

Europa Oil & Gas (EOG LN)

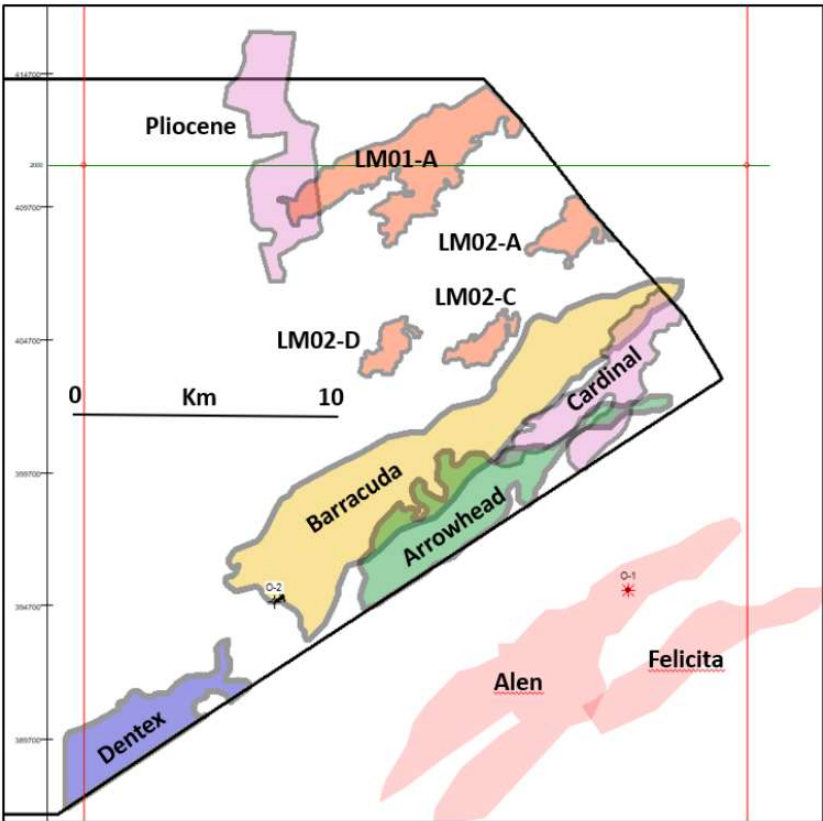
MARKET DATA

Bloomberg	ticker	EOG LN
Share price	p/shr	0.90
Target	p/shr	5.0
TP upside	%	456%
Shares out	Million	959.2
Fd shares	Million	986.5
Mkt cap	US\$m	10.9
EV	US\$m	7.4

HOTTING UP

Europa Oil & Gas has formally opened a data room covering its Equatorial Guinean (EG) acreage as it seeks a farm-in partner to cover the costs of exploration drilling. Since entering the licence by its purchase of a 42.9% stake in Antler Global Ltd which holds the acreage, new geotechnical work has enlarged and de-risked the primary prospects, plus has uncovered a number of prospective follow-on exploration opportunities. In total the work has added over 50% to the estimated recoverable resource, now standing at >2Tcf. With this in mind Europa is confident of its chances of securing a partner for the licence, and has already had expressions of interest from companies, as well as cold calls, keen for access to the data room. Meanwhile, third-party activity is hotting up in-country, with the likes of Chevron, GEPetrol and trader Trafigura said to be investing billions of dollars into EG. As such, we believe that talks are likely to intensify over the coming months, with a deal possibly announced early into 2025. The assets onshore UK continue to provide good levels of cash flow, and planning permission has just been granted for Wressle's next stage of development. This includes a new well into the gassier Penistone Flags horizon, which is expected to more than double output from the field. We consider the value of Wressle alone to more than underpin the current enterprise value, and any progress with EG, Cloughton or Ireland should see the share price re-rate. With lots of action expected over the next few quarters, we expect interest in the stock to increase substantially. Accordingly, we re-iterate our BUY recommendation with an updated target price of 5p/shr.

Figure 1: Block EG-08 prospectivity



Source: Europa Oil & Gas

ANALYST

Tim Hurst-Brown
+44 (0) 20 7186 9038
tim.hurst-brown@tennysonsecurities.co.uk

James Midgley
+44 (0) 20 7186 9037
james.midgley@tennysonsecurities.co.uk

SALES

Pav Sanghera
+44 (0) 20 7186 9036
pav.sanghera@tennysonsecurities.co.uk

Jason Woollard
+44 (0) 20 7186 9035
jason.woollard@tennysonsecurities.co.uk

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Equatorial Guinea

Europa recently completed additional technical analysis following its entry into Equatorial Guinea and the acquisition of the full geological dataset (including 3D seismic) covering block EG-08. This analysis not only saw two of the three named prospects upgraded in resource size and chance of success, but also identified a number of smaller follow-on prospects and leads which would be targeted during later stages of the block's development.

The primary target, Barracuda, has been upgraded from a 60-70% chance of success to 70%, with the Pmean resource estimate tweaked 2.5% upwards to 798 bcfe (gross). Cardinal and Arrowhead's chances of success have also been resolved to the top end of the range (both also at 70%), with Arrowhead's volumetrics increased by 23%, but Cardinal's reduced by a similar amount. The Net result is a derisking of all three named prospects, and an overall 1% increase in recoverable resources.

Figure 2: Resource table

Prospects (BCFE)	Gross Un-risked Prospective Recoverable Resources (BCFE)			Net to Europa Un-risked Prospective Recoverable Resources (BCFE)			Operator	GCOS
	P90	Pmean	P10	P90	Pmean	P10		
Barracuda	258	798	1479	89	274	508	Antler	70%
Cardinal	101	275	494	35	94	170	Antler	70%
Arrowhead	132	324	556	45	111	191	Antler	70%
4 Other Prospects		344			118		Antler	50%
2 Leads		375			129		Antler	40-50%
Total Summed Pmean		2116			726			

The net attributable percentage to Europa is 34%¹

Source: Europa Oil & Gas

The seismic analysis has also uncovered a number of prospects and leads in the northern half of the block (see Figure 1, above). These are slightly higher risk, although it should be noted that at a 40-50% chance of success is considerably lower risk than the global average for exploration (typically below 30%). The newly identified structures are also smaller, with the four lower risk prospects aggregating 344 bcfe and the two leads a combined 375 bcfe. All in, this new geotechnical work has resulted in a >50% increase in recoverable resources on the licence, to over 2Tcf gross recoverable. This additional scale and running room will work in Europa's favour as it formally launches its partnering process.

Coinciding with Europa's opening of the data room, third party activity in Equatorial Guinea seems to be hotting up. In June, Chevron, alongside the National Oil Company GEPetrol, signed two new production sharing contracts for offshore blocks EG-06 and EG-11. These permits are situated on the opposite side of Bioko Island to EG-08 (close to the Nigerian border). The work programme associated with the licences has not been published, however press reports suggest a US\$2bn commitment. This news was followed shortly after with reports that oil trader Trafigura had offered the Equatorial Guinea state a US\$2bn financing facility, to help "relaunch oil activities in the country". Meanwhile, to the south Trident Energy has recently kicked off a three well infill drilling campaign on Block G, following which the drillship will move to Block S to drill the 180 mmbbls Akeng deep exploration well for Kosmos.

This enhanced activity will undoubtedly help with levels of interest in Europa's data room. The process is held behind closed doors, but we understand that a number of companies are currently actively in the room. Farm-in processes are notoriously hard to predict, however typically it takes a few months to complete technical and commercial due diligence. We therefore don't expect concrete news before the end of the year.

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Wressle

The Wressle partners were recently granted planning approval for the next stage of development, which includes two development wells and a gas monetisation solution for the gassy Penistone Flags reservoir horizon. This leaves just Environmental Agency approval as the final permit required to commence work, which is anticipated to follow in the coming months.

Having added a jet pump to enhance production levels in late 2023, this phase of development will see the site extended by a small amount (36%), with two new development wells drilled back-to-back from mid next year. There will be space for a third well to be drilled in the future as a water injector. New production facilities, including separator systems and gas processing equipment, will be installed, as well as a 600m underground gas pipeline linking the field to the national grid. These operations are expected to add around 800 boepd (gross), or c.250 boepd net to EOG.

Meanwhile, the field continues to produce ahead of expectations, with average production during Q1 around 375 bopd (gross, c.112 bopd net to EOG).

Cloughton

Alongside the applications at Wressle, Europa has also lodged an application to drill an appraisal well on the Cloughton gas field in North Yorkshire. This well will target the relatively large structure, which was discovered by a well in 1986 that tested 28,000 scf/d under natural flow. Though this was clearly deemed uncommercial at the time, Europa believes that now, with correct completion and production optimisation techniques (including a proppant squeeze), rates of up to 6 mmscf/d are possible. Volumetric estimates puts total gas in place at 192 bcf (Pmean), which would overtake Salfleetby (114 bcf GIIP) as the country's largest onshore gas field.

Europa has identified a suitable site for an appraisal well designed to test the reservoir response to modern drilling and completion techniques. This will be included in a planning application to the local council, which is expected to be lodged by the end of November. These plans may attract a degree of local opposition, however given that this is conventional gas field which once developed would have a low profile Europa is confident that approval will be forthcoming. Furthermore, with low carbon-intensity domestic gas likely to be fundamental to the country meeting its green targets, improved messaging from the industry and state could help swing public opinion, and potentially government policy.

Valuation – Total NAV 19.5p/shr

We consider the current share price of Europa (0.95p/shr) to be more than underpinned by the risk NPV10 of its stake in Wressle alone of 1.0p/shr (adjusting for cash and other corporate items). On top of this, we value Cloughton at 1.3p/shr, including a conservative 25% chance of success, and the three named Equatorial Guinean prospects at 11.2p/shr (at 35% CoS). The newly identified prospects and leads are worth 1.9p/shr, with Inishkea West at 4.2p/shr. These riskings account for both geological risks, as well as expected levels of dilution in farming down to finance exploration and appraisal activities. Should a partner (and finance) be secured on any one of these assets, we would expect a material derisking, and upgrade to our risk NAV. Our target price is set at 5p/shr, which is roughly the risk value of Wressle, plus just 25% of the exploration upside.

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Figure 3: Valuation summary table

NET ASSET VALUE									
Asset	Gross		Net		Unrisked		CoS	Risked	
	mmboe	Interest	mmboe	US\$/boe	US\$m	p/shr		US\$m	p/shr
Wressle (AG&WF)	0.46	30%	0.14	15.0	2	0.2	100%	2	0.2
Wressle (PF)	1.88	30%	0.57	15.0	8	0.7	75%	6	0.5
Add: net cash					3.5	0.3		4	0.3
Add: corporate items					0.3	0.0		0	0.0
Core NAV			0.1		14.4	1.2		12	1.0
Cloughton	10.77	40%	4.31	15.0	65	5.2	25%	16	1.3
Barracuda	133	28%*	37	6.1	227	18.3	35%	80	6.4
Cardinal	46	28%*	13	6.1	78	6.3	35%	27	2.2
Arrowhead	54	28%*	15	6.1	92	7.4	35%	32	2.6
EG Others	120	28%*	33	6.1	205	16.5	11%	23	1.9
Inishkea (Ireland)	259	100%	259.0	2.00	518	41.7	10%	52	4.2
Total NAV			361.8		1,200	96.5		243	19.5

Valuation assumptions:

Brent price: US\$77.5/bbl 2025, US\$70.3/bbl 2026, US\$65/bbl flat thereafter.

Discount rate 10%.

1.26 US dollar / sterling.

959.2m ordinary shares outstanding. 30.56m options and warrants outstanding with exercise prices 1.23p-6.2p/shr.

*Europa has a 42.9% stake in Antler, which would have a 65% stake in EG-08, assuming GEPetrol exercises its option to acquire an additional 15% paying interest.

Source: Tennyson Securities

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Date	Market Index level	Share Price (p)	Target Price (p)	Opinion
09 Jun 2022	1462.2	2.5	7.8	BUY
24 Nov 2022	1005.1	1.125	2.3	BUY
21 Dec 2023	676.45	1.0	4.97	BUY
23 Sept 2024	523.64	0.9	5.0	BUY

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