

BUY

Current Price **\$0.73**
Target Price **\$2.07**

Ticker:	PVD	
Sector:	Energy	
Shares on Issue (m):	104.8	
- fully diluted (m):	140.0	
Market Cap (\$m):	77.0	
Market Cap Diluted (\$m)	102.9	
Net Cash (\$m)*:	18.0	
Enterprise Value (\$m):	84.9	
* estimate		
52 wk High/Low:	\$0.84	\$0.38
12m Av Daily Vol (m):	0.27	

Valuation	Risked	Risked	Unrisked
	\$m	\$/s	\$/s
Toubkal	260.0	1.86	24.77
Jbel Tadrart	101.1	0.72	17.21
Gabon	39.9	0.29	9.70
Cash	22.0	0.16	0.16
Debt	-4.0	-0.03	-0.03
Corp Admin	-15.0	-0.11	-0.11
Options / Partly	9.1	0.06	0.06
Total	413.1	2.95	51.75

*estimate

In A\$ unless otherwise stated

Share Price Graph



Monday, 11 November 2013

Pura Vida Energy

Size Matters

Analyst | Dave Wall

Quick Read

Pura Vida has closed its farm-out for its Mazagan Permit, offshore Morocco, to Freeport-McMoRan, after receiving final approvals from the Moroccan Government. As a result, PVD has receipted US\$15m in cash (total cash now A\$22m) and will be free carried on the drilling of two wells (up to US\$215m), including the 1.5b barrel Toubkal Prospect. Catalysts related to rig contract / spud date are yet to come and we assume drilling from mid-2014. The Company acquired a 50% interest in the Ambilobe Block offshore Madagascar where significant salt related features have been identified. The farm-out process offshore Gabon is well underway and likely to conclude in early 2014. We also expect award of at least one additional licence over the next few months. The Company now has a diverse portfolio of quality assets, with likely free carry on two work programs and minimal near-term commitments on the other. We rate PVD as a BUY with an increased price target of \$2.07 (prev \$1.79).

Event & Impact | Positive

Size Matters: Pura Vida has been running hard on multiple fronts, progressing farm-outs as well as acquiring additional assets, and now has a portfolio with substantial weight. It has also remained true to its strategy of application of technical expertise to identify opportunities that will not stretch its balance sheet whilst at the same time providing access to significant (and sometimes huge) upside potential. The Company has displayed a canny knack for moving nimbly ahead of larger industry interest. Nothing illustrates this better than Morocco where Mazagan was acquired for \$4m but now the Company will be free carried on the giant Toubkal prospect, which could add \$25 to PVD's share price, if successful. Another 8-9 wells in Morocco are planned over the next 18 months on the back of farm-outs around PVD – all since the Company acquired its position.

Offshore Salt Specialists: The Company now has three offshore permits where salt is present. New technology and specialised expertise has resulted in a renaissance in exploration in salt basins. Pura Vida retains such expertise in-house and has been able to capitalise on it, most notably offshore Gabon where over 1b barrels in mean prospective resource has been identified (PVD 80%). Additional resource potential remains to be quantified on the block. The recently acquired Ambilobe Permit (PVD 50%), offshore Madagascar also has significant resource potential in salt related structures. The political environment is substantially improved and industry interest is likely to increase.

Recommendation

Post the close of the Morocco farm-out and receipt of US\$15m, we can see no reason not to buy the stock now. Upside potential has increased substantially, whilst the downside is now better protected through diversification of the asset base. Pura Vida has consistently managed to secure acreage ahead of increased industry interest and always with potential for large scale resource. A coherent strategy we believe is in line with that of shareholders and likely to result in strong price appreciation in the near-term. We rate Pura Vida as a BUY with an increased price target of \$2.07 (prev \$1.79).

Highlights

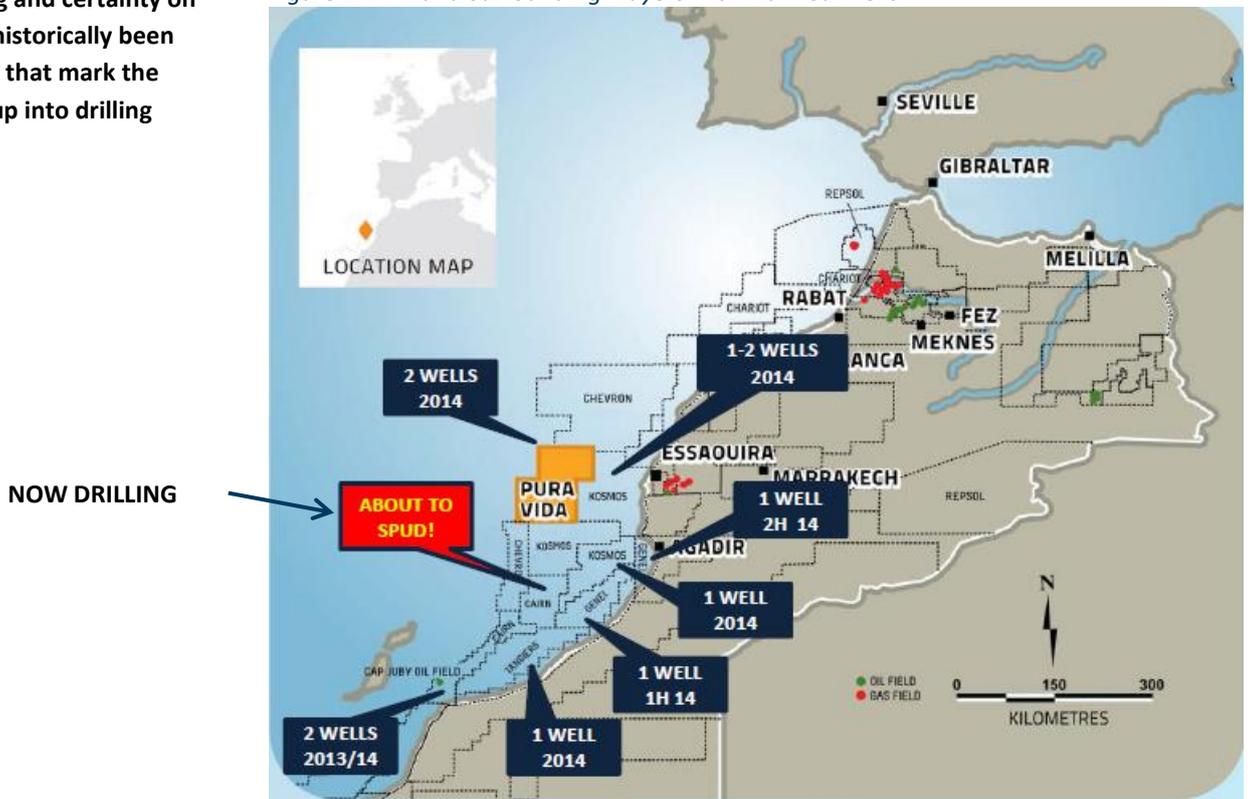
Post finalisation of the farm-out and receipt of US\$15m, there is no reason not to buy the stock - now

Contracting of rig and certainty on spud date have historically been the key catalysts that mark the start of the run up into drilling

Morocco - Mazagan (PVD 23% carried)

The finalisation of the farm-out to Freeport-McMoRan, whilst a catalyst itself (although share price response so far has been muted), is an enabling event for other, more significant drivers of the share price. Analysis of price movement in peer exploration companies, prior to drilling events, indicates that firm up of timing for spud is the key event marking the start of appreciation in the lead up to drilling. Now that the farm-out is closed we can expect news on likely timing within weeks. Investors should look to strengthen their holdings 6-9 months out from the spud date, which we interpret to be likely in Q3 2014 (i.e. time to get set is now). The success case for Toubkal alone is well over \$25, using conservative assumptions, and not taking into consideration significant follow up potential.

Figure 1: PVD and Surrounding Players with Planned Wells



Source: Pura Vida

Volatility in the share price for Pura Vida is likely due to the plethora of wells being drilled around them over the next 18 months; however, share price appreciation in the near-term is considered highly likely. A summary of the wells is listed below:

Wells by others may help prove up some of the play types on PVD's permit but will not invalidate the giant Toubkal prospect / play

Figure 2: Wells, Timing and Play Types

Operator	Block	Well Name	Play Type	Target Size	Spud Date	POS
Cairn	Foum Draa	FD-1	Cretaceous/Jurassic slope apron clastic fan	142	Q3 2013	8%
Cairn	Juby Maritime	CJ-2	Upper, middle and lower Jurassic	250	Q1 2014	33%
Kosmos	Foum Assaka	Five Canyon Prospects	Mid and Lower Cretaceous deepwater turbidite fan - Jubilee style	750	H1 2014	12%
Kosmos	Essaouira	E-1*	Cretaceous fans, ponded salt fans, salt diapir structures	500	Q2 2014	20%*
Kosmos	Tahazoute	T-1*	Cretaceous fans, salt cored folds, pre-salt structures	500	Q3 2014	20%*
Kosmos	Cap Boudjour	C-1*	Cretaceous delta, fault blocks, slope and toe thrust anticlines	1,000	Q4 2014	20%*
Galp	Tarfaya	Trident, Assaka, TMA	Upper, middle and lower Jurassic carbonates	758	Q2 2014	23%
Genel	Mir Left	M-1*	Jurassic Carbonate Fault Block - Cap Juby analogue	200	Q3 2014	20%
Genel	Sidi Moussa	Nour	Jurassic Carbonate Fault Block - Cap Juby analogue	200	Q2 2014	20%
Freeport	Mazagan	Toubkal	Miocene structural / stratigraphic - Jubilee analogue	1,507	Q3 2014	31%

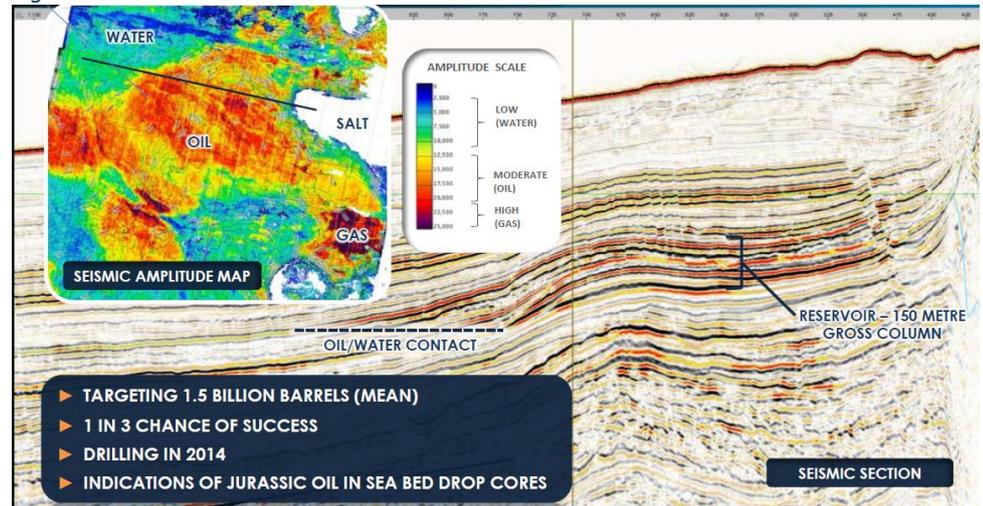
Source: Argonaut, Company Reports, *Argonaut estimate

We would recommend buying any dips if other’s wells are unsuccessful as Toubkal’s size and differentiated play type will likely result in interest regardless

Size matters – Toubkal is 1.5b barrels and by far the largest of the prospects being drilled

The main point of the table above is to illustrate that drilling by others may prove up the Cretaceous and Jurassic potential on Pura Vida’s block; however, will not invalidate the Miocene play targeted at the Toubkal Prospect. Significantly, PVD is free carried for a second well, which may target these other plays. Whilst the Jurassic Play (pre-salt) has been identified at Mazagan, no prospective resource has been attributed; however, we understand that Freeport and PVD consider this to be an attractive target horizon. The table also shows that Pura Vida’s main prospect is the largest by a significant margin but also has a very high probability of success (2nd highest). Because of these factors, we believe that the price appreciation for PVD in the lead up to drilling at Toubkal will still be strong, regardless of results by others. This does not mean that share price will be immune to decline due to disappointment in wells around PVD; however, we would recommend buying any dip in this scenario. Of course, success by others would be highly positive for the share price.

Figure 3: Size Matters! Toubkal – 1.5b Barrels with Multi-Phase DHIs



Source: Pura Vida

Gabon acquired ahead of increased industry interest – 1b barrels identified and farm-out underway

Contingent Resource at Loba de-risks value making large upside more attractive

Gabon - Nkembe (PVD 80%)

The Company has announced commencement of a farm-out process at its Nkembe Block, offshore Gabon. The acquisition of Nkembe, in January 2013, is another example of Pura Vida moving ahead of the play. Subsequent to the acquisition, Total made a significant discovery in a pre-salt play at the Diaman-1 well, 100km² from the nearest pre-salt discovery and the first in the deepwater. Harvest also made its fourth oil discovery offshore Gabon post the Nkembe acquisition and industry interest in the pre- and post-salt plays there, which exist on PVD's permit, has increased substantially. This provides confidence that PVD will secure a good farm-out over the coming months.

As with Mazagan, the work that Pura Vida has done on Nkembe has also added significant value, with over 1b barrels of mean prospective Resource identified in only 4 prospects with pre and post salt potential. In addition, the Company has a Contingent Resource of 20mmbbl attributed to the existing Loba discovery.

Figure 4: Wells, Timing and Play Types

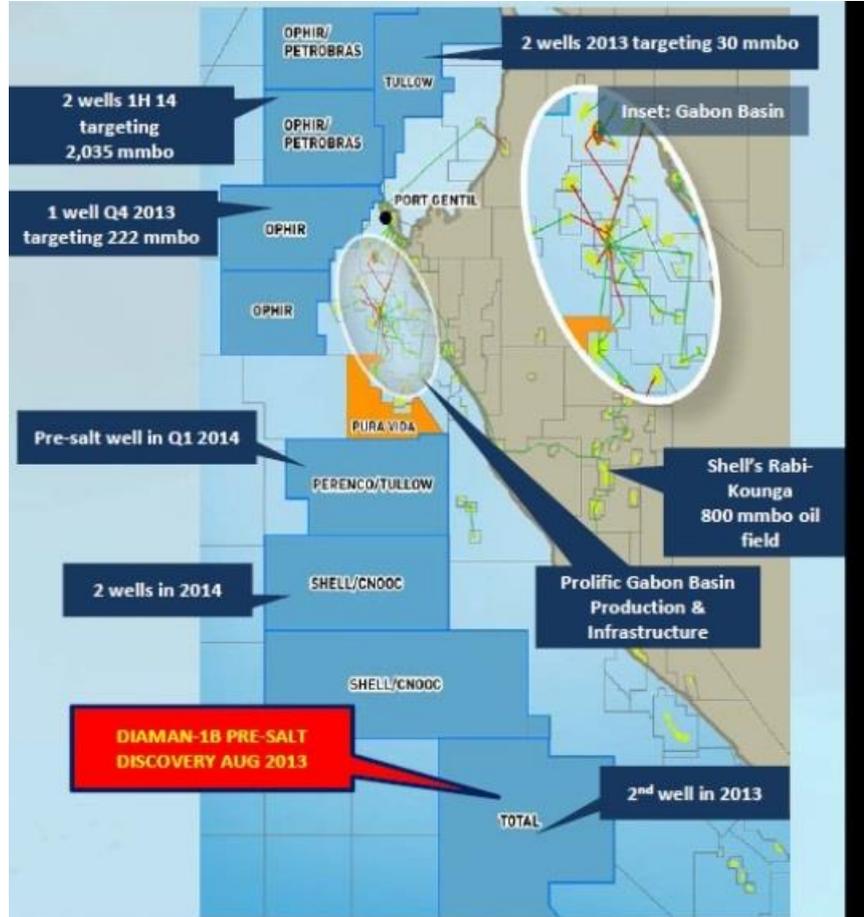
PROSPECTIVE OIL RESOURCES (RECOVERABLE)		
PROSPECT	RESERVOIR	MEAN (mmbbl)
MVIM West	Pre-salt (Gamba Fm)	639
POM Deep	Pre-salt (Gamba Fm)	225
Lepidote Deep	Post-salt (Anguille Fm)	131
Loba Deep	Post-salt (Anguille Fm)	24
TOTAL (GROSS)		1,019
NET TO PURA VIDA (80%)		815

Source: Pura Vida

Valuation for Gabon increased from \$0.08 to \$0.29

Like Morocco, Gabon will see a huge amount of drilling activity over the next 12 months, also with 10 wells planned (by others – see next page). For Pura Vida, we believe that the industry interest / value in Gabon has been largely overlooked by the market and we have carried only nominal value in our valuation, until now. Given the likely farm-out in the near term and the wave of drilling about to commence, it is appropriate to ascribe a more meaningful valuation to the asset. We remain conservative, assuming 25% post farm-out working interest and US\$5 notional in ground value for one prospect only (MVIM West), risked at 5% POS, resulting in a valuation of \$0.29 (prev \$0.08).

Figure 5: Planned Wells and Timing Offshore Gabon



Source: Pura Vida

10 wells over next 12 months will result in increased investor interest bringing PVD's Gabon acreage more into focus

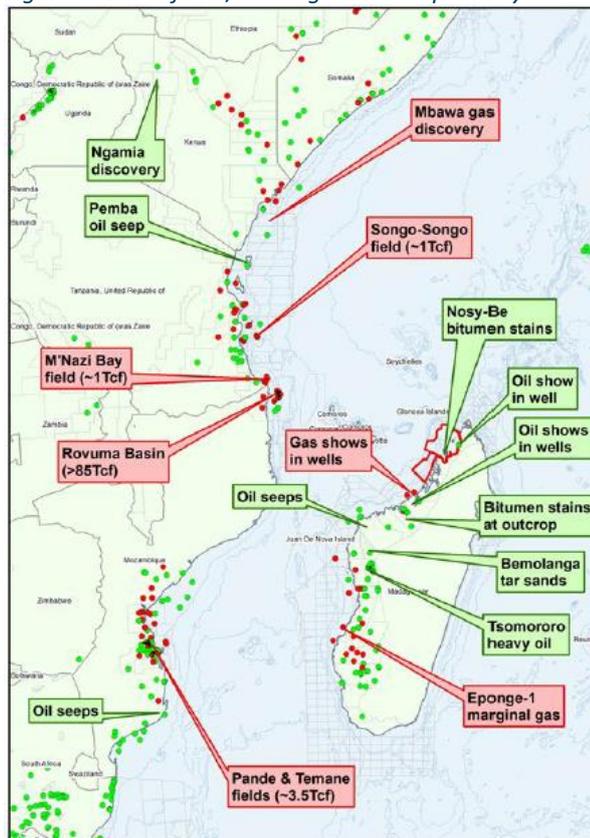
Madagascar - Ambilobe (PVD 50%, earning)

Improved political situation in Madagascar paves way for increased industry interest – PVD ahead of the pack again

The already significant portfolio has grown recently, with the acquisition of a 50% interest in the Ambilobe Block, offshore Madagascar. Like Gabon, salt related features are a key play targeted in the basin. Pura Vida will partner the Operator, Sterling Energy, spending US\$3.25m in the near term on back costs and 2D seismic, prior to 3D acquisition, possibly in H2 2014.

Exxon to drill in adjacent block on 1.2b barrel prospect – late 2014

Figure 6: East Africa / Madagascar Prospectivity



Source: Pura Vida

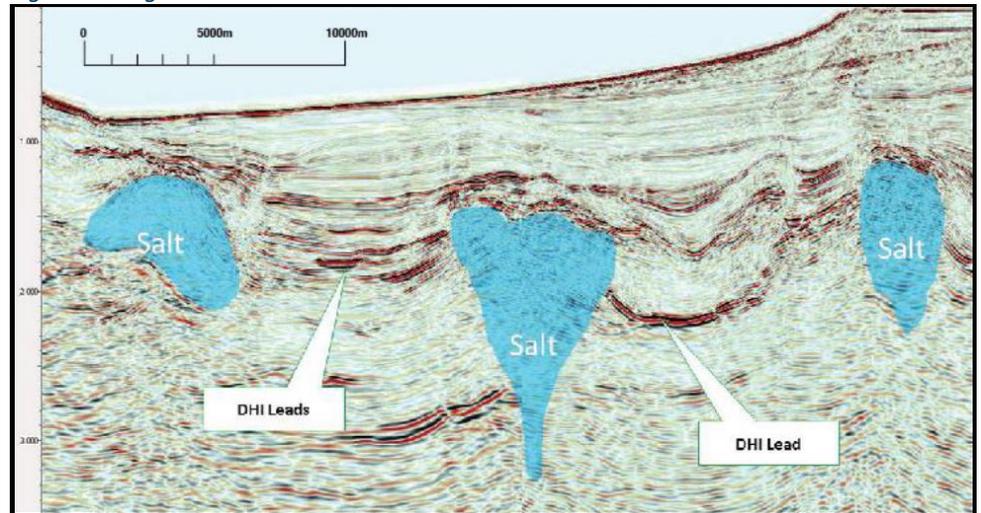
Highly prospective region with proven petroleum system and large structures identified

Madagascar is set to undergo a renaissance in industry interest, post recently successful democratic elections that followed a coup, which saw no activity since 2009. The country has always been deemed highly prospective due to the presence of huge heavy oil discoveries onshore, whilst the offshore has remained relatively unexplored.

Exxon Mobil has announced plans to drill the 1.2b barrel Sifaka Prospect, in the adjacent block to PVD, likely in late 2014. This provides increased assurance of the improved political situation as well as the prospectivity of the region. Increasing industry interest can also be seen via the planned acquisition 7,025km of new 2D seismic.

Large structures have already been identified on the PVD's block and, whilst there are no resource figures released, we estimate prospect size to be hundreds of millions of barrels each. An onshore well in the same basin, drilled in 1963, encountered 2km of thick Jurassic shale with oil shows, indicating the presence of working petroleum system on the block.

Figure 7: Large Salt Related Structures at Ambilobe



Source: Pura Vida

Despite the increased industry interest and clear prospectivity at Ambilobe, we currently ascribe no value to the permit; however, will look to do so once there is more visibility on resource potential.

Recommendation

Strong balance sheet with minimal near term commitments and multiple catalysts that are likely to re-rate

BUY with increased price target of \$2.07

We have been bullish on Pura Vida for some time; however, the delays in the approval of the farm-out at Morocco (with its US\$15m cash payment) and the consequent lack of visibility on balance sheet strength provided a possible reason not to buy the stock at the time, given a near-term investment horizon, despite the highly positive outlook in the medium term. There are now no reasons, in our view, not to buy the stock and many additional reasons to be more bullish. The balance sheet is now strengthened and multiple near-medium term catalysts include:

- Securing of rig for drilling 1.5b barrel Toubkal prospect
- 10 well results, the first of which is in Jan 2014, in neighbouring acreage in Morocco
- Execution of a farm-out agreement for Nkembe in Gabon
- Drilling of 10 wells by others offshore Gabon in 2014
- Initial resource estimates and new seismic offshore Madagascar
- Likely award of additional licence

The upside potential of the Company has increased substantially, whilst the downside is now better protected through diversification of the asset base. Time and time again, Pura Vida has managed to secure acreage ahead of larger waves of industry interest but always with potential for large scale resource. A coherent strategy that we believe is in line with that of shareholders and likely to result in strong price appreciation in the near-term. We rate Pura Vida as a BUY with an increased price target of \$2.07 (prev \$1.79).

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Important Disclosure

Argonaut assisted with placement in the recent Capital Raisings in November 2012, April & June 2013 and received fees commensurate with this service.

The analyst has a beneficial interest in the shares of Pura Vida.

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