



PRESS CUTTING

CLIENT Rheochem
PUBLICATION Hemscott
DATE 2-01-2008

Year of the tiddler: Part 1

, 01/01/08 11:32

Hemscott picks half a dozen small-cap companies for whom 2008 could prove make or break.

Don't expect a tip list. We're not offering buy or sell advice, as [Hemscott](#) already offers plenty of analytical tools to help make your own decisions. And, unlike the newspapers, we wouldn't expect you to invest without taking a good look through the data yourself.

The reader will not need reminding that small-cap and AIM-listed stocks are often volatile, illiquid, under-scrutinised and capable of being felled by a terrifyingly wide and unpredictable range of setbacks. This article is not for consumption by widows and orphans. Instead, it seeks merely to highlight a few companies likely to be in the news over the next 12 months, and as such may warrant further investigation.

Rheochem

Minnow oil explorers are the stock market equivalent of betting all your cash on black or red. There's nothing between doubling your money and losing your shirt. For investors without the nerve for casino odds, it's worth looking into companies with a stable core business as well as some promising acreage.

AIM-listed Rheochem offers exactly that combination. The Australian group has a profitable business supplying drilling fluids - mud, basically - to the international oil and gas industry. It's the leading onshore supplier in its home market and has a small but growing share among the more lucrative offshore rig operators. A recent fundraising should be enough to push forward with expansion plans, which include some promising sales leads in India that could bear fruit through 2008.

This lubrications business generated Rheochem a pretax profit of £1.88 million this year, putting the stock on 15 times earnings versus an oil services sector at around 18 times. Edison Research forecasts pretax profit to grow to £2.55m in 2008, which would narrow the earnings ratio to around 11 times. That doesn't look overly expensive for a niche player in a consolidating sector.

The gamblers' premium comes from Rheochem's drilling prospects, which include a 3.3% interest in the Athena project in the central North Sea. The early-stage block is currently being appraised with a view to winning a drilling licence from the UK government within the next year.

There are no guarantees attached to such prospects, and turning exploration to production would inevitably be a fraught, time-consuming and expensive process. The risk of failure cannot be understated. Nevertheless, any initial success could draw Rheochem's valuation into focus against its more mature peers: at 16.75p a share it's capitalised at just £36m, compared with £176m for North Sea producer and fellow Athena block-holder [Ithaca Energy](#). Meanwhile, if the wells are dry, the fluids business should provide shareholders with a safety net at around current levels.