

Pura Vida Energy (PVD.ASX) – December quarter update

Event:

- December 2012 Quarterly update

Details

- Farm out of the Mazagan permit, offshore Morocco, to Plains Exploration & Production Company (PXP.NYSE) for a total consideration of \$230m.
- Acquisition of second project an 80% interest in the Nkembe block located in offshore Gabon.
- Pro-forma cash balance \$13m.

Analysis

- Mazagan farm-out concluded on attractive terms.** The rapid progression of the Mazagan permit and, consequently re-rating of PVD in 2012, was culminated by an excellent farm out agreement to Plains Exploration and Production (PXP.NYSE) valued at \$230m for a 52% interest. 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.
- CY13, the start of a renaissance period for Moroccan oil.** We anticipate the first well, targeting the giant 1.5b bll Toubkal prospect, could be drilled 1HCY14 subject to regulatory approval and availability of a drill ship. 2H of CY13 will mark the beginning of a renaissance period in the Moroccan oil industry with the first of up to 8 offshore wells expected to be drilled. We expect over the coming months to get further visibility of the schedule for the drill ship being used and recommend exposure to PVD as the regional deepwater drill program in Morocco commences in 2HCY13, as any success by adjacent operators will serve as a major catalyst for PVD.
- Second project located in the right address for exploration success.** PVD recently acquired an 80% interest in the NKEMBE block located in offshore Gabon. Prospectivity of the permit is supported by multi- billion barrel discoveries which have been made in Brazil in the pre-salt horizon over the past 5 years. This play is being actively sought after by deep-water operators seeking analogues basins in the conjugate margin including Gabon, the Republic of Congo, Angola and Namibia.
- Progressing Nkembe to provide near term news flow.** We view the Gabon asset has all the key ingredients which could see it follow the same value creation path as Mazagan. Progressing the work program at Nkembe should provide near term news flow with a maiden resource from the pre-salt horizon expected by 2HCY13 and 3D seismic acquisition and interpretation of blue-sky sub-salt horizon expected in 2HCY13. Post receiving the \$15m payment from PXP we forecast a cash balance of \$13m, which should see the company well funded in the near term to progress its work program.

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\$)	\$0.75
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)	44.8
Market Cap- Fully Diluted (A\$m)	77.7
Net Debt/(Cash) (A\$m)	-13.0
EV (A\$m)	64.7
12mth Av Daily Volume ('000)	260

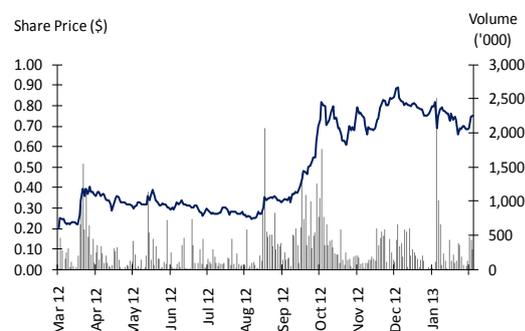
Board and Management	
Bevan Tarrant	Non Executive Chairman
Damon Neaves	Managing Director
David Ormerod	Technical Director

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



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