DRILLING DOWN 2022

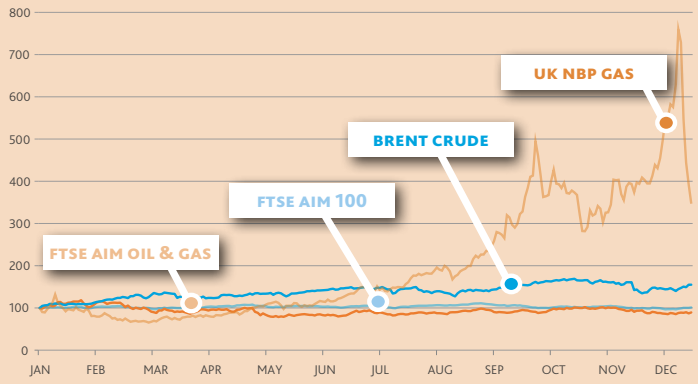
A REVIEW OF THE PERFORMANCE OF AIM LISTED OIL & GAS COMPANIES IN 2021

INVESTORS CAUTIOUS DESPITE RISE IN OIL AND GAS PRICES

STOCK MARKET INDICES AND COMMODITY PRICES

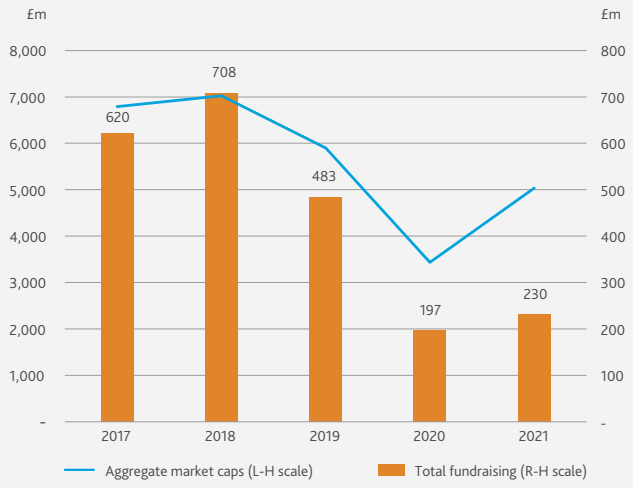
Gas and oil prices saw significant increases in 2021 with gas up 161% and oil up 52% from 2020 levels.

The increases were as a result of the faster than anticipated recovery in demand for oil and gas which was not matched by supply, driven partially by investors' ESG concerns and the consequential impact on new exploration projects.



Despite significant increases in commodity prices, the AIM Energy index (previously called AIM Oil & Gas index) was down 10% and underperformed the wider AIM 100 index (up 1.8%). This index includes renewable and other alternative energy companies, including two with a combined market capitalisation in excess of £4bn at 31-Dec-21. The market cap of these two companies declined in 2021 after strong performances in 2020, thus distorting the picture for pure oil and gas companies. It would be helpful if oil and gas companies were disaggregated into a separate index to enable investors to assess the performance of two very different sectors.

FUNDRAISING AND MARKET CAPITALISATION



The total market cap for the sector increased by 47% to £5.0bn, only 11% lower than the average of the last five years (£5.6bn).

By contrast, total fundraising only increased by 17% to £230m, 49% lower than the average fundraising over the last five years (£448m). This suggests that investors are taking a short term view of the sector; existing listed companies are benefitting from the rise in commodity prices but the sector is being hampered by a lack of long term investment in capacity.

OIL AND GAS OUTLOOK

01 There are clear messages from the investor community around the need for transparency on ESG policy. Those companies who are investing in reporting are seemingly faring better than peers who chose not to.

Whilst not compulsory for many AIM listed companies at present the trend towards voluntary disclosures is positive.

02 Short term-ism has always been a challenge for a sector focussed on longer term reward. Off the back of practical challenges around undertaking investment programmes during the worst of the pandemic, there is now a greater need for companies to invest in long term capacity.

However, funding challenges facing the sector are significant. As with ESG, transparency must be the key and a clearly articulated transition programme will be vital to reinvigorate funding for the sector.

03 There are lots of potential pricing influencers looming on the horizon, not just relating to the CV-19 recovery anymore but also and very importantly to geopolitical issues related to the Russian invasion of Ukraine. These are already changing the prices outlook significantly and likely pushing them to levels never seen before. What remains is clearly more uncertainty and therefore more challenges for corporates to manage their cashflows and society to cope with such changes.

TOP 10 INCREASES IN MARKET CAPITALISATION

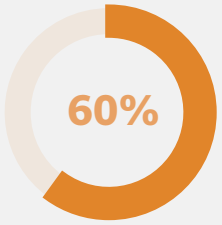
	Company	£m	Main Commodity	Principal activity
1	SERICA ENERGY PLC	340.1	Gas	Producer
2	PANTHEON RESOURCES PLC	324.7	Oil	Explorer
3	88 ENERGY LIMITED	150.3	Oil	Explorer
4	IOG PLC	124.1	Gas	Explorer
5	I3 ENERGY PLC	111.9	Both	Producer
6	JADESTONE ENERGY PLC	106.3	Oil	Producer
7	TRANSGLOBE ENERGY CORPORATION	100.1	Oil	Producer
8	PETROTAL CORPORATION	96.5	Oil	Producer
9	SAVANNAH ENERGY PLC	87.7	Both	Producer
10	SAN LEON ENERGY PLC	74.0	Both	Explorer

Oil Gas Both

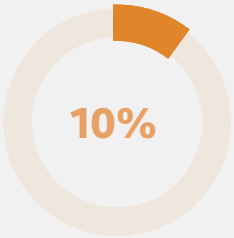
The top ten risers saw a combined gain of **c£1.5bn** in market cap, accounting for almost the entire gain in overall sector market cap. Despite the huge increase in gas prices, more of the risers were focussed on oil (4) than gas (2). **70%** of the top 10 risers were producers.

All but one of the top 10 fallers were not focussed on one commodity and the majority were exploration companies.

TRANSPARENCY

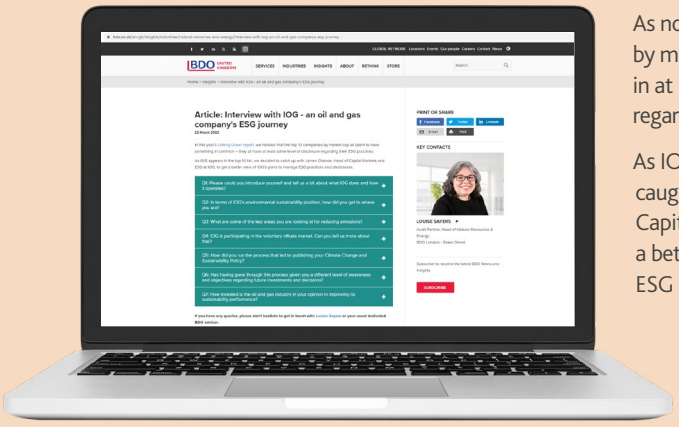


...of the top 10 risers released a sustainability report in 2021 and **80%** had an ESG mission statement.



...of the top 10 fallers released a sustainability report in 2021 and only **20%** had an ESG mission statement.

ESG – A VIEW FROM THE INDUSTRY



As noted above, the top 10 companies by market cap all seem to have invested in at least some level of disclosure regarding their ESG practices.

As IOG appears in the top 10 list, we caught up with James Chance, Head of Capital Markets and ESG at IOG, to get a better view of IOG's plans to manage ESG practices and disclosures.

Click here to read some key takeaways from the interview with James.

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