

# Seismic reflections

## 2013: A year of opportunity?

Oil and gas stocks failed to keep up with the recovery in equities seen across most other sectors in 2012, driven by both downside commodity price pressure and a less-than-stellar exploration success rate. This leaves an interesting opportunity for risk diversification in 2013 that could work even for those looking to build cautious portfolios.

### 2012 in review

After a bullish, “risk-on” first two months of the year, the oil and gas sector struggled to keep pace with the rebound in performance seen across the majority of equities during 2012. While oil prices largely held up despite significant demand uncertainty, the market has continued to discount the share price of explorers and producers alike, with the FTSE 350 oil and gas index closing -12% on the year, compared with a gain of 8% for the FTSE 350 over the same period. E&P juniors (ie AIM) have been more resilient, closing the year approximately flat, albeit suffering the volatility that comes with this part of the sector (from a high of up 47% to a low of down 5%...timing is everything)! However, the overall message is that more value has been left in the oils sector than many other equities, begging the question of whether this points to a more positive 2013.

### Exploration could do with a boost

In reality, the junior part of the sector has performed surprisingly well given the extremely poor exploration success rate and continued issues with access to capital. According to Wood Mackenzie, only two discoveries were made in the North Sea during 2012, despite a 40% increase in wells in 2011 to 66. Meanwhile, on a larger scale, the majority of elephant hunters working in frontier regions, with the notable exception of East Africa pioneers Tullow Oil and Africa Oil, failed to deliver the unambiguous commercial oil discovery investors were looking for.

A moderate improvement in exploration success in 2013 could get some momentum into the sector, with frontier places to watch, including Namibia, Gabon and Mauritania, alongside basins in Brazil and the Guyanes. It may seem counter-intuitive to be leveraged to exploration in a market where cautious portfolio positioning is likely to prompt investors to focus on large caps with safer yields. However, recent performance suggests there is still room to manoeuvre with this approach in oils.

### Unconventionals set to become increasingly interesting

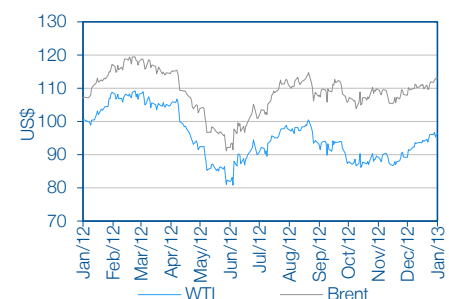
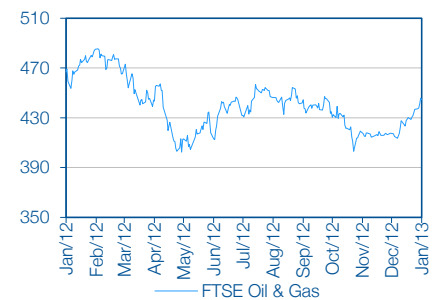
While exploration offers the spice, a concerted acceptance of the potential of unconventional, mainly shale gas, outside the US could be equally transformational. Shrewd investors have been quick to take advantage of softening regulations on fracking to invest in acreage holders in the UK. Although somewhat under the radar, recent shale drilling in Poland also, at last, looks promising, while both AIM and ASX investors have been able to see recent gains from tight gas/CBM pioneers operating in China.



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**Exhibit 1: Best and worst performers**

		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	SOUND OIL PLC	49.1%	1	AMINEX PLC	-13.5%
2	URALS ENERGY PUBLIC CO LTD	17.0%	2	MEDITERRANEAN OIL & GAS PLC	-10.2%
3	AFREN PLC	13.6%	3	ENEGI OIL PLC	-8.5%
4	ASCENT RESOURCES PLC	11.9%	4	ANTRIM ENERGY INC	-7.7%
5	BORDERS & SOUTHERN PETROLEUM	11.1%	5	GULFSANDS PETROLEUM PLC	-7.5%

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	ROXI PETROLEUM PLC	117.6%	1	LOCHARD ENERGY GROUP PLC	-34.0%
2	GULF KEYSTONE PETROLEUM LTD	30.9%	2	NIGHTHAWK ENERGY PLC	-27.9%
3	BORDERS & SOUTHERN PETROLEUM	26.6%	3	ENEGI OIL PLC	-17.8%
4	SOUND OIL PLC	25.0%	4	FORUM ENERGY PLC	-17.6%
5	BAHAMAS PETROLEUM CO PLC	24.4%	5	CADOGAN PETROLEUM PLC	-12.3%

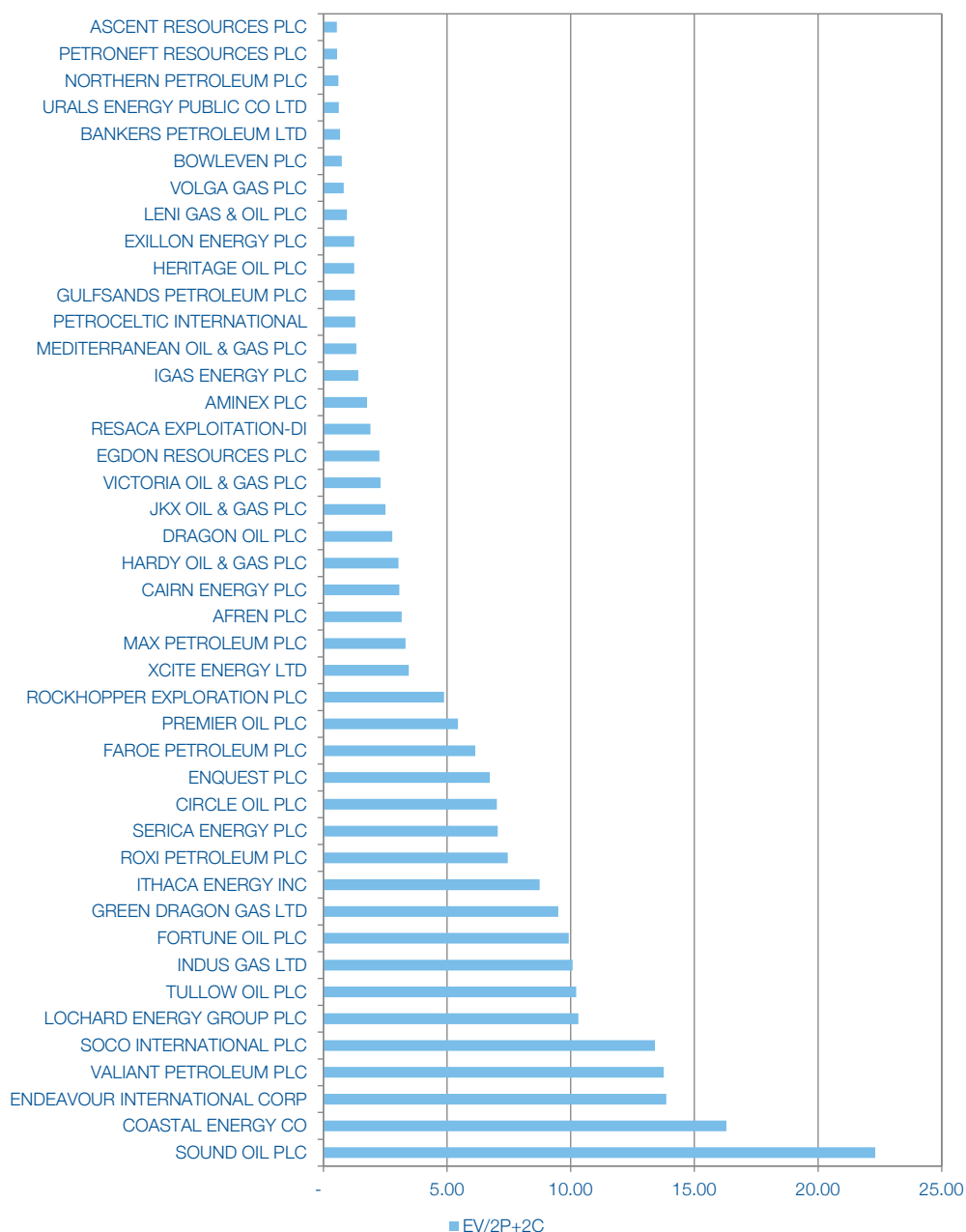
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	PETREL RESOURCES PLC	215.7%	1	FALKLAND OIL & GAS LTD	-49.4%
2	LENI GAS & OIL PLC	112.0%	2	LOCHARD ENERGY GROUP PLC	-32.7%
3	EGDON RESOURCES PLC	47.3%	3	RESACA EXPLOITATION-DI	-32.1%
4	ROXI PETROLEUM PLC	42.3%	4	ANTRIM ENERGY INC	-30.1%
5	IGAS ENERGY PLC	41.3%	5	PETRO MATAD LTD	-29.7%

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	PETREL RESOURCES PLC	335.1%	1	RESACA EXPLOITATION-DI	-75.3%
2	EUROPA OIL & GAS HOLDINGS	105.0%	2	CHARIOT OIL & GAS LTD	-71.1%
3	SOUND OIL PLC	102.4%	3	FALKLAND OIL & GAS LTD	-54.4%
4	HERITAGE OIL PLC	68.9%	4	ASCENT RESOURCES PLC	-53.5%
5	EXILLON ENERGY PLC	61.7%	5	GASOL PLC	-48.1%

		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	AMERISUR RESOURCES PLC	150.6%	1	INDEPENDENT RESOURCES PLC	-85.9%
2	MEDITERRANEAN OIL & GAS PLC	114.6%	2	PETRO MATAD LTD	-84.7%
3	IGAS ENERGY PLC	100.0%	3	RESACA EXPLOITATION-DI	-83.0%
4	PETREL RESOURCES PLC	78.9%	4	CHARIOT OIL & GAS LTD	-73.6%
5	KEA PETROLEUM PLC	59.5%	5	ASCENT RESOURCES PLC	-70.4%

Source: Bloomberg

## Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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