



52-wk Range: £0.29-0.40
 12-month target: £0.90

Market Cap (M): £134.5
 EV (M): £134.5

Oil & Gas

Squaring the Circle

Summary

Circle is an oil and gas exploration and production company with a diversified portfolio of assets in Tunisia, Morocco, Egypt, Namibia and Oman.



Key Metrics

Shares Outstanding (M): 410.8
 Current Price (GBP): £0.33

Event

Circle Oil Plc announced its results for the year ended 31 December 2009 and provided a resources update.

Comment

These results are the first to account for starting production in Egypt and Morocco and are better than our expectations. Revenues reached US\$15.1m versus our forecast of US\$10m, whereas the cash balance at end December 2009 is US\$22m versus our forecast of US\$18.9m. The reported after tax loss of US\$13.5m is larger than last year but is distorted by a large negative non-cash item of US\$10.2m resulting from an impairment on the fair value of the conversion option on the convertible, linked to the increase of share price in the past 12 months, as well as an exploration write-off of US\$4.6m on the Owambo Basin licence in Namibia. Recovery of that amount is dependent on the closure of the farm-out agreement with Petroholland.

The reported cash flow from operation has improved from a loss of US\$3.7m to a small loss of US\$0.8m.

The Company has also provided estimates of recoverable resources.

In Morocco, a recent independent third party report estimated ultimate recoverable resources of 16.2Bcf, an estimate which excludes the resources from the ONZ production and untested well DRJ-6. The inclusion of the ONZ-4 and ONZ-6 wells raises Moroccan ultimate recoverable resources to 17.5Bcf. However so far only six out of a large number of identified targets have been drilled and the Company believes that the recoverable resources potential is over 200Bcf. This is supported by the recent award of the Lalla Mimouna permit that has increased the acreage by about 8-fold compared to the original Sebou Permit. Our valuation of the Moroccan assets is based on gross recoverable resources of about 170Bcf.

In Egypt, the operator and Circle Oil estimate potential total recoverable gross oil of 43MMbbl. They can be compared with the independent third party report, which indicates ultimate recoverable resources under natural depletion (no injection support) of 20.2MMbbl. Taking the independent third party resource values and assuming injection support, this equates to secondary recoverable resources totalling 37.2Bcf. These compare with the gross recoverable resources estimate of 60MMbbl that we use in our valuation of the Egyptian assets.

We do not feel the need to change our resources estimates. In Morocco our estimate is close to the Company's estimate of exploration potential, while in Egypt our estimate is slightly higher and accounts for our belief that the Al Amir SE field will continue to exceed expectations.

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Overall, these results are in-line or better than our forecasts, which in a production ramping-up stage can be due to timing differences and does not necessarily change the end point. We are happy with our estimates of recoverable resources and hence do not feel the urge to alter our target price at this stage. We are still confident that the stock is very undervalued.

Recommendation

We maintain our Buy rating and target price of 90p.

Research Disclosures

Lionel Therond

Lionel has worked at Fox-Davies since April 2009. Prior to this, he had 13 years experience as an investor at JPMorgan Asset Management and had previously spent 10 years in the Oil&Gas industry at Shell. Lionel graduated in Geology and Geophysics (MSc) before gaining an MBA at Insead; he is also a CFA charterholder.

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Research disclosure as of 25 June 2010

| Company Name | Disclosure |
|--------------|------------|
| Circle Oil | 1, 2, 7, 8 |

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| | |
|---------------------|--|
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Fox-Davies Capital Coverage

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| Company | Ticker | Recommendation | Date | Target Price | Last Price |
|------------------------------|----------------|----------------|----------|--------------|------------|
| Oil & Gas | | | | | |
| Ascent Resources | AST LN Equity | BUY | 22.04.10 | £0.20 | £0.04 |
| Borders & Southern Petroleum | BOR LN Equity | BUY | 01.02.10 | £1.50 | £0.64 |
| Circle Oil | COP LN Equity | BUY | 25.06.10 | £0.90 | £0.33 |
| Desire Petroleum | DES LN Equity | HOLD | 29.03.10 | £1.00 | £0.88 |
| Enegi Oil | ENEG LN Equity | SELL | 17.05.10 | £0.10 | £0.23 |
| Falklands Oil & Gas | FOGL LN Equity | BUY | 01.02.10 | £4.00 | £2.02 |
| Gulf Keystone | GKP LN Equity | BUY | 25.05.10 | £2.00 | £0.71 |
| Gulfsands Petroleum | GPX LN Equity | HOLD | 04.05.10 | £3.00 | £2.61 |
| Hardy Oil & Gas | HDY LN Equity | BUY | 26.05.10 | £3.00 | £1.72 |
| Matra Petroleum | MTA LN Equity | BUY | 26.05.10 | £0.07 | £0.02 |
| Max Petroleum | MXP LN Equity | BUY | 15.06.10 | £0.50 | £0.13 |
| Petrokamchatka | PKP CN Equity | HOLD | 14.01.10 | C\$0.15 | C\$0.04 |
| Po Valley | PVE AU Equity | BUY | 29.04.10 | A\$1.50 | A\$0.355 |
| Range Resources | RRL LN Equity | BUY | 17.12.09 | £0.08 | £0.05 |
| Rockhopper Exploration | RKH LN Equity | BUY | 04.06.10 | £4.00 | £2.76 |
| San Leon Energy | SLE LN Equity | BUY | 02.06.10 | £0.80 | £0.17 |
| Sterling Energy | SEY LN Equity | SELL | 11.06.10 | £1.00 | £1.26 |
| Tower Resources | TRP LN Equity | HOLD | 23.03.10 | £0.02 | £0.02 |
| Victoria Oil & Gas | VOG LN Equity | BUY | 21.04.10 | £0.09 | £0.03 |

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