

CORPORATE

Current price 2.52p

Sector Oil & Gas

Code (CLNR)

Listing AIM

SHARE PERFORMANCE



Source: Fidessa, Allenby Capital

SHARE DATA

Market cap (£) £13.6m

Shares in issue (m) 538.17m

52 weeks	High	Low
	3.63p	1.57p

Financial year end 31 December

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

Hargreaves Landsdown Nominees 10.2%

IPGL Ltd 10.1%

Jarvis Investment Management 7.9%

Fiske 7.0%

Janus Henderson 6.1%

Guinness Asset Management 5.1%

Source: Company Data

Peter J Dupont

+44(0) 203-002-2078

p.dupont@allenbycapital.com

www.allenbycapital.com

EQUITY RESEARCH

CLUFF NATURAL RESOURCES PLC (CLNR)

Farm-out negotiations at an advanced stage

CLNR has announced some encouraging news concerning farm-out negotiations for its 100% owned licences P2252 and P2248 in the SNS (Southern North Sea) Gas Basin. An exclusivity agreement has been signed with a 'major international oil and gas company' in the case of P2252 while for P2248 non-exclusive negotiations with a 'preferred bidder' are at an advanced stage. Significantly, progress on negotiations has been sufficient for the OGA (Oil and Gas Authority), the UK regulatory body, to conditionally extend the two licences by six months to May 31, 2019. The conditions in terms of drilling commitments and the acquisition of 3-D seismic for P2252 will necessitate farm-out agreements being concluded by February 28, 2019. Assuming this is the case, we believe that drilling is possible on P2248 by end 2019 and on P2252 by end 2020.

- P2252:** Licence P2252 is located about 100 km east of the Tees estuary towards the north western margin of the SNS Basin. The focus is the Pensacola prospect, a Permian-Zechstein, carbonate reef structure similar to those in adjacent blocks. The licence terms are that by February 28, 2019 CLNR commits to acquiring new 3-D seismic along with a contingent well on the Pensacola prospect. CLNR has previously given the P50 un-risked resources for both the Pensacola reef and lagoon zones as 424 bcf. The COS's (chance of success) are presently modest at 20% and 16% respectively but should improve following a seismic shoot. The dry well cost for the Pensacola project will be about £8m while seismic acquisition could be \$4m.
- P2248:** Licence P2248 lies about 70km south east of P2252. It contains three Triassic and three Carboniferous sandstone prospects with un-risked P50 resources of 1,750 bcf. COS's range between 15% and 37%. Importantly, P2248 is in the SNS Basin Carboniferous play zone which hosts major gas fields such as Breagh and Pegasus. The terms of the licence call for CLNR making a firm well commitment by February 28, 2019. Dry well costs are likely to be £6.6m for the Triassic and £12.8m for the deeper Carboniferous horizons.
- Farm-out terms:** CLNR's objective is to negotiate free-carry farm-outs. This will involve a reduction in working interest to 50% or less and in all probability ceding operator status for P2252 at least. Post a farm-out, the lead time to spudding a well on P2248 is likely to be at least six months. Assuming a farm-out agreement by late February 2019 drilling might therefore, be possible in Q4 2019. In the case of P2252 the lead time will be significantly longer due to the need to shoot and interpret seismic.
- Financials:** CLNR raised £2.75m gross in new equity in the eleven months to November 2018 with the last raise at 2.1p/share. We believe the cash position currently is about £1.6m which should leave the company funded for about nine months. In recent months project related spending has risen due to appraisal work on the new 30th Round Licences. We look for a financing requirement in 2019 of £2.1m split £1.6m G&A and £0.5m licence related.
- Valuation:** We are upgrading our risked CLNR valuation from £98m to £118m to reflect the progress that has been made on the farm-out front. The valuation continues to reflect a 50% free-carry working interest adjustment and is based on a \$2.0/boe valuation quotient for P2252 and P2248. This compares with the \$1.5/boe used earlier. We have continued to use \$1.5/boe for the other licenses. After diluting for the prospective financing requirement of £2.1m over the next year our valuation/share is 18.9p against 18.4p previously.

SUMMARY FINANCIALS

Year-end December (£'000)	2015	2016	2017	2018e	2019e
EBITDA	(1,435)	(1,240)	(1,473)	(1,543)	(1,612)
PBT	(1,872)	(1,731)	(1,590)	(1,661)	(1,731)
NET CASH/(DEBT) END YEAR	1,114	1,708	1,017	1,417	(699)

Source: Company data, Allenby Capital

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

EXHIBIT 1: SUMMARY FINANCIALS

INCOME STATEMENT	2014	2015	2016	2017	2018E	2019E
Administrative Expenses	(1,745)	(1,547)	(1,416)	(1,592)	(1,661)	(1,731)
Impairment charge	0	(337)	(318)	0	0	0
Operating Profit	(1,745)	(1,884)	(1,735)	(1,592)	(1,661)	(1,731)
Finance Income	20	11	4	1	0	0
PBT	(1,725)	(1,872)	(1,731)	(1,590)	(1,661)	(1,731)
Taxation	-	-	-	-	-	-
Net Income	(1,725)	(1,872)	(1,731)	(1,590)	(1,661)	(1,731)
Comprehensive Loss	(1,725)	(1,872)	(1,731)	(1,590)	(1,661)	(1,731)
EBITDA	(1,612)	(1,435)	(1,240)	(1,473)	(1,543)	(1,612)
Avg. Shares Basic (m)	155	186.6	246.3	343.9	474.9	538.2
EPS (report) p	(1.11)	(1.00)	(0.70)	(0.46)	(0.35)	(0.32)
CASH FLOW	2014	2015	2016	2017	2018E	2019E
Net Loss for the year	(1,725)	(1,872)	(1,731)	(1,590)	(1,661)	(1,731)
Change in receivables	(26)	85	(55)	54	19	0
Change in payables	105	(45)	(39)	(10)	0	3
Depreciation	7	344	326	5	5	5
Other	(20)	(11)	0	0	0	0
Share Based Payments	126	104	168	114	114	114
Net Operating cash flow	(1,533)	(1,396)	(1,334)	(1,428)	(1,524)	(1,609)
Acquisition of PPE	(1)	(1)	(2)	(2)	(2)	(2)
Exp and Eval assets additions	(208)	(513)	(449)	(224)	(712)	(505)
Miscellaneous	18	11	3	1	(2)	0
Proceeds from issue of shares	0	1,804	2,376	962	2,640	0
Net cash flow	(1,724)	(94)	594	(691)	400	(2,116)
Net cash/(debt)	1,208	1,114	1,708	1,017	1,417	(699)
BALANCE SHEET	2014	2015	2016	2017	2018E	2019E
Intangible assets	254	428	554	775	1484	1986
Property, Plant & Equipment	11	6	4	4	7	7
Other	54	54	1	54	54	54
Total Non-Current Assets	319	488	559	833	1,544	2,047
Receivables	173	88	197	89	70	70
Cash & Cash Equivalents	1,208	1,114	1,708	1,017	1,417	400
Total Current Assets	1,380	1,202	1,905	1,106	1,487	470
Total Assets	1,699	1,690	2,464	1,939	3,032	2,517
Non-Current Liabilities	0	0	0	0	0	0
Trade payables	97	176	60	112	112	116
Other payables	210	86	163	100	100	100
ST debt	0	0	0	0	0	1,099
Current Liabilities	307	262	223	213	213	1,315
Total Liabilities	307	262	223	213	213	1,315
Net assets	1,392	1,428	2,241	1,727	2,819	1,202
Net cash/(debt)	1,208	1,114	1,708	1,017	1,417	(699)
Shareholder Equity	1,392	1,428	2,241	1,727	2,819	1,202
Total Equity & Liabilities	1,699	1,690	2,464	1,939	3,032	2,517

Source: Company data, Allenby Capital

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Allenby Capital, 5 St Helen's Place London, EC3A 6AB
+44 (0)20 3328 5656, www.allenbycapital.com