

Client: Rivington Street Holdings
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Journalist: Derek Pain
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Derek Pain: I'm not the only one mystified by the oil and gas industry

No Pain, No Gain

The stock market seems to find oil and gas companies something of a mystery. So do I. Remember Nighthawk Energy? Its shares soared to 107p, accompanied by some intriguing thoughts that it had alighted on potentially rewarding prospects. As I write the price is a miserable 4p. There are numerous other examples of resource shares that have soared, only to come down to Earth with a resounding crash.

The no pain, no gain portfolio had the misfortune to alight on Nighthawk. It paid 44p and got out at 14p. I vowed never again to entrust cash to a resources group. When I recruited Northern Petroleum at 68p, I explained that I had changed my mind and felt the group had much to offer. The shares have since topped 90p. They had a tantalising valuation of 200p a few years ago.

But whereas it could be argued that many oil groups become overvalued, there seems to be a convincing case for believing Northern is now substantially undervalued. The internet tipster Tom Winniffrith is enthusiastic about the stock. He believes the group's Dutch operations are worth £67.5m; those in Italy around £100m with Britain chipping in £10m. Northern also has interests in Spain and a 1.25 per cent stake in the highly rated Tullow Oil strike off South America. In addition it has cash of around £24m. The shares, at 82p, capitalise the group at a mere £75.7m.

Last week Northern produced quite acceptable interim figures, showing a 165 per cent increase in operating profits (before such charges as interest and depreciation) to 8.5m euros. Increased production and higher gas prices fuelled the rise. At the pre-tax level the outcome was 689,000 euros.

I suppose the huge Goldman Sachs investment house has, by reducing its target price, made the most bearish contribution to the Northern debate. Even so the US group still sees plenty of potential as its new estimate is 259p, down from 305p. Growth Equities & Company Research, part of the Tom Winniffrith's investment to software empire, has a more modest 149p target.

GE&CR's parent, the Plus traded Rivington Street Holdings, has experienced a boardroom reshuffle. Mr Winniffrith, creator and largest shareholder, has stepped down as chief executive to concentrate on running the investment side (various funds and web offerings) and the ambitious acquisitions programme. He says: "I can now spend all my time on what I enjoy most, am best at and benefit RSH most". The group, launched with a couple of share-tipping websites around a decade ago, now has 150 staff and covers 20 business units. Rivington, which says "trading is broadly in

line with budgets", plans to join AIM. With its shares at 40p it is valued at £15.9m on the fringe Plus market. The portfolio arrived last November at 27.5p.

Two other constituents have come under the scrutiny of the stockbroker Arbuthnot. It has taken a shine to Mears, suggesting the shares should be purchased. And it has placed a 1,500p target price on Hargreaves Services. Mears are around 274p; Hargreaves about 970p.

Finally, two former constituents. Capital Pub Co, swallowed by the brewer Greene King, could rise again, although presumably under another name. Directors David Bruce and Clive Watson, creators of the chain that was absorbed for £70m, have invited former Capital shareholders to a "food and nourishment" meeting to discuss Capital (as the takeover killed off the scheduled AGM) and the launch of a new pub business that will follow the Capital example and qualify for tax relief under the Enterprise Investment Scheme. I don't believe the portfolio should take part in an EIS venture as it is a stock market exercise. Still, any interested reader could get in touch with Mr Bruce and Mr Watson while the portfolio waits for any flotation.

Clarity Commerce Solutions has collected a takeover bid at 23p a share. The portfolio, disappointed that the software group, largely supplying the leisure and retail sectors, plunged into losses, sold at 16p a pop. The private equity supremo Jon Moulton is behind the £9.5m offer, which has been rejected, through Enigmatic Investments. Just before Clarity's AGM last week and a day after the bid appeared, it was announced that the chief executive Ken Smith had resigned. I gather his departure and the offer are not related.