

Cove bidding war adds lustre to Aussie juniors

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THE international bidding war for London-based Cove Energy has boosted the fortunes of a number of Australian juniors with acreage near Cove's Mozambique discoveries.

Local juniors caught in the excitement include Pancontinental Oil & Gas and FAR. Both have acreage offshore Kenya, north along the east African coastline from Mozambique, where Anadarko and ENI between them have recently discovered up to 50 trillion cubic feet of gas in the Rovuma Basin.

The discoveries have drawn strong interest from international players, keen to get a slice of what looks set to become an LNG hub exporting to Asia.

Shell was outbid last week by Thailand's PTTEP, but analysts suggest it will get back in the race for Cove, which has an 8.5% stake in the Anadarko discovery. In fact, analysts tip Shell will not be satisfied with Cove's interest, and may try to strike multi-billion dollar deals with Anadarko and/or ENI to increase its stake further.

The global interest in Mozambique has spilled over into neighbouring countries along the east coast.

While Kenya is part of a different petroleum basin about 1000km north of Mozambique, investors are seeing enough similarities to send the share prices of Pancon and FAR for a run.

Since the February 22 announcement of Shell's \$1.46 billion takeover bid for Cove, Pancon shares have risen by 28% from A12.5c to 16c, continuing a sharp rise from only 7.7c at the beginning of the year.

Meanwhile, FAR, which gained exposure to offshore Kenya last year through its merger with private company Flow Energy, has increased by 32% from 3.8c when the Shell bid was announced to 5c yesterday.

Hartley's energy analyst, Dave Wall, said that Mozambique is at the centre of the action, with its northern neighbour of Tanzania now also the scene of some exciting discoveries.

"Kenya is the next step north. The geology changes up the east African coast from gas-prone plays in the south to oil in the north, but the exploration methods are producing similar signatures all the way along the coast.

"In Mozambique, these methods have so far produced 11 discoveries from 12 wildcats, and there's an expectation these success rates might also be possible in the north."

The surge of interest in east Africa comes a decade after Pancon blazed a trail into

offshore Kenya in 2002, becoming one of the first companies to hold offshore exploration permits.

Managing director Barry Rushworth had turned his attention to Africa about two years earlier, believing it offered oil explorers better value than Australia. After an extensive data search, he decided Kenya was the place to be, in part because of an oil kitchen he identified in a deep offshore trough.

The company's first-mover status in Kenya means it now punches well above its weight in the area, as shown by its place in a winning consortium led by BG and including Premier Oil and Cove Energy in a competitive tender last year for blocks L-10A and L-10B in Kenya's southern waters.

This adds to Pancon's existing Kenyan acreage, comprised of a 40% stake in Block L-6 and 15% in each of Blocks L-8, L-10A and L-10B.

L-8 is Pancon's most advanced area and will provide the first test of Kenya's offshore potential when the giant Mbawa oil prospect is drilled, most likely in the third quarter of this year. Mbawa is estimated to have the potential for about 1 billion barrels of oil.

The L-8 permit is now operated by Apache, which last year bought a 50% stake from Australia's own Origin Energy. Origin was left with a 25% interest, but even a company the size of Origin could not fail to be excited about the possibility of one quarter of a billion-barrel oil field.

Pancon is free-carried through the well by Tullow, which is earning a 10% stake in L-8 in a deal with will reduce Pancon's interest from 25% to 15%.

Pancon finance director Ernie Myers said the geology of offshore Kenya was quite distinct from the petroleum basins further south.

"We're focused on an oil play offshore Kenya, unlike the huge gas discoveries offshore Mozambique. But recent work by Apache is bearing out the oil story that Barry identified over a decade ago," he said.

Success in L-8 will be a major positive for FAR as well as Pancon, thanks to FAR's interests in two adjacent permits. FAR has a 60% interest in L-6 (north of L-8) and a 30% interest in L-9 (south of L8).

Another junior Australian company, WHL Energy, is also being swept in the positive sentiment coming out of east Africa. Its share jumped by 15% from 4.6c to 5.3c immediately after the news of the Cove takeover, but has since fallen back to 4.7c.

WHL is exploring for giant oil fields in shallow water off the Seychelles, 1500km east of mainland Africa and north of Madagascar.

Hartley's Wall said the Seychelles is geologically related to east Africa and is being viewed by investors as having similar potential to the hot areas closer to the African coast.

The company's exploration project is at an early stage, but has been assessed by Netherland Sewell and Associates as having a total unrisksed mean prospective resource of 3.4 billion barrels.

WHL is seeking to lock in one or more partners in the next few months to fund a drilling campaign, and can only be helped in that objective by the good news streaming from exploration efforts at its near-neighbours.

The exciting gas discoveries off Africa's east coast are seen as a threat to Australia's LNG markets in Asia, but it is welcome news for a number of Australian juniors and even one of our own LNG leaders, Origin Energy.