

OGIB SUBSCRIBER BULLETIN #57--MAY 1 2011
WEEKLY WRAP
TAG OIL, GASFRAC, COASTAL ENERGY, BENGAL ENERGY

There is not much to report this week with OGIB portfolio picks – as the market slows, I'll be using this time to start some in depth research into several companies I've been watching for awhile.

Trading volumes – called liquidity – is declining steadily in the junior oil and gas market. It's all part of the flight to quality the entire market is experiencing. That's why I'm looking at energy services stocks as much as possible. The market is telling me that this high an oil price is spooking the market and investors are reducing risk.

The junior international oil market where I made such great money in 2010 is now the most lackluster sector of the market. While these companies can create huge new resources and/or production (Xcite Energy, XEL-TSXv, being the perfect example), there is often long lead times and delays until they drill. I usually count on some kind of speculative premium developing in the stock between my purchase and spud dates, but that is not happening now.

So for companies like Canadian Overseas, Bengal, and others, it's very possible that the share price on spud date – possibly even when they announce results – will be the same as they are now. Investors need to be comfortable with their positions during these times and there is no shame or stupidity in selling stock and just waiting on the sidelines for a bad day to get a lower price or even just waiting until after news comes out and missing the first 10%-20% of a move up after a successful discovery.

TAG Oil (TAO-TSXv)

I've upgraded TAG Oil to a "1" in short term gain potential. They will start to release flow rates on their Taranaki wells – this is the area on the western side of the North Island of New Zealand, not the big Waipawa shale play on east side. The market is expecting similar flow rates to the first well, which was over 1000 boe/d.

So the flow rates get announced through May-June, and then get brought on stream in August. In between there will also be more Taranaki wells and possibly some news on drilling on the east coast.

So by the end of August, it's possible TAG could be producing 4000 boe/d. If the market is willing to reward any good news in this junior oil market, they should reward this. But I won't be buying any more stock until I see the news.

COASTAL ENERGY – CEN-TSXv

Coastal Energy has made another discovery in the Gulf of Thailand, this time at Bua Ban North. The company estimates 13 million barrels of Original Oil In Place (OOIP) in this new discovery. Coastal and TAG both now have significant discoveries that will give them guaranteed increases in production over the coming quarters – which is where I want my money in this market.

BENGAL ENERGY – BNG-TSXv

Bengal was supposed to drill its Timor Sea prospect – AC/P 24 in April or May this year – but it has now been delayed until July or August.

The operator is the Thai national oil company, which is in the doghouse of the Australian government after it was in charge of Australia's worst-ever oil spill at the Montara oil project in the Timor Sea in 2009. The global commodities media giant Platts reports this week that "The Montara Commission of Inquiry, the findings of which were released last November, found the company's "widespread and systematic shortcomings" caused the spill." Now, I don't know for sure that this is the reason that the well has been delayed, but whatever the reason, the well will not be drilled for another 3 months.

The weather in Australia is drying up so I hope to see news soon that they can transport oil from Cuisinier regularly. Trucks couldn't get through the floodwaters for the last several weeks and production has been reduced. These wells are much better than they have produced - they are producing 100 bopd net out of this first well but the pressure suggests strongly it could have produced more. There are several development locations that could get drilled, and I hope management can convince the operator, the big Australian company Santos, to drill this play more aggressively, and increase infrastructure as this field could take production to net 500-1000 bopd for Bengal in a year.

But until that happens, Bengal's stock, as an international drill play right now, will likely drift lower now that the most immediate catalyst - the Timor Sea well - has been delayed. Fortunately they are cashed up with a recent financing.

GASFRAC – GFS-TSX

Several subscribers are wondering what is going on with GasFrac. I think the market is waiting to see how much Q1 numbers were impacted by the 19 day shutdown in January. Results will get released May 9 – when I am at the New York Hard Assets Conference. I will be reporting on anything I read that I think is market-moving news.

My current thoughts are that I have a great company in the best space of the energy sector right now. The stock has always been expensive on a current cash flow multiple, but because of its steep growth curve, it has been cheap on its next year's projected cash flow. I believe that as the market gets more comfortable with GasFrac's continued steep growth, the stock will once again begin an up-trend. In a lazy junior market like we have now – especially with the lower volumes of summer coming on – that may not be until Q2 gets reported, but I'm not going to pre-judge that. I'm just aware of it.

One other possibility for good news is the new propane recycling component that GasFrac is hoping to employ as early as Q3 this year. Propane is their single largest cost, at roughly 30%, and if they can retrieve and recycle the propane they are using in their fracks, there is great potential for increased gross profit margins. I'm quite excited about this and hope to hear more from the company by mid-June on this initiative.

As for the stock, the moving averages have merged, often a sign that a move is imminent. The share price has held steady while both the stochastics and MACD have been declining, which I consider a positive sign – what that tells me is that if any good news blows on this stock it's going higher.

But I don't know if this quarterly due on May 9 will be that good news catalyst.

In conclusion, energy services is where it's at now and I'm researching the fastest growing companies I can find - one I'm looking at has a neat technology twist that has me very intrigued...

LASTLY – because of my conference schedule, there may or may not be a weekly wrap next weekend.