

Junior offers a budget ride to African oil

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AT 12c a share, it can be said that Pancontinental Oil and Gas is a low-cost entry into offshore African exploration.

That price, incidentally, is at a 12-month high, but still leaves the company with a market capitalisation of only \$18.5 million.

Not many companies of that size attract analysts' attention, but Sydney-based brokers Intersuisse have started to follow Pancontinental (PCL) since it, first, brought Woodside Petroleum in as a partner in Kenya and, second, snapped up a 11,550sq km concession in the Red Sea.

In fact, Intersuisse told its clients this week that it sees some similarities between Pancontinental now and Hardman Resources (HDR) when it first struck a deal with Woodside on its Mauritanian permits.

"At that stage in its development, (Hardman) had a similar market capitalisation and share price to (Pancontinental) now," the Intersuisse note said.

However, brokers caution that patience will be needed as drilling will take some time (and, of course, could come up empty-handed).

Hardman now holds a minority stake in the Chinguetti oil field, located offshore of Mauritania. Woodside's drilling there has established a commercial field, and Hard-

Pancon plays



man is working with ANZ Investment Bank to raise its share of the \$500 million development cost.

Hardman's share price reached about \$1.20 this week and a market capitalisation of \$578 million.

Pancontinental owns 40 per cent of three blocks off the port city of Mombasa, Kenya (the balance held by an unlisted company, Afrex, based in the British Virgin Islands).

Pancontinental's interest, if Woodside exercises the full terms of the farm-in agreement, will drop to 10 per cent.

But Intersuisse said the deal was important for the Perth-based junior oil explorer because Woodside's involvement brought credibility and, just as importantly, financing.

For their initial outlay, Pancontinental shareholders could hitch a ride on as many as six wells drilled by Woodside.

That latter company already

has other Kenyan acreage and Africa is very much part of its strategy to double production, something that would be impossible just from its Australian operations.

Woodside's African strategy consists of five pillars:

- ▶ Developing Chinguetti and other projects in Mauritania;
- ▶ Finding a sizable discovery in Kenya's offshore waters;
- ▶ Expanding its Algerian operations from its Ohanet gas and liquids stripping project;
- ▶ Buying into low-cost entry deepwater plays such as its 50 per cent stake in two Sierra Leone blocks. It is also considering drilling in deep water near the Canary Islands;
- ▶ Becoming firmly ensconced further along the North African coast through a production sharing agreement with the Libyan National Oil Company.

Meanwhile, Pancontinental and Hardman have joined forces in Eritrea.

Again, Afrex holds the biggest stake at 40 per cent and is its operator.

The two Australian companies hold 30 per cent each.

They hold what is known as the Massawa Block, lying off Massawa, the largest natural deepwater port in the Red Sea.

It includes the Dahlak Archipelago, and comprises a salt basin of the type that frequently produces oil discoveries.

Such basins occur in the Gulf of Mexico, offshore Angola and offshore Mauritania.