

Seismic reflections

North Sea resurgence

It looks as if things may be starting to turn around for the North Sea after the lows of 2011. Last year saw the lowest exploration in the region for many decades and a hike in the marginal tax rate that together left many concerned that a downward trend was being established for the area. In recent weeks, however, a different story appears to be emerging with majors and medium-size companies alike announcing plans to significantly invest in older fields, while independents are well represented in the 27th offshore licensing round awards.

Major reinvestment

Supermajor Shell announced last week that it will increase its stake in the Beryl area fields for \$525m, taking its production here from 9,000boepd to 24,000boepd. However, the company also believes that with increased investment the field life can be extended for up to 20 years. On the same day the government approved a £1.6bn plan from Talisman Energy to redevelop its MonArb group of fields with a target of increasing recovery from the area by 100mmbbls. This renewed enthusiasm for investing in ageing fields would seem to be linked to the new Brown Field Allowance (BFA), which will shield between £250m and £500m of income from qualifying projects from the 32% Supplementary Charge rate. Although the BFA was only announced in September, we expect that the industry must have been aware for some time of the move, with Oil & Gas UK citing the investment being a result of 18 months of constructive engagement with the government.

New kid on the blocks

Last week also saw the award of the first tranche of new licences under the UKCS 27th Licensing Round. The results show continued interest from the majors with, for example, Total picking up 22 licences, while established North Sea independents Faroe, EnQuest and Valiant also fared well. But the round also signalled the growing presence of Parkmead in the region, with the award of six licences across 25 blocks. Chairman Tom Cross and his ex Dana team's strategy is to build a significant independent company on an accelerated basis, and these awards look to be the next step in achieving this.

Interestingly one of the licences covers 10 blocks in the frontier Rockall Trough West of Scotland. The blocks contain three leads, but under the licence terms we may have to wait up to six years before any potential drilling occurs here.

Building momentum

Encouraging re-investment in the North Sea had proved elusive in recent years, so the news from Shell and Talisman is encouraging; but only the coming months will show if the BFA will stimulate further such investment. The 27th round awards results are similarly positive. The companies involved will, however, need to carry out the work to identify prospects in their new acreage before we can see if this will translate into increased exploration activity.



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Exhibit 1: Best and worst performers

		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	LENI GAS & OIL PLC	93.0%	1	ENDEAVOUR INTERNATIONAL CORP	-12.8%
2	ASCENT RESOURCES PLC	30.2%	2	ROXI PETROLEUM PLC	-11.5%
3	AURELIAN OIL & GAS PLC	21.8%	3	FORUM ENERGY PLC	-8.1%
4	ITHACA ENERGY INC	13.2%	4	AMINEX PLC	-8.0%
5	LOCHARD ENERGY GROUP PLC	12.2%	5	TOWER RESOURCES PLC	-7.6%

		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	LENI GAS & OIL PLC	171.6%	1	ENDEAVOUR INTERNATIONAL CORP	-32.3%
2	AURELIAN OIL & GAS PLC	36.9%	2	BAHAMAS PETROLEUM CO PLC	-21.9%
3	ASCENT RESOURCES PLC	36.7%	3	RANGE RESOURCES LTD	-19.6%
4	ENEGI OIL PLC	36.6%	4	GULF KEYSTONE PETROLEUM LTD	-18.7%
5	AMERISUR RESOURCES PLC	31.8%	5	TETHYS PETROLEUM LTD	-17.9%

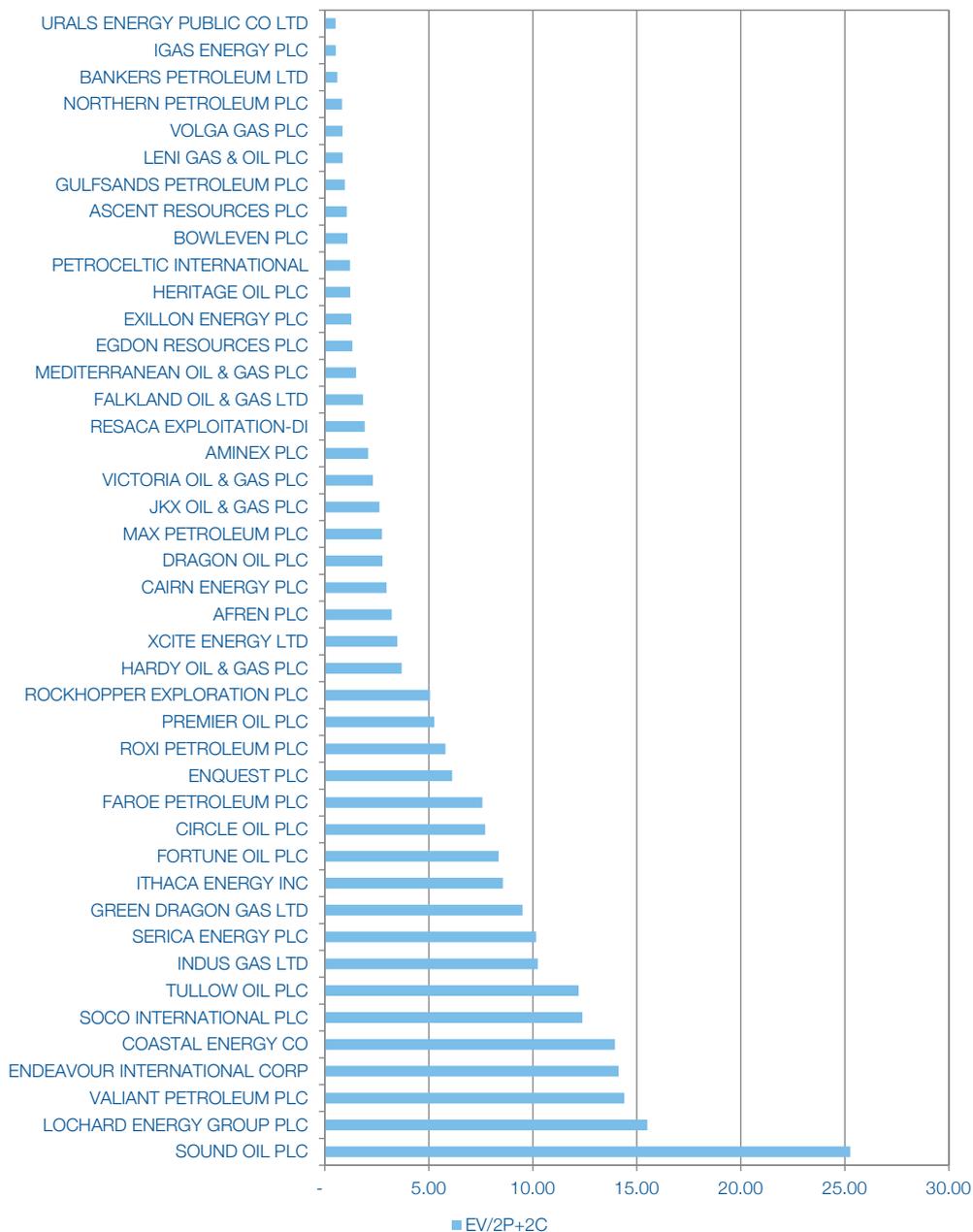
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	NIGHTHAWK ENERGY PLC	134.7%	1	CHARIOT OIL & GAS LTD	-75.3%
2	SOUND OIL PLC	105.4%	2	RESACA EXPLOITATION-DI	-63.6%
3	HERITAGE OIL PLC	63.6%	3	BAHAMAS PETROLEUM CO PLC	-47.0%
4	EXILLON ENERGY PLC	57.7%	4	GASOL PLC	-45.2%
5	EUROPA OIL & GAS HOLDINGS	57.1%	5	GREEN DRAGON GAS LTD	-27.9%

		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	120.5%	1	CHARIOT OIL & GAS LTD	-84.2%
2	AMERISUR RESOURCES PLC	91.2%	2	INDEPENDENT RESOURCES PLC	-75.3%
3	NIGHTHAWK ENERGY PLC	35.8%	3	BORDERS & SOUTHERN PETROLEUM	-73.7%
4	HERITAGE OIL PLC	32.7%	4	RESACA EXPLOITATION-DI	-65.4%
5	ANTRIM ENERGY INC	24.1%	5	RANGE RESOURCES LTD	-61.3%

		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	AMERISUR RESOURCES PLC	282.4%	1	PETRONEFT RESOURCES PLC	-78.9%
2	NIGHTHAWK ENERGY PLC	92.0%	2	CHARIOT OIL & GAS LTD	-78.1%
3	KEA PETROLEUM PLC	89.7%	3	RESACA EXPLOITATION-DI	-76.2%
4	COASTAL ENERGY CO	66.7%	4	INDEPENDENT RESOURCES PLC	-75.6%
5	FORUM ENERGY PLC	66.3%	5	MAX PETROLEUM PLC	-65.7%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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