# The End Of Oil approaches, but the stock market games are just beginning

*Buoyed up by investment, UK Oil & Gas is seeking planning permission to drill for oil on the Isle of Wight. But what is the company behind the 'Gatwick Gusher' really looking for, and will its shareholders ever cash in?*

Temps de lecture : minute

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Exacerbated by last year's COVID oil price crash, oil and gas companies have reached a fork in the road. Some, like BP, Shell and other European firms, are levelling up investment in renewables; BP, for example, is cutting output by one million barrels a day over the next decade and growing renewable output times 20.

Others, including Chevron and ExxonMobil, are doubling down on oil, gas and carbon capture. Some of this subsection might be greening up their operations alone, thus using renewable energy to process non-renewable energy and materials.

Roughly half of oil and gas companies are actively considering climate change and developing emissions reduction strategies. The other half are not.

Evidence points towards the former approach being the most – economically as well as environmentally – sensible. Oil major profits are halving, and regulation is proliferating. The UK government's Energy White Paper, published in December, suggests the Oil and Gas Authority “take powers to ensure we maintain a secure and resilient supply of fossil fuels during the transition”, but also warns the energy sector will “risk losing its social licence to operate” if it does not reduce emissions faster.

As Philip Verleger commented last week in *Bloomberg*, “beyond 2025 there is nothing but darkness for oil”. There is money to be made up until that point. However, proposing long-term upstream operations is a bit like meticulously planning a birthday party you know won’t happen because of coronavirus.


*Oil is at a crossroads/ Unsplash © Justus Menke*

On a related note, we already have all the oil we need in existing reserves; we aren't going to be running out anytime soon. BP's 2016

Statistical Review of World Energy indicated that we had enough to last for 50 years. Burning circa 25% of this would see us reach the IPCC 2 degree upper limit. When demand for oil suddenly plunged last year, we saw a preview of a potential future – replete with stranded assets.

Regardless, investors in fairly sizeable numbers are still buying shares in oil firms, possibly pinning their hopes on companies' promises to discover and utilise new oil fields. It remains to be seen how genuine these promises are.

## UKOG: a case in point?

Falling into the aforementioned Chevron/ExxonMobil camp, UK Oil & Gas PLC (UKOG) has fingers in several onshore pies across the UK. For such a small company, its reputation precedes it – not least because of the number of people scaling oil rigs and obstructing roads to halt its drilling proceedings.

It is currently hitting headlines for seeking planning permission for exploratory drilling on the Isle of Wight, a UNESCO Biosphere Reserve. Resistance groups like Don’t Drill the Wight and IOW Protection are focusing attention on localised environmental damage and general emissions impact – but also on UKOG’s alleged faults as a firm.

As with many an oil company nowadays, it's well-worth digging into UKOG's financial position.


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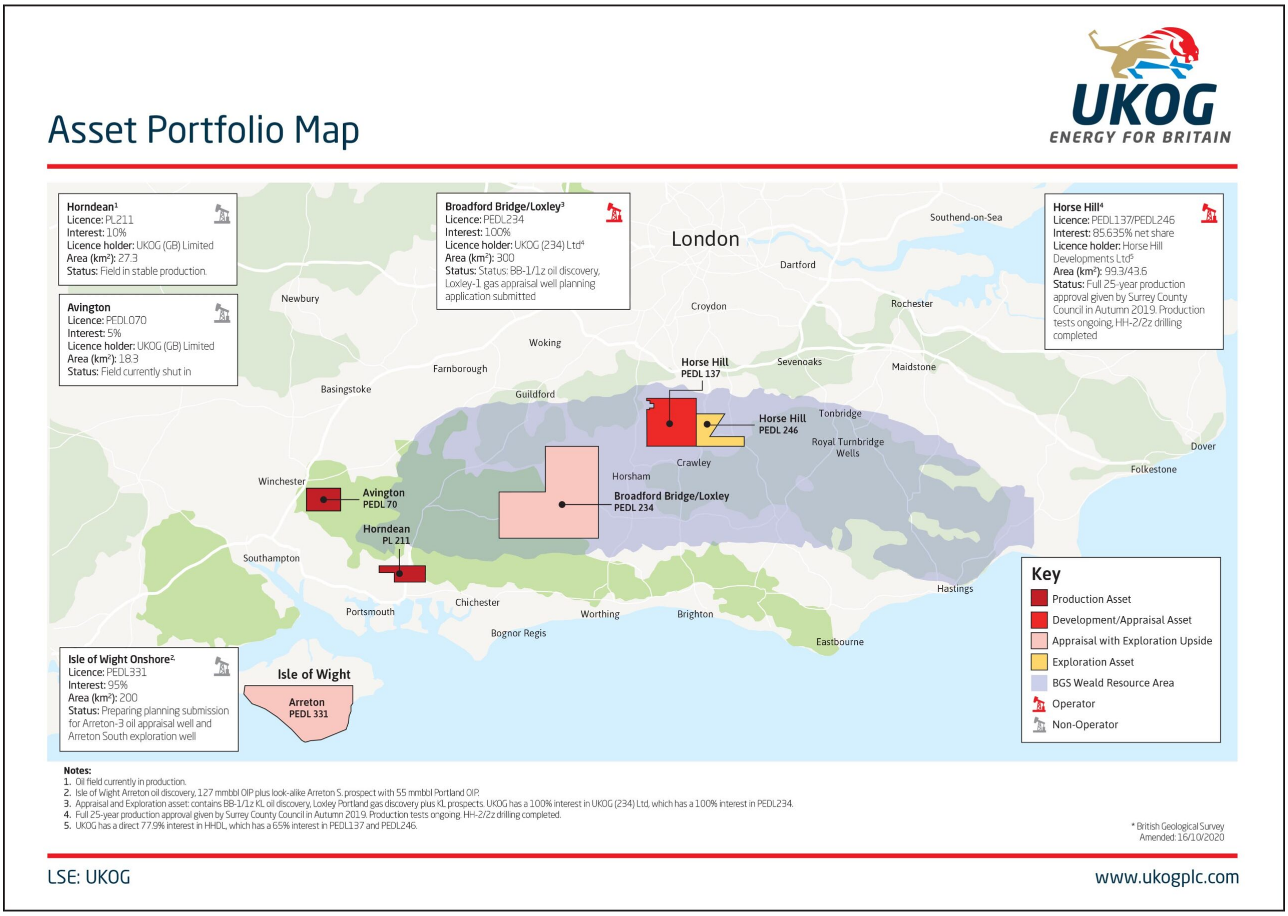
UKOG has sites across southern England's Weald Basin, most famously at Horse Hill near Gatwick. This was recently subject to a legal challenge in the High Court, with campaigner Sarah Finch alleging that Surrey County Council did not consider the relevant environmental implications when it approved 20 years of oil production at the site.




*© UKOG*

The challenge failed, prompting UKOG's CEO Stephen Sanderson to remark:

> *"Oil use as a non-combusted industrial feedstock will remain necessary to manufacture key 21st century materials during and post transition, as without such materials there will be no electric vehicles, green aviation or wind turbine blades."*

"It must surely be preferable that such transitional fuel and vital feedstocks should come from domestic sources rather than those beyond our control and regulation."

Providing oil for feedstock (e.g. for plastics and fertilisers), and the concept of domestic production, are key tenets of UKOG's philosophy. And certainly, they're compelling – although I'd argue not compelling enough.

Globally, only around 15% of oil used is non-combusted; according to BP, 'The non-combusted use of fuels [...] is an important source of incremental demand for fossil fuels, although less than in the past 20 years as environmental pressures increase.' Demand remains, but is on the decline because of regulation, recycling and public opinion increasing demand for biodegradable alternatives.

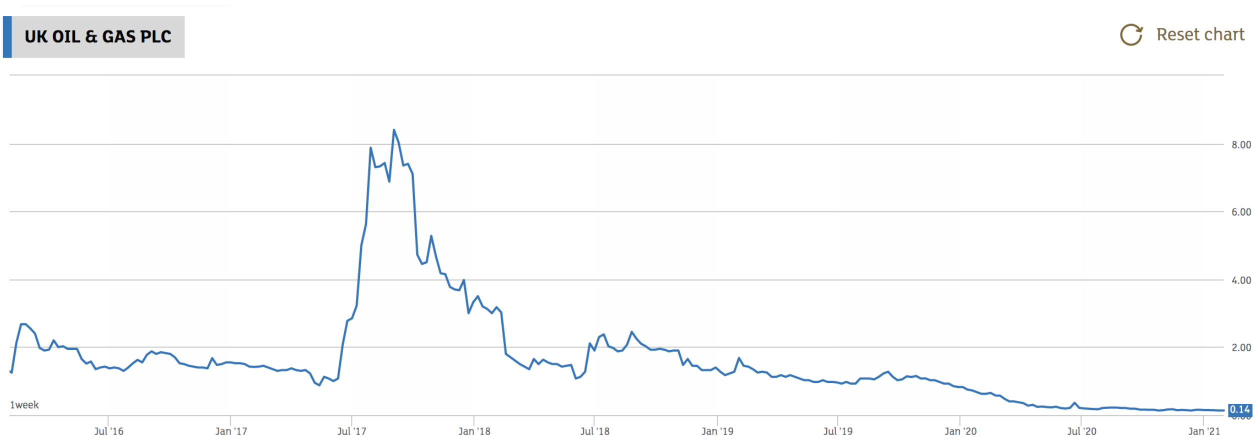
All in all, decarbonising industry is one of the major challenges we face but, according to the World Resources Institute, 'is technically and economically possible [...] within the time frame specified by the Paris Agreement'.

# Searching for domestic oil reserves

In his Chief Executive's Community Message, Sanderson writes,

"The real value and essence of UKOG's business, is the marriage we strive to make between Britain's oil and gas resources that the government and community allows us to explore for and develop, with the financial resources that our shareholders and lenders provide."

However, UKOG oil production has been pretty low – and its financials are a testament to this. The website 'Simply Wall St' flags the fact that 'earnings have declined by 37.1% per year over [the] past 5 years' as a risk to investors – alongside shareholder dilution, a 'highly volatile share price over the past 3 months' and UKOG's only bringing in low six-figure revenue.




*UKOG share prices over the past five years © London Stock Exchange*

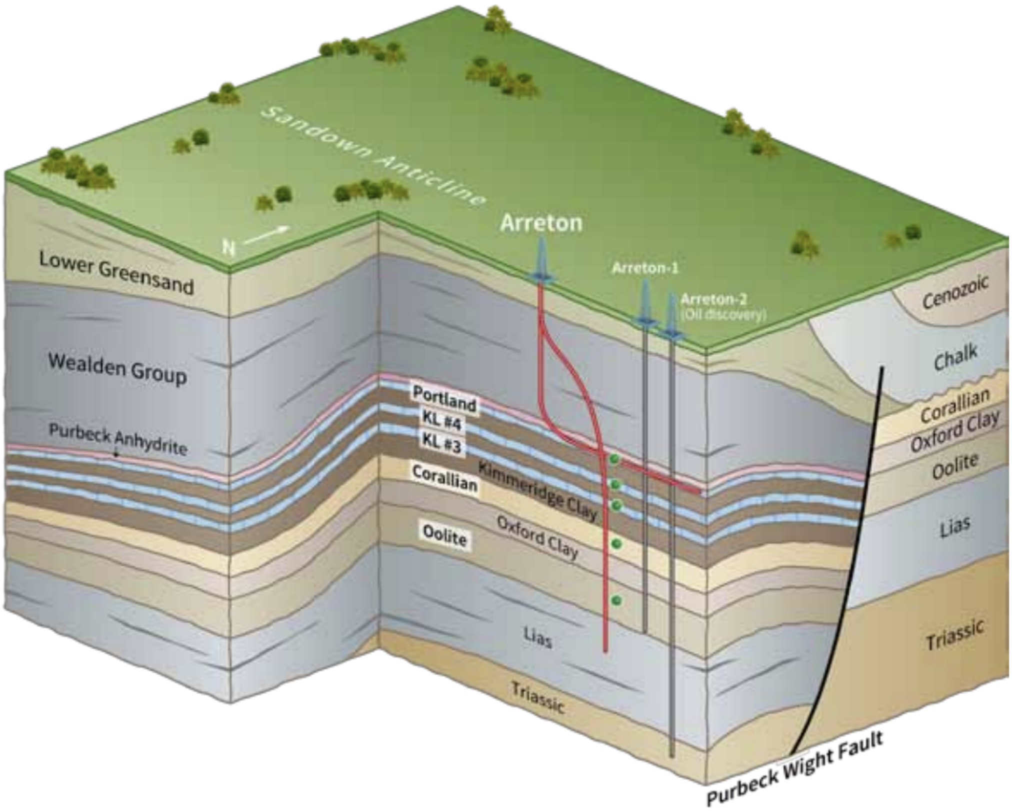
In its reputational heyday, the Horse Hill site was labelled a discovery of "national significance" by Sanderson. 50-100B barrels of oil were said to be under the field near Gatwick, with UKOG estimates suggesting its production in the Weald area could meet 10-30% of the UK's oil demand by 2030.

Since production officially started, however, things have not been looking so good. Analysis by *Drill or Drop* of the most recently available data indicates the site is producing well below the number of barrels per day it said it would in 2016 tests – with numbers in the hundreds rather than thousands, and falling. Improvement works are underway at the site.

As for Arreton on the Isle of Wight, people have tried and failed twice (hence the site's name, Arreton-3) to dredge up oil from beneath its surface. Depending on how you look at it, there was either a 'discovery of hydrocarbons within the Portland limestone, Purbeck limestone and the Inferior Oolite limestone but [...] no flow of oil & gas to surface at this time' (UKOG) – or this is 'a doubly confirmed dry oil ex-prospect at all levels down to the Triassic Sherwood Sandstone' (David Smythe, Emeritus Professor of Geophysics at Glasgow University).

Smythe continues,

> *'It is difficult to see how any significant quantity of oil could be produced without resorting to unconventional stimulation techniques (fracking or matrix acidisation).'*



# Turkey or bust

UKOG is emphatically against fracking. But it was seemingly against carrying out operations overseas – until recently. In mid-January, the company announced that its 50% acquisition of an oil licence in Turkey had been approved.

Back in July 2020 when initial intimations towards Turkey were being made, Sanderson commented,

> *“Whilst we remain committed to growing our core UK business, this was an irresistible opportunity to expand our horizons and to expose the company to potentially transformational recoverable oil reserves that can be rapidly monetised.”*

In a recent statement, he added the “lower drilling and operating costs” and “facilitated by Turkish petroleum law, the possibility to rapidly monetise the success case within a year” to the list of advantages.

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Has UKOG come to terms with dwindling prospects in the UK, and thus set its sights on Turkey? This latest piece of news will certainly keep things ticking over – despite contradicting UK Oil and Gas' 'anti-imported oil' philosophy. Analysts, journalists and campaigners are beginning to sense a trend – whereby with every big announcement, comes a stock market placing. There were two last year: £2.2M raised to fund the start of operations in Turkey through placing 1,374M shares, and £4.2M at an earlier stage to pay back debts and purchase equipment.

*The Isle of Wight/ Unsplash © Lison Zhao*

Perhaps UKOG's latest 'groundbreaking find', this allegedly free-flowing and cheap Turkish oil, will give investors the dividends they have long been waiting for. But the company is playing a risky game – and the environment, on both a local and atmospheric level, is a mere pawn on its chessboard.

Meanwhile, CEO Sanderson continues to earn at an above average rate. His total annual compensation was £767K over the year to September 2019, in contrast to a median of £267K in companies with similar market capitalisation. It has also grown despite UKOG's unprofitability.

Geologist David Smythe concludes by suggesting UKOG's failure to provide certain information 'leaves a strong impression that the Applicant is more interested in using Arreton to play the stock market, than in seriously trying to produce oil.’ Whether or not this is true, UKOG is certainly pinning a lot of hope on future exploration while its compatriots at BP turn their minds towards winding down.

As time goes on, our concepts of ESG investments and lucrative investments are merging – after many years living in distant worlds. Dishing out oil shares like water from a sinking ship is all very well if future profitability materialises, but in this case, will it?

For more information on UKOG and UK fracking, onshore oil and gas and the reactions to it, head to drillordrop.com.

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