



Special Situations - Stock Recommendation



Rockhopper Exploration - Buy

22nd February 2011

Price	239p
12 Month Price Target	386p
Risk Rating	High
Forward P/E Ratio	N/A
Forward Dividend Yield	0%

Company:

Rockhopper Exploration (“RKH”) is an AIM listed company involved in the exploration of oil & gas in the Falkland Islands. The company has licences to explore in the North Falklands Basin where it has discovered oil at its 100% owned Sea Lion prospect.

Analysts View:

Goldman Sachs has just released a 640p PT valuing the Sea Lions P50 reserves (assuming volumes of 205m barrels and a 60% chance of success) at 360p per share, a 50% premium to the current share price. Thus, on top of this discount to NAV, the risked exploration portion of the portfolio is effectively in the share price for “free”. With potentially substantial exploration/appraisal activities, M&A attractions and the market not fully appreciating the value accretion of pushing Sea Lion to commerciality, Goldman’s view the risk/reward as attractive and have the stock on their Pan-European Conviction Buy List.

Special Situation:

RKH has fallen 38% since its recent high of 386p due to the results of its 14/10-3 appraisal well, which revealed only 20% oil in one sand with three other sands being water-bearing. However, this was a speculative well, drilled 8km from the original Sea Lion discovery and though removes part of the P10 upside from the field, has no impact on the P50 or P90 volumes. Also, the possibility that one sand could be in communication with the original well provides some cause for optimism.

Catalysts for the share price:

1. One geologist believes there is a 80%/90% certainty that the results from the 14/10-4 appraisal well, which was spudded on 19th February and due to complete 38 days thereafter, will be positive. This is a lower-risk appraisal well, 2.3km from the original Sea Lion discovery and a key potential catalyst.
2. Rising oil prices will only benefit companies such as Rockhopper Exploration, which is tipped by Panmure Gordon as a preferred pick for 2011.
3. RKH is to undertake an extensive exploration and appraisal programme across all of its acreage during 2011 having recently obtained £206m via a placing and sealed further drilling slots with Diamond Offshore, owner of the Ocean Guardian rig.



Special Situations - Stock Recommendation (cont)

Technicals:

Primary Trend:

The stock is trading significantly below the long term moving average, currently lying at 327p.

Support Levels:

With the RSI at 11 (where below 30 indicates oversold), the shares are highly oversold. We see further support lying at the 219p level reached after the initial Sea Lion discovery was struck.

Glossary:

Proven reserves - defined as oil and gas “reasonably certain” to be producible using current technology at current prices, with current commercial terms and government consent. This is also known as P90 - i.e. having a 90% certainty of being produced.

Probable reserves - defined as oil and gas “reasonably probable” of being produced. This is also known as P50 - i.e. having a 50% certainty of being produced.

Possible reserves - defined as oil and gas “having a chance of being developed under favourable circumstances”. This is also known as P10 - i.e. having a 10% certainty of being produced.

Chart Legend:

	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets bollinger bands work best (sell at upper band, buy at lower band).

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

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