Independent Oil & Gas

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Independent Oil & Gas should be worth 100.4p as it stands, Charles Stanley says

Stockbroker Charles Stanley has started its coverage of North Sea junior Independent Oil & Gas (LON:IOG) with a buy' recommendation and a punchy 100.4p price target.

At that level the broker reckons the AIM quoted share is worth around four times the current price of 24.75p.

It is not, however, the kind of lofty blue sky' forecast often banded about by stockbrokers, in fact analyst Brendan Long says the 100.4p price target actually reflects the fair value of the company as it stands today.

Investors have yet to react to recent developments, according to Long.

Specifically he refers to the resolved uncertainties relating to partner ATP Oil & Gas, which is being bought by a private equity group from a company that was in bankruptcy protection.

This breakthrough means the Skipper and Blythe projects can now move forward.

A work programme was recently agreed with the new owner, a sales agreement was reached with BP (LON:BP.) and the licences have just been extended by the Department of Energy and Climate Change (DECC) until next September.

Yet, IOG's share price has remained fairly static despite this progress.

"We do not believe that the share price of IOG had reacted sufficiently," Long said in a note.

He adds: "We recognise that prior to the finalisation of the sale of ATP UK, which occurred 10 February 2014, there was material uncertainty hanging over the viability of IOG and its capacity to retain its licence interests, which would justify a discounted share price.

Price:	24.75p
Market Cap:	£14.73M

1 Year Share Price Graph

Share Information

Code:	IOG
Listing:	AIM
Sector:	**Energy**
Website:	**independentoilandgas.com**

Company Synopsis:

IOG is a UK based Development & Production company with established interests in two UK North Sea fields. IOG was established in February 2011, combining the UK assets of MOST Inc. and Ebor Energy Inc. IOG now owns 50% of the Blythe gas field in the Southern North Sea (blocks 48/22b and 48/23a) and 50% of the Skipper licence south east of the Shetlands (block 9/21a).

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"Effectively, we believe that the share price reaction to the settlement of these outstanding issues should have been measurable in multiples not percentage points.

"In other terms, the price reaction to the settlement of the uncertainty with ATP UK has, in our opinion, been minimal, which we believe creates an interesting investment opportunity."

The analyst highlights the appraisal well on the Skipper oil discovery in the third quarter as one of the upcoming catalysts for the share, and points out that IOG believes it is reasonable to target first gas from Blythe at the end of next year.

"We believe that if the Skipper field proves viable from a technical and commercial perspective, as we expect, then the field should be very economically attractive," Long said.

He explains this would be because the reservoir is shallow, that the field will benefit from heavy oil tax allowances (which will cut effective tax rate to 30% from 62%), and that Skipper's oil could be sold on a par or at a very modest discount to Brent.

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