



**Toreador Resources**  
**Press Comment Suggests Oil Majors Showing Interest In The Paris Basin**

**TRGL (01/20/10): \$10.60 USD**  
**OVERWEIGHT**  
**Flash Note**

**ENERGY**  
**International Oil & Gas**  
**NEUTRAL**

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Price is as of the close on the date indicated. All figures in U.S. dollars, unless otherwise noted.

**Quick Take**

**What happened:** *The New York Times* reported yesterday that RD Shell, BP and Statoil are in initial discussions to acquire, or partner with, Toreador Resources. The companies have not commented on the article.

**Business overview:** Toreador has a small conventional oil business, currently producing around 950bbls/d in the Paris basin, onshore France. The company also holds acreage over a potentially large Paris basin shale oil play which appears geologically similar to North America's Bakken. It is postulated that horizontal drilling and fracking techniques, similar to those applied in the Bakken, could recover commercial quantities of oil; however this play is at the "concept" stage today. The company is seeking partners/financing to perform a pilot drilling program on the shale commencing in 2H10.

**Unrisked scale clearly of interest:** RD Shell, BP and Statoil have over the last couple of years increased their exposure to shale plays; however the focus to date has been on deals with established shale gas operators in gas producing plays. Toreador's Paris basin play offers material upside potential, however, it is unproven and offers oil rather than gas exposure.

**Valuation:** As for all our international E&P coverage, our 12-month price target of US\$9.75 is based on a weighted average of risked NAV and forward P/CF multiples.

Our risked NAV estimate of US\$12.14/share includes US\$6.28/share net of debt for the company's conventional oil business, including risked exploration. We include US\$6.43/share, or US\$140m, for the unproven shale oil play and the dilution impact of an assumed US\$40m equity raise. Our risked NAV, a better estimate of the potential value of Toreador in a take-out situation, offers 14% upside potential to the current share price.

On an unrisked basis, assuming success with both the technical exploitation of the potential shale oil play and ongoing license applications, we estimate an unrisked upside NAV of around US\$80/share.

**Primary risks to our view:** As part of the farm-out process Toreador is sharing technical information regarding the shale oil play with industry participants. They may view the risk associated with the potential shale oil play to be lower than our assessment and may be willing to pay a higher premium for access to an early-stage play with such vast upside potential.

**Recent insider sales at US\$10.60/share:** Nanes Balkany Partners, an investment firm, sold just over 194K shares in Toreador, or 19% of its holding, in early January at an average price of US\$10.60/share. Julien Balkany, non-executive vice chairman of Toreador, is also the CIO of Nanes Balkany Partners. Whilst these shares sales are reported as insider sales, the shares were not beneficially owned by Mr. Balkany.

**Recommendation:** We will re-evaluate our price target once we get more clarity on the recent news. We maintain our Overweight rating and US\$9.75 price target.

Please see analyst certification and other important disclosures starting on page 2 and continuing through page 4.