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## TomCo Energy plc\*

18 August 2011

### BUY:

12 Mth Price Target: 10p

#### Stock Data

Current Price:	0.86p
Market Cap:	£11.3m
Shares Outstanding:	1.31bn

#### 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 estimate (August 2011):	£2m
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#### Directors

Sir Nicholas Bonsor	Non-Ex Chairman
Stephen Komlosy	CEO
Miikka Haromo	FD

#### Major Shareholders

Kenglo	29.9%
Dominic Redfern	9.5%
Mark Donegan	7.6%
Barclayshare Nom'	3.6%
John Ryan	3.5%

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

#### THE NEW TOMCO

The re-listing of TomCo Energy went largely unnoticed by the market at the end of July, following a £3.5m funding at 1p. Over the last two years, whilst a private concern, TomCo has positioned itself in the emerging oil shale development arena. When the shares previously traded on AIM back in February 2009 the remit was on oil production from licences in Israel which offered less in potential upside than the current focus. We believe investor views are still anchored in the past rather than the present, as many of the original private client investors appear to have been selling their shares without appreciating the new direction of Tomco, so creating today's buying opportunity.

TomCo has a 100% interest over 2,919 acres of oil shale leases in Utah, USA. This includes its primary Holliday block asset, upon which a JORC Indicated resource of 123m barrels of oil has been estimated by independent consultant SRK. The Group holds a licence granted by oil shale technology and resources company Red Leaf to use a new technology called EcoShale™ to commercialise its leases. EcoShale™ is a process for mining sub-surface oil shale deposits within self contained capsules. One of the key advantages is that it overcomes many of the environmental issues present in other extraction methods such as surface retorting and in-situ mining. Red Leaf has already successfully pilot tested the technology and intends to expand it to a commercial scale in 2013 on its own acreage at Seep Ridge. Production at around 9,500 barrels of oil per day on TomCo's project is anticipated to commence 18 to 36 months after Red Leaf's initial commercial output.

#### RECOMMENDATION & VALUATION

We calculate a pre-tax NPV of \$687m at a 10% discount rate for TomCo's Holliday oil shale project. This is based upon a capital requirement of \$231m and oil price of \$70 per barrel for the first five years and then rising 2% p.a. afterwards for a total operational project life of 30 years to produce 98m barrels of oil. Taking into account capital and operating expenditure, along with state and licence royalties, the breakeven point per barrel comes to just over \$40 per barrel during the initial 12 years.

If the NPV is divided by the number of diluted shares and equity that could be issued in the future to fund pre-development work in the next three years (circa £5m) we compute a base valuation of 24p per share. To take into account technology and capital funding risks over the next few years, we have prudently applied a 60% discount to arrive at a final value of 10p per share. Using TomCo's JORC Indicated resource of 123m barrels of oil (assuming an 80% recovery factor) the valuation comes to only \$2.4 per barrel of oil.

As both Red Leaf and TomCo move nearer to their respective production points, we anticipate a rapid project de-risking and elimination of the above discount. Further upside comes from potential JORC estimate upgrades and improved sentiment towards the oil shale sector as US energy policy looks to favour domestic supply sources. Our valuation of 10p per share represents a potential 10 fold plus increase to the current share price and hence we recommend the stock as a BUY.

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