

Pura Vida Energy

Oil & gas

2 August 2013

Investment summary: Deal almost secured

A two-well carry plus back costs puts Pura Vida Energy (PVD) top of the tree for farm-outs in one of the hottest exploration areas around, offshore Morocco. Completion of the deal, expected imminently, is a major catalyst, as is securing a rig for two wells to be drilled in 2014, kicking off with the 1.5bnboe Toubkal prospect. The farm-out implies a valuation of PVD in excess of A\$4/share. While we do not expect equities to reflect industry valuations, a narrowing must be a possibility as drilling approaches.

Farm-out deal nearing completion

PVD's investment thesis largely hangs on the opportunity to drill two wells offshore Morocco on its Mazagan permit in 2014. To fund this, it has agreed a farm-out with Plains E&P (now a Freeport-McMoRan Copper & Gold Inc. subsidiary), giving it a US\$215m two-well carry and US\$15m in cash in return for 52% of its previous 75% operated stake. In-principle approval has recently been given by the Moroccan government for the farm-out and we consider expected completion of the deal in the coming weeks is a major catalyst for investors. Beyond this, the main things to watch out for are a rig deal, especially if one can be secured for early-2014, ahead of proximate drilling in the region by Cairn, Kosmos and Genel from probably Q413.

Top terms secured for unique Miocene play

At c 1,500mmbbl gross (350mmbbl net post farm-out) mean recoverable prospective resources, the first drill target, Toubkal, represents a hefty opportunity in itself. Unlike PVD's neighbours, who are chasing Jurassic carbonates and Cretaceous fans, Toubkal is a Miocene target offering investors differentiation from the main Moroccan activity. PVD has secured the most attractive terms of all the recent deals in Morocco, valuing the block at A\$440m and PVD's post-farm-out stake at \$100m, well ahead of the current share price (even without the drill carry). Not content to rest on its laurels in Morocco, PVD has also picked up an 80% interest in a block offshore Gabon. This offers lower-risk appraisal/development (Loba 20mboe gross) and both sub-salt and pre-salt exploration, although exploration drilling here is unlikely until late-2014 at the earliest.

Valuation: Trading at an 85% discount to farm-in

Current target prices range from A\$1.78 to A\$2.60 per share, suggesting three to four times upside to the current share price. This is not surprising given the Plains farm-in terms alone suggest PVD should be trading at c A\$4.10. The stock market is ascribing significant discounts to industry deals at present, but an 85% discount is excessive and we could expect this to close as drilling approaches in 2014.

Consensus estimates

Year End	Revenue (A\$m)	EBITDA (A\$m)	PBT (A\$m)	EPS (A\$)	Net cash/ (debt) (A\$m)	Capex (A\$m)
06/12	0.0	(2.9)	(2.9)	(0.14)	3.7	(1.0)
06/13e	0.0	(3.2)	(4.5)	(0.08)	12.0	(4.1)
06/14e	0.0	(3.7)	(5.3)	(0.04)	2.9	(10.0)

Source: Company accounts, Bloomberg

Price **A\$0.61**
Market cap **A\$49m**

Share price graph



Share details

Code	PVD
Listing	ASX
Sector	Oil and gas
Shares in issue	80.5m

Business description

Pura Vida Energy is an ASX-listed E&P with interests in blocks offshore Morocco and Gabon. The main focus is on high-impact exploration drilling in Morocco, with Gabon offering appraisal/development options in addition to exploration.

Bull

- Most attractive terms achieved to date for Morocco offshore farm-out.
- Strong partner with Miocene experience from GoM.
- Stock trading at 85% discount to farm-in implied value.

Bear

- Activities in Morocco require final government approval of the FCX farm-out. Without this, Pura Vida Energy is unfunded for any drilling in 2014.
- Unique Miocene play could limit upside in the event of neighbouring success in Cretaceous or Jurassic.
- Balance sheet will be tested in the event of drilling success.

Analysts

Ian McLelland	+44 (0)20 3077 5756
Will Forbes	+44 (0)20 3077 5749
Elaine Reynolds	+44 (0)20 3077 5713

oilandgas@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Berlin, Sydney and Wellington. Edison is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is not regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com.

DISCLAIMER

Copyright 2013 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is not registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE [2013]. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Berlin +49 (0)30 2088 9525
Friedrichstrasse 95
10117 Berlin
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square
264 George St, Sydney
NSW 2000, Australia

Wellington +64 (0)4 8948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand