SPECIAL REPORT

BP & GKP

FREDERICK & OLIVER

Contents

AS CRUDE OIL MARKETS RECOVER WE ANALYSE THE PROSPECTS OF A MAJOR AND MINOR PRODUCER OF OIL.

WELCOME

The recovery in oil markets has been spectacular.

In January 2020, Brent Crude was trading at $70 a barrel. At the height of covid hysteria, the black stuff infamous traded negative at -$40 a barrel.

As I type, Brent is now trading at $80, a 3-year high.

With oil having made a complete recovery and some, one might assume publicly traded oil companies are also trading at pre-pandemic levels.

Not yet. Does herein lie an opportunity?

Oil majors such as BP and Royal Dutch Shell reside a fair distance from pre-pandemic prices. Shares in BP and Royal Dutch Shell need to gain some 60% from the current levels to reach January 2020 prices.

So why the lag between the commodity price recovery and the stock price?

The price of oil is very fluid in its trading, highly driven by demand, which soared once pharmaceutical companies announced the creation of covid vaccines, sparking hopes of an economic recovery.

Furthermore, OPEC is always on hand to tighten or loosen the production taps in an attempt to control the price.

Oil companies had to make some desperate moves during the health pandemic including cutting dividend payments, suspending share buyback programmes, suspending new projects, selling assets and laying off staff, all of which concern investors and prompt selling.

The positive to derive from such actions is the reduction in costs. Prior to the collapse in the oil price, BP's production cost per barrel was approximately $56, it is now thought to be $42.

In order for oil companies to reclaim pre-pandemic share prices they need time, time to extract the oil and sell it into the market at a profit. With every 90 days of business that pass, the companies reveal their quarterly earnings to the market.

At a cost of $42 per barrel, if the underlying oil price can hold steady at $80 for the next six months, BP would likely report another two profitable quarters. Performance like this and any subsequent dividend increases and share buyback programmes would reassure investors and tempt them into the stock creating buying pressure, resulting in a rising share price.

In this report we take a look at oil major BP Plc and AIM listed Gulf Keystone Petroleum, two very different companies attempting to prosper from the bounce back in oil markets.

Remember, not all trades prove profitable and we champion the market maxim 'cut your losses'. In particular, please take note of the reassess levels of every trade.

Good luck with your investments.

Frederick & Oliver

Buy
BP Plc

THE PRICE OF OIL RECOVERED BEYOND PRE-PANDEMIC LEVELS, IS NOW THE TIME TO BACK BP SHARES TO CATCH UP?

Frederick & Oliver has featured BP Plc in its research reports on two occasions over the past year.

Once in a report titled **FTSE Vaccine Victors**, published in October 2020 when the shares were trading at 194p and again in April 2021 at 297p in a report titled **BP - Special Report**.

Both of these reports can be downloaded from the **Report Library** found on the Research page of our website.

For a third time in 12 months, the research team is prepared to champion the stock once again.

To back BP is to back the price of oil. Let's recap some of the themes supporting the oil prices currently:

- President Biden has had a $2tn Covid relief fund approved and has revealed plans for a further $2.5tn infrastructure spend.
- A multitude of data suggests China's industrial-led economy is roaring back.
- The International Monetary Fund has forecast global economic growth to reach 6% this year.
- Global central banks continue to support economies.
- OPEC predicts demand for oil in 2022 will exceed pre-pandemic demand seen in 2019.
- Analysts at Goldman Sachs and Bank of America have suggested oil could reach $100 per barrel in 2021.

In recent weeks we have noticed a number of analysts issuing positive comments on oil stocks.

In our City View newsletter (subscribe for free on the Research page of our website) of 7th September we reported Goldman Sachs had published a report titled **'Recovery Beneficiaries'** tipping BP shares to advance 70% to 505p over the next 12 months. More recently, analysts at JP Morgan issued a target price of 510p on BP, noted in our City View newsletter of 23rd September.

As mentioned in the introduction of this report, BP's management team has worked wonders in reducing its production costs by 25% to $42 per barrel, from $56 per barrel in 2019. Furthermore, the company believes it will reduce the breakeven cost to $35 later this year.

In August, CEO Bernard Looney revealed the company had made a second quarter profit of $2.8bn, ahead of analysts expectations of $2.06bn.

The company expanded its dividend and share buyback programmes, and pledged to continue doing so if performance can be sustained.

At a cost of $42 per barrel, if the underlying oil price can hold steady above $70 for the next 6 to 12 months, BP would likely report another 2 to 4 profitable quarters.

Reassess level - 285p. From a technical perspective, a revisit of this price would have resulted in a breakdown from the current rising channel (rising green lines).

COMPANY INFORMATION

BP Plc engages in the energy business worldwide. It operates through Gas & Low Carbon Energy, Oil Production & Operations, Customers & Products, and Rosneft segments.

Listing	Market Cap	52-week range	Dividend yield
FTSE 100	£67bn	188p - 508p	4.8%

CHART OBSERVATIONS

Current Price	52-week Low	52-week High	Distance to Low	Distance to High
318p	188p	508p	-40%	+60%

Buy
Gulf Keystone Petroleum

AS OIL TRADES AT A 3-YEAR IS NOW THE TIME TO BUY SHARES IN A PRODUCER WITH PRODUCTION COSTS SUB-$3 A BARREL?

Independent oil and gas company Gulf Keystone Petroleum is the operator of the Shaikan field, one of the biggest fields by production and reserves in the Kurdistan region of Iraq.

Gulf Keystone Petroleum (GKP) has an 80% working interest in the field, whilst the remaining 20% is held by MOL Group, a Budapest-based oil and gas company.

The field was discovered back in 2009, causing shares in GKP to skyrocket 1200% in just 3 months from 10p to 130p a share.

Shares went on to peak at a whopping 450p in 2012, driven higher by a number of upward revisions in the volume of oil judged to be in the Shaikan field, as well as strong market chatter of a takeover from US oil giant Exxon Mobil which happened to be exploring for oil in the region.

Retail investor chats rooms buzzed with talk of offers in excess of 2000p a share.

The size of the field has always captured the imagination of investors. GKP once estimated the field to hold 13.7bn barrels, though opinion has varied on the amount of oil that could be recovered.

Geopolitical issues have hounded GKP over the past decade largely due to Baghdad refusing to recognise Kurdistan's claims of being an autonomous region, initially resulting in payment disputes, though thankfully a more harmonious relationship now exists.

GKP reported a half-year profit of $65m compared to a $33m loss reported for the same period in 2020 due to Covid-related disruptions.

Investors have recently been rewarded for their loyalty having received a dividend payment. GKP boasts a 12% annual dividend which has been nearer to 20% for those qualifying for an additional 'special divided'.

GKP's ability to pay strong dividends stems for its high profit margins and sole focus on the Shaikan field. Whereas oil majors such as BP have to constantly invest in multiple projects worldwide, GKP is simply running the 40,000bpd Shaikan field project.

Furthermore, due to the field being onshore and relatively shallow, extraction costs are low. GKP recently confirmed operating costs of $2.50-$2.90 per barrel.

A strong institutional presence should reassure investors. UBS, JP Morgan and BlackRock each hold more than 5% of the company's shares.

Hopes of a takeover or ramping up production to 100,000 barrels of oil per day - the investor dreams of yesteryear - are highly unlikely.

That said, investing in Gulf Keystone Petroleum as small, independent producer of oil, has its merits:

- Production costs are low, margins are high
- Dividend yield is above 10%
- Shares have 'broken-out' above falling resistance (see chart)
- Underlying oil theme is strong

Shares traded as high as 275p in 2019, traders will be hoping for a return to former values in 2022.

Reassess level - 160p. Allowing for greater than normal deviations in this stock is sensible. A decline below 160p, from a technical perspective, would be cause for concern.

COMPANY INFORMATION

Gulf Keystone Petroleum Limited engages in the exploration, evaluation, and production of oil and gas properties in the Kurdistan Region of Iraq and the United Kingdom. The company operates Shaikan field that covers an area of 283 square kilometers, which is located north-west of Erbil.

Listing	Market Cap	52-week range	Dividend yield
AIM	$418m	67p - 205p	12.4%

CHART OBSERVATIONS

Current Price	52-week Low	52-week High	Distance to Low	Distance to High
194p	67p	205p	-65%	+6%

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Mr. C

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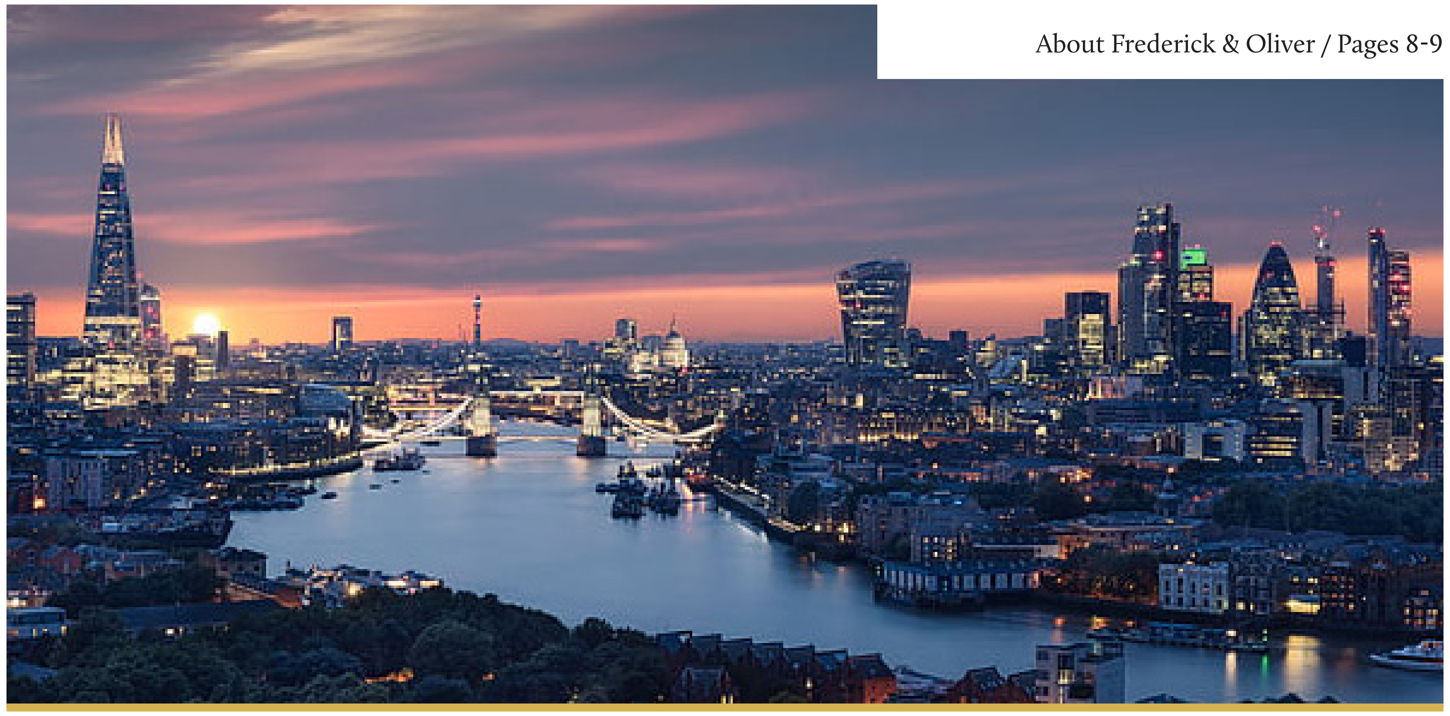

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