

Company data			
Stock data as of 23-01-13			
Price	GBp57.75		
52-week range	GBp47.50 - 95.00		
Shares outstanding	95.4 million (mn)		
Dividend yield	N/A		
Last-12-month average daily trading volume (AIM)	343,559		
Capitalisation			
Market capitalisation	GBP55.07 mn		
Enterprise value	GBP40.4 mn		
Net debt / equity	0.0%		
Price performance (%)			
	1M	3M	12M
NOP	6.9	(15.3)	(24.5)
FTSE AIM ALL Share Index	6.0	5.1	(3.3)
12-month price volume performance			
Major shareholders			
Name	Capital		
BlackRock Investment Mgt.	9.90%		
Lonsdale B J Esq	5.83%		
TD Direct Investing	5.40%		
Barclays Stockbrokers Ltd	4.94%		
Majedie Asset Mgt.	3.87%		
Other	70.06%		
Total Shares	95.4 million (mn)		
Change from prior quarter			
BlackRock Investment Mgt.	0.00%		
Lonsdale B J Esq	0.00%		
TD Direct Investing	0.00%		
Barclays Stockbrokers Ltd	0.00%		
Majedie Asset Mgt.	0.00%		
Other	NM		
Company website:	www.northpet.com		
Analyst(s):	John Eade		
DOR	James Kelleher, CFA		

Source: Company data, Bloomberg

Company description

Northern Petroleum is a hydrocarbon exploration and production company that holds interests in the Netherlands, Italy, the U.K. and French Guyane. It has more than 50 licences and applications which include eight producing oil and gas fields and numerous high-potential exploration ventures. The company prides itself on establishing low-risk projects with a relatively low cost of entry, thus maximising returns of exploration, farm-outs and production. Realised returns are used to scout out opportunity in the project pipeline.

In 2011, Northern produced 580,000 barrels of oil equivalent. Full-year revenues jumped 64%. Gas-producing assets are primarily in the Netherlands, while oil-producing licences are in the U.K. Northern manages opportunities in those countries and in Italy.

In late 2011, Tullow Oil PLC announced that the Zaedyus exploration well off the coast of Guyane encountered 72 metres of net oil pay. Through Northpet Investments Ltd., a joint venture with Wessex Exploration, Northern Petroleum holds a 1.25% interest in the discovery. Many industry analysts anticipate the project may have "billion-barrel" potential, and the company's relatively small share has turned into a significant and promising opportunity. Moreover, this has placed Northern Petroleum in the spotlight; its shares rallied strongly after partner Total S.A. made a bid for Wessex in March. The management of the Zaedyus project has since been taken over by Shell PLC.

With a diverse mix of exploration, development and producing assets, the company has a stable base on which to expand. Its balance sheet is strong and debt-free, conducive to the financial flexibility necessary to seize new opportunities. In addition, Northern Petroleum has established good relationships with the big-name players in the industry.

The company listed on AIM in 1995 and has a market capitalisation of about £54 million. The shares sold off in December 2012 after a second appraisal well at Zaedyus did not encounter commercial-grade hydrocarbons. However, they recovered somewhat after Shell spudded the second well of the four-well Guyane program on 29 December 2012.

Exhibit 1: Key financials

All figures in GBP '000, unless specified	FY10A	FY11A	(%change)
Revenues	14,968	24,531	63.9%
Gross profit	6,697	12,117	80.9%
Operating profit	1,499	10,964	631.4%
Net profit	1,155	6,231	439.5%
Diluted earnings per share	(0.01)	0.07	(600.0%)
Cash & equivalents	21,430	29,794	39.0%

Source: Company data, Argus Research estimates

SWOT

Strengths	Weaknesses
<p>Solid Financial Position: Management has established track record of realising value on its projects, providing the company with the capital to finance other ventures. It also has a solid cash base and no debt obligations. EPS in 1H12 increased ten-fold from the year-ago period.</p> <p>Diverse Asset Portfolio: A foothold in exploration, development and producing assets in multiple regions lowers Northern Petroleum's risk profile, as does partnerships with a number of major industry players. All of the company's licences are in relatively low-risk countries.</p>	<p>Valuation Dependent on Guyane: While the viability of the company's operations is not dependent upon the recent Zaedyus discovery, the results of the four-well testing phase currently in progress could have a significant impact on NOP's inherent valuation. Investors will be monitoring any new developments, with any news creating significant volatility. In one such instance, the Zaedyus 2 appraisal well did not find commercially-viable hydrocarbons, and the stock sold off. However, as the shares traded sideways for much of 2012, their beta is only 0.7 relative to the FTSE 100 Index.</p>
Opportunities	Threats
<p>Zaedyus Discovery: The discovery of oil offshore Guyane has established the basin as a hydrocarbon region with significant potential. Northern's participation should bolster its assets as well as its public profile. The project is currently working on well 2 out of a 4-well follow-up program, purposed for both exploration and appraisal.</p> <p>New Production Well: As gas flow rates decline in the company's assets in the Netherlands, management is focused in increasing production going forward. It has plans to drill two new wells on existing fields in Geesbrug.</p>	<p>Exposure to Energy Prices: While Northern Petroleum benefitted from higher energy prices in 2011, prices were not as favourable in 2012. Oil is down from an earlier peak of \$117, and while natural gas prices have rebounded modestly from their recent lows, they remain well below historical levels.</p> <p>Environmental Concerns: Hydraulic fracturing (fracking) has been outlawed in France and Bulgaria. The Netherlands, where Northern reportedly has licences with significant potential for shale, is considering the matter. On 13 December 2012, the U.K. Energy Secretary allowed fracking with some stipulations.</p>

Competitive position

Company	Ticker	Currency	Mkt Cap (MM)	FY11 Rev (MM)	Est. 2012 Rev Growth (%)	Op Margin (%)	P/E Ratio	P/S Ratio	D/TC (%)
Northern Petroleum PLC	NOP	GBP	51	34	-9	32.0	9.3	3.1	0%
JKX Oil and Gas PLC	JXX	GBP	120	237	2	33.0	7	0.8	0%
Valient Petroleum PLC	VPP	GBP	175	317	-9	43.0	7	1.1	45%
Wessex Exploration Co.	WSX	GBP	35	-	0	0.0	0	0.0	0%
PetroNef Resources PLC	PTR	GBP	35	29	38	0.0	0	1.2	0%

Source: Bloomberg

Notes: Data as of 12-13-12. NOP, VPP, WSX, and PTR are quoted on LSE AIM. JXX is listed on LSE Main Market.

Analyst outlook

Northern Petroleum has established a solid track record of balancing early entries into oil and gas plays with disciplined risk management. We believe the company's strategy of keeping entry costs under control and realising value quickly should continue to serve it well. The operational and geographic diversity built into Northern's asset portfolio makes investment in the company less speculative than in many peers of similar size and scope.

Some investor comments have been made towards implementing asset sales to realise expected monetary value in the company's portfolio, which is seen to be greater than the share price. Such activities are historically developed to fall well within management's strategies and capabilities.

The Zaedyus discovery off the coast of Guyane has turned into an enormous win for Northern, bringing it into the public eye and giving it a share in one of the most-promising hydrocarbon finds of the last several years. Given the magnitude of the upside potential of the project, NOP's current share price appears inadequate, attributing little value to its other operations. As more information on Zaedyus becomes available, we think the shares should return to the high end of their 52-week range of 51.50-95.00 pence.

The company has reviewed this profile and factual amendments have been made.



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