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optiva securities

TomCo Energy plc*

17 May 2012

BUY:

12 Mth Price Target: 11.2p

Stock Data

Current Price:	1.51p
Market Cap:	£24.5m
Shares Outstanding:	1.62bn

Company Profile

Sector:	Oil & Gas
Ticker:	TOM.L
Exchange:	AIM - London
Website:	tomcoenergy.com

Activities

Development of oil shale interests in Utah, USA.

Key Metrics

Net Cash	: £700K
(Optiva estimate May 2012)	
Investments:	$5m Red Leaf equity stake
Resource Size:	123m bbl Indicated JORC

Directors

Sir Nicholas Bonsor	Non-Ex Chairman
Paul Rankine	Interim CEO
Miikka Haromo	FD

Major Shareholders

Kenglo	30.4%
Dominic Redfern & Sarah Cooke	10.3%
Mark Donegan	8.2%
Altima Global Special Situ's Fund	5.2%
Douglas Wright	3.5%

**Optiva Securities acted as a Placing Agent to TomCo Energy in the July 2011 Placing.*

DEVELOPING THE 'TOTAL' PICTURE FOR TOMCO ENERGY

The investment commitment of $320m by global oil major Total for a 50% participating interest in the Seep Ridge oil shale project in Utah is a significant event for its project owner Red Leaf and other companies such as TomCo Energy plc, that are seeking to advance oil shale projects. Red Leaf's Seep Ridge and TomCo's Holiday Block oil shale projects lie just 15 miles apart and both plan to use the same in-capsule technology called EcoShale*TM* to extract oil. Once Red Leaf moves into commercial production, which is anticipated in 2014, TomCo is expected to then move its project forward into production with output of 9,800 bopd. Seep Ridge is similar in resource size at 90 to 120m barrels to Holiday Block, which has a JORC Indicated resource of 123m barrels. Given Total's investment in the Seep Ridge project of $320m, which values the entire project at around $640m, it could be deduced that TomCo's own project would be worth a similar amount once a CAPEX commitment is made.

RECOMMENDATION & VALUATION

As detailed on the next page, we have re-assessed our valuation model on Tomco that was the basis for our last research note on 18 August 2011, in light of recent developments. With the oil price stubbornly in excess of $100 per barrel we have used a higher oil price of $80 in the first five years of production (previously $70), but increased the estimated CAPEX to $289m (prev. $231m), which includes a 10% contingency and other adjusted cost inputs. As the process and technology behind oil shale extraction matures, we believe the CAPEX requirement could drop. This may also lead to lower operational costs, especially if economies of scale are gained by using more than six capsules during mining. Costs per barrel are estimated at $38 in the first five years. We have assumed a saving of $5 per barrel from year four onwards, with the oil being transported by pipeline instead of the more costly method of trucking. Full production is estimated at an average 9,110 bopd, which allows for 8% downtime during the year. Using these parameters, the NPV comes to $774m (prev. $687m) at the pre-tax level and $389m post tax.

To be prudent, a 'post tax' NPV value has been used to determine a share price target, as opposed to our previous approach of using a 'pre-tax' NPV. Given Total's investment in Red Leaf, we believe the technology and capital funding risks are now much lower than previously estimated. We have accordingly reduced the NPV by 25% to account for these risks, rather than the 60% risk factor used last year. Therefore by applying a 25% risk factor to the post tax NPV of $389m and dividing by the number of shares in issue (1.62bn), we arrive at a price per share and target price of 11.2p. This is a shade higher than our previous target of 10p, but if we were to base our valuation on the pre-tax number, the price target would more than double to 22.3p. Nevertheless 11.2p represents considerable upside from the current 1.51p share price. With TomCo's project continuing to be de-risked by the activities of neighbouring Red Leaf and the prospect of further newsflow from TomCo itself over the course of this year as it moves its JORC resource to an anticipated 'Measured' and then 'Probable' reserve status, the shares should continue their upward trend.

BASE MODEL NPV ANALYSIS PARAMETERS

CAPEX	$289.4m (includes 10% contingency)
Mine Life	20 Years
Total Production	64.7m bbl.
Production Rate	Yr1: 1.5m bbl Yr2 to 20: 3.3m bbl (allows for 8% downtime).
Variable Costs	Yr1 to 3: $28.8 per bbl Yr4: $23.8 ($5 saving achieved from piped transport) Yr5: onwards 1.5% increase p.a.
Fixed Costs	Yr1 to 5: $30.7m per annum or Yr6 onwards 3% increase p.a.
Average cost Per barrel	Yr1 to 5: $38.4, rising to $44.6 by Yr20
Oil Price	Yr1 to 5: $80 per bbl Yr6 onwards 3% increase p.a.
Red Leaf Royalty	6%
Production Royalty	Yr1 to 5 - 5% p.a Yr6 onwards increase by 1% p.a to maximum of 12.5% (first 200,000 bbl p.a. royalty free)
Lease Payment	Yr1 $2,919, Increase 1% p.a. thereafter
Pre Tax NPV (10% discount rate)	$774.2m
Federal Tax	35%
State Tax	1.25% (After 75% tax refund)
Post Tax NPV (10% discount rate)	$388.6m
Technology Risk	15%
Capital Funding Risk	10%
Pre Tax NPV (10% discount rate) Following Technology & Capital Funding Risks	$580.7m
Per Share Basis	35.8 cents or 22.3 pence
Post Tax NPV after Technology & Capital Funding Risks	$291.5m
Per Share Basis	18.0 cents or 11.2 pence

SENSITIVITY ANALYSIS

Post tax NPV for different oil prices levels and discount rates using above valuation model.

Oil Price/ Discount Rate	$60	$70	$80	$90	$100	$110
8%	$125m	$318m	$511m	$704m	$898m	$1,091m
10%	$59m	$224m	$389m	$553m	$718m	$883m
12%	$8m	$150m	$292m	$434m	$576m	$719m

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