

Seismic reflections

Italian drilling ban about turn?

Recent optimism among oil and gas companies over easing of a potential near-shore exploration drilling ban in Italy have been dashed. In a possible link to the sinking of the Costa Concordia, the country appears to have stepped back from a decree to its Environmental Code potentially relaxing the ban. As the rest of the world, including BP, moves on from Macondo, companies with near-shore Italian exploration targets continue to suffer drag from this ambiguous legislation. However, investors should note some smart operators who are limiting the impact of the ban through boundary changes and portfolio plays.

Italian offshore drilling decree

In June 2010, in the days following the Macondo disaster in the Gulf of Mexico, Italian authorities issued a decree amending its Environmental Code that suggested that exploration drilling was banned in and around Italian coastal waters. Although interpretation of the code amendment remains unclear, the decree put the brakes on a number of companies' plans to develop prized near-shore acreage in Italy.

Recent developments raise market hopes

After almost 20 months under the code amendment, press speculation in January 2012 indicated there could be a modification to the decree relaxing the ban. One company significantly affected by the decree, Mediterranean Oil & Gas (MOG), even went to the lengths of making a stock market announcement referring to the speculation (MOG could unlock 40mmbbls of reserves from its affected Ombria Mare permit if the ban was lifted). Meanwhile, BP's rehabilitation continues in the Gulf of Mexico with this week's announcement that it now has five deep-water rigs on its operated fields that it expects to increase to eight by the end of 2012.

Prudent operators reduce exposure

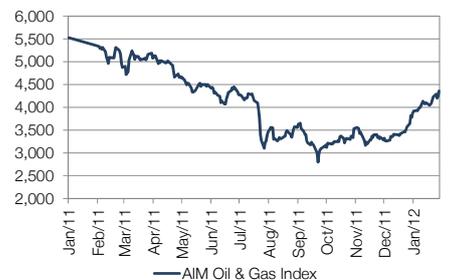
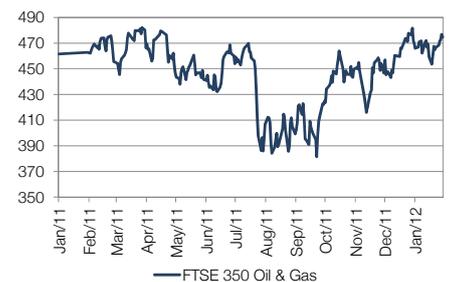
Wind forward seven days from MOG's market announcement and it was forced to release a follow-up confirming the anticipated modification made no mention of development of offshore oil and gas fields in Italy. Some sources speculate this could be linked to the recent sinking of the Costa Concordia liner; although things are rarely this transparent in Italy. However, some companies, such as Northern Petroleum, continue to press ahead with Italian activities by successfully steering clear of coastal limits by redrawing permit boundaries. Meanwhile, the decree continues to confuse many market observers, affecting operators in the relatively shallow near-shore waters rather than those in deep water where there is more similarity to Macondo. Exposure to near-shore drilling in Italy continues to create shareholder drag and, unless companies play it smart with authorities, there seems little grounds for thinking in the short term that things will change.



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Exhibit 1: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	EUROPA OIL AND GAS	16.9%	1	CAIRN ENERGY	(52.0%)
2	BPC LIMITED	16.0%	2	AMINEX PLC	(43.2%)
3	GULF KEYSTONE PETROLEUM	13.8%	3	ANTRIM ENERGY INC	(26.9%)
4	NIGHTHAWK ENERGY	7.6%	4	RESACA EXPLOITATION INC	(18.3%)
5	AMERISUR RESOURCES	7.3%	5	TOWER RESOURCES	(14.8%)

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	LENI GAS AND OIL	106.4%	1	AMINEX PLC	(27.2%)
2	KEA PETROLEUM PLC	54.6%	2	PETRO MATAD	(22.5%)
3	BPC LIMITED	46.6%	3	FRONTERA RESOURCES CORPORATION	(20.8%)
4	PRESIDENT PETROLEUM	39.9%	4	RESACA EXPLOITATION INC	(18.3%)
5	PROVIDENCE RESOURCES	34.6%	5	PETRONEFT RESOURCES	(17.9%)

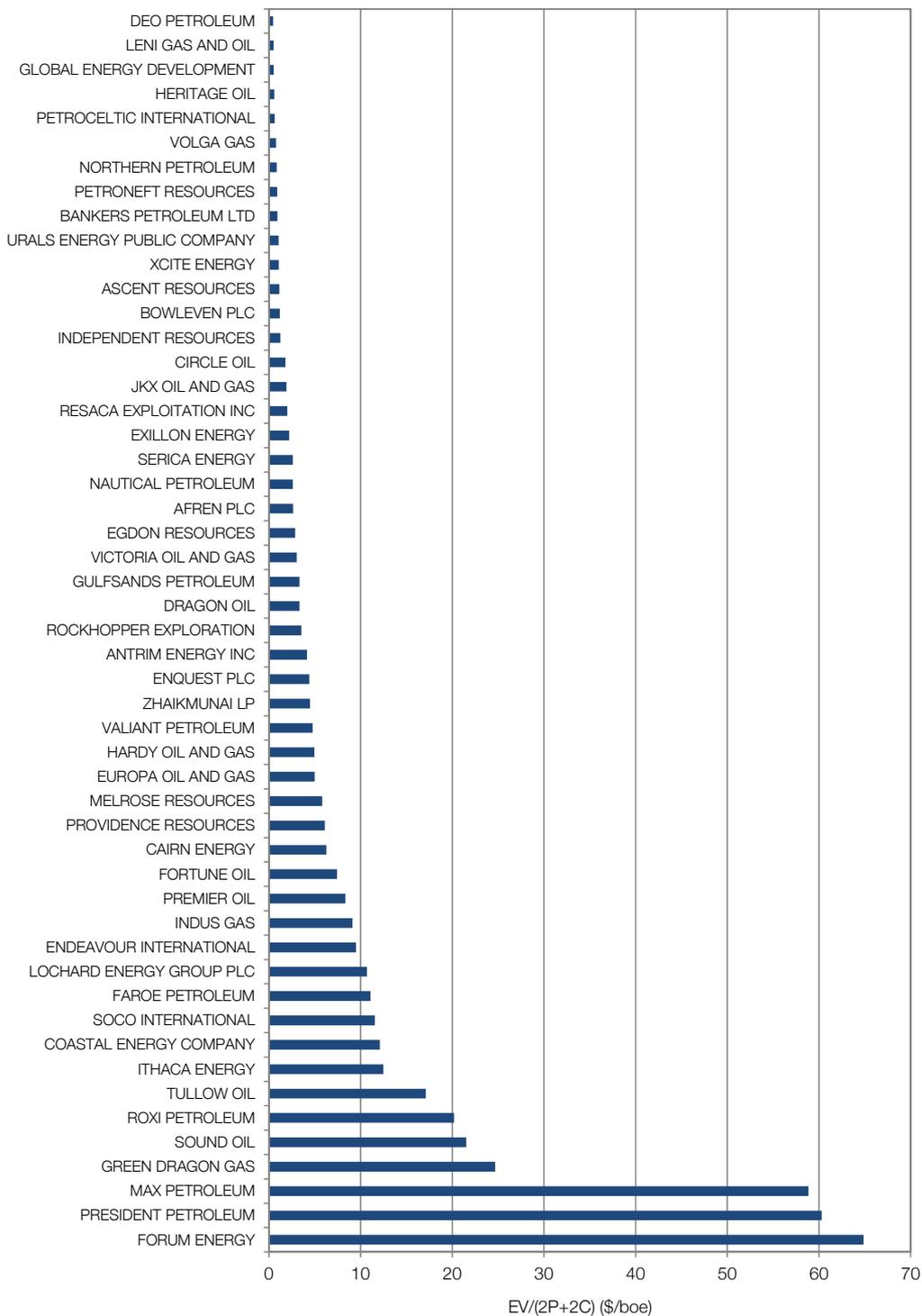
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	GULF KEYSTONE PETROLEUM	143.7%	1	SOUND OIL	(44.2%)
2	ENEGI OIL	88.6%	2	PETRONEFT RESOURCES	(42.2%)
3	PETRO MATAD	86.9%	3	MEDITERRANEAN OIL AND GAS	(32.8%)
4	AFREN PLC	74.2%	4	AURELIAN OIL AND GAS	(30.2%)
5	AMERISUR RESOURCES	69.2%	5	FRONTERA RESOURCES CORPORATION	(26.4%)

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	GULF KEYSTONE PETROLEUM	187.9%	1	PETRO MATAD	(64.2%)
2	COVE ENERGY PLC	129.5%	2	AURELIAN OIL AND GAS	(61.3%)
3	COASTAL ENERGY COMPANY	16.7%	3	FRONTERA RESOURCES CORPORATION	(60.8%)
4	DOMINION PETROLEUM	96.5%	4	PETRONEFT RESOURCES	(51.6%)
5	DESIRE PETROLEUM	95.1%	5	MEDITERRANEAN OIL AND GAS	(51.3%)

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	COASTAL ENERGY COMPANY	154.8%	1	FRONTERA RESOURCES CORPORATION	(82.8%)
2	GULF KEYSTONE PETROLEUM	99.4%	2	AURELIAN OIL AND GAS	(79.5%)
3	COVE ENERGY PLC	44.3%	3	MEDITERRANEAN OIL AND GAS	(78.8%)
4	INDUS GAS	22.2%	4	PETRO MATAD	(78.2%)
5	FORUM ENERGY	14.2%	5	BOWLEVEN PLC	(76.7%)

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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