

Seeking Alpha α

Noble Energy: Buy After These 2 Things Happen

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| about: [NBL](#), includes: [BP](#), [CNX](#), [OXY](#), [XOM](#)

For long-term investors, buying stock in **Noble Energy (NBL)** is a great investment move. Looking at the short term, I expect Noble Energy stock to drop in price, so an investor looking for a short-term gain should wait until the stock price bottoms out. Noble Energy has seen its [net income](#) trend upwards each of the past three years, going from - \$131 million to \$453 million in that time frame. I believe this is a great sign for potential investors. Noble Energy's stock price is near \$84, which is pretty much right in the middle of its 52-week range. Given the trend in Noble Energy's net income, and the company's huge success in expanding its natural gas production, I expect the company to gain value and increase stock price.

Noble Energy is one of the foremost companies in exploration and production within the integrated oil and gas sector. Noble holds licensing rights to very profitable blocks of the Mediterranean region. The company has recently discovered natural gas reserves that will quickly increase Noble's natural gas production in the near future.

Noble recently announced the [discovery](#) of a 991 billion cubic meter natural gas reservoir off the coast of Greek Cyprus and Israel. This amount of natural gas exceeds the needs of both Greek Cyprus and Israel combined, which will allow for Noble to export natural gas, possibly as much as 50% of the reservoir, to surrounding countries. This ramped up production of natural gas should lead to increased revenues for Noble, as the price of natural gas is expected to [rise](#) from now through 2014.

Unlike most integrated oil and gas companies, like **Occidental Petroleum (OXY)** for example, Noble does not rely on liquid instead of gas, with about 40% of its sales volumes coming from liquids and nearly 60% coming from natural gas. Noble Energy's focus on natural gas production is what makes this discovery in the Aphrodite field so important and potentially profitable. The recent discovery and importance of natural gas production is also why I expect Noble Energy to expand its Mediterranean exploration and reserves by bidding on the blocks of land up for [auction](#) by Greek Cyprus.

Noble Energy made two similar discoveries near the Mediterranean, one in the Leviathan field and one in the Tamar field. However, Noble will face a setback with each of these discoveries. Each of the fields, in which the natural gas deposits were found, exists in a territory that is [contested](#) by several sovereign nations. The two major issues include the dispute between Turkey and Greece over the island of Cyprus. The other major problem is the tense relationship between Israel and Lebanon. Some of the natural gas discoveries made largely in Israeli territory may rightfully belong to Lebanese maritime territories, and the lack of clear-cut maritime borders only sparks the complications between the two countries. Furthermore, Northern Cyprus, owned by Turkey, will also try to claim its right to some of the newly discovered natural gas reservoirs.

These territorial claims will damage Israel's ability to monetize the new discoveries, and it could even lead to military confrontation. Noble has thus far played a central role in negotiations and treaties, successfully leading negotiations between Israel and Greek Cyprus. Noble will need to continue to do so if it wants to capitalize on these discoveries by exporting the natural gas and thus becoming more profitable.

Taking a look at the competition, we find Noble Energy is not the only company that is dealing with Mediterranean negotiations. **Exxon Mobil (XOM)** is in talks with the Turkish government about recovering 15 trillion cubic feet of shale gas. Furthermore, **BP (BP)** announced a project to bring natural gas from the [Azerbaijan fields](#) to the Turkey-Europe border. This pipeline will connect Europe and Asia, allowing for the easy transport of natural gas from the reserves in Asia. While this sounds like a potentially profitable project, and possible reason to invest, one must also realize the vast number of unstable countries included in a pipeline situation. Any of these deals that include

untrustworthy governments and the struggling economy of Greece should not be blindly invested in.

While these natural gas deals in the Mediterranean are not surefire -- given the instability of the governments -- the discoveries by Noble are still very likely to turn a profit no matter who it sells the natural gas to. It appears as if Noble is confident in its Mediterranean production, as it recently [announced](#) its plan to sell a chunk of its assets in the United Kingdom's North Sea for \$127 million. Noble noted that its North Sea assets were no longer part of the company's core working strategy.

Through its Mediterranean discoveries and its other reserves, Noble Energy intends to ramp up total natural gas production, which I expect to increase the company's profitability. While I have focused on the recent discoveries, Noble actually expects its [largest growth](#) in production to come from the Marcellus Shale, which is located in eastern North America. The company expects growth near 126% annually, and will be entering a \$3.4 billion partnership with **Consol Energy (CNX)** to obtain higher production yields. Noble Energy is expecting to begin production at the Marcellus field later this year and into 2013.

I believe Noble Energy is positioned for healthy future growth and is a good target for investment. Once the increased production of natural gas gets under way and the Mediterranean governments finish negotiations, I believe Noble Energy will not only see increases in production, but an increase in profitability will accompany the production. The company should increase in value once it is able to maximize production from all the newly discovered reserves, and I believe return on investment will increase as will the stock price.

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.