

# Seismic reflections

## Introducing the oil screen

Welcome to the inaugural edition of our Edison oil & gas industry outlook. Designed for industry professionals and investors alike we will highlight topical industry issues, identify investment catalysts, look at market movers and shakers, and ultimately consider how this feeds into valuation. Our initial focus is on FTSE-listed independents, but where appropriate we will extend our reach to companies listed on other exchanges and even IOCs where they affect the industry as a whole.

### Introducing our EVR 'oil screen'

On page three of our report we introduce our 'oil screen' which ranks companies based on EV to working interest reserves. Simplistically a low EVR implies stocks are undervalued, a high EVR and they are overvalued. However, not all reserves are alike. Our screen is based on oil and gas 2P reserves and 2C contingent resources combined. However we do not differentiate between 2P and 2C or oil and gas, yet alone assign additional value to proven reserves, or take into account possible reserves (P3) and prospective resources. We also do not account for differences in fiscal terms, resource location, operating and transportation costs and ultimately the timing of revenue generation. Fundamental valuations can only be derived from understanding production, revenue and cash flow.

### Caveats aside... the screen provides food for thought

When comparing companies with similar portfolios the screen can help identify valuation anomalies. We will provide further commentary in understanding these differences in the future, but one thought we want to offer up in this inaugural edition is 'strategic focus'. For it is the attention to creating, defining and executing a clearly articulated strategy that helps investors understand their investment decisions, buy stock and drive up the share price.

### Disparate asset bases correlate to low valuations

Looking at the undervalued companies on our screen, a sizeable number have disparate asset bases, or assets that do not complement the strengths of management. Assets can often be acquired as much by chance as by design. But unless they all work collectively in driving investor confidence to invest then they are, by their nature, value destroying within the portfolio. Those companies without clear strategic focus risk becoming rich pickings for the M&A hunters.

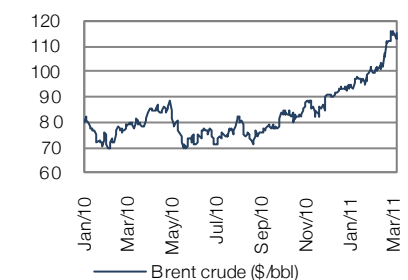
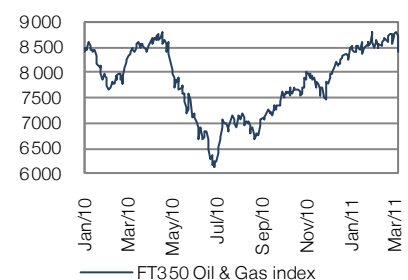
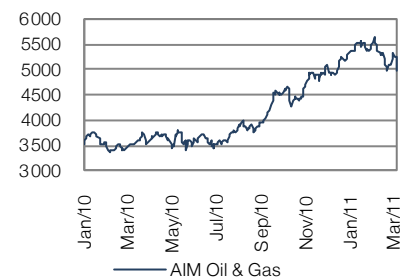
### Expensive might mean the best operators

Low fundamental valuations may signal a bargain, but could equally be a folly if management do not have focus. While high valuations may imply little upside, they can equally identify the best operators in the business. It is ultimately the investor who can distinguish between the two who will both survive and prosper.



### Analysts

Ian McLelland	020 3077 5756
Peter Dupont	020 3077 5741
Elaine Reynolds	020 3077 5700
Krisztina Kovacs	020 3077 5700
oilandgas@edisoninvestmentresearch.co.uk	

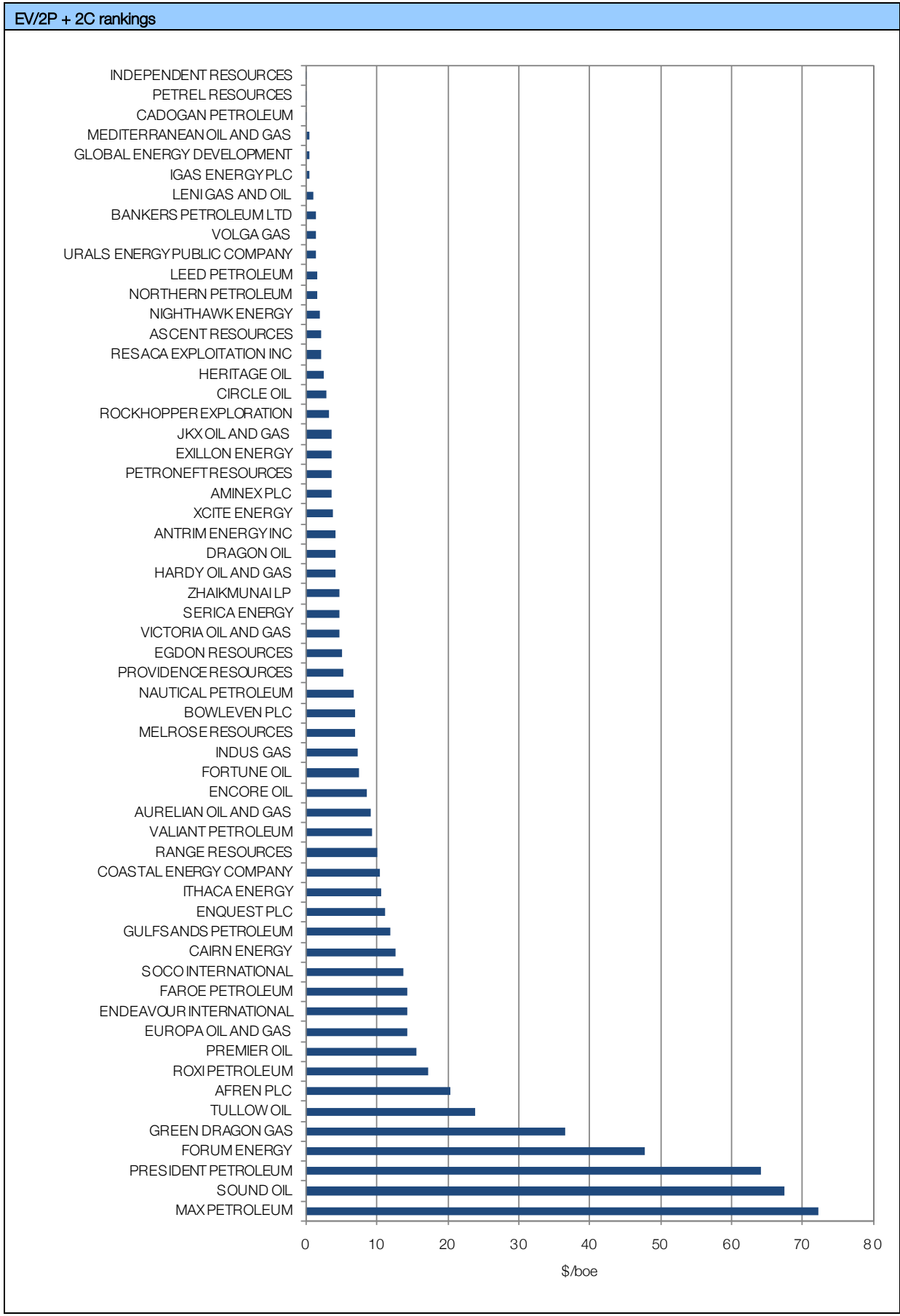


### For institutional enquiries please contact:

Gareth Jones 020 3077 5704  
institutional@edisoninvestmentresearch.co.uk

		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY	41.2%	1	MEDITERRANEAN OIL AND GAS	(27.3%)
2	SOUND OIL	29.8%	2	PRESIDENT PETROLEUM	(24.8%)
3	HERITAGE OIL	16.9%	3	AMERISUR RESOURCES	(12.1%)
4	NIGHTHAWK ENERGY	12.3%	4	FAROE PETROLEUM	(11.9%)
5	GLOBAL PETROLEUM	12.1%	5	ITHACA ENERGY	(11.4%)
		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	SOUND OIL	41%	1	LEED PETROLEUM	(37.2%)
2	TOWER RESOURCES	30%	2	MEDITERRANEAN OIL AND GAS	(36.4%)
3	EXILLON ENERGY	28%	3	ROXI PETROLEUM	(35.3%)
4	RANGE RESOURCES	21%	4	GULF KEYSTONE PETROLEUM	(25.0%)
5	GREEN DRAGON GAS	13%	5	PRESIDENT PETROLEUM	(22.7%)
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	RANGE RESOURCES	233.3%	1	DESIRE PETROLEUM	(50.5%)
2	SOUND OIL	166.1%	2	PRESIDENT PETROLEUM	(41.3%)
3	GLOBAL PETROLEUM	110.7%	3	LEED PETROLEUM	(40.2%)
4	CADOGAN PETROLEUM	81.4%	4	ROCKHOPPER EXPLORATION	(29.8%)
5	TOWER RESOURCES	62.2%	5	GULF KEYSTONE PETROLEUM	(28.1%)
		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	BPC LIMITED	393.9%	1	DESIRE PETROLEUM	(65.1%)
2	XCITE ENERGY	301.3%	2	NIGHTHAWK ENERGY	(57.7%)
3	RANGE RESOURCES	277.4%	3	LEED PETROLEUM	(52.3%)
4	SOUND OIL	201.9%	4	INDEPENDENT RESOURCES	(49.0%)
5	EUROPA OIL AND GAS	160.0%	5	VOLGA GAS	(38.4%)
		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	NAUTICAL PETROLEUM	761.1%	1	LEED PETROLEUM	(71.5%)
2	XCITE ENERGY	650.0%	2	MEDITERRANEAN OIL AND GAS	(67.0%)
3	ENCORE OIL	644.6%	3	DESIRE PETROLEUM	(64.3%)
4	TOWER RESOURCES	535.4%	4	GASOL PLC	(61.0%)
5	RANGE RESOURCES	471.4%	5	NIGHTHAWK ENERGY	(60.0%)

Source: Bloomberg



Source: Bloomberg, Company releases, Edison Investment Research

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