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5 Oil Stocks You Need To Know About

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Oil Exploration Top Picks

With oil prices and oil stocks back in the spotlight we have reviewed all the explorers and highlighted the top picks that look ready to move. However fair warning, the sector is not for everyone due to the higher risk associated with news flows. Whilst caution should be taken when investing in this area, it is also one that can produce substantial gains. Stock prices can move very quickly especially off the back of news flow. Technical analysis unfortunately can be lacking in this area due to the share prices predominantly being news driven. As far as high risk and high reward sectors are concerned, there is few sectors that offer more (of both) so certainly not for orphans and widows. I always approach the sector with cautious optimism and would always set up any exposure to the sector as a mini portfolio within the portfolio. What I mean by that is if we are allocating say ten percent of your overall portfolio to oil and gas exploration then that ten percent should be sub divided as a mini basket of positions. Invest accordingly and keep it to a small part of your overall portfolio's asset allocation.

Tullow Oil

A Brief History

The Company was founded by Aidan Heavey in 1985 in Ireland as a gas exploration business, with its headquarters now in London. It started in a small town called Tullow, just south of Dublin, Ireland. In the 1980s there was a considerable rush of companies starting off in the North Sea and Irish Celtic Sea. At a time when this was the main focus Mr Heavy had the foresight to look at the smaller and unloved fields in Africa, which had been left behind by the majors and had no-one to work them. Tullow has a primary listing on the London Stock Exchange and is a constituent of the FTSE 250 Index with secondary listings on the Irish Stock Exchange. As far as exploration is concerned Tullow are certainly one of the bigger players in this arena and more established.

Operations

The Group has interests in 80 exploration and production licences across 15 countries, which are managed as three Business Teams: West Africa, East Africa and New Ventures.

WEST AFRICA

- CÔTE D'IVOIRE
- EQUATORIAL GUINEA
- GABON
- GHANA

The West African operations include Tullow's flagship operated assets, the Jubilee and TEN fields in Ghana, and a portfolio of non-operated production assets across the region. The West Africa Business Team also manages the Group's UK operations. Production from the UK North Sea assets ceased in the third quarter of 2018. The decommissioning programme for these assets is expected to be completed by 2025. Tullows working interest production for the first half of 2019 is expected to average around 88,700 bopd, including production-equivalent insurance payments.

The Group's full year forecast remains unchanged at 90,000-94,000 bopd. This forecast includes production-equivalent insurance payments of 1,300 bopd. The insured period associated with Tullow's successful Corporate Business Interruption claim has now ended three years after cover commenced. Tullow continues to insure against Business Interruption.

EAST AFRICA

- KENYA
- UGANDA

The East Africa Business Team is responsible for realising value from the significant oil discoveries made in Uganda and Kenya to date. The team is also focused on continued exploration activity across the Group's extensive acreage position in Kenya.

The East Africa region is a core growth area for Tullow. In Uganda, discovered contingent resources are estimated to be around 1.7bn barrels of oil. In Kenya, Tullow estimates that the South Lokichar basin contains a recoverable resource range of 240 – 560 – 1,230 mmbo (1C–2C–3C). The Group continues to work with both Governments on moving these projects towards development.

NEW VENTURES
- ARGENTINA
- COMOROS
- GUYANA
- JAMAICA
- MAURITANIA
- NAMIBIA
- PERU

Whilst Tullow is concentrating on its established areas it is still always a forward-looking business and Tullow's frontier exploration department are constantly appraising activity across Africa and South America. The team is tasked with managing and replenishing Tullow's exploration portfolio with high-potential prospects and finding high value oil at low-costs, in areas with commercially attractive licence terms.

Tullow has built a licence position in some of the most sought-after acreage in the world and have identified the best prospects with the right equities and risk following careful technical and financial screening. The Group expects to drill an average of 3 to 5 low-cost frontier wells in future years across multiple campaigns in Africa and South America.

Jersey Oil and Gas

A Brief History
The company was founded in March 2014 and immediately identified opportunities in the UK North Sea. At the time the area was going through a sustained crisis following years of under investment, declining production and unsustainable costs, against a backdrop of falling oil prices.

This move was seen to be a big chance and highly risky, but JOG was one of the few companies to see this as an opportunity and in August 2015 became a public company. They floated on the AIM market through the acquisition of Trap Oil Ltd. The combined entity was then recapitalised, the balance sheet was cleaned up and following a share consolidation the company was relaunched as Jersey Oil and Gas plc.

JOG then launched a farm out process in February 2016 which concluded with a deal with oil major Statoil (whose name subsequently changed to Equinor), This resulted in the first promoted farm out deal to be done in the UK North Sea in over three years, which led to a drilling commitment by Statoil. 2017 was a landmark year for JOG, as they were an instrumental catalyst for the drilling of three exploration wells in the UKCS, one of which resulted in the highly publicised Verbier oil discovery.

On the back of this success, JOG completed a significant equity financing of £24m, strengthening the shareholder base and ensuring they maintained their position at the table through the appraisal stage of Verbier.

Operations

- **Verbier** - North Sea
- **Athena** - North Sea

VERBIER, Licence: P2170 Blocks 20/5b & 21/1d in the North Sea

Blocks 20/5b and 21/1d were awarded as a Traditional Licence in the 28th Licencing Round. The blocks lie approximately 100km northeast of Aberdeen, close to the Buchan and Tweedsmuir North and South oilfields and straddle the western end of the North Buchan Trough.

ATHENA, Licence: P1293 Block 14/18b in the North Sea.

Block 14/18b is located in the North West Witch Ground Graben in the Moray Firth and contains the Athena oil field. On 21st December 2012 Trapoil completed the acquisition of a 15 per cent working interest in Athena from Dyas UK Limited.

Recent News

The share price has recently come to life as they have been awarded significant acreage containing over 100m barrels of discovered oil, in the latest North Sea licensing.

It has landed 100% of three blocks hosting the Buchan oil field and the J2 oil discovery. The acreage is contiguous with JOG's existing interest in Licence P2170 which contains the Verbier discovery.

This news is a highly transformational development and a real game changer for the company moving forward from here. We have already seen strong re-ratings from brokers with the house Broker Arden Partners almost double target prices from 230p to 450p based on a risked net asset value (NAV) estimate of 537p a share, (based on an average price per barrel of $65).

But Why Such Bullish Ratings?

The acreage awarded to Jersey in the licensing round includes the Buchan oil field that was discovered by BP in the mid-1970s and came onstream in 1981. Production continued until May 2017, when the Buchan Alpha platform was no longer compliant with the current Safety Case, by which point a total of 148m barrels had been produced.

The award is good news enough, but the fact they have been awarded 100% working interests and ownership of Buchan Andrew, an undeveloped discovery above the main Devonian Buchan reservoir, and the J2 Sgiath is the icing on the cake on an undeveloped discovery. These discoveries are estimated to have un-risked gross recoverable mean resources of 20m and 3m barrels, respectively, according to Jersey management and independent work completed by Rockflow Resources on behalf of the company.

The Real Grabber

Jersey has entered into a three-month option agreement under which Equinor. The operator of Verbier, has been granted an option over a 50 per cent equity interest in respect of the two blocks containing the Buchan oil field and J2 oil discovery. Should the option be exercised, Jersey will act as licence operator and Equinor will reimburse the company for its 50 per cent share of costs in relation to the licence applications.

Prior to these three awards, Jersey's net share of the Verbier discovery was estimated at 4.5m barrels of oil equivalent (boe). The new awards add an estimated 105m boe of discovered resources net to Jersey, making this “the most significant event for the company since its inception”, says chief executive Andrew Benitz. And I have to say I am in total agreement with him.

Jersey’s interests in other blocks in the Greater Buchan Area hold in excess of 300m barrels of oil equivalent (boe) mean prospective resources. These include Jersey’s nearby Cortina prospect on the P2170 licence which has a minimum resource of 39m boe and a risked NAV of $25m (85p a share) based on Arden’s analysis.

Importantly, Jersey’s management maintain their view that that Verbier is commercially viable at the lower end of the initial resource estimate of 25m to 130m barrels of oil equivalent (boe). Today’s licensing awards mean that progression of the Buchan development is likely to be highly supportive of the development of Verbier too.

Eco Atlantic Oil and Gas

A Brief History
Eco Atlantic Oil and Gas is an international oil and gas exploration and development company focused on the identification, acquisition and development of upstream petroleum opportunities in politically stable and technically de-risked jurisdictions around the world. Eco are duel listed on AIM market and on the Toronto Stock Exchange.

Operations

- Guyana (South America)
- Namibia (Africa)

Guyana
The United States Geological Survey ranks the Guyana-Suriname basin as the world’s second-most prospective and under-explored offshore basins. It is currently estimated that 13.6b barrels of oil and 32tn cubic feet of natural gas have yet to be discovered.

Namibia
With a coastline of almost 1,600 km, offshore Namibia oil exploration has become highly attractive in recent years for IOCs and oil majors. Offshore Namibia, Eco is the majority stakeholder and operator of four prospective licence blocks in the Walvis Basin; Sharon, Cooper, Guy and Tamar. It is estimated that 25 billion barrels of prospective resources could be held within this licence area. The Walvis Basin is a proven petroleum system and Eco is working in partnership with Tullow Oil, NAMCOR and Azinam on these projects within the region. The offshore prospects in Namibia have an estimated 25b barrels of oil.

The key to their approach, and I think ultimately a big part of their future success comes from them partnering up with bigger more established explorers such as Tullow Oil and Total EP Guyana BV. Eco holds a 15% working interest in the Orinduik in the shallow water of the prospective Guyana-Suriname basin.

This area is next to ExxonMobil’s Stabroek Block, this area has so far yielded 13 world class discoveries with recoverable resources estimated to be over 6b barrels of oil, with first production to commence by 2020.

Much of the excitement can be attributed to the Wingat-1 discovery, drilled by HRT in 2013, which encountered rich oil-bearing source rocks, recovering light and sweet crude oil. Additionally, the country’s attractive oil prospects and favourable fiscal incentives have attracted a wealth of oil majors including Tullow, Total, GALP, Shell, ONGC and ExxonMobil.

Recent News

Eco announced a significant oil discovery on the Orinduik Block from the Jethro-1 exploration well on 12 August 2019. The discovery was above pre-drill estimates, and the Jethro-1 exploration well is estimated to contain over 100m barrels of oil.

Hurricane Energy

A Brief History

The company was founded back in 2005 by Dr Robert Trice with a belief that 'fractured basement reservoirs' could be a significant untapped resource. Basement rock sits beneath the traditional oil producing source rock. Most oil fields worldwide have tended to terminate drilling once the source rock has been penetrated. However, this has left behind a potentially large untapped resource sitting in the basement layer below. Many countries have already successfully exploited basement reservoirs including the USA, Brazil, Venezuela, Morocco, Libya, Algeria, Egypt and Vietnam. However, the UK has been late to the party. Until Hurricane came along there had been no targeted efforts oil in basement reservoirs despite the fact that several discoveries had been previously made by accident.

Operations

Hurricane's assets are focussed on the Rona Ridge to the west of the Shetland islands on the UK Continental Shelf region.

- Greater Lancaster Area
- Greater Warwick Area
- Strathmore

Greater Lancaster Area

Lancaster - Discovered in 2009 Hurricane is implementing a phased development on Lancaster using the two horizontal wells drilled on the structure. The first phase of the development, the Early Production System (EPS), came on stream in June 2019.

Halifax - Situated on the Rona Ridge north east of the Lancaster field. The company has the view that both Lancaster and Halifax have the potential to be part of a single large accumulation.

Greater Warwick Area

Warwick / Lincoln - Hurricane has a 50% interest in this licence following Spirit Energy's farm-in to 50% in September 2018.

Lincoln - The Lincoln discovery sits on the southwest limb of the Rona Ridge. It is deeper than Lancaster and separated from it by the Brynhild Fault Zone.

Other Interests

Whirlwind - Whirlwind is a large, low-relief structure approximately 10km north of Lancaster, and was the second basement prospect to be drilled by Hurricane, proving to be another large discovery.

Strathmore - Strathmore is an undeveloped oil field that was discovered in 1990. Unlike Hurricane's other assets, Strathmore is a sandstone reservoir, not a fractured basement reservoir. Hurricane has a 100% interest in this licence.

Stepping up

Having proved its model, in February 2014, Hurricane pressed ahead with a stock market listing on AIM at 43 pence a share and was able to raise nearly £50m.

The timing was fortunate. The Oil Price Crash of 2014 was less than 5 months away. In the space of a year-and-a-half, the oil price plummeted from over $100 a barrel to around $30. It would claim a lot of casualties and investment in the sector all but dried up.

For Hurricane, there was a silver lining. The lack of investment spending across the oil and gas sector meant top notch equipment could be accessed at knock down prices. Hurricane was able to secure Transocean's prized Spitsbergen drilling rig for most of 2016 at under half the normal rate.

The more Lancaster has been probed, the larger it gets. Estimates are now over 500m barrels of oil, up from 207m barrels forecast by the competent person's report (CPR) published in 2014.

As the expression goes "small fields get smaller, big fields get bigger."

In fact, Dr Trice has a theory that Lancaster and Halifax are part of the same Hydrocarbon Accumulation despite being 30km apart. If proven correct, it would make the discovery "the largest undeveloped discovery on the UK Continental Shelf."

Recent Developments

Warwick Deep Shut Down
Recent news has impacted the share price considerably and despite the pre-drill estimates suggesting up to 900m barrels they have now moved to plug and abandon the well as it cannot be considered suitable for future production.

The company completed a farm-out deal last year involving the sale of 50% of its Greater Warwick Area to Spirit Energy, who is covering the cost of the campaign.

Despite this outcome focus now shifts to the next well, Lincoln Crestal. This is now the preferred tie-back candidate for the Lancaster field. The second well in the three-well programme. Lancaster EPS (early production system) production operations remain in-line with guidance."

But it's not all bad news....

First Revenues Generated
The first tanker load of oil has come out of the Lancaster field after the firm reported that they have received first oil from the project. The Amundsen Spirit shuttle tanker has now lifted that oil from the Aoka Mizu (Floating Production Storage and Offloading or FPSO installation) and is taking it back to Rotterdam. It will be refined and sold on by its new owner. BP Oil International marketed the cargo, as per the terms of the offtake agreement.

"First lifting from the Lancaster EPS marks the generation of Hurricane's first revenue," said chief executive Robert Trice.

"We are now building the cash flow necessary to invest in the further appraisal and development of Hurricane's basement assets."

EPS Ramping up
With oil now being produced from the EPS (early production system) development at

Lancaster field this has given Hurricane a better understanding of the project and has intern led to the company looking to ramp up production at this facility.

The plan is for the EPS to produce around 9,000 barrels of oil per day or bopd for the first three months before increasing that to 13,000 bopd in the next three-month period.

UK Oil and Gas Plc (UKOG)

A Brief Background

The origins started back in 2000 as UK Oil and Gas Investments PLC and Sarantel Group PLC, and then rebranded as UK Oil and Gas Investments plc on 4 December 2013. Its straightforward strategy is to build stakes in UK oil and gas assets.

In the UK there are now 120 onshore oil and gas sites with 250 operating wells producing between 20,000 and 25,000 barrels of oil equivalent a day. UKOG is operating primarily in the Weald Basin, in South East England, which has a long tradition of oil and gas exploration. There are 13 producing sites in the Weald, some almost 30 years old. Hydrocarbons were first produced in the Weald in the 19th century.

Operations

Core assets cover a vast acreage of 790 sq km in the Weald and Purbeck-Wight basins of Southern England.

- **Avington** (PEDL070) Field currently shut in. UKOG holds a 5% interest.
- **Broadford Bridge** (PEDL234) Operated by UKOG's 100%-owned Kimmeridge Oil & Gas
- **Limited Holmwood** (PEDL143) An exploration well is planned for late 2018/early 2019. UKOG has a 40% interest.
- **Horndean** (PL211) Field is in stable production. UKOG has a 10% interest.
- **Horse Hill** (PEDL137/PEDL246) Horse Hill Developments Ltd have begun well tests. UKOG holds a 50.64% interest in the Horse Hill licences, and a 77.9% interest in HHDL.
- **Isle of Wight** (PEDL331) Preparing Arreton-3 oil discovery appraisal well planning submission. UKOG has a 65% interest.
- **Markwells Wood** (PEDL126) Revised drilling and testing planning application underway. UKOG owns 100% of Markwells Wood.

The fact most of UKOG's assets are onshore is a point of difference as most other UK energy plays are focused on offshore exploration. While UKOG owns stakes in several producing assets, most of the attention has been given to its first investment, Horse Hill. Horse Hill is located in a geological structure called the Weald Basin. Of more interest is that Horse Hill also happens to be only about 3km north of Gatwick Airport.

The Weald has long been considered an area with hydrocarbon potential with oil and gas drilling taking place for over 100 years.

But it was not until 1983 that a commercial find of any significance was found. Palmers Wood,

owned by Conoco, is located 20km north west of Horse Hill. Production started in 1990 and continues to this day. The wells initially produced around 9,000 barrels of oil a month but that has since tapered off to around 2,000. In 2008, Mohamed Fayed, former owner of Harrods and Fulham Football Club, successfully sued the operator, Star Energy, for trespass as the wells ran under his estate – 800ft below the ground. He was awarded a 9% share of the income since 2000 as well as the same proportion of all future income. In any event, Palmers Wood is considered small

fry by global standards. Today, there are 13 producing sites in the Weald Basin, but none are of a major scale. However, the discovery at Horse Hill has put the area well and truly back on the radar.

The Gatwick Gusher

In late 2014, UKOG made a massive breakthrough. Preliminary results from drilling at Horse Hill indicated a resource much bigger than previously thought. UKOG had discovered potential oil not only in the Portland sandstone, but also in the vast layers of the Kimmeridge limestone deposits below. The excitement really hit the roof in April 2015 when Nutech, a world leader at reservoir analysis, independently estimated the P50 (most likely) oil in place to be 158m barrels per square mile. After extrapolating the numbers, the BBC announced that there could be 100b barrels of oil in the Weald Basin.

UKOG then hired Schlumberger to give a second opinion. They came up with an even bigger number, 271.4m barrels of oil in place per square mile. Both Nutech and Schlumberger then calculated the potential oil in place for the entire Weald basin. Nutech arrived at 9.245b barrels (P50) and Schlumberger at 10.993b barrels (mean oil in place). It should be stressed that these are oil-in-place (OIP) estimates and are not to be confused with Resources or Reserves.

On The Road To Recovery

Like all major discoveries, Horse Hill is only as good as its recovery potential. For now, based on comparisons with geologically similar fields in the US and Siberia, the best estimate is between 3-15% of the oil-in place. But that is a fairly loose analysis, so should not be taken too seriously.

However, flow testing from Horse Hill has initially produced encouraging results. The first of three zones to be flow tested at Horse Hill delivered 450b of oil over a two-day period without a pump – a flow rate the company believes “probably hasn’t happened onshore UK for decades”. This rate was subsequently improved to 1,688 barrels per day. The flow rate suggests that the Kimmeridge limestone that sits below the Portland sandstone is naturally fractured rock, allowing the oil to move freely to the surface.

This is a critical point because there is an army of protestors from the environmental movement, not to mention local residents, who will kick and scream at anything seen as ‘risky’. Large scale onshore production will be difficult to execute no matter where it carried out in the UK. If the area is populated, there is perceived risk to people. If the area is not populated, there is perceived risk to the environment. And large parts of the Weald are protected ‘Green Belt’.

UKOG has countered the voices of discontent by pointing out that the UK employs hundreds of thousands of people and contributes over £5b in tax revenues annually to HM Treasury. On top of that, as North Sea reserves dwindle, energy security is fast becoming a national issue. UKOG has plenty of time in which The Oil & Gas Authority (OGA), the regulator of the industry, has granted a four-year extension to the exploration licences that cover Horse Hill and nearby sites. This gives UKOG until the summer of 2021.

Back In The Headlines

UKOG came back in the headlines after announcing its much awaited drilling results at its first well at Broadford Bridge – known as “BB1”. BB1 is located within a licence covering a vast 300 km² area and importantly UKOG owns a 100% interest in this licence. Given BB1 is only 27km from Horse Hill, the theory/hope is that the same characteristics would show up in the Kimmeridge limestone, meaning the oil spans right across the Basin. The drilling successfully uncovered a significant 1,490 ft thick continuous oil deposit. The CEO described the results as “ground-breaking” and believes Broadford Bridge is set to become UKOG’s flagship asset.

Horse Hill Stake Increase To 86% With GBP 12m Purchase

UKOG have more recently announced they have agreed to buy Magellan Petroleum UK Investment Holdings Ltd from Tellurian Investments LLC for GBP 12m in a cash-and-shares deal. This deal will see their stake in the horse hill project increase by 35% to a total of 86%.

This includes the PEDL137 and PEDL246 licences – With most of the remainder continuing to be held by Alba Mineral Resources PLC, with a 12% stake.

The deal will be funded with an initial £8m, with £5m in cash and £3m in shares, on completion of the purchase. The remaining deferred payments will be made using shares.

“This transformational acquisition, the largest in UKOG’s 6 year history as an oil and gas company, boosts UKOG’s net share of its flagship Horse Hill asset by a significant 69%, providing the company with the lion’s share of future production revenues and reserves, together with absolute control over the field’s future development and progress,” UKOG Chief Executive Officer Stephen Sanderson said.

“Importantly, the acquisition forms a key part of UKOG’s stated near-term strategy to grow the company via organic appraisal drilling and by targeted acquisitions in key assets with near term cash flow potential,” Sanderson added.