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Industry Comment

Energy

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International Oil & Gas

Int'l Oil&Gas: Argentina Reinstates Requirement for O&G Companies to Repatriate All Export Revenues

- ◆ The Argentinean government published in yesterday's Boletin Oficial a new decree reinstating an obligation for oil & gas and mining companies to repatriate all revenues from foreign currency denominated export sales. This follows Sunday's Presidential elections, where President Cristina Fernandez won a landslide re-election victory with 54% of the votes.
- ◆ Observers have widely attributed this move as an attempt by the government to slow capital flight and curtail the decline in Central Bank reserves. According to Bloomberg, the Banco Central de la Republica Argentina had to sell \$2.7 bln of reserves in August and September to curb depreciation of the Argentine Peso, down 6.3% YTD.
- ◆ Our interpretation of this news is that oil & gas companies will still be able to send profits abroad. However, they are no longer subject to a 2002 exemption that allowed for 70% of export revenues to be kept offshore. From yesterday onwards, companies would have to exchange 100% of their dollar-denominated export revenues into local currency first. This would be a way to reduce capital flight and increase demand for the Argentine Peso.
- ◆ The stated rationale behind the decree was to eliminate differential treatment amongst the different sectors of the economy. It is our understanding that repatriation of all export revenues has been the practice in other industries, such as Agribusiness and Steel.
- ◆ We believe that this move could result in higher costs to companies that are now required to adhere to the decree.
- ◆ We believe one of the reasons Argentina O&G stocks were trading down yesterday was due to investor concern that this move by the Argentinean government (fresh off of re-election by strong support on October 23) might be signaling a shift to increased state intervention.
- ◆ Two of our companies under coverage, Gran Tierra Energy and ArPetrol, currently have production in Argentina.
- ◆ We do not believe that this news is material to Gran Tierra. While approximately 13% of the company's current production is from Argentina, it only accounts for ~3% of total cash flow (due to pricing ceilings in Argentina, versus market pricing in its other countries of operations, such as Colombia). In addition, all of Gran Tierra's Argentinean production is sold domestically.
- ◆ For ArPetrol, we note that the company does not export its production from Argentina; instead, it sells into the domestic market as well. Thus, we do not view this as an issue for ArPetrol.

Company	Ticker Primary	Ticker Secondary	Current Price (6-12 months)	Target Price	Dividend Yield	Total Return To Target	Rating
International Oil & Gas							
ArPetrol Ltd.	RPT-TSXV		C\$0.09	C\$0.30	0%	233%	Outperform 2
Gran Tierra Energy	GTE-TSX	GTE-AMEX	US\$6.28	C\$10.50	0%	67%	Strong Buy 1

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	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJL	RJA	RJ LatAm	RJL	RJA	RJ LatAm
Strong Buy and Outperform (Buy)	74%	58%	38%	56%	15%	33%
Market Perform (Hold)	25%	37%	55%	29%	5%	3%
Underperform (Sell)	1%	5%	8%	0%	5%	0%

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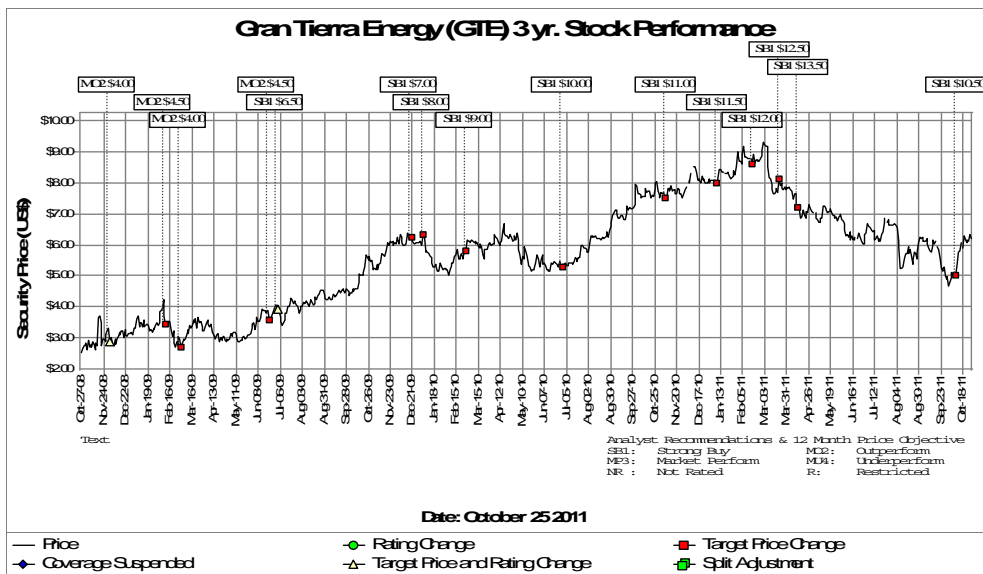
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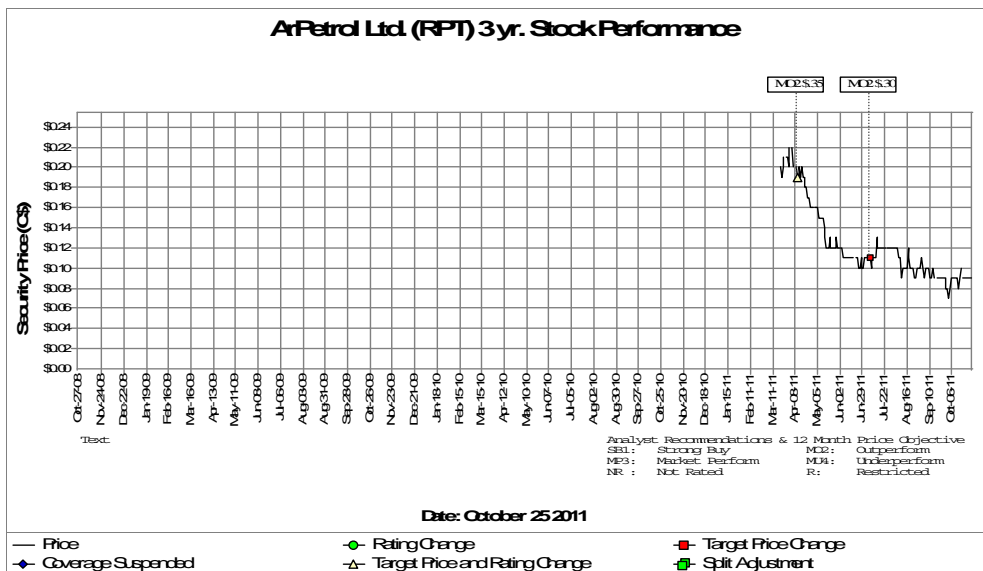
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Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.



Update Date	Closing Price	Target Price	Rating
Oct-11-11	5.00	10.50	1
Apr-12-11	7.21	13.50	1
Mar-22-11	8.10	12.50	1
Feb-16-11	8.60	12.00	1
Jan-07-11	7.97	11.50	1
Nov-08-10	7.50	11.00	1
Jun-29-10	5.29	10.00	1
Feb-26-10	5.80	9.00	1
Jan-04-10	6.31	8.00	1
Dec-18-09	6.25	7.00	1
Jul-02-09	3.92	6.50	1
Jun-22-09	3.58	4.50	2
Mar-02-09	2.69	4.00	2
Feb-10-09	3.46	4.50	2
Dec-01-08	2.86	4.00	2

Valuation Methodology: We value international oil and gas companies on a Net Asset Value (NAV) basis by discounting the company's estimated future free cash flow generated from their existing assets.



Update Date	Closing Price	Target Price	Rating
Jul-05-11	0.11	0.30	2
Apr-12-11	0.19	0.35	2

Valuation Methodology: We value international oil and gas companies on a Net Asset Value (NAV) basis by discounting the company's estimated future free cash flow generated from their existing assets.

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