

# Seismic reflections

## Move to mitigate UK North Sea tax change?

Tullow Oil's recently announced agreement to acquire a portfolio of assets offshore The Netherlands makes sense as it fits with the company's existing Dutch and UK Southern North Sea assets. But what is the underlying reason for the company paying a premium for these resources, and does it serve as a pointer towards a more general shift away from the UK North Sea in the light of the recent tax hikes?

### Premium paid

Tullow Oil announced last week that it had agreed to acquire Nuon E&P for €300m. This will add a portfolio of 25 licences located offshore The Netherlands and add 9,000boepd to the company's current North Sea production of 13,300boepd and add reserves and resources of 28mmboe. Based on this, Tullow will be paying \$14.3 boe on an EV/reserves and resources basis for the transaction. Recent oil deals in the North Sea (KNOC/Dana, Enquest/Stratic, Dana/Petro-Canada) have all been done at around \$11-12/boe which is already at a significant premium to the average \$8/boe on an EV(2P + 2C) basis for North Sea companies covered in our oil screen. If we look at gas deals, Ithaca acquired in 2010 a number of Southern North Sea assets for \$3.5/boe. And the most comparable company in our screen, Northern Petroleum, is trading at an extremely low EV/2P of \$0.5/boe, with production from gas fields mainly onshore The Netherlands of around 2,000boepd, and Dutch 2P reserves of 18.9mmboe out of a company total of 89mmboe. Even based on the Dutch assets alone, Northern is trading at \$2.8/boe.

### Stable regime is key

There is no doubt that the acquisition will complement both Tullow's existing UK Southern North Sea assets and its Dutch licences, with the access to key infrastructure and potential for growth that it brings. However the company highlighted that these new opportunities also come with the advantage of a stable tax regime, which may be the key to its willingness to pay such a premium for the deal. The Dutch tax rate of 50% compares favourably with the 62% now in force in the UK since the recent budget. Coming on top of a tax hike in 2006, the tax outlook for the UK is now seen as uncertain. For UK gas producers hit particularly hard, the addition of assets subject to a lower tax rate and stable regime makes sense.

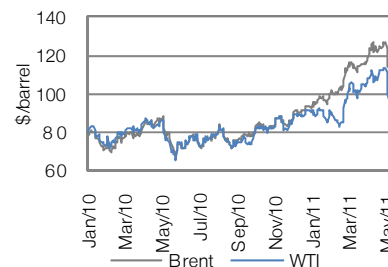
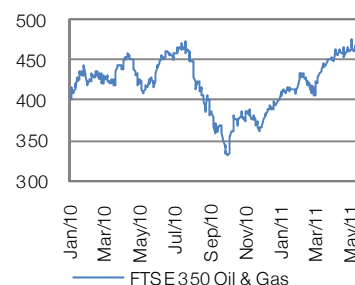
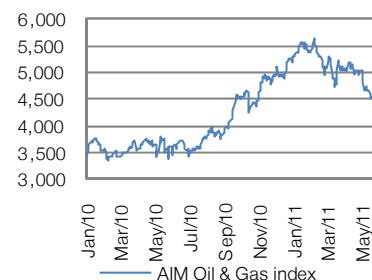
Also pointing to a more general negative sentiment in the region was the news last week from Encore Oil that it had cancelled the flotation of its spin off XEO Exploration blaming a loss of market appetite for UK North Sea exploration since George Osborne's tax increase.



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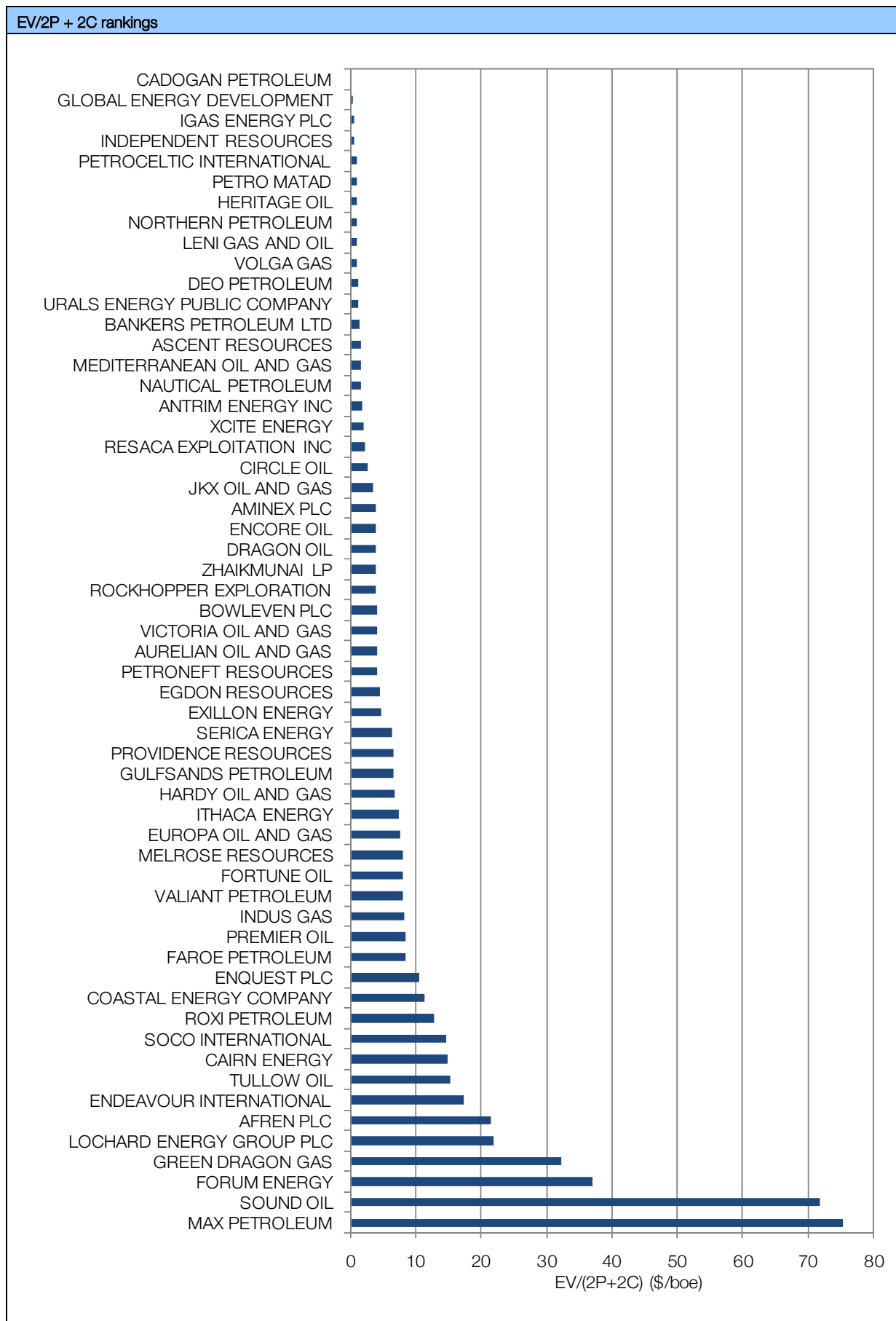


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		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	PETRO MATAD	29.4%	1	NORTHERN PETROLEUM	(33.3%)
2	ROCKHOPPER EXPLORATION	22.6%	2	INDEPENDENT RESOURCES	(17.1%)
3	FAROE PETROLEUM	19.5%	3	ENCORE OIL	(15.1%)
4	AMERISUR RESOURCES	15.6%	4	EUROPA OIL AND GAS	(13.3%)
5	DESIRE PETROLEUM	15.6%	5	ASCENT RESOURCES	(11.2%)
		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	AMERISUR RESOURCES	22%	1	XCITE ENERGY	(49.3%)
2	KEA PETROLEUM PLC	19%	2	ENCORE OIL	(48.1%)
3	MEDITERRANEAN OIL AND GAS	17%	3	NORTHERN PETROLEUM	(42.5%)
4	GASOL PLC	13%	4	ASCENT RESOURCES	(38.1%)
5	ROCKHOPPER EXPLORATION	11%	5	SOUND OIL	(26.4%)
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	PETRO MATAD	43.5%	1	DESIRE PETROLEUM	(65.1%)
2	GASOL PLC	32.4%	2	PRESIDENT PETROLEUM	(64.0%)
3	HARDY OIL AND GAS	30.1%	3	ASCENT RESOURCES	(52.1%)
4	SOUND OIL	22.3%	4	ENCORE OIL	(51.0%)
5	GREAT EASTERN ENERGY CORP	14.4%	5	XCITE ENERGY	(49.3%)
		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	RANGE RESOURCES	197.3%	1	DESIRE PETROLEUM	(90.2%)
2	SOUND OIL	155.2%	2	PRESIDENT PETROLEUM	(66.3%)
3	CADOGAN PETROLEUM	109.4%	3	ENCORE OIL	(52.0%)
4	PETRO MATAD	92.7%	4	ASCENT RESOURCES	(51.2%)
5	AMERISUR RESOURCES	76.2%	5	XCITE ENERGY	(49.6%)
		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	BPC LIMITED	415.9%	1	DESIRE PETROLEUM	(84.2%)
2	TOWER RESOURCES	351.9%	2	NIGHTHAWK ENERGY	(73.9%)
3	RANGE RESOURCES	329.8%	3	FALKLAND OIL AND GAS	(67.7%)
4	PETRO MATAD	268.8%	4	MEDITERRANEAN OIL AND GAS	(67.0%)
5	EXILLON ENERGY	172.9%	5	PRESIDENT PETROLEUM	(62.6%)

Source: Bloomberg



Source: Bloomberg, Company releases, Edison Investment Research

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