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## Today's Oil and Gas Update - Volga Gas, Diversified Gas & Oil & Touchstone Exploration.



### 19 February 2019 Summary In Brief

Volga Gas\*\*\* (LON:VGAS) - 49p - \$78mm (75p)

Company Robust

Diversified Gas & Oil (LON:DGO) - 117p

Agreement Underlines Importance

Touchstone Exploration (LON:TXP) - 12p

Canny Capital

## News In Brief

?Volga Gas\*\*\*

(LON:VGAS) - 49p

\$78mm (75p)

### Company Robust

The news that certain members of Volga's board have been detained will cause concern amongst the Company's owners. However, we believe that the legal issues with the directors will not impact the wider operation of the business, which remains solid.

While we will await the outcome of the due process that will undoubtedly ensue, our valuation of the underlying business remains \$78mm (75p), as the Company's structure remains robust.

### Diversified Gas & Oil

(LON:DGO) - 117p

### Agreement Underlines Importance

At first glance, the agreement with Kentucky to P&A wells wouldn't ordinarily be an issue, but given that the number involved is 7,500, the issue is significant.

This takes on new impetus once you consider that these wells are liable on today's balance sheet, so even if you assume that it's just the wells that are P&A-ed, assuming \$30m per well gives you a liability of over \$225mm.

While the monies still have to be spent, it is not now all a current liability and provided DGO's treatment of the wells in consideration remain within the agreement; there is little retrospective application of the law that can now be imposed.

We believe that the Company's owners should be pleased with the agreement, and one of the more significant headwinds preventing the price from strengthening has eased. Nevertheless, we also believe that the scale of the issue has now been quantified, which

may also prove to be its a headwind, in the near term at least.

Whichever competing investor group dominates in the short term, this news underlines how important decommissioning is to free cash flow and how the Company is approaching its liabilities.

Touchstone Exploration

(LON:TXP) - 12p

Canny Capital

The Company's ~\$5mm raise will allow it to drill its Ortoire exploration well. We believe this is a good use of funds and funding, as the issued equity's value is underwritten by production, but a drilling success will produce a significant step change in value.

We believe this to be a canny application of the capital structure to fund a well that otherwise may have been lower in the priority scale than this news tells us it is.

We may provide a further update on one, or all, of the stories above later today. However, if there is anything that you would like to discuss, please feel free to contact us.

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