

Seismic reflections

YPF nationalisation

The de-facto nationalisation of Repsol-controlled YPF, Argentina's leading oil and gas company and the second-largest integrated petroleum concern in South America, was not surprising given the speculation and intensifying political pressure of recent months. We believe the key issue behind the Argentine government's move surrounds YPF's massive shale resources in the Vaca Muerte formation in the provinces of Neuquen and Mendoza. In our view, it is no coincidence that YPF is being nationalised subsequent to the recent announcement by the company concerning the scale of the resources in the Vaca Muerte. The Argentine government appears to think it can take control of a sizeable integrated oil and gas company with a resource base that many companies would covet at a bargain basement price, which it has engineered itself.

Vaca Muerte resource potential

The EIA has identified Argentina as having the world's third-largest shale hydrocarbons resource base. The bulk of this relates to the Vaca Muerte formation in the central and western provinces of La Pampa, Neuquen and Mendoza. In its pioneering development programme, YPF has moved rapidly to delineate the potential. Indeed, Argentina arguably has the most advanced shale development programme outside North America. Ryder Scott has estimated Vaca Muerte-based prospective resources of 12.4bn boe net in Neuquen while YPF believes it has at least another 1bn boe in Mendoza.

Compensation and YPF's future

The YPF nationalisation bill requires a two-thirds majority in the Argentine Congress, which is expected to be achieved. The consideration for acquiring a 51% stake will be decided by a government tribunal. YPF's market cap is currently \$7.7bn so Repsol's 51% stake might be worth about \$3.9bn on this basis. Repsol is claiming \$10.5bn based on an established formula. This appears not unreasonable, given YPF's c 1bn of proved reserves, 375,000boe/d of production, substantial downstream operations and most significantly, the massive resource base. With foreign exchange reserves of about \$47bn Argentina could technically afford \$10.5bn but will doubtless look to pay considerably less. Unless Argentina agrees acceptable terms with Repsol it is vulnerable to legal challenges and, together with YPF, could possibly be excluded from capital markets.

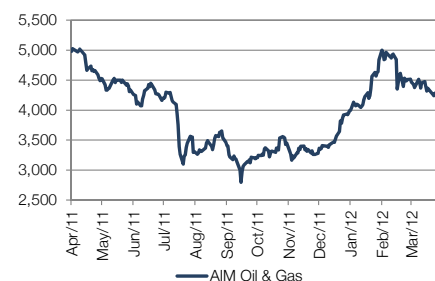
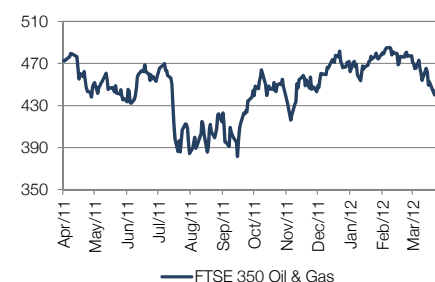
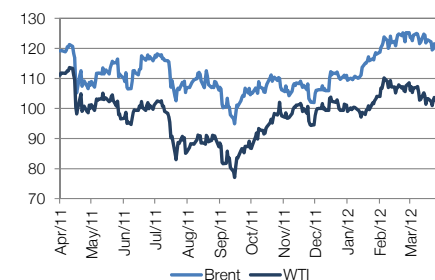
Longer term, we suspect that YPF may become a joint-venture between the Argentine state/provinces and a deep-pocketed, in all probability Chinese, partner. Note here that the precedent has possibly been set by CNOOC's involvement in Argentina's number two oil and gas producer, Pan American Energy. We would expect the Argentine state to retain a majority stake in YPF indefinitely. There has always been a faction within the Peronist Party that never wanted to privatise YPF in 1999. From this perspective the Repsol expropriation is merely returning to the nation what is rightly Argentina's. This view is in tune with the increasingly popular concept of resource nationalism.



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Exhibit 1: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	BORDERS & SOUTHERN PETROLEUM	87.1%	1	BAHAMAS PETROLEUM CO PLC	-28.1%
2	FALKLAND OIL & GAS LTD	32.8%	2	ANTRIM ENERGY INC	-12.0%
3	LENI GAS & OIL PLC	14.2%	3	RANGE RESOURCES LTD	-10.6%
4	MEDITERRANEAN OIL & GAS PLC	12.5%	4	GULF KEYSTONE PETROLEUM LTD	-9.9%
5	EXILLON ENERGY PLC	10.1%	5	PRESIDENT PETROLEUM CO PLC	-9.6%

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	BORDERS & SOUTHERN PETROLEUM	92.6%	1	ROXI PETROLEUM PLC	-45.2%
2	FALKLAND OIL & GAS LTD	41.1%	2	RANGE RESOURCES LTD	-29.4%
3	PROVIDENCE RESOURCES PLC	17.2%	3	BAHAMAS PETROLEUM CO PLC	-28.1%
4	IGAS ENERGY PLC	16.9%	4	EXILLON ENERGY PLC	-25.7%
5	FAROE PETROLEUM PLC	13.2%	5	AMINEX PLC	-24.7%

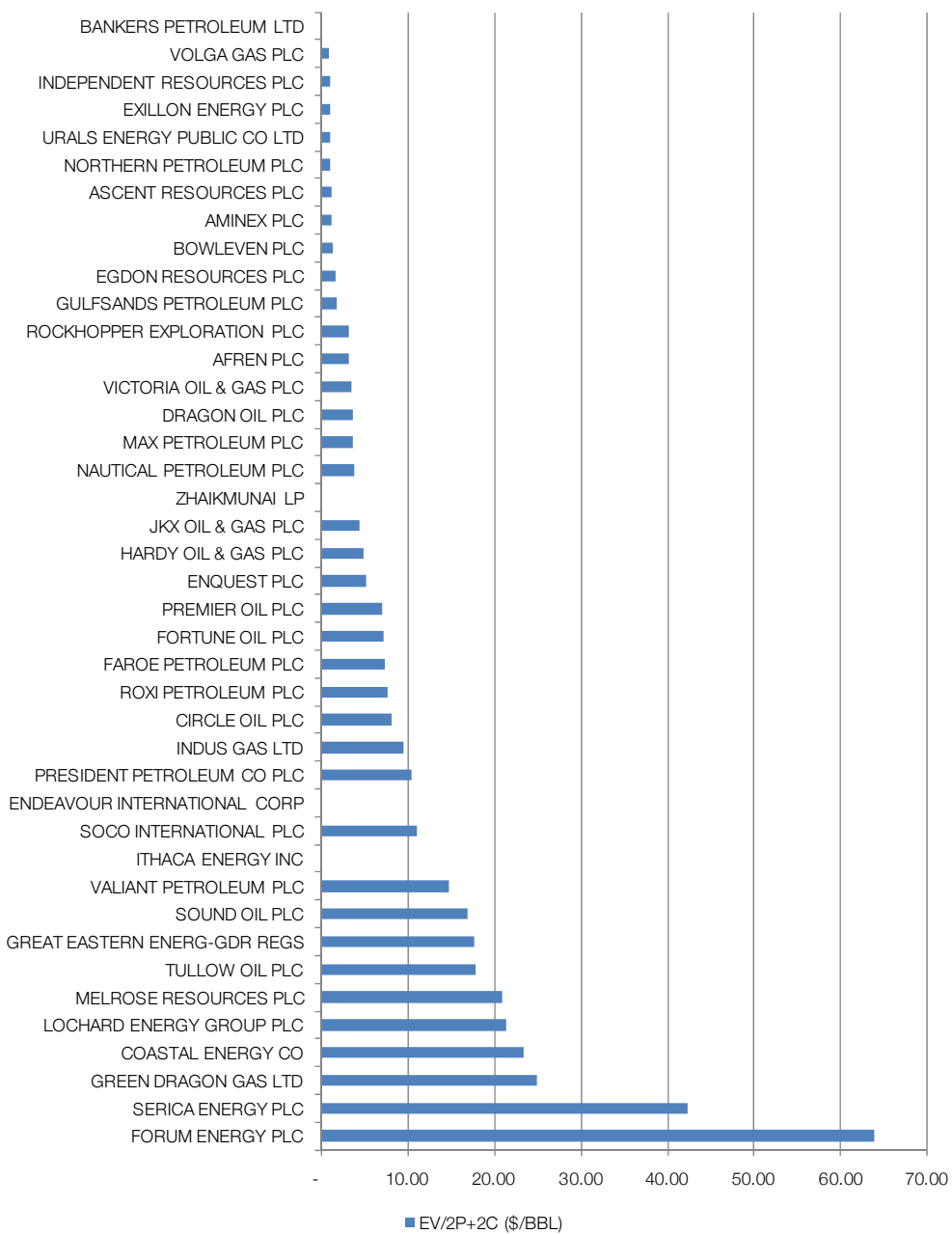
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	PROVIDENCE RESOURCES PLC	99.5%	1	EXILLON ENERGY PLC	-45.5%
2	LENI GAS & OIL PLC	93.6%	2	ROXI PETROLEUM PLC	-43.9%
3	BORDERS & SOUTHERN PETROLEUM	83.9%	3	FRONTERA RESOURCES CORP	-41.5%
4	KEA PETROLEUM PLC	68.5%	4	PETRONFT RESOURCES PLC	-40.8%
5	FALKLAND OIL & GAS LTD	68.5%	5	ANTRIM ENERGY INC	-38.0%

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	PROVIDENCE RESOURCES PLC	251.1%	1	FRONTERA RESOURCES CORP	-52.9%
2	BORDERS & SOUTHERN PETROLEUM	162.0%	2	PETRONFT RESOURCES PLC	-51.0%
3	COVE ENERGY PLC	152.0%	3	EXILLON ENERGY PLC	-46.6%
4	AMERISUR RESOURCES PLC	106.4%	4	HERITAGE OIL PLC	-40.7%
5	SERICA ENERGY PLC	95.6%	5	SOUND OIL PLC	-37.1%

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	COASTAL ENERGY CO	163.4%	1	PETRO MATAD LTD	-88.1%
2	COVE ENERGY PLC	143.0%	2	FRONTERA RESOURCES CORP	-87.1%
3	DESIRE PETROLEUM PLC	101.6%	3	PETRONFT RESOURCES PLC	-84.0%
4	PROVIDENCE RESOURCES PLC	100.9%	4	SOUND OIL PLC	-76.0%
5	BORDERS & SOUTHERN PETROLEUM	91.9%	5	BOWLEVEN PLC	-71.9%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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