

Sterling Energy plc

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Sterling Energy shares advance on Kurdistan sidetrack news

Sterling Energy (LON:SEY) shares climbed almost 14 percent after it announced the decision to drill a side-track the Sangaw North-1 exploration well. Shares had fallen in the initial reaction to this morning's news, but reversed course in afternoon trade to trade at 74 pence at around 3 pm.

The well ran into trouble in November 2010 at around 3,396 metres when it encountered a zone of high formation pressure. A corrosive hydrocarbon gas, containing approximately 0.5 percent hydrogen sulphide, entered into the well and the drill pipe broke off at about 850 metres.

The company has now retrieved enough of the broken drill-pipe from the hole that a side-track can now be drilled to finally test the Sangaw North target.

Werner Riding, oil and gas analyst at Ambrian Capital, highlighted the latest developments in a note to clients.

"The main point is that a further 280m of previously stuck drill pipe have been removed from the well bore. There will be no further effort expended in trying to recover any more of the stuck drill pipe," Riding said in a note to clients.

"Instead, a side-track will be drilled to a depth of 3,300m, where casing will be run and cemented before continuing to drill deeper to test the prospectivity of the target reservoir section that is thought to be hydrocarbon-bearing."

Riding adds: "In the context of the Sangaw North exploration well this is a positive development for Sterling as it means the goal of testing the prospectivity of the deeper Jurassic formations from the current drilling effort remains in play."

Meanwhile Evolution Securities analyst Keith Morris reckons the well will reach the Jurassic formations a few weeks after it reaches the casing point, but his valuation for Sterling is based on more than just the prospect in Kurdistan.

"Our 165 pence price target looks very optimistic at this stage," Morris said, "but it only contains around 20 pence for the Sangaw North prospect, the other key elements for the valuation are cash (32 pence per share – not affected by the well problems as SEY has farmed out the drilling cost), 85 pence per share for Cameroon – currently in force majeure, and 29 pence per share for Madagascar – also on hold due to political issues."

Price: 9.05

Market Cap: £19.91 m

1 Year Share Price Graph



Share Information

Code: SEY

Listing: AIM

52 week	High	Low
	12.4	8.7

Sector: Energy

Website: www.sterlingenergyuk.com

Company Synopsis:

Sterling Energy Plc is an upstream oil and gas company listed on AIM market of the London Stock Exchange. Sterling is an experienced operator of international licences with a current focus on projects in Africa. The Company has interests in high potential exploration projects in Cameroon, Madagascar, Mauritania and Somaliland.

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