

Seismic reflections

Stick or twist – looks like twist

While Falklands investments have historically been for small-cap investors, the landscape is now starting to change with the arrival of UK mid-cap leader Premier Oil and, most recently, US independent Noble Energy. This should signal a step change in investor sentiment both around the commerciality of existing discoveries and the longer-term exploration intent of operators in the region. Rather than the perennial investment issues being around funding and 'what next', there is now a firm commitment to continue to promote exploration and development, with some interesting nuances appearing around preferred geological play types.

Noble brings strong E&D credentials

Coinciding with the spudding of the largest of the 2012 exploration targets with the Loligo well, the big Falklands news this week is the farm-in of large US independent Noble Energy into Falkland Oil & Gas's (FOGL) acreage. For investors outside the US, Noble may not be a household name, but the \$15bn market cap company has an impressive track record of both exploration and development. European investors know it for its major gas finds in the East Mediterranean that amount to gross mean resources of 28tcf of gas across its Tamar and Leviathan fields offshore Israel. In West Africa the company is active in primarily Equatorial Guinea where it has discovered c 300mmboe of resources. Noble has been very successful at rapidly developing its EG assets into production and this should give investors confidence there is a clear monetisation route available in the event of there being commercial discoveries in the South Falkland basins.

Mesozoic focus – joining the dots

Both the Noble farm-in and the recent Premier deal with Rockhopper offer some interesting observations about the geological play type preferences of the to-be operators. While the Premier deal includes forming a JV with Rockhopper to test Mesozoic analogues in West Africa, Noble is focusing firmly on Mid-Cretaceous targets with the Scotia well a clear priority in 2012. Tullow has already joined the dots between West Africa and Central America with its Zaedyus discovery proving the same play type as its Jubilee discovery in Ghana and both farm-in parties clearly see similar analogues as being possible with Mesozoic plays between Africa and the Falklands.

Gas may still be interesting

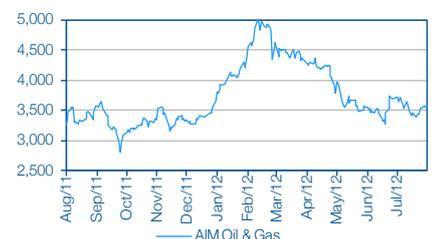
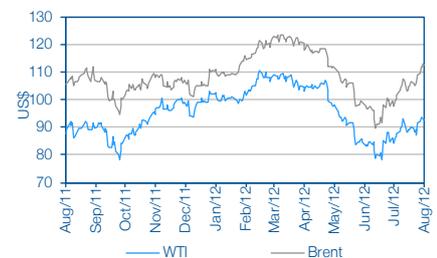
Borders and Southern's 2012 wells to date have been technical gas and gas/condensate discoveries. While investors are naturally lukewarm to gas discoveries without an obvious route to market, this is how most frontier gas developments get off the ground. Anadarko/ Cove kicked off East Africa with discoveries of less than 5tcf that have now risen to 100tcf across Mozambique and Tanzania. Borders has already announced c 2.5tcf of gas in place from its Darwin discovery, while if Loligo is a major gas discovery, it could amount to as much as 25-30tcf. Oil remains the primary target but the South Falklands could still yet be a major gas play; all is still to play for.



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Exhibit 1: Best and worst performers

		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	HERITAGE OIL PLC	36.7%	1	LENI GAS & OIL PLC	-9.0%
2	FALKLAND OIL & GAS LTD	20.0%	2	FRONTERA RESOURCES CORP	-5.1%
3	KEA PETROLEUM PLC	17.9%	3	AMINEX PLC	-4.7%
4	MAX PETROLEUM PLC	16.0%	4	ASCENT RESOURCES PLC	-4.0%
5	PETRONEFT RESOURCES PLC	15.6%	5	GASOL PLC	-3.8%

		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	MAX PETROLEUM PLC	52.6%	1	BORDERS & SOUTHERN PETROLEUM	-73.8%
2	HERITAGE OIL PLC	36.7%	2	SOUND OIL PLC	-46.5%
3	GULFSANDS PETROLEUM PLC	35.4%	3	INDEPENDENT RESOURCES PLC	-31.4%
4	MEDITERRANEAN OIL & GAS PLC	27.8%	4	GASOL PLC	-30.3%
5	EXILLON ENERGY PLC	18.6%	5	CADOGAN PETROLEUM PLC	-29.0%

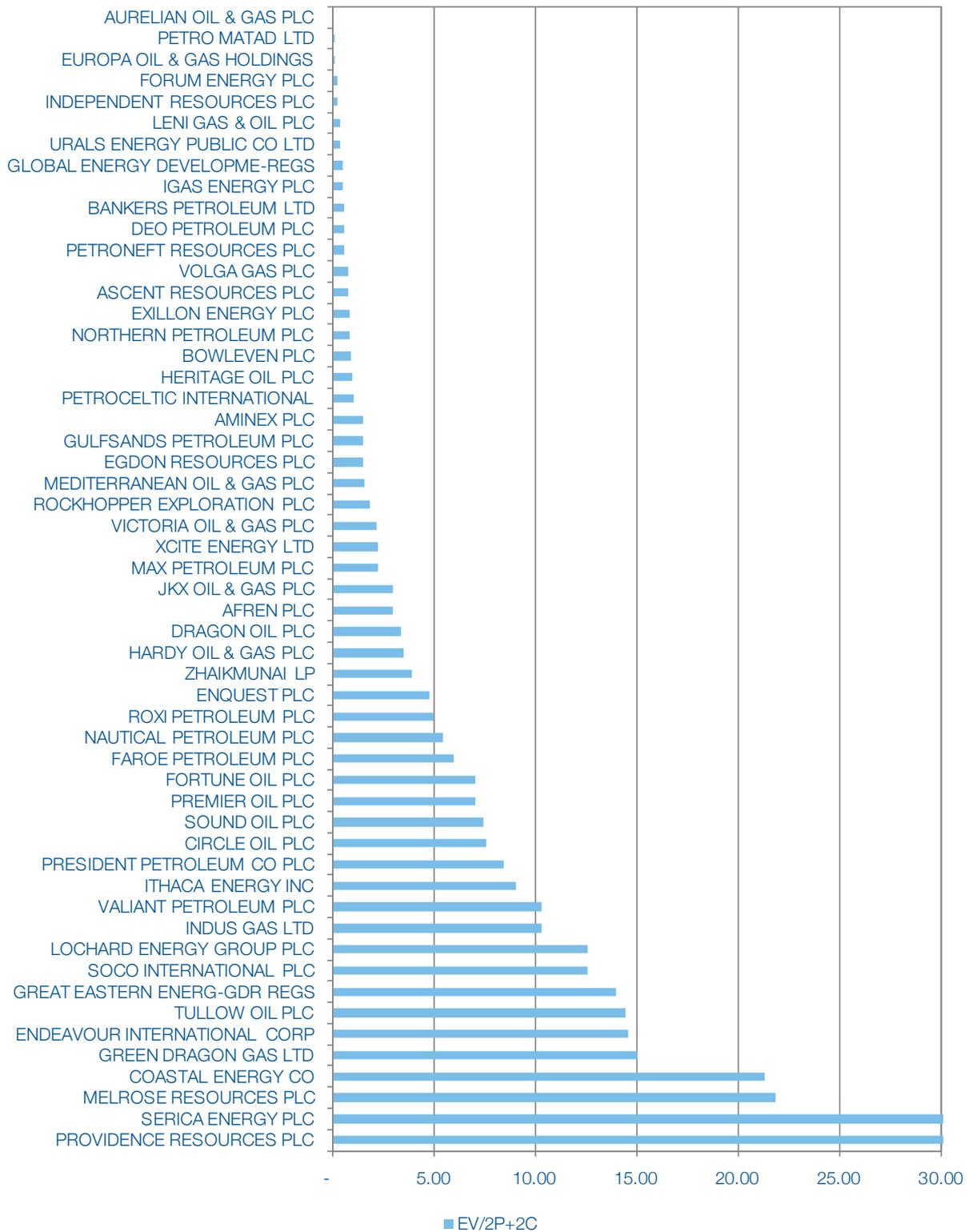
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	124.4%	1	BORDERS & SOUTHERN PETROLEUM	-78.2%
2	AMERISUR RESOURCES PLC	51.5%	2	INDEPENDENT RESOURCES PLC	-78.1%
3	NAUTICAL PETROLEUM PLC	48.1%	3	MAX PETROLEUM PLC	-61.3%
4	SOCO INTERNATIONAL PLC	28.5%	4	PETRO MATAD LTD	-56.8%
5	PETROCELTIC INTERNATIONAL	28.1%	5	AURELIAN OIL & GAS PLC	-56.0%

		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	159.0%	1	INDEPENDENT RESOURCES PLC	-82.1%
2	PROVIDENCE RESOURCES PLC	129.5%	2	BORDERS & SOUTHERN PETROLEUM	-75.4%
3	COVE ENERGY PLC	72.3%	3	PETRO MATAD LTD	-71.2%
4	IGAS ENERGY PLC	69.4%	4	SOUND OIL PLC	-63.5%
5	AMERISUR RESOURCES PLC	53.1%	5	MAX PETROLEUM PLC	-62.2%

		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	COVE ENERGY PLC	292.6%	1	PETRO MATAD LTD	-89.9%
2	PROVIDENCE RESOURCES PLC	186.8%	2	FRONTERA RESOURCES CORP	-82.3%
3	FORUM ENERGY PLC	140.5%	3	AURELIAN OIL & GAS PLC	-79.7%
4	AMERISUR RESOURCES PLC	123.9%	4	PETRONEFT RESOURCES PLC	-78.9%
5	KEA PETROLEUM PLC	94.1%	5	INDEPENDENT RESOURCES PLC	-74.3%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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