

Seismic reflections

Take me out

In our North Sea sector report *Northern Lights*, published in March 2011, we focused on 12 North Sea players. Since then, half these companies have been involved in takeover bids or strategic reviews, demonstrating the level of M&A activity occurring in the North Sea. As we mentioned in *Seismic Reflections Funding troubles, M&A bubbles* in January 2012, we continue to believe further consolidation in the sector will occur, with the industry capitalising on the disconnect between current market values and fundamental asset valuation.

Deal or no deal

We analysed 12 companies in *Northern Lights*: DEO Petroleum, Encore Oil, Endeavour International, EnQuest, Faroe Petroleum, Ithaca Energy, Nautical Petroleum, Premier Oil, Rheochem (now Lochard Energy), Serica Energy, Valiant Petroleum and Xcite Energy. DEO has since been acquired by Parkmead Group, Encore by Premier Oil and Nautical by Cairn Energy. Ithaca was involved in unsuccessful takeover discussions and Lochard and Valiant have recently entered into formal sale processes. We have also seen the bid for Nexen by CNOOC and multiple asset acquisitions.

Drivers behind deal activity

We can point to several drivers. Companies may be financially distressed, for example DEO's inability to fund its Perth development resulted in it becoming an acquisition target for Parkmead. Other deals occurred because larger companies sought to re-balance their portfolios. Cairn acquired Nautical and Agora to add near-term production to its exploration portfolio. We have seen Centrica acquire assets from Total and Statoil in an effort to boost production and reserves. Finally, we have also seen a continuation of deals by national oil companies in an attempt to add resources on an asset or a corporate basis, as shown by the Dana/KNOC, Nexen/CNOOC and Talisman/Sinopec deals.

Macro uncertainty drives further consolidation

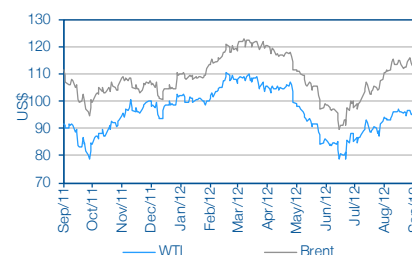
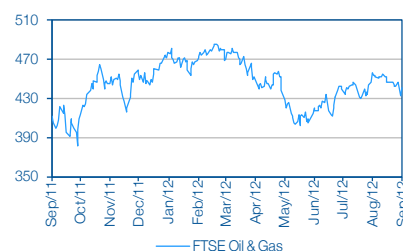
In *Funding troubles, M&A bubbles*, we concluded that 2012 would be a year of further consolidation and, so far, this has proven to be the case. We will not speculate on potential takeover targets, but the contrast between the near-term focus of equity markets and longer-term outlook of potential acquirers could present opportunities. Particularly, companies with large near-term capex calls and limited funding facilities may fall prey to cash-rich opportunists.



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Exhibit 1: Best and worst performers

Exhibit 17: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	ROXI PETROLEUM PLC	13.0%	1	BAHAMAS PETROLEUM CO PLC	-17.5%
2	GULF KEYSTONE PETROLEUM LTD	11.9%	2	CHARIOT OIL & GAS LTD	-16.9%
3	CIRCLE OIL PLC	10.4%	3	AURELIAN OIL & GAS PLC	-16.1%
4	VALIANT PETROLEUM PLC	9.4%	4	RANGE RESOURCES LTD	-12.5%
5	COASTAL ENERGY CO	7.8%	5	MEDITERRANEAN OIL & GAS PLC	-12.4%

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	XCITE ENERGY LTD	52.3%	1	CHARIOT OIL & GAS LTD	-23.9%
2	BORDERS & SOUTHERN PETROLEUM	47.1%	2	GASOL PLC	-22.8%
3	HERITAGE OIL PLC	34.0%	3	BAHAMAS PETROLEUM CO PLC	-22.3%
4	INDEPENDENT RESOURCES PLC	27.4%	4	SOUND OIL PLC	-21.4%
5	EXILLON ENERGY PLC	24.0%	5	GREEN DRAGON GAS LTD	-20.7%

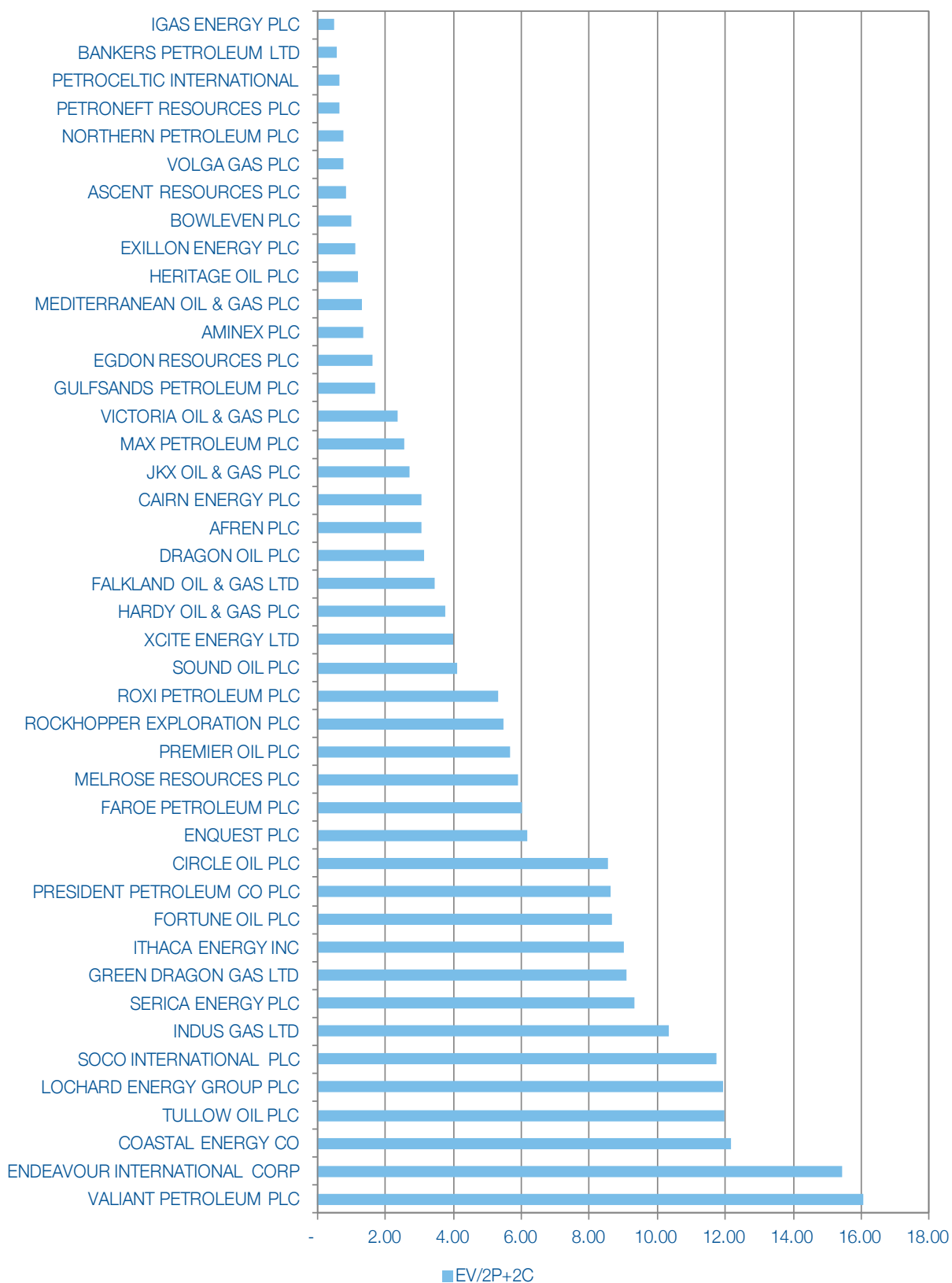
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	63.5%	1	BORDERS & SOUTHERN PETROLEUM	-65.2%
2	HERITAGE OIL PLC	56.6%	2	MAX PETROLEUM PLC	-60.5%
3	GULFSANDS PETROLEUM PLC	43.1%	3	SOUND OIL PLC	-59.1%
4	AMERISUR RESOURCES PLC	40.2%	4	INDEPENDENT RESOURCES PLC	-51.6%
5	EXILLON ENERGY PLC	39.4%	5	AURELIAN OIL & GAS PLC	-51.3%

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	97.7%	1	INDEPENDENT RESOURCES PLC	-78.3%
2	IGAS ENERGY PLC	45.5%	2	SOUND OIL PLC	-70.1%
3	FALKLAND OIL & GAS LTD	42.5%	3	MAX PETROLEUM PLC	-69.6%
4	AMERISUR RESOURCES PLC	40.2%	4	BORDERS & SOUTHERN PETROLEUM	-65.4%
5	GEOPARK HOLDINGS LTD	40.1%	5	RANGE RESOURCES LTD	-65.0%

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	KEA PETROLEUM PLC	114.3%	1	PETRO MATAD LTD	-83.8%
2	AMERISUR RESOURCES PLC	113.4%	2	AURELIAN OIL & GAS PLC	-83.6%
3	FORUM ENERGY PLC	100.0%	3	SOUND OIL PLC	-79.5%
4	INDUS GAS LTD	77.1%	4	FRONTERA RESOURCES CORP	-76.5%
5	FALKLAND OIL & GAS LTD	70.8%	5	PETRONEFT RESOURCES PLC	-74.6%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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