



26 November 2009

Daily Oil & Gas Filter

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MACRO NEWS

Inventory data from the EIA yesterday was relatively neutral with a smaller than expected build in crude and 0.6m barrel decline in distillates offset by a slightly larger than anticipated increase in gasoline stocks. The real driver on the day however was the weaker US dollar which helped lift prices nearly \$2.

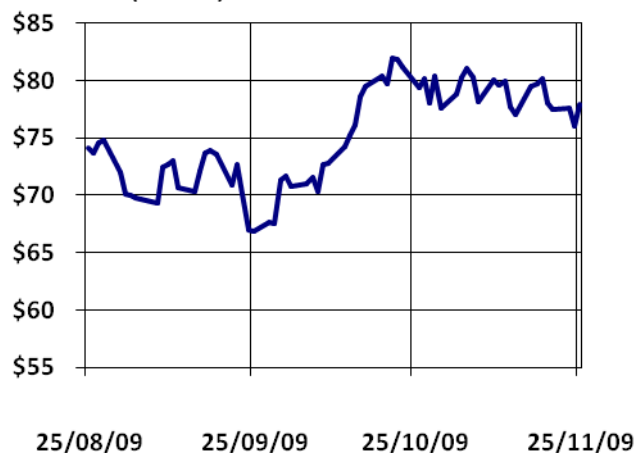
OIL & GAS PRICES (Yesterday's Close)

WTI*	\$77.96	+\$1.94
Brent*	\$78.44	+\$1.98
Henry Hub Gas	\$3.35	-\$0.27

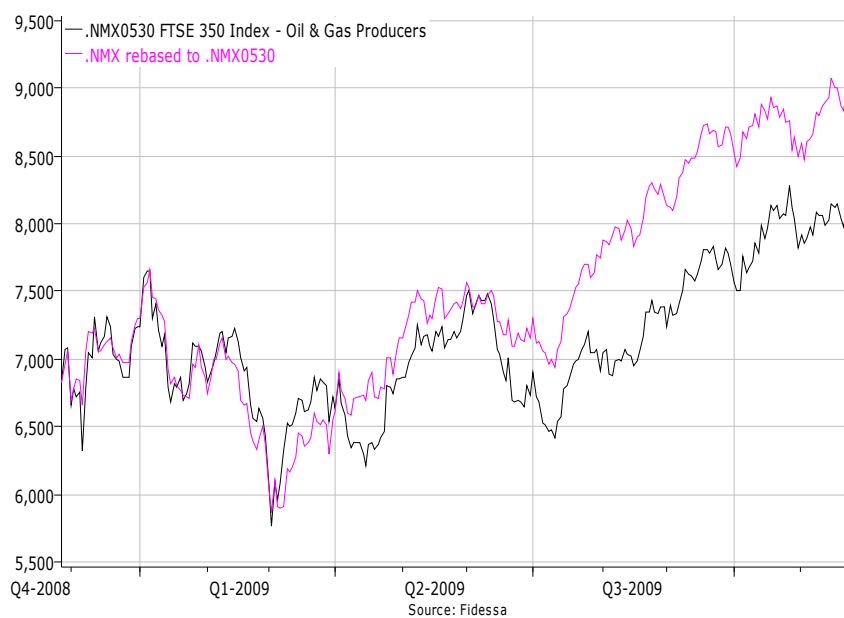
* January contract

This morning, WTI and Brent are trading lower at \$76.96 and \$77.77, respectively.

WTI (JAN10) CRUDE 3-MONTH PERFORMANCE



OIL INDICES PERFORMANCE



DAILY SECTOR PERFORMANCE

**Yesterday's %
Change**

FTSE 350 - Oil & Gas	0.48%
FTSE 350 Index	0.66%
FTSE AIM Oil & Gas	-2.00%
FTSE AIM All-Share Index	-0.27%

COMPANY NEWS

HERITAGE OIL has commenced drilling the Miran West-2 (MW-2) appraisal well in the Kurdistan Region of Iraq. The well, located 4 kilometres to the northwest of the Miran West-1 (MW-1) discovery well, will target three Cretaceous reservoir formations and take around four months to drill. The well is likely to be followed up with an exploration well on the Miran East structure.

Comment: Although the MW-1 well was a great success, we expect MW-2 to be drilled better following lessons learned from the original discovery well. This is particularly true with regard to flow rates from MW-2 which we expect to be significantly higher than those from MW-1 (3,640 bopd from one horizon). Miran East also represents significant potential upside where drilling will target a structure similar to Miran West. With the drilling of these wells, we anticipate further uplift in Heritage's resource and eventual reserve base in 2010 although the monetisation issue still remains. This is not new however; and, as such, we retain our **BUY** recommendation.

FALKLAND OIL AND GAS announced its intention to raise £50 million by placing 43.5 million shares at 115p per share, or a 15% discount to yesterday's close. The funds will be used to pay for the group's share of a planned drilling programme next year. At present, FOGL and joint venture partner BHP Billiton are in discussions with Desire Petroleum to contract the Ocean Guardian to drill one well in the East Falklands basin. The well, in about 600m of water, would be at the edge of the Ocean Guardian's capability and would be anticipated to take 35 days to drill. Deeper water drilling would require either a drillship or a semi-submersible. FOGL anticipate drilling at least one deepwater well in the latter half of next year to satisfy work commitments.

Comment: We are not convinced that the Ocean Guardian is the optimal solution to FOGL's drilling ambitions in the Falklands. We view it as an unnecessary interruption of the drilling programme of the North Basin operators, Desire and Rockhopper. That said, the fund raising and announced intention to drill a minimum of two wells next year (as required) is positive. A large degree of uncertainty with regard to the details of the drilling programme still remaining however, as such, we will retain our **HOLD** recommendation.

BORDERS & SOUTHERN also announced an equity fund raising this morning of £113.1 million at 50p per share, a 9% discount to yesterday's close. As with Falkland Oil and Gas, Borders & Southern will use the cash to fund a drilling programme in the Falklands in 2010. In this case, two firm wells are planned with a potential third. The first two prospects to be targeted will be Darwin and Stebbing, which, according to the company, are not the largest but are lower risk. Significantly, the cash raised will be sufficient to fund 100% of the potential three well programme although significant cost savings are possible should Borders & Southern work with FOGL and BHP in the same manner that Desire and Rockhopper have cooperated in the North basin. No rig has been contracted at this point but AGR Peak Well Management has been contracted to undertake a study of available and suitable rigs.

Comment: We are upgrading Borders & Southern to a **HOLD** following the news of today's fund raising. The group's balance sheet is now sufficiently strong to support the drilling of exploration wells in the South Falkland basin where drilling has been a notable due to its absence. The company is also in a strong negotiating position should it decide to farm down its interest which is likely in our view.

We held a conference call with the FD of **LAMPRELL** yesterday afternoon. The main points to emerge were:

- The final payment on the Scorpion rig appears to be secure.
- The company had purchased lead items for the Riginvest jack up rig but had yet to secure the order.
- The company was confident of either being paid for the Bassdrill

liftboat or defaulting the client and selling it in the market. The company is confident of recovering the cash paid out during construction, but will make a slight loss on the contract.

- The rig refurbishment market remained robust. This provides the company with 30-35% of revenue and has higher margins than the new build business.
- The company was in competition for a number of orders and expected to win some major contracts.
- The decision on whether there will be a dividend for 2009 will be made in March.

Comment: Although the company has a good franchise, the visibility of earnings for 2009 and 2010 is low. Despite the fall in share price following the recent profit warning, we still consider the shares have further to fall and retain our **SELL** recommendation.

COVE ENERGY announced that that it had completed the farm in to the Mnazi Bay production sharing concession in the Ruvuma Concession in south eastern Tanzania. Cove has acquired a 16.38% interest in petroleum operations other than exploration operations and a 20.475% interest in the exploration operations in the Mnazi Bay concession for a consideration of \$2.7 million.

EGDON RESOURCES announced that it would resume the drilling of the Dukes Wood 1 well in early December.

THIS MORNING'S BULLS

Description	Mid	Chg	%chg
PANTHEON RES ORD 1P	16.75	2.00	13.56
BORDERS & STH. ORD 1P	58.50	3.50	6.36
GULF KEYSTONE COM SHS	91.00	2.75	3.12

THIS MORNING'S BEARS

FALKLAND O&G ORD 0.002P	130.00	-6.00	-4.41
AFREN ORD 1P	85.00	-4.00	-4.49
XTRACT ORD 0.1P	2.45	-0.13	-4.85
CASPIAN HLDGS. ORD 0.1P	1.00	-0.10	-9.09
ISLAND OIL&GAS ORD EUR0.01	5.50	-1.00	-15.38

CONTACTS

Research:

Peter Bassett	+44 (0) 20 7601 6125	Email
David Hart	+44 (0) 20 7601 6124	Email

Specialist Sales:

Malcolm Graham-Wood +44 (0) 20 7601 6138 [Email](#)

Sales:

Sanjiv Pandya +44 (0) 20 7601 6130 [Email](#)

Simon Hodges +44 (0) 20 7601 6136 [Email](#)

Deborah Kimbell +44 (0) 20 7601 6127 [Email](#)

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