

## Audit Integrity Adds Two Energy Firms to European Watchlist of Riskiest Companies

by: Research Recap December 08, 2009



Audit Integrity has added two large cap companies – both in the energy sector - to its Watchlist of European companies with the greatest short-term equity risk. Selection criteria include: the lowest Accounting and Governance Risk ([AGR](#)) Rating of Very Aggressive, and an Equity Model Ranking of 1 (Substantially Underperform Market).

Oil and gas companies [Repsol YPF SA \(REP\)](#) and [Galp Energia SGPS SA \(GALP\)](#) were both added Dec 7, based on their reports for the quarter ended June 30.

Analysts are divided on Spain's Repsol YPF. In late November after the company's quarterly results, **UBS** maintained its Buy rating, while **Evolution Securities** rated it an "Add" and recommended disposing of its YPF subsidiary. On the other hand, **DeutscheBank** downgraded Repsol YPF to a Sell because of difficult trading conditions, joining **ING**, which maintained its Sell rating.

REPSOL YPF reported third quarter earnings of 30 euro cents per share (45 cents per ADR), compared to the Zacks Consensus Estimate of 43 cents and year earlier earnings of 58 euro cents (82 cents per ADR). While earnings were down year over year due to the steep decline in oil and natural gas prices, a sequential increase in net income (€859 million vs. €647 million or \$1.23 billion vs. \$975 million) shows the signs of recovery in the macro backdrop. [Zacks](#) has a neutral rating on the company.

We believe that the long list of challenges facing Repsol will continue to weigh on its valuation, limiting its upside from current levels. These include declining reserves, weak volumes, very low reserve lives and rising costs. - *Zacks*

Galp Energia SGPS SA 's stock rating was downgraded in July by **JPMorgan Cazenove**, which cited concerns about the capital structure of Portugal's biggest oil company and a "weak" outlook for refining margins. "We do not believe that Galp's capital structure can support the shift in the company's focus from downstream to upstream," said Nitin Sharma.

Audit Integrity also added small Cap companies **GFKL Financial Services AG (GFS1)** and **Pirelli & C Real Estate SpA (PRS)**. The only company removed was **Aker BioMarine ASA**, as its market capitalization fell below \$100 million.

The full list is available [here](#).

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