

Target price upgrade

Speculative Buy

Price: 0.24p

Target Price: 0.91p

Consolidated: 18.2p

Sector: Oil & Gas

Share Price Performance



Source: London Stock Exchange

Key Data

Market:	AIM
TIDM:	SOLO.L
1 Year Hi/Lo:	0.9p - 0.2p
Existing Shares:	7,846m
Market Cap:	15.4m
ISIN:	GB00B1TYBN97
SEDOL:	B1TYBN9
Co. Website:	www.solooil.co.uk

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Aminex and Solo both recently published operational updates. At Kiliwani North, in which Solo has a 7.25% interest, production averaged 15 million cubic feet per day to May 2017. Meanwhile at the flagship Ntorya gas project, Aminex is now working with the Tanzanian Petroleum Development Company on an early production solution. Aminex is also considering a third well (NT-3) which has a high chance of adding to Ntorya's 186 BCF 2C resource.

We have updated our Solo Oil valuation to reflect the success of Ntorya 2, the subsequent resource upgrade, and Solo's investment into Helium One. These changes increase our target price to 0.91p and underpin our Speculative Buy recommendation. Note that post the upcoming share consolidation, our target price will become 18.2p. We have also updated our financial forecasts.

Ntorya-2 appraisal well – very good result

In 1Q17 Aminex and Solo announced successful results from the NT-2 well. The flow rate was 17mmcf and combined with the NT-1 well drilled in 2012, Aminex and Solo now estimate gross contingent resources (2C) of 186 BCF, a significant and commercial scale gas discovery.

Mixed response – shares up and down

Solo's share price performed strongly in between the NT-2 well rig mobilisation and flow test results. Yet despite the good NT-2 result, Solo's share price has since suffered. We believe this is due to short term investors riding the drilling process. We note a similar pattern with Aminex's share price.

Ntorya's future catalysts

The three main catalysts for Ntorya are (1) Progress updates towards an early production solution i.e. supplying gas to local industry (2) News flow connected to the NT-3 well drilling process (3) Solo selling or farming-out its 25% Ntorya interest and (4) issue of a 25-year Development Licence.

Helium One – massive potential

In March Solo announced it had acquired 10% of Helium One, a private helium exploration company focused on the Rukwa helium project in the Tanzanian rift basin. Rukwa has prospective resources of 98.9 bcf and with helium prices at \$150 to \$200 per mcf, it is a potentially highly valuable investment.

Producing Kiliwani North - cashflow to cover G&A

Solo's other Tanzanian investment is the producing Kiliwani North gas project, where Solo's c.7% interest should be sufficient to cover G&A. Note that Solo's fixed cost base is circa £700k per annum.

Valuation and recommendation

Our valuation remains dominated by the NPV₁₀ of the Ntorya Gas Project, although we de-risked the models to account for the 1Q17 drilling success. We have added c.\$10m to account for the Helium One investment, and factoring in the new shares in issue, we calculate an 0.91p share price target - up from 0.84p. We recommend a Speculative Buy.

1H17 update

Solo Oil has investments in six projects in four countries, but its current focus is its Ntorya (also known as the Ruvuma appraisal licence) and Helium One investments in Tanzania. Solo also owns circa 7% of a producing and income generating gas well called Kiliwani in north east Tanzania just off the coast in very shallow water. Solo's recent update focused on Kiliwani's production to May 2017 and the plans for Ntorya development.

Ntorya near term catalysts

There are four potential catalysts for Ntorya this year:

(1) Progress towards an early production solution – Aminex and Solo are working with TPDC on plan to develop a regional market for Ntorya gas. This will most likely involve either supplying gas to local large-scale industry such as the nearby cement plant which currently uses heavy oil or diesel, or producing compressed natural gas to sell elsewhere in Tanzania.

(2) News flow connected to the NT-3 well drilling process - Aminex and Solo are planning a 2nd appraisal well at Ntorya. Depending on its location (how much of a step-out), this has the potential to double Ntorya's resources.

(3) Solo potentially selling or farming-out its 25% Ntorya interest - in the recent update Solo stated that it was *"seeking partners to farm-in to or acquire its interest in the project when a 25-year development licence is granted, which is expected to be later this year."*

(4) Issue of the 25-year Development Licence for Ntorya.

Ntorya resource upgrade

Following the successful NT-2 drilling results, in April Aminex and Solo announced a major resource upgrade at Ntorya. This took 2C resources from 70 BCF to 186 BCF. Pmean oil in place increased from 153 BCF to 466 BCF. Note that these resources are only from the Ntorya area which sits within the much larger Ruvuma Appraisal Licence. That said, Ntorya is the focus and most important acreage.

Ntorya resources:

	Previous	Upgrade
Ntorya Appraisal Area	70 BCF (2C)	186 BCF (2C)
	153 BCF (GIIP)	466 BCF (GIIP)

Kiliwani North – 15mmcf per day

Solo owns just over 7% of Kiliwani North alongside Aminex. Kiliwani North is the third gas project to come on stream in Tanzania with first production was in April 2016.

Aminex and Solo receives regular payments for gas sales, albeit, after an average 90 days. The GSA is based on \$3.07 per mcf (\$3.0 per MMBTU) at the wellhead. The price will escalate in line with U.S CPI and paid in US dollars with bank secured payment guarantees as soon as commercial production is declared (expected later this year).

Cashflow and finances

Solo's interest in Kiliwani North should generate \$120k to \$150k per month over the next few years. Payment from TPDC is a little sporadic but should be sufficient to cover Solo's G&A costs which have reduced significantly in recent years to approximately £700k per annum.

Helium One

Solo's investment into Helium One is in line with its investment strategy i.e. to take significant but minority interests in high impact potential projects.

Future helium prices

The helium market is small in volume (circa 5 BCF per annum) but large in value terms (\$6 billion +). Pricing is not transparent and the recent trade embargo on Qatar which produces approximately 30% of global supply is putting upward pressure on prices. We understand the current price is circa \$150/mcf.

Due to the relatively small size of the helium market and the impact of new projects and production curtailment strategies, it is volatile and difficult to forecast. Longer term pricing will depend on how many new projects come on stream, and if Russia develops its large Amur Natural Gas Processing Plant, how much helium it will choose to export (versus storing for future use or reinjecting).

Helium One value

Valuing Helium One's Rukwa Project is not straightforward due to there being few if any peer comparisons. However, based on a helium price of \$150 per mcf, the Rukwa Project's prospective resources of 98.9 BCF is theoretically equivalent to circa 4.7 TCF prospective resources of methane gas. Solo acquired its 10% interest in Helium One for £2.55m. To value it, we assumed a helium price of \$150/mcf and applied a 10% PoS to the 98.9 BCF of prospective resources. Solo's 10% attributable interest equates to £8.1m.

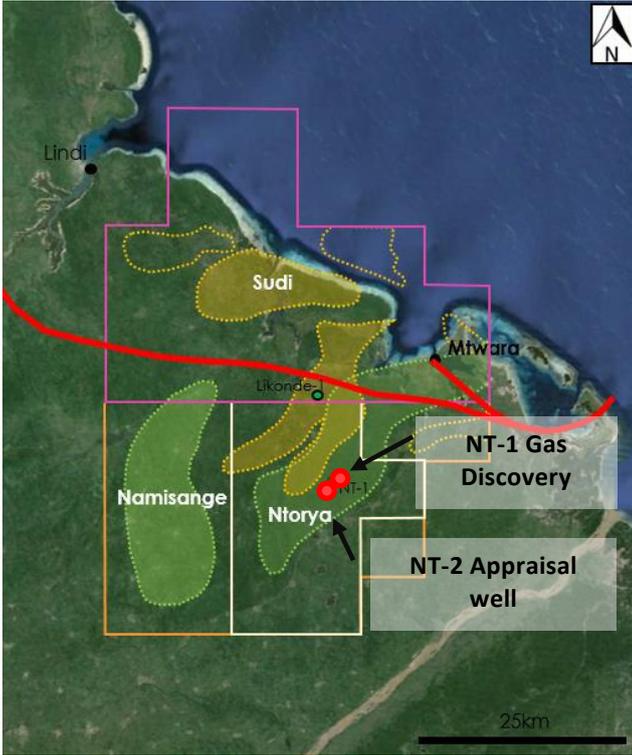
Summary and valuation

Solo Oil's investment case and our valuation is dominated by the large-scale potential of the Ntorya Appraisal Licence. Our sum-of the parts also includes the £8.1m for Solo's 10% share in Helium One, and based on the enlarged share capital we calculate an 0.91p target price. Post the upcoming consolidation this will become 18.2p.

Sum of parts valuation:

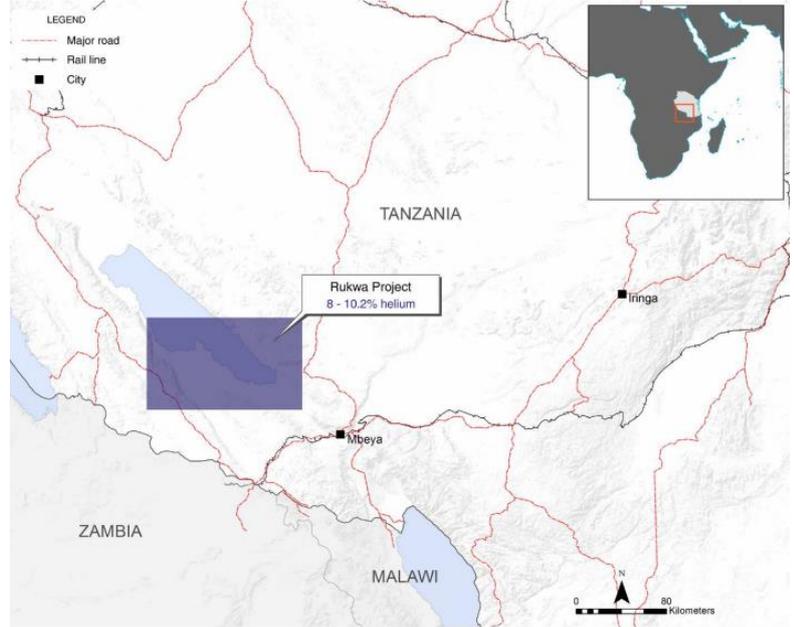
Description	\$m	POS (%)	\$m	£m
TNZ				
Kiliwani North	3.8	100%	3.8	3.1
Ntorya-1	20.6	95%	19.6	15.8
Ntorya-2	44.4	85%	37.8	30.5
Ntorya-3	55.0	25%	13.7	11.1
Helium One (10%)	10.0	N/A	10.0	8.1
Sub total	123.9		84.9	68.5
UK				
Horse Hill			6.0	4.8
Isle of Wight			1.0	0.8
G&A				-2.7
TOTAL			91.9	71.4
Price target	(p)	0.91		
Current share price	(p)	0.25		
Post consolidation				
Price target	(p)	18.2		
Current share price	(p)	5.00		

Ruvuma PSA and Ntorya Gas Project:



Source: Aminex

Helium One's main project – Rukwa:



Kiliwani North location:



Source: Company



Financials

<i>Income Statement (£m) Dec</i>	2014A	2015A	2016A	2017E
Revenue	-	-	0.5	0.9
Production costs	-	-	(0.3)	(0.8)
Gross profit	-	-	0.2	0.1
G&A	(1.1)	(0.9)	(0.7)	(0.7)
Exploration and other impairments	(0.4)	(0.9)	-	-
Other	(0.3)	(1.0)	-	-
Operating profit	(1.8)	(2.8)	(0.5)	(0.6)
EBITDA	(1.8)	(2.8)	(0.2)	0.2
<i>EBITDA margin (%)</i>	N/A	N/A	N/A	20%
Finance costs	(0.1)	-	(0.0)	(0.0)
Profit (loss) before tax	(1.8)	(2.8)	(0.5)	(0.6)
Income tax expense	-	-	-	(0.0)
Deferred tax	-	-	-	0.0
Profit / (loss) after tax	(1.8)	(2.8)	(0.5)	(0.6)
EPS	(0.04)	(0.05)	(0.01)	(0.01)
EPS (post consolidation)	-	-	-	(0.16)

Source: Company, Beaufort Securities, GBP/USD 1.25

<i>Cashflow Statement (£m) Dec</i>	2014A	2015A	2016A	2017E
<u>Operating cashflow</u>				
Profit/ (loss) after tax	(1.8)	(2.8)	(0.5)	(0.6)
Share based payments	0.2	-	0.0	-
Depreciation	-	-	0.3	0.8
Impairments	-	-	-	-
Tax	-	-	-	(0.0)
Finance cost	-	-	-	0.0
Other	0.5	1.9	-	-
Sub-total	(1.1)	(0.9)	(0.2)	0.2
<u>Changes in working capital</u>	-	-	-	-
Decrease/ (increase) in receivables	0.3	0.5	(0.8)	(0.3)
Increase / (decrease) in payables	0.1	0.1	0.2	(0.1)
(Gain)/loss on foreign exchange	0.0	0.0	0.1	-
Sub-total	(0.5)	(0.4)	(0.5)	(0.4)
Interest paid	-	-	-	(0.0)
Taxes paid	-	-	-	-
Operating cashflow	(0.5)	(0.4)	(0.7)	(0.3)
<u>Investing cashflow</u>	-	-	-	-
Purchase of property, plant and equipment	-	-	(1.6)	(1.2)
Purchase of intangibles	(1.0)	(2.6)	-	(1.0)
Derivative payments	(0.8)	(0.1)	(0.5)	-
Other	(0.7)	(0.1)	-	-
Investing cashflow	(2.4)	(2.9)	(2.0)	(2.2)
<u>Financing cash flows</u>	-	-	-	-
Equity financing	2.8	2.7	2.8	3.2
Warrant exercise	-	-	-	-
Issue costs	(0.2)	(0.1)	(0.2)	-
Borrowing	0.5	(0.4)	(0.1)	-
Other	(0.1)	(0.1)	(0.0)	-
Financing cash flows	3.0	2.1	2.5	3.2
Net change in cash	0.1	(1.2)	(0.2)	0.7
Cash start period	2.0	2.0	0.8	0.6
FX effect	-	-	-	-
Cash end period	2.0	0.8	0.6	1.3
Net cash (debt)	1.5	0.7	0.6	1.3

Source: Company, Beaufort Securities, GBP/USD 1.25

<i>Balance sheet (£m) Dec</i>	2014A	2015A	2016A	2017E
<u>Non-current assets</u>				
Property & plant				
Intangible assets	9.0	11.4	10.2	10.5
Available for sale	1.5	1.2	1.2	1.2
Total non-current assets	10.6	12.6	13.9	15.3
<u>Current assets</u>				
Cash and equivalents	2.0	0.8	0.6	1.3
Trade and other receivables	1.0	0.5	1.3	1.7
Derivatives	0.5	-	-	-
Total current assets	3.5	1.3	1.9	3.0
TOTAL ASSETS	14.0	13.9	15.8	18.3
<u>Current liabilities</u>				
Trade and payables	0.2	0.2	0.4	0.3
Short-term borrowings	0.5	0.1	-	-
Other	-	0.3	-	0.0
Total	0.7	0.7	0.4	0.3
<u>Non-current liabilities</u>				
Medium and long-term borrowings	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-
TOTAL LIABILITIES	0.7	0.7	0.4	0.3
NET ASSETS	13.3	13.3	15.4	18.0
<u>Equity capital</u>				
Share capital	24.7	27.5	27.6	30.8
Reserves	0.9	0.9	3.5	3.5
Other	(0.0)	(0.1)	(0.1)	(0.1)
Accumulated loss	(12.3)	(15.0)	(15.5)	(16.1)
Total	13.3	13.3	15.4	18.0

Source: Company, Beaufort Securities, GBP/USD 1.25

Recommendation Breakdown

During the three months to end-June 2017, the number of stocks on which Beaufort Securities published recommendations was 195, and the recommendations were as follows: Buy – 73; Speculative Buy – 109; Hold – 11; Sell – 2.

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