

Pura Vida Energy (PVD.ASX) – Mazagan farm-out concluded

Event:

- Farm-out of Mazagan permit concluded.

Investment highlights:

- PVD farm down 52% of Mazagan permit to PXP for \$230m.** PVD recently farmed out 52% interest of the Mazagan offshore block in Morocco to US based energy company Plains Exploration and Production (PXP.NYSE) valued at \$230m. PVD will receive US\$15m in cash plus a 2 well carry capped at US\$215m, including additional activity such as deepening of wells and/or 3D seismic. The deal is subject to regulatory approvals from the Moroccan government. The transaction implies a gross value of \$442m for the block and a see through valuation of \$101m for PVD 23% interest which is approximately two times the pro forma fully diluted EV of \$57m.
- Significantly surpasses recent offshore Morocco farm out deals.** We view the terms of the farm-out as excellent, exceeding recent deal metrics for transactions in offshore Morocco. There has been a spate of farm-out activity in the offshore Morocco region in recent months with Genel, Cairn and most recently Galp concluding farm out deals for offshore blocks. PVD's transaction with PXP significantly surpasses the metrics achieved on previous deals, particularly given the quantum of cash received and the total funds being committed, providing third party validation of the prospectivity of the permit.
- Giant Toubkal prospect the primary drill target.** We anticipate the first well could be drilled 1HCY14 subject to regulatory approval and availability of a drill ship. The giant Toubkal prospect, which has a P50 estimate of 1.5B bbl (347m bbl net to PVD's 23% interest) and has been estimated by DeGoyler & MacNaughton as having a 31% chance of success, will be the lead drill target. To put the potential un-risked upside of a success case in context we value the drill ready Toubkal prospect (1.5bbl barrel) alone at \$16.73/sh (\$1,773m). The target of the second exploration well is to be mutually agreed between PVD and PXP.
- Portfolio expansion and regional activity to provide near term news flow.** We believe there remains significant value to be realised before the spudding of the maiden well, given our conservative risked valuation of Toubkal is \$173m, \$1.67/sh vs. the pro forma fully diluted EV of \$57m. A pre-spud rally in the share price usually precedes drilling by ~6 months, however timing of a pre-spud rally is still ~12 months away. We anticipate positive news flow regarding growth of the portfolio and ongoing transaction and exploration activity by operators in Morocco will fill the news gap and provide positive support to the share price in the interim. Following the receipt of funds from PXP we estimate a cash position of ~\$25m which will ensure the company is well funded to pursue growth opportunities without further shareholder dilution.
- Valuation update.** We have updated our valuation to account for the revised interest in the Mazagan permit to 23% and the recent equity issue. We have used conservative assumption of 10% COS for Miocene prospects, 5% COS for the Lower Cretaceous prospects and notional in ground value of \$5 bbl. Based on these relatively conservative assumptions our risked NAV across the prospect inventory is \$428.4m, \$4.10/sh (prev: \$558.7m, \$6.00/sh). Our equity valuation on a fully diluted basis is \$448.4m, \$4.33/sh inclusive of the \$15m payment by PXP, corporate and unpaid capital.

Recommendation:

- Given the conclusion of the farm-out deal we have pulled back our risk factor from 75% to 50% of our equity valuation. We re-iterate our SPECULATIVE BUY recommendation with a revised price target of \$2.15/sh (prev: \$1.50/sh).

Rating	SPEC BUY
Previous	SPEC BUY
Price Target (A\$)	\$2.15
Previous (A\$)	\$1.50

Share Price (A\$)	\$0.78
52 week low - high (A\$)	\$0.24 - \$0.96
Valuation (A\$/share)	\$4.33
Methodology	In-Situ/Sum of Parts
Risk	High

Capital Structure	
Shares on Issue (m)	59.8
Options/restricted on issue (m)	43.9
Market Cap (A\$m)	46.6
Market Cap- Fully Diluted (A\$m)	80.8
Net Debt/(Cash) (A\$m)	-25.0
EV (A\$m)	55.8
12mth Av Daily Volume ('000)	260

Board and Management	
Bevan Tarrat	Non Executive Chairman
Damon Neaves	Managing Director
David Ormerod	Technical Director

Resource	
Prospective Resource (mmbbl)	5,300

Major Shareholders	
Board and Management	34%

Catalysts	
Acquisition of second project	1QCY13
Government approval	1QCY13
First well	1HCY14

Share Price Graph



Analyst	
Haris Khaliqi	+612 9993 8152
	haris.khaliqi@fostock.com.au

MAZAGAN FARM-OUT CONCLUDED

PVD recently announced it has entered into a farm-out agreement with US based energy company Plains Exploration and Production (PXP.NYSE) valued at \$230m for 52% of its highly prospective Mazagan permit, located offshore Morocco.

We view the terms of the farm-out as excellent, exceeding recent deal metrics for transactions in offshore Morocco.

- PVD recently announced it has entered into a farm-out agreement with US based energy company Plains Exploration and Production (PXP.NYSE) valued at \$230m for 52% of its highly prospective Mazagan permit, located offshore Morocco. PVD will receive US\$15m in cash plus a 2 well carry capped at US\$215m, including additional activity such as deepening of wells and/or 3D seismic. The deal is subject to regulatory approvals from the Moroccan government, expected by 1HCY13.
- Under the terms of the agreement, PXP will become the operator of the Mazagan permit with a 52% interest, PVD will reduce its holding to 23% interest (down from 75%), and the Moroccan state company Office National des Hydrocarbures et des Mines (“ONHYM”) will maintain its 25% interest.
- The total value of the farm-out implies a gross value of \$442m for the block and a see through valuation of \$101m for PVD’s 23% interest which is approximately two times the pro forma fully diluted EV of \$57m. The transaction fulfils the commitments for the first extension period for the block and drilling of a well will ensure that the work commitments for the second extension of the lease are satisfied, in which PVD are free carried.
- We view the terms of the farm-out as excellent, exceeding recent deal metrics for transactions in offshore Morocco. There has been a spate of farm-out activity in the offshore Morocco region in recent months with Genel, Cairn and most recently Galp concluding farm out deals for offshore blocks. Figure 1 below highlights the metrics of these transactions. PVD’s transaction with PXP significantly surpasses the metrics achieved on previous deals, particularly given the quantum of cash received and the total funds being committed, though the retained interest was slightly below our estimate of 30%.

Figure 1: Recent Farm-out transactions offshore Morocco

Company	JV partner	Date	WI	Block	Total Deal Consideration (\$m)	Implied Value for the block (\$m)	Cash Payment (\$m)	Cooped Expenditure (\$m)	Deal Commentary
Longreach	Cairn Energy	Aug-12	50%	Foum Draa	61.5	123	1.5	60	Cairn acquire 50% of Foum Draa license for \$61.5m, consisting of \$1.5m for prior costs and max expenditure \$60m on well. First well expected to be drilled in CY13. Partners include Cairn(50%), San Leon(14.2%), Serica Holding(8.3%)Longreach(2.5%), ONHYM(25%) Size of block: ~6,000km square Size of lead drill prospect: Apricot 649m boe
Longreach	Genel Energy	Aug-12	60%	Sidi Moussa	51.3	85.5	1.3	50	Genel acquire 60% of the Sidi Moussa block for \$51.3m consisting of \$1.3m for prior costs and max expenditure \$50m on well. First well expected to be drilled in CY13.. Partners include Genel(60%), Serica(5%), San Leon(8%), Longreach(1.3%) and ONHYM(25%) Size of block: 7,642km square Size of lead drill prospect: 200m bbl Seismic: Extensive 2D and 3D seismic completed
Tangiers Petroleum	Galp Energia	Dec-12	50%	Trafaya	41	82	7.5	33.5	Galp Energia acquire 50% of the Trafaya license from Tangiers Petroleum for \$41m consisting of \$7.5m in back costs and a max expenditure of \$33.5m on 1 well. First well expected to be drilled in CY13. Partners include Galp(50%), Tangiers Petroleum(25%), ONHYM(25%) Size of block: 11,282 square km Size of lead drill prospect: Trident 450m bbls
Pura Vida Energy	Plains Exploration	Jan-13	52%	Mazgan	230	442.3	15	215	Plains exploration acquire 52 % of the Mazgan permit from Pura Vida Energy for \$230m consisting of \$15m in upfront payment and a a max expenditure of \$215m in 2 well. First well expected to be drilled in CY14 Partners include: Plains (52%), Pura Vida Energy (23%) and ONHYM (25%) Size of block: 10,900 square km Size of lead drill prospect: Toubkal 1.5b bbl

Source: FSB Research, Company presentations

- We believe the ability to secure a partner to fund a high impact drill program is a transformational event, effectively providing PVD with a free carry and a meaningful interest in a multibillion-barrel opportunity. Furthermore PVD has secured a world class joint venture partner in PXP with a proven track record in offshore exploration and development with the large upfront cash payment and exploration commitment providing third party validation of the prospectivity of the Mazagan permit.

FORWARD PROGRAM

We anticipate the first well could be drilled 1H CY14 subject to regulatory approval and availability of a drill ship, with the giant Toubkal prospect as the primary drill target.

We anticipate positive news flow regarding growth of the portfolio and ongoing transaction and exploration activity by operators in Morocco will fill the news gap and provide positive support to the share price in the interim.

- We anticipate the first well could be drilled 1H CY14 subject to regulatory approval and availability of a drill ship. The giant Toubkal prospect, which has a P50 estimate of 1.5B bbl (347m bbl net to PVD's 23% interest) and has been estimated by DeGoyler & MacNaughton as having a 31% chance of success, will be the lead drill target. To put the potential un-risked upside of a success case in context we value the drill ready Toubkal prospect (1.5bbl barrel) alone at \$16.73/sh (\$1,773m). The target of the second exploration well is to be mutually agreed between PVD and PXP.
- We believe there remains significant value to be realised before the spudding of the maiden well, given our conservative risked valuation of Toubkal is \$173m, \$1.67/sh vs. the pro-forma fully diluted EV of \$57m. A pre-spud rally in the share price usually precedes the drilling by ~6 months, however timing of a pre-spud rally is still ~12 months away. We anticipate positive news flow regarding growth of the portfolio and ongoing transaction and exploration activity by operators in Morocco will fill the news gap and provide positive support to the share price in the interim.
- The next 12-18 months could prove to be a renaissance period for the Moroccan oil and gas industry with 7 wells expected to be drilled by Genel, Cairns, Kosmos and Galp. Success on the adjacent permits would also serve as a catalyst for PVD.
- Following the \$15m cash to be received for the farm out, PVD's cash position will grow to ~\$25m ensuring PVD remains well funded to pursue further growth opportunities without the need for further dilution to shareholders. Management recently highlighted an acquisition of a second project is currently in advanced negotiations. Given managements demonstrated ability in astutely acquiring, timely progressing and significantly adding value to the Mazagan permit; we believe the addition of a new project to the portfolio should be value accretive for shareholders and provide diversity to the company's asset base.

PLAINS EXPLORATION ... WHO ARE THEY?

Plains Exploration (PXP.NYSE) is an independent Oil and Gas company listed on the NYSE with a market capitalisation of ~\$6b and net production of ~110K boe/d, from US based onshore and offshore assets.

- PXP is an independent Oil and Gas company listed on the NYSE with a market capitalisation of ~\$6b and net production of ~110K boe/d, from US based onshore and offshore assets. PXP major assets include established oil production facilities in California, a growing production profile in the onshore Eagle Ford trend in Texas, production facilities in the Deepwater Gulf of Mexico and onshore resources in the Haynesville natural gas trend in Louisiana.
- PXP bring an extensive amount of offshore exploration and development capability to the joint venture. Notably, they are operators of two large deep water assets in the Gulf of Mexico which was acquired from BP for ~\$5b and have a 50% interest in the Holstein Field also located in the Gulf of Mexico which was acquired from shell for \$540m.
- PXP is currently being bid for by Freeport-McMoRan for a sum of \$6.9 billion in cash and stock.

Figure 2: PXP core assets



Source: PXP

Figure 3: PXP experienced offshore operators



Source: PXP

VALUATION - \$448M, \$4.33/SH

- We have updated our valuation to account for the revised interest in the Mazagan permit to 23% from our previously assumed 30% and the recent equity issue. Our valuation is based on the risked net asset value on the Mazagan Permit, including only prospects which have been assessed as having a prospective resource in the Competent Persons Report. Figure 4 outlines the prospects included in our NAV valuation.
- We have opted to take a conservative approach and applied a 10% COS across the Miocene prospects and a 5% COS across the Lower Cretaceous targets. Toubkal, for example was assessed as having a 31% COS, which we have discounted to 10%. We view our valuation to be highly conservative given we have ascribed a notional value of \$5 per in ground bbl. Our indicative modelling of a commercial discovery at Toubkal indicates a NPV per barrel of ~\$35bbl given the attractive fiscal terms.

Figure 4: Net Asset Value

Prospect/Lead	Gross Recoverable Potential (MMbbls)	WI (%)	Net Recoverable Potential (MMbbls)	COS (%)	\$ per in ground bbl	Risked Value (\$m)	Risked Value (\$/sh)	Unrisked Value (\$m)	Unrisked Value (\$/sh)
Zagora	65.3	23%	15.0	10%	5.0	7.5	0.07	75.1	0.72
Amchad	79.6	23%	18.3	10%	5.0	9.2	0.09	91.6	0.88
Tafaroute	1047.2	23%	240.8	10%	5.0	120.4	1.16	1,204.2	11.62
Amtoudl East	590.4	23%	135.8	10%	5.0	67.9	0.66	679.0	6.55
Amtoudl West	434.7	23%	100.0	10%	5.0	50.0	0.48	499.9	4.82
Toubkal	1507.5	23%	346.7	10%	5.0	173.4	1.67	1,733.6	16.73
Jbel Ayachi	202.5	23%	46.6	5%	5.0	11.6	0.11	232.9	2.25
Jbel Musa	280.8	23%	64.6	5%	5.0	16.1	0.16	323.0	3.12
Jbel Lakhar	208.5	23%	48.0	5%	5.0	12.0	0.12	239.8	2.31
Jbel Talmest	474.9	23%	109.2	5%	5.0	27.3	0.26	546.1	5.27
Jbel Aroudane	417.3	23%	96.0	5%	5.0	24.0	0.23	479.9	4.63
Jbel Tadart	879.1	23%	202.2	5%	5.0	50.5	0.49	1,011.0	9.75
Jbel Azayza	829.5	23%	190.8	5%	5.0	47.7	0.46	953.9	9.20
Total	3724.8		857			428.4	4.1	4,283.5	41.3

Source: FSB Research

- Based on these relatively conservative assumptions our risked NAV across the prospect inventory is \$428m, \$4.1/sh (prev: \$558.7m, \$6.00/sh). Our equity valuation on a fully diluted basis is \$448.4m, \$4.33/sh after taking into account net cash inclusive of the \$15m payment by PXP, corporate and unpaid capital as highlighted in figure 5 below.

Figure 5: Valuation Summary

Valuation Summary	(A\$m)	A\$/sh
Risked NAV	428.4	4.13
Net cash/debt	25	0.24
Corporate	-10	-0.10
Unpaid capital	5	0.05
Total	448.4	4.33

Source: FSB Research

RECOMMENDATION AND PRICE TARGET - \$2.15/SH

- Given the conclusion of the farm-out deal we have pulled back our risk factor from 75% to 50% of our equity valuation. We re-iterate our SPECULATIVE BUY recommendation with a revised price target of \$2.15/sh (prev: \$1.50/sh).

Name	Department	Phone	Email
Stuart Foster	Equities Dealing	+61 2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	Equities Dealing	+61 2 9993 8130	kevin.massey@fostock.com.au
Martin Carolan	Equities Dealing	+61 2 9993 8168	martin.carolan@fostock.com.au
Tolga Dokumcu	Trade Execution & Dealing	+61 2 9993 8144	tolga.dokumco@fostock.com.au
George Mourtzouhos	Trade Execution & Dealing	+61 2 9993 8136	george.mourtzouhos@fostock.com.au
Mark Hinsley	Equity Research Sales	+61 2 9993 8166	mark.hinsley@fostock.com.au
Mark Fichera	Equities Research	+61 2 9998 8163	Mark.Fichera@fostock.com.au
Haris Khaliqi	Equities Research	+61 2 9993 8152	haris.khaliqi@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
 Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
 Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between -10% and 10%; Sell = return <-10%. Spec Buy = return > 20% for stock with very high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Important Notice:

Disclaimer & Disclosure of Interests. Foster Stockbroking Pty Limited has prepared this report. This document contains general securities advice only. In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Foster Stockbroking is not aware that a recipient intends to rely on this report and is not aware of the manner in which it will be used by the recipient. Investors must obtain personal financial advice from their investment advisor to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment. The views expressed in this report are that of the analyst named on the cover page, and no part of compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports. Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change. Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may affect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant Company.

Specific disclosure: The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by PVD at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.

Specific Disclosure. Foster Stockbroking Pty Limited has received fees for providing capital raising and/or advisory services to Pura Vida Energy Ltd (PVD) in the last 12 months.