

Energy
Oil & Gas - Exploration & Production

United Kingdom

Company Update
Price Target Change
Estimate Change

Rating: BUY
Price: 143p
Price Target: 172p
Previous: 153p
Exchange Rate: 1.5000
Bloomberg: AIM: NOP LN

Market Data

52-Week Range: 170p-60p
Total Entprs. Value (MM): £89.4
Market Cap. (MM): £112.7
Shares Out. (MM): 78.8
Float (MM): 60.3
Avg. Daily Vol.: 60991

Financial Summary

Net Debt (MM): (€34.9)
Net Debt/Capital: NM

EUR	2008A	2009E	2010E	2011E
Rev. (MM)	7.0	5.8	32.2	62.5
<i>Prev.</i>	--	7.4	65.0	107.5
EV/Rev.	19.2x	23.1x	4.2x	2.1x
EPS				
FY Dec	0.01	0.00	0.12	0.28
<i>Prev. FY</i>	--	(0.03)	0.28	0.46
FY P/E	NM	NM	17.9x	7.7x
Production	330	409	2,520	4,589
<i>Prev.</i>	--	806	4,478	8,202

boepd

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Northern Petroleum (AIM: NOP LN)

Grolloo production commences but guidance slips

Investment Summary

Production has commenced from Northern's Grolloo field de-risking development NAV but guidance slips as oil developments delayed. Management remains confident of upside potential and we believe exploration acreage looks increasingly attractive. TP increased to 172p and with 20% upside we retain our Buy rating.

Event

First gas from Grolloo field.

Key Points

- **Grolloo production commences.** Northern has announced production from the Grolloo gas field commenced on the 4th December at 7.4mmcfpd marking the start of a period of significant volume growth for the company. The larger Geesbrug field is expected on stream before year end, while the Wijk en Aalburg and Brakel fields should start up towards the end of Q1 2010, which is slightly later than previous guidance. In aggregate, these fields are expected to produce 30mmcfpd (Northern 45% WI) from existing facilities.
- **2013 production target slips to 2014.** Due to delayed start up of two oil fields under development Northern now expects net production to reach 6.5mboepd in 2014 rather than 2013. We continue to believe this guidance is conservative with significant upside potential from the Brakel and Geesbrug fields identified, but nevertheless cut our forecasts to reflect these delays.
- **Core NAV falls but TP increased.** As a consequence of the slower production ramp up our core NAV falls 10% to 172p/sh. With 20% upside to this level we believe Northern remains attractive from a valuation perspective and upgrade our target price to reflect lower ongoing development risk. In addition, we believe the market continues to overlook Northern's considerable exploration upside, which apart from low risk onshore prospects has minimal financial cost and is essentially a free option. While activity in the near term has been limited Northern's operating cash flow should surge once its Netherlands developments are on stream enabling a more active forward programme. We understand up to 8 wells are currently planned targeting exploration and appraisal targets in Italy, the Netherlands and the UK.

Valuation/Risks

- Our DCF-derived total NAV for Northern is 316p/sh and is made up of a core NAV of 172p/sh and a risked NAV of 144p/sh. We set our price target equal to core NAV reflecting mid-cycle valuations and lower development risk following the start up of the Grolloo field.
- Risks: Disappointing exploration, development delays, weaker commodity prices and Italy farm-out delays.

Northern Petroleum Net Asset Value

Field/prospect	Country		Gross unrisked reserves (mboe)	Equity (%)	Net unrisked reserves (mboe)	Risk factor (%)	Net risked reserves (mboe)	NPV (US\$/bbl)	Riskd NPV (US\$m)	Riskd NPV (p/sh)	Unrisked NPV (p/sh)
UK	UK	Production	1.6	100.0%	1.6	100%	1.6	0.1	0.1	0.1	0.1
Netherlands	Netherlands	Production	45.2	100.0%	45.2	85%	38.4	5.0	193.8	147.9	174.0
Core producing NAV		Production	46.8	100.0%	46.8	85%	40.0	4.9	193.9	148.0	174.1
Net debt									20.1	15.4	15.4
Working capital									11.2	8.5	8.5
Core NAV			46.8	100.0%	46.8	85%	40.0	5.6	225.2	171.9	198.0
Tiendeveen	Netherlands	Exploration	6.7	22.5%	1.5	33%	0.5	7.6	3.8	2.9	8.8
Willeskop	Netherlands	Appraisal	5.9	60.0%	3.6	20%	0.7	7.6	5.4	4.1	20.7
North Ottoland	Netherlands	Exploration	15.9	60.0%	9.5	20%	1.9	7.6	14.5	11.1	55.4
Prospect	Netherlands	Exploration	11.2	60.0%	6.7	20%	1.3	7.6	10.2	7.8	39.0
Lhee	Netherlands	Exploration	13.7	22.5%	3.1	20%	0.6	7.6	4.7	3.6	17.8
Netherlands exploration			53.5	45.7%	24.4	21%	5.1	7.6	38.6	29.5	141.7
Rovesti	Italy	Appraisal	33.6	100.0%	33.6	25%	8.4	7.4	61.8	47.2	188.8
Giove	Italy	Appraisal	19.6	100.0%	19.6	25%	4.9	7.4	36.1	27.6	110.3
Longastrino	Italy	Exploration	4.5	80.0%	3.6	20%	0.7	9.1	6.5	5.0	24.9
Cerasa	Italy	Exploration	4.5	80.0%	3.6	20%	0.7	9.1	6.5	5.0	24.9
Shell farm-out acreage	Italy	Exploration		37.5%					31.5	24.0	24.0
Italy exploration			62.1	97.1%	60.3	24%	14.7	9.7	142.5	108.8	372.8
Markwells Wood	UK	Appraisal	2.8	50.0%	1.4	33%	0.5	5.0	2.3	1.7	5.2
Hedge End	UK	Appraisal	3.3	50.0%	1.7	33%	0.5	5.0	2.7	2.1	6.3
Havant	UK	Exploration	1.6	50.0%	0.8	20%	0.2	5.0	0.8	0.6	3.1
UK exploration			7.7	50.0%	3.8	30%	1.2	5.0	5.8	4.4	14.6
Matamata	Guyane	Exploration	425.0	1.3%	5.3	5%	0.3	5.0	1.3	1.0	20.3
Guyane exploration			425.0	1.3%	5.3	5%	0.3	5.0	1.3	1.0	20.3
Riskd NAV			548.2	17.1%	93.9	23%	21.2	8.9	188.2	143.7	549.4
Total NAV			595.0	23.6%	140.6	44%	61.2	6.8	413.4	315.5	747.4

Source: Jefferies International Ltd.

Northern Petroleum

P&L

€m	2008	2009E	2010E	2011E
Revenue	7.0	5.8	32.2	62.5
Operating costs	-1.8	-1.9	-5.0	-7.2
NAM net profit share	0.0	0.0	0.0	0.0
DD&A	-2.4	-1.8	-5.0	-9.0
Cost of sales	-4.1	-3.7	-9.9	-16.2
Other income	0.1	0.0	0.0	0.0
Administration	-1.9	-3.0	-3.1	-3.1
Exploration write-off	-0.5	-0.4	-0.4	-0.4
Exceptional operating items	8.9	0.0	0.0	0.0
Operating profit	9.3	-1.3	18.9	42.8
Net interest	1.4	0.9	0.0	1.3
Exceptional non-operating items	0.0	0.0	0.0	0.0
Pre-tax profit	11.6	-0.3	18.8	44.1
Taxation	-1.6	0.3	-9.4	-22.1
Net income	9.9	0.0	9.4	22.1
Minorities	0.0	0.0	0.0	0.0
Net attributable income	9.9	0.0	9.4	22.1
Exceptionals	8.9	0.0	0.0	0.0
Clean net attributable income	1.0	0.0	9.4	22.1
Shares average	70.5	79.0	79.0	79.0
Shares diluted	73.5	87.4	87.4	87.4
EPS (Normal) - GBp	11.2	0.0	10.3	24.2
EPS (Diluted) - GBp	1.0	0.0	9.4	21.9
Clean EPS (Normal) - GBp	1.1	0.0	10.3	24.2
Clean EPS (Diluted) - GBp	1.0	0.0	9.4	21.9
DPS	0.0	0.0	0.0	0.0

Source: Jefferies International Ltd.

Balance sheet

€m	2008	2009E	2010E	2011E
Total current assets	56.2	31.7	21.3	51.1
Cash	34.9	11.6	1.0	30.4
Accounts receivable	21.2	20.0	20.0	20.0
Inventory	0.1	0.1	0.3	0.6
Total fixed assets	30.6	53.8	83.0	86.7
Tangible fixed assets	12.5	32.9	36.1	34.8
Intangible fixed assets	12.4	20.9	46.9	51.9
Investments	5.7	0.0	0.0	0.0
Total assets	86.8	85.4	104.3	137.8
Total current liabilities	9.8	8.9	8.9	8.9
Trade creditors	5.9	5.0	5.0	5.0
Other	3.9	3.9	3.9	3.9
Long term liabilities	13.4	13.1	22.6	34.0
Debt	0.0	0.0	0.0	0.0
Other	13.4	13.1	22.6	34.0
Total liabilities	23.2	22.0	31.4	42.8
Net assets	63.5	63.4	72.9	94.9
Equity	63.5	63.4	72.9	94.9
Shareholders equity	63.5	63.4	72.9	94.9
Minority interest	0.0	0.0	0.0	0.0
Total	86.8	85.4	104.3	137.8

Source: Jefferies International Ltd.

Cash flow statement

€m	2008	2009E	2010E	2011E
Operating profit	9.3	-1.3	18.9	42.8
DD&A /Exploration WO	2.6	1.8	5.0	9.0
Other	-8.4	0.0	0.0	0.0
Operating Cashflow before interest/tax	3.5	0.4	23.8	51.8
Interest	1.5	0.9	0.0	1.3
Tax	0.0	0.0	0.0	-10.6
Operating Cashflow after interest/tax	4.9	1.4	23.8	42.5
Dividends	0.0	0.0	0.0	0.0
Chg. Working Cap	-3.5	6.0	-0.3	-0.3
Capex	-1.9	-17.2	-8.2	-7.7
Exploration	-0.1	0.0	0.0	0.0
Asset purchases (sales)	9.0	0.0	0.0	0.0
Free Cashflow before financing	6.5	-23.3	-10.6	29.5
Equity issue:	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Free Cashflow after financing	6.5	-23.3	-10.6	29.5
Currency translation	-0.7	0.0	0.0	0.0
Change in cash	5.9	-23.3	-10.6	29.5

Source: Jefferies International Ltd.

Production

mboepd	2008	2009E	2010E	2011E
Working interest				
UK	0.018	0.030	0.030	0.030
Netherlands	0.312	0.379	2.490	4.559
Total	0.330	0.409	2.520	4.589

Source: Jefferies International Ltd.

Company Description

Northern Petroleum is an exploration and production company focused on Europe, with producing fields in the Netherlands and UK and has the second largest exploration acreage position in Italy. It aims to establish significant concentrated licence positions in few countries adding value through the application of new drilling, seismic, completion and computer technologies.

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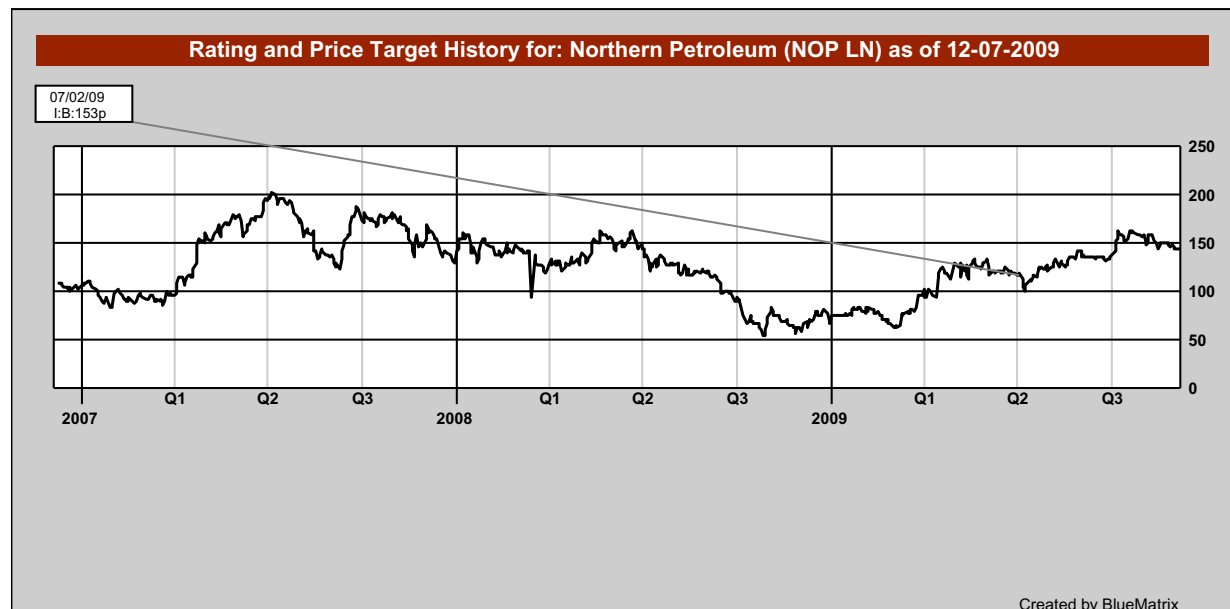
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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY/ SB]	457	53.80	45	9.85
HOLD [HOLD]	328	38.60	20	6.10
SELL [SU/ UNPF]	65	7.60	5	7.69

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