

Seismic reflections

Unstoppable force?

The objections to investing in Kurdistan have centred on the political tensions between the Kurdistan Regional Government and the central Baghdad government. Baghdad has continually sought to assert that deals done in Kurdistan are against the constitution and hence illegal, and has blacklisted companies signing PSCs in Kurdistan. However, of the top 10 oil and gas companies by market cap globally, four are now in Kurdistan, while another (Statoil) has publicly said it is looking at opportunities. It will soon be easier to list the large companies not in Kurdistan. If you measure political risk by the positioning of the majors, we are beyond the tipping point. There is a wall of oil coming and politics will have to bend to economics in the long term.

Kurdistan's oil potential is vast

Kurdistan's place as a future major oil province is beyond doubt. Exploration success is over 70%. Current production capacity is 200mmbbl/d and investments in Taq Taq and Tawke will increase this further. Beyond this, Shaikan (13.7bn bbls OIP pMean) will soon start extended well testing, as will discoveries Akri-Bijell, Atrush, Bina Bawi and Miran. Recent discoveries have the potential to increase the production output to 2mmbd by 2019 according to the KRG (total current Iraqi production is c 3mmbd).

Which companies are investing?

Among the top 10 oil companies by market cap, Exxon, Chevron, Total and Gazprom have signed deals with Kurdistan in 2012, while Statoil has publicly announced it is looking at opportunities – attracted by the oil resources, lower risk and increased profits potential. If Statoil joins the Kurdistan club, there will be more market cap in Kurdistan than out. The absentees are Sinopec, Petrochina, Shell (which reportedly looked in 2011), Petrobras (busy with pre-salt Brazil) and BP (busy with Rumaila).

A solution is inevitable

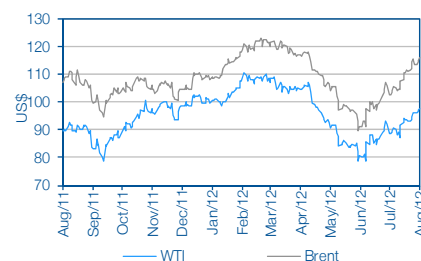
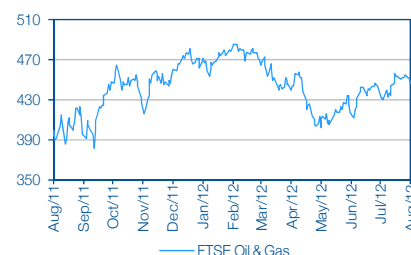
We see the recent agreement between Turkey and KRG on oil exports as key. The additional money that would accrue to Iraq from extra oil production in the mid-term would be significant and the technical challenges of adding capacity in Kurdistan are surmountable. Given the support of the KRG position by all the companies entering region just this year, and diversity of political backing that this implies (US, Russia, France, UK, Turkey and Spain), we see it as unlikely that Baghdad will be successful in reversing the trend or materially altering the terms on which the deals were struck. The more these companies invest, the more mobile the immovable object will appear. Indeed, if a Chinese company enters, we believe Baghdad's position against the KRG would become transparently untenable. The sooner an amicable deal is struck between the two sides, the better for the Iraqi people. However, even without a formal deal, we believe it is time for investors to take another look at Kurdistan. After all, many majors have.



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Exhibit 1: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	BORDERS & SOUTHERN PETROLEUM	78.1%	1	SOUND OIL PLC	-18.0%
2	INDEPENDENT RESOURCES PLC	37.1%	2	MAX PETROLEUM PLC	-11.9%
3	MEDITERRANEAN OIL & GAS PLC	20.2%	3	PETROCELTIC INTERNATIONAL	-9.7%
4	HERITAGE OIL PLC	19.1%	4	CHARIOT OIL & GAS LTD	-9.1%
5	XCITE ENERGY LTD	15.6%	5	AURELIAN OIL & GAS PLC	-8.4%

		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	BORDERS & SOUTHERN PETROLEUM	78.1%	1	SOUND OIL PLC	-41.2%
2	HERITAGE OIL PLC	67.3%	2	ASCENT RESOURCES PLC	-22.0%
3	MEDITERRANEAN OIL & GAS PLC	44.9%	3	AMINEX PLC	-19.2%
4	PETRONEFT RESOURCES PLC	40.8%	4	GREEN DRAGON GAS LTD	-18.1%
5	FALKLAND OIL & GAS LTD	40.7%	5	ENEGI OIL PLC	-17.9%

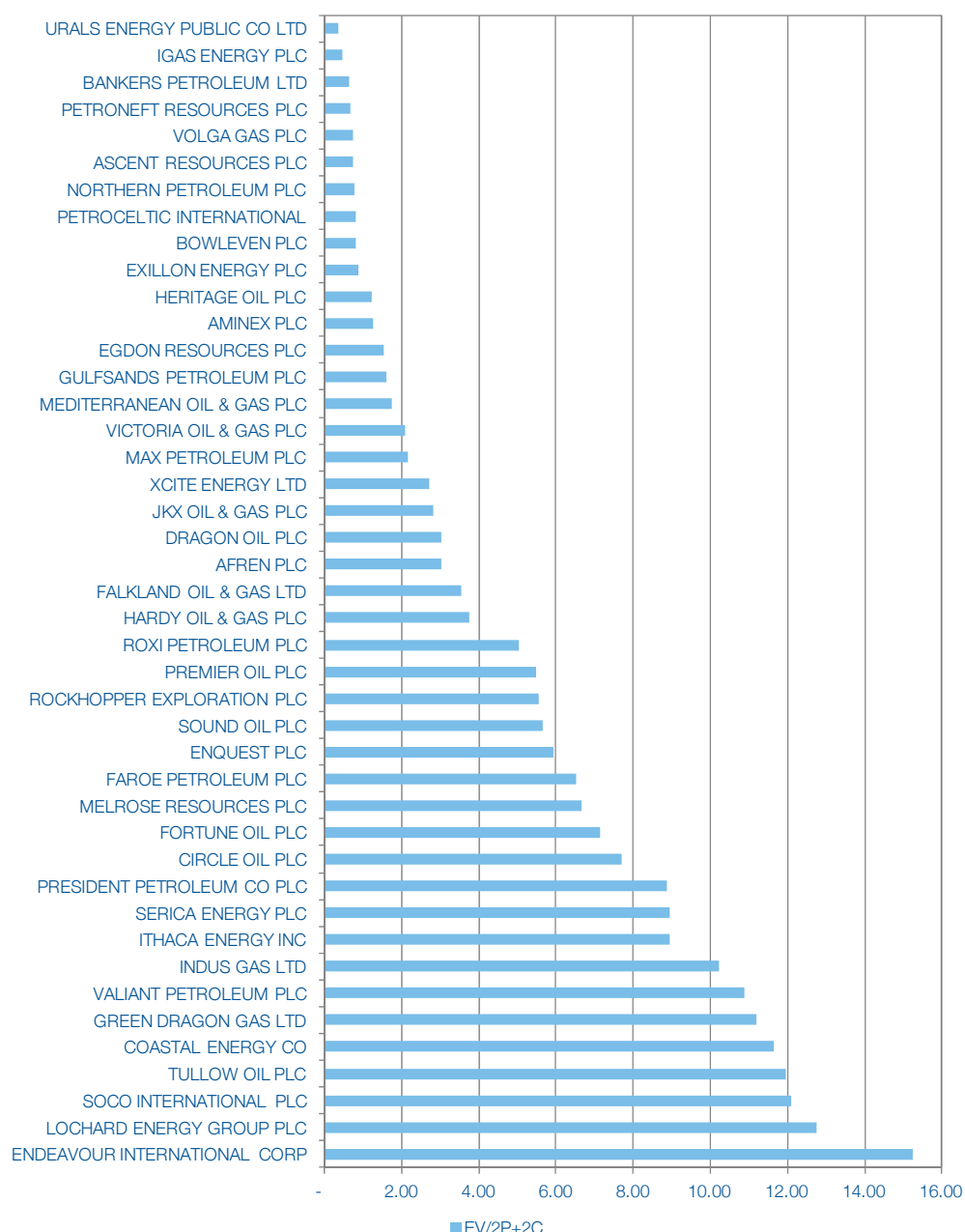
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	189.7%	1	INDEPENDENT RESOURCES PLC	-65.7%
2	AMERISUR RESOURCES PLC	114.5%	2	MAX PETROLEUM PLC	-60.2%
3	HERITAGE OIL PLC	70.4%	3	SOUND OIL PLC	-53.5%
4	NAUTICAL PETROLEUM PLC	66.9%	4	PETRO MATAD LTD	-50.0%
5	BANKERS PETROLEUM LTD	54.9%	5	BORDERS & SOUTHERN PETROLEUM	-49.2%

		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	151.1%	1	INDEPENDENT RESOURCES PLC	-78.0%
2	PROVIDENCE RESOURCES PLC	116.2%	2	PETRO MATAD LTD	-70.8%
3	IGAS ENERGY PLC	43.4%	3	MAX PETROLEUM PLC	-67.8%
4	AMERISUR RESOURCES PLC	41.0%	4	SOUND OIL PLC	-64.5%
5	FALKLAND OIL & GAS LTD	39.7%	5	AURELIAN OIL & GAS PLC	-58.8%

		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	COVE ENERGY PLC	238.5%	1	PETRO MATAD LTD	-90.0%
2	PROVIDENCE RESOURCES PLC	200.7%	2	FRONTERA RESOURCES CORP	-80.9%
3	AMERISUR RESOURCES PLC	124.2%	3	AURELIAN OIL & GAS PLC	-79.3%
4	FORUM ENERGY PLC	117.0%	4	SOUND OIL PLC	-74.7%
5	KEA PETROLEUM PLC	105.7%	5	PETRONEFT RESOURCES PLC	-70.3%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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