Dunrobin project evaluation to be accelerated.
- Dunrobin location and geology:** The Inner Moray Firth is part of the North Sea Mesozoic rift system, one of the world's most prolific hydrocarbons provinces. Dunrobin is situated towards the western extremity of the east-west Moray Firth structural trend about 8 km south of the now defunct Beatrice field (production 140mm barrels) and 30 km south of the northern shoreline. The Dunrobin prospect was identified using 3-D seismic and comprises three large-rotated fault blocks. Reservoir targets are the Jurassic Beatrice and Dunrobin sands. Significantly, the prospect lies in shallow water of < 100m and according to Baron will require a drilling depth of a modest 660m. Corallian has suggested Dunrobin could host mean prospective resources of 174mm boe (Golspie prospect 21.5mm boe).
- Work programme:** Baron is expecting to commence the outstanding Phase A technical work programme imminently. The key aspect will be 2-D and 3-D seismic reprocessing and evaluation. Reprocessed data is scheduled to be delivered in early 2022. The objective is to further de-risk the Dunrobin project and to refine the scale of the resource base. A drill or drop decision is required by July 2023. Baron believes it now has sufficient lead time to mature the project and potentially secure a farm-in partner. Based on experience elsewhere in the vicinity, Baron believes dry hole costs would be about £7m gross.
- Valuation:** We are upgrading our risked sum-of-the-parts valuation for Baron from £29.2m or 0.25p share to £30.9m or 0.27p/share. This reflects the higher interest in P2478. Note, our valuation estimate for P2478 of £30.9m assumes a free-carry farm-in. We have allowed for a concession on project equity of 50% for this purpose. Our risking factor for P2478 is 30%. In a success case, our valuation for both prospects on P2478 would be £89m or 0.77p/share based on \$4/boe pre-field development.

Year End: December

| (£'000) | 2018 | 2019 | 2020 | 2021E | 2022E |
|------------------|-------|-------|-------|---------|---------|
| EBITDA | (549) | (442) | (710) | (1,171) | (1,218) |
| NET CASH/(DEBT)* | 1,838 | 472 | 1,311 | 1,517 | (1,146) |

Allenby Capital acts as Nomad & Broker to Baron Oil plc (BOIL.L). * including restricted cash

Please refer to the last page of this communication for all required disclosures and risk warnings.

Financials

There are no profound near-term financial implications for Baron stemming from the P2478 farm-in. Reflecting the equity raise of £2.77m in March/April 2021, Baron's spending requirements for this year, that mainly relate to G&A and the Chuditch project, are comfortably underpinned. As of early August-2021, we believe Baron's cash position was about £2.3m and by end 2021 before the P2478 farm-in we were forecasting £1.58m. Post the farm-in we have reduced our end 2021 cash forecast to £1.52m based on the assumption that the £160,000 P2478 work programme will be split one third in 2021 and two-thirds in 2022. We have assumed all expenditure is capitalised.

Previously, we were forecasting a theoretical net debt position at end 2022 of £0.99m. Inclusion of the P2478 work programme outlays raises end 2022 net debt to £1.15m. Our previous P2478 spending forecasts had included £50,000 for both 2021 and 2022.

Exhibit 1: Summary financials

| Income statement | | | | | | | |
|--|-------------|--------------|--------------|--------------|-------------|--------------|--------------|
| Year-end December (£'000) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021e | 2022e |
| EBITDA | -700 | -510 | -549 | -442 | -710 | -1171 | -1218 |
| Exploration and evaluation expenditure | -739 | -109 | -1526 | -160 | -145 | 0 | 0 |
| Intangible asset impairment | -356 | -1837 | -1360 | -1047 | 57 | 0 | 0 |
| Receivables' impairment | 73 | 43 | -54 | 16 | 74 | 0 | 0 |
| Deconsolidation of Colombia | 31 | 831 | 0 | 0 | 0 | 0 | 0 |
| Administration expenses | -700 | -510 | -549 | -442 | -710 | -1171 | -1218 |
| (Loss)/profit on exchange | 1131 | -508 | 130 | -41 | -157 | 0 | 0 |
| Other operating income | 319 | 21 | 83 | 0 | 0 | 0 | 0 |
| Operating loss | -241 | -2069 | -3276 | -1674 | -881 | -1171 | -1218 |
| Associated undertaking | 0 | 0 | 0 | 0 | -44 | 0 | 0 |
| Finance cost | -35 | -8 | -10 | -1 | 0 | 0 | 0 |
| Finance income | 101 | 19 | 6 | 1 | 5 | 0 | 0 |
| Loss on ordinary activities before tax | -175 | -2058 | -3280 | -1674 | -920 | -1171 | -1218 |
| Income tax credit/(expense) | -113 | 519 | 785 | 0 | 0 | 0 | 0 |
| Loss on ordinary activities after tax | -288 | -1539 | -2495 | -1674 | -920 | -1171 | -1218 |

Source: Company; Allenby Capital

Exhibit 2: Summary Balance Sheet

| Balance sheet | | | | | | | |
|--------------------------------|-------------|-------------|-------------|------------|-------------|-------------|--------------|
| Year-end December (£'000) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021e | 2022e |
| Non-current assets | | | | | | | |
| Property, plant and equipment | 3 | 0 | 0 | 0 | 43 | 43 | 43 |
| Intangibles | 1325 | 1260 | 66 | 5 | 18 | 1740 | 3204 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Associated undertaking | 0 | 0 | 0 | 0 | 151 | 151 | 151 |
| Total | 1328 | 1260 | 66 | 5 | 212 | 1934 | 3398 |
| Current assets | | | | | | | |
| Trade and other receivables | 2070 | 18 | 503 | 49 | 376 | 376 | 376 |
| Cash | 5231 | 3992 | 1838 | 472 | 1311 | 1517 | 500 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Total | 7301 | 4010 | 2341 | 521 | 1687 | 1893 | 877 |
| Total assets | 8629 | 5270 | 2407 | 526 | 1899 | 3827 | 4275 |
| Current liabilities | | | | | | | |
| Trade payables | 1054 | 195 | 594 | 64 | 58 | 100 | 120 |
| Taxes payable | 1502 | 812 | 23 | 7 | 16 | 16 | 16 |
| Debt | 0 | 0 | 0 | 0 | 0 | 0 | 1646 |
| Total | 2556 | 1007 | 617 | 71 | 74 | 116 | 1782 |
| Non-current liabilities | | | | | | | |
| Lease finance | 0 | 0 | 0 | 0 | 29 | 29 | 29 |
| Total liabilities | 2556 | 1007 | 617 | 71 | 103 | 29 | 29 |
| Net assets | 6073 | 4263 | 1790 | 455 | 1796 | 3682 | 2465 |
| Net cash/(debt) | 5231 | 3992 | 1838 | 472 | 1311 | 1517 | -1146 |

| Shareholders' equity | | | | | | | |
|------------------------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|
| Share capital | 344 | 344 | 344 | 482 | 1107 | 2897 | 2897 |
| Reserves | 5729 | 3919 | 1446 | -27 | 689 | 786 | -432 |
| Total equity | 6073 | 4263 | 1790 | 455 | 1796 | 3682 | 2464 |
| Total equity and liabilities | 8629 | 5270 | 2407 | 526 | 1899 | 3827 | 4275 |
| Shares in issue end year (m) | 1376 | 1376 | 1376 | 1926 | 4426 | 11584 | 11584 |

Source: Company; Allenby Capital

Exhibit 3: Summary cashflow**Cash flow statement**

| Year-end December (£'000) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021e | 2022e |
|---|--------------|--------------|--------------|-------------|-------------|--------------|--------------|
| Loss attributable to controlling interests | -32 | -1539 | -2495 | -1674 | -920 | -1171 | -1218 |
| Depreciation, amortisation and impairments | 331 | 2 | 1360 | 1047 | -57 | 0 | 0 |
| Share based payments | 0 | 41 | 33 | 0 | 81 | 0 | 0 |
| Finance income | -101 | -19 | -6 | -1 | -5 | 0 | 0 |
| Tax benefit | 113 | -519 | -785 | 0 | 0 | 0 | 0 |
| Associates | 0 | 0 | 0 | 0 | 44 | | |
| Foreign exchange translation | -1319 | 512 | -73 | -4 | -52 | 0 | 0 |
| Other | -257 | -347 | 0 | 0 | 0 | 0 | 0 |
| Operating cash flow before working capital | -1265 | -1869 | -1966 | -632 | -909 | -1171 | -1218 |
| Receivables (increase)/decrease | -440 | 2052 | -485 | 454 | -4 | 0 | 0 |
| Tax paid | 71 | -4 | -53 | 0 | 0 | 0 | 0 |
| Payables (decrease)/increase | -692 | -859 | 400 | -546 | -6 | 42 | 20 |
| Net cash flow from operating activities | -2326 | -680 | -2104 | -724 | -919 | -1129 | -1198 |
| Acquisition of intangibles | -493 | -298 | -66 | -1047 | -527 | -1722 | -1465 |
| Cash previously not available now released | 0 | 2674 | 0 | 0 | 0 | 0 | 0 |
| Sale of intangible assets | 1784 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 183 | 19 | 6 | 1 | -6 | 0 | 0 |
| Share issues | 0 | 0 | 0 | 408 | 2295 | 3057 | 0 |
| Net cash flow | -852 | 1715 | -2164 | -1362 | 843 | 206 | -2663 |
| Opening cash | 3010 | 2158 | 3873 | 1709 | 347 | 1190 | 1396 |
| Closing net cash/(debt) | 2158 | 3873 | 1709 | 347 | 1190 | 1396 | -1267 |
| Peru licence commitment guarantees | 3073 | 119 | 129 | 125 | 121 | 121 | 121 |
| Net cash/(debt) as per balance sheet | 5231 | 3992 | 1838 | 472 | 1311 | 1517 | -1146 |

Capital expenditure

| | | | | | | | |
|-----------------------------|--|--|--|--|--|-------------|-------------|
| Chuditch Timor-Leste 100% | | | | | | 1619 | 879 |
| Block-XXI Peru 50% | | | | | | 0 | 429 |
| P2478 Inner Moray Firth 32% | | | | | | 103 | 157 |
| Total | | | | | | 1722 | 1465 |

Source: Company; Allenby Capital

Exhibit 4: Baron Oil risked and diluted valuation summary

| Basin | Project | Working interest % | Net risked | | | | Valuation quotient \$/boe | Un-risked valuation \$m | Risk adjusted valuation post farm ins | | | |
|--------------|----------------------|--------------------|-----------------------------------|----------------------|------------------|----------------------|---------------------------|-------------------------|---------------------------------------|------|---------|--|
| | | | Net un-risked mean resources bcfe | mean resources boemm | Risking factor % | mean resources boemm | | | Absolute \$m | £m | p/share | |
| Bonaparte | Timor-Leste Chuditch | 37.5 | 1323 | 220.5 | 33 | 73.7 | 0.5 | 110.2 | 36.9 | 26.3 | 0.227 | |
| Secura | Peru Block-XX1 | 50.0 | 65 | 10.8 | 33 | 3.6 | 0.5 | 5.4 | 1.8 | 1.3 | 0.011 | |
| Moray Firth | UK P2478 | 16.0 | 188 | 31.3 | 30 | 9.4 | 0.5 | 15.6 | 4.7 | 3.4 | 0.029 | |
| Total | | | 1575 | 262.5 | | 86.7 | | 131.3 | 43.3 | 30.9 | 0.267 | |

Source: Allenby Capital. Notes: Working interests have been adjusted where appropriate for anticipated farm-ins for the first stage of appraisal/exploration. Adjustments have been made to Timor-Leste, Peru Block-XXI and Inner Moray Firth P2478. P2478 valuation includes both Dunrobin and Golspie prospects.

Risking factors are Allenby inhouse probability estimates of commercialising projects at this stage.

The Chuditch risking factor is a composite of 40% for the discovery and prospects and 20% for the lead.

The shares in issue used in the per share calculation is 11.5836 bn. Exchange rate: £1=\$1.40.

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