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Tomco Energy

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TomCo Energy aims to deliver with shale oil projects

TomCo Energy's (LON:TOM) re-listing on AIM last month after a two year absence went largely unnoticed by the market though it did not escape the attention of analysts at Optiva, who reckon the re-energised company's focus on prospects in Utah, USA, will surprise many on the upside.

The company's first period on AIM ended in August 2009 with a request for suspension of trading in its shares. The move resulted from weak oil prices severely undermining the economics of its key projects.

During that first period on the AIM, TomCo boasted both its shale oil leases in Utah and the Heletz fields in Southern Israel.

At the time though, the US shale oil sector was still in its early stages, with an attendant impact on its economic viability. The company, however, had always made clear that its Utah shale oil leases were a long term investment which would be exploited when market conditions made it commercially viable.

And while Heletz was producing, it needed further development, which a weak oil price could not support.

Consequently the company was caught between a rock and hard place, culminating in its 2009 departure from AIM.

The environment for the group, especially with regards to the oil price outlook and economics of shale oil, has clearly changed dramatically, triggering its re-listing on AIM in July following a £3.5m fundraiser at 1p.

At Optiva Securities, which acted as placing agent for the company in July, analyst Jason Robertson is convinced that this time around, TomCo has a lot more going for it.

Robertson says: "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."

Price: 1.35p

Market Cap: £21.88M

1 Year Share Price Graph

Share Information

Code:	TOM
Listing:	AIM
Sector:	**Energy**
Website:	**www.tomcoenergy.uk.com**

Company Synopsis:

TomCo Energy Plc is a London based, AIM quoted company with oil shale assets in the State of Utah, USA.

TomCo holds a 100% interest in two oil shale leases, comprising 7 blocks covering 2,918 acres in Uintah County, Utah.

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He reckons investor sentiments over the stock 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 flagship Holliday block asset, for which a JORC indicated resource of 123m barrels of oil has been estimated by independent consultant SRK.

In all, the company's Utah leases are assessed by SRK to contain up to 230 million barrels of potentially recoverable oil.

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 Utah leases.

With EcoShale, mining of subâ€•surface oil shale deposits is carried out within self-contained capsules. Robertson says: "One of EcoShale's key advantages is that it overcomes many of the environmental issues present in other extraction methods such as surface retorting and inâ€•situ mining.

He notes that 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.

The analyst anticipates that production at around 9,500 barrels of oil per day on TomCo's Holliday project will begin 18 to 36 months after Red Leaf's initial commercial output.

Drilling down to the nitty gritty, Robertson calculates a preâ€•tax net present value (NPV) of $687 million at the usual 10 per cent discount rate, for TomCo's Holliday oil shale project.

That NPV assessment is based upon a capital requirement of $231m and an oil price of $70 per barrel for the first five years and then rising 2% per annum 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, Robertson estimates the breakeven point per barrel comes to just over $40 per barrel during the initial 12 years.

After taking into account technology and capital funding risks over the next few years which attracts a 60 per cent discount to his base valuation Robertson arrives at a final target value of 10 pence.

He concludes: "As both Red Leaf and TomCo move nearer to their respective production points, we anticipate a rapid project deâ€•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.

Robertson's valuation of 10p per share represents a potential 10 fold plus increase to the current share price. He recommends the stock as a BUY.