



25 May 2010

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

Market Cap (M): £68.1  
EV (M): £154.4

## Oil & Gas

## Disappointing appraisal to be put in context

### 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 km<sup>2</sup>.



### Key Metrics

Shares Outstanding (M): 439.4  
Current Price (GBP): £0.16

### Event

Max Petroleum Plc announced that it has completed drilling the BOR-2 appraisal well in the Borkyldakty Field in Block E, reaching a total depth of 1,760m. The productive Triassic reservoirs found in the BOR-1 discovery well are present and well developed in BOR-2, but were encountered structurally lower than expected, at or below their respective oil-water contacts. As a result, the BOR-2 well will be completed as a water injection well to be used in the future development of the Field. The Sun Drilling ZJ-30 rig will now move to the KZI-1 exploration well on the Kyzylzhar 1 Prospect in Block E, followed by a second appraisal well in the Borkyldakty Field.

### Comment

Although a disappointing result, the result of this appraisal does not change our estimates of probability of success for the post-salt of 38%, which equates to 4 or 5 successes out of 12 planned wells. Admittedly we currently had 1 out of 4 successes, but successes as failures can be clustered and are not necessarily regular occurrences. If we were to drop the PoS to 25% instead of 38% the risked NAV would decrease by 10p. Kyzylzhar 1 has mean resources estimates of 15MMbbl.

Similarly although the results of BOR-2 imply a smaller trap volume than initially anticipated, it is too early to apply such a decrease to risked volumes as the risking is applicable to the whole of the post-salt play and not to one particular prospect.

The investment story relies also on the completion of a farm-out for the pre-salt play and the Company is still in negotiation with a number of parties. The process is slower than anticipated; however we believe that the quality of the play has attracted a good level of interest and it is only a matter of time for a farm-out to be agreed with one or more parties.

### Recommendation

We retain our Buy rating with unchanged price target of 50p.

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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 25 May 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        | £0.65      |
| Circle Oil                   | COP LN Equity  | BUY            | 20.05.10 | £0.90        | £0.34      |
| Desire Petroleum             | DES LN Equity  | HOLD           | 29.03.10 | £1.00        | £0.80      |
| Enegi Oil                    | ENEG LN Equity | SELL           | 17.05.10 | £0.10        | £0.29      |
| Falklands Oil & Gas          | FOGL LN Equity | BUY            | 01.02.10 | £4.00        | £1.77      |
| Gulf Keystone                | GKP LN Equity  | BUY            | 25.05.10 | £2.00        | £0.79      |
| Gulfsands Petroleum          | GPX LN Equity  | HOLD           | 04.05.10 | £3.00        | £2.58      |
| Hardy Oil & Gas              | HDY LN Equity  | BUY            | 26.04.10 | £3.00        | £1.71      |
| Matra Petroleum              | MTA LN Equity  | BUY            | 26.01.10 | £0.11        | £0.05      |
| Max Petroleum                | MXP LN Equity  | BUY            | 25.05.10 | £0.50        | £0.14      |
| Petrokamchatka               | PKP CN Equity  | HOLD           | 14.01.10 | C\$0.15      | C\$0.095   |
| Po Valley                    | PVE AU Equity  | BUY            | 29.04.10 | A\$1.50      | A\$0.3     |
| Range Resources              | RRL LN Equity  | BUY            | 17.12.09 | £0.08        | £0.04      |
| Rockhopper Exploration       | RKH LN Equity  | HOLD           | 07.05.10 | £1.10        | £2.23      |
| San Leon Energy              | SLE LN Equity  | BUY            | 18.09.09 | £0.60        | £0.18      |
| Sterling Energy              | SEY LN Equity  | HOLD           | 01.02.10 | £1.50        | £1.17      |
| Tower Resources              | TRP LN Equity  | HOLD           | 23.03.10 | £0.02        | £0.01      |
| Victoria Oil & Gas           | VOG LN Equity  | BUY            | 21.04.10 | £0.09        | £0.03      |

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