



52-wk Range: £0.10-0.32
 12 month target £0.50

Market Cap (M): £65.9
 EV (M): £152.2

Oil & Gas

Not against all odds

Summary

Max Petroleum Plc is an independent Oil and Gas exploration company with an initial focus in the Republic of Kazakhstan. The Group owns a 100% interest in the Blocks A&E and Astrakhanskiy oil and gas licence areas covering 13,500 km².



Key Metrics

Shares Outstanding (M): 439.4
 Current Price (GBP): £0.15

Event

Max Petroleum Plc has completed drilling the KZI-1 exploration well on the Kyzylzhar I prospect in Block E, targeting Jurassic and Triassic formations at depths of 500-1,200m. The well reached a total depth of 1,192m without encountering hydrocarbons and will be plugged and abandoned. The Sun ZJ-30 drilling rig will next move to the Zhana Makat Field to drill the ZMA-A15 development well, followed by the KAW-1 and UTS-1 exploration wells on the Karsak West prospect in Block E and the Uytas prospect on Block A, respectively.

The Company has also completed production tests on the lower three of five Triassic reservoirs in the BOR-1 discovery well, all of which have produced crude oil at commercial rates of 75-200 b/d. The Company is currently recompleting the BOR-1 well to test a fourth reservoir in the Field, prior to the regulatory 90-day limit on production tests for exploration wells in Kazakhstan. The Company plans to accelerate the acquisition of a 28 km² high-fold, 3D seismic survey over the Borkyldakty Field prior to drilling additional appraisal and development wells. The 3D seismic survey will enhance the Company's ability to map the existing Triassic reservoirs in the Field, as well as evaluate an adjacent structure to determine if it is a drillable prospect. The Company expects to complete the 3D survey in the fourth quarter of 2010.

Comment

This is the fourth exploration well to be drilled as part of the current 12-well programme and it is the third dry exploration well in a row after the initial Borkyldakty discovery. The Bor-2 appraisal well on the discovery was also a dry hole, having found the reservoir deeper than the oil-water contact.

The three dry exploration wells were testing prospects with risked prospective resources of about 20MMbbl out of the 96MMbbl total we have used in our initial valuation. The probability of success on those post-salt prospects is 38% for the whole 12-well programme and it is not possible at this stage to change any of our assumptions for that play. A 38% chance of success out of 12 wells means 4-5 discoveries and clearly it would have been better to drill those first; however the Company is still able to fulfil the overall ratio from the remaining wells.

The rig will now move to the Zhana Makat field to drill another producer, which was not in the initial plan. It will then move some 70km towards the south of Block E to drill the KAW-1 exploration well and then out of the block and into Block A to drill the UTS-1 exploration well. The preparation of the sites for the two exploration wells is still under way, which might explain in part the decision to return to Zhana Makat, while increasing production and cash flow with an additional producer might have also been a powerful consideration.

As far as Borkyldakty is concerned the decision to shoot a full 3D before drilling further appraisal wells is the right one and we welcome it. The data will enable a better and more efficient reserves appraisal.

Recommendation

We leave rating and target price unchanged.

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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 15 June 2010

Company Name	Disclosure
Max Petroleum (MXP)	7

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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	£0.68
Circle Oil	COP LN Equity	BUY	27.05.10	£0.90	£0.34
Desire Petroleum	DES LN Equity	HOLD	29.03.10	£1.00	£0.93
Enegi Oil	ENEG LN Equity	SELL	17.05.10	£0.10	£0.25
Falklands Oil & Gas	FOGL LN Equity	BUY	01.02.10	£4.00	£2.00
Gulf Keystone	GKP LN Equity	BUY	25.05.10	£2.00	£0.77
Gulfsands Petroleum	GPX LN Equity	HOLD	04.05.10	£3.00	£2.74
Hardy Oil & Gas	HDY LN Equity	BUY	26.05.10	£3.00	£1.56
Matra Petroleum	MTA LN Equity	BUY	26.05.10	£0.07	£0.02
Max Petroleum	MXP LN Equity	BUY	15.06.10	£0.50	£0.15
Petrokamchatka	PKP CN Equity	HOLD	14.01.10	C\$0.15	C\$0.045
Po Valley	PVE AU Equity	BUY	29.04.10	A\$1.50	A\$0.41
Range Resources	RRL LN Equity	BUY	17.12.09	£0.08	£0.05
Rockhopper Exploration	RKH LN Equity	BUY	04.06.10	£4.00	£2.87
San Leon Energy	SLE LN Equity	BUY	02.06.10	£0.80	£0.18
Sterling Energy	SEY LN Equity	SELL	11.06.10	£1.00	£1.36
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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