

# Pura Vida Energy NL (PVD\$0.42) Spec. Buy, Initiation of Coverage

**Analyst:** Michael Skinner  
**Date:** 4<sup>th</sup> June 2014

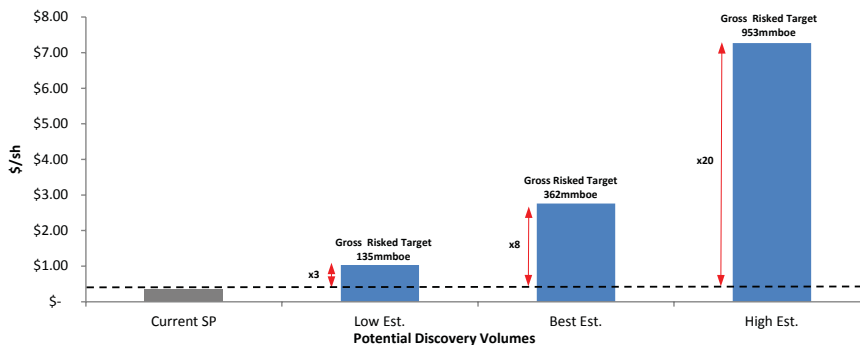
## Free-Carried Billion Barrel Well Exposure at an EV of \$40m

PVD is an ASX listed energy company focused on oil and gas exploration within Africa; assets are located in Morocco, Gabon and Madagascar.

The company is free-carried for US\$215m worth of expenditure (2 wells) in Morocco with reservoir targets exceeding 1 billion barrels of oil (prospective resource best estimate). At the current EV of ~\$40m and line of sight to this material drilling activity, PVD represents a fantastic undervalued opportunity.

Analysis of the Toubkal prospect (Morocco) alludes to the 'size of the prize' on a success case. Our Euroz analysis suggests that the low volumetric scenario could easily equate to >\$1.00/sh, the best estimate scenario >\$2.70/sh, and the high estimate scenario >\$7.00/sh.

**Risked Toubkal Value Potential Net to PVD (\$/sh) @ GPOS 31%**



**Morocco** - The Moroccan farm-out to Freeport-McMoRan Oil and Gas [Freeport] provides PVD with US\$215m worth for free-carried exploration drilling across 2 wells in CY'15; PVD's equity stands (23%)

The 1st well targeting the Toubkal prospect will be drilled in H1 of CY'15. The prospect size of 1.17Bbbl at 31% probability of success (3rd party derived) is expected to command significant market interest. Beyond Toubkal the Moroccan permit has an additional 13 prospects identified totalling >7Bbbl of oil potential.

**Gabon** - A Farm-out process is currently underway for PVD's (80% equity) Gabonese permit. The permit with a prospect inventory >1B barrels (gross) is likely receiving a great deal of attention from the global oil and gas community.

We anticipate Farm-out completion in H2 of CY'14. We are hopeful that PVD can secure both cost recovery and a 1 to 2 well free carry at conclusion of the process.

**Madagascar** - Madagascar is PVD's earliest stage asset. PVD will earn 50% equity in the permit by funding up to US\$15m of 3D seismic; anticipated in CY'15. Following the seismic program we expect the JV will look to farm-down the project for a free well carry; drilling likely in CY'16.

**Financial & Corporate** - Cash stands ~\$21.5m, debt at \$0m. PVD's primary capital commitments include annual G&A (~\$4m) and the 3D seismic in Madagascar (est. ~\$13m in CY'15). Furthermore we are hopeful that cost recovery will be achieved within the Gabon farm-out, further strengthening PVD's balance sheet.

**Management** - PVD's management team has already delivered highly successful outcomes. Specifically securement of one the largest and most well-constructed farm-out deals (Morocco) that any ASX junior oil and gas company has achieved.

We have faith that similar outcomes will be delivered at Gabon and Madagascar and moreover that the board and management team will continue to steer the company towards success.

We initiate coverage with a **Speculative BUY** and a **Price Target** of **\$0.75/sh**.

### Pura Vida Energy NL Year end 30 June

	\$0.42	A\$/sh
<b>Share Price</b>		
Issued Capital		
FP Ord*	127.2	m
Opt (@\$var/sh)	11.3	m
<b>Total Dil. FPOrd</b>	<b>157.5</b>	<b>m</b>
Market Capitalisation	\$63	m
Enterprise Value	\$42	m
Debt	\$-	m
Cash	\$22	m

### Directors

J Dowling	Chairman
D Neaves	MD
R Malcom	NExec.D

### Asset Valuation

Yr End Jun30	A\$m	A\$/sh
Morocco	78	0.49
Gabon	20	0.13
Madagascar	10	0.06
Corporate	(14)	(0.09)
Unpaid Capital	3	0.02
Debt	-	-
Cash	22	0.14

**Total @ 10% real** **118** **0.75**

### Share Price



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## Valuation + Upside Potential

Our EZL risked valuation and price target stands \$0.75/sh. We have discounted our valuation to reflect timing uncertainties and incorporate geological, geopolitical and engineering risk.

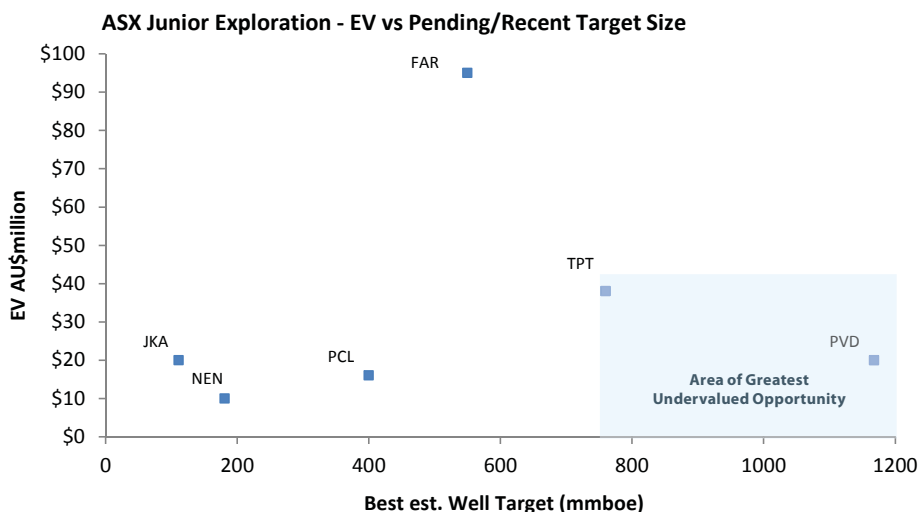
We highlight the potential value accretion upon success at Morocco, whereby a risked Toubkal discovery may see a value increase ranging +\$1.00/sh (low scenario) through to >\$7.00/sh (high scenario).

Risked Toubkal Value (COS 31%) @\$5/bbl			
Prospective Resource	Low	Best	High
Volumetric (gross) - mmboe	135	362	953
NPV (net PVD)	\$ 155	\$ 416	\$ 1,096
\$/sh (net PVD)	\$ 1.03	\$ 2.76	\$ 7.27

Un-risked analysis of potential discovery volumes at Toubkal alludes to full potential of the accumulation. Furthermore it must be remembered that beyond the Toubkal prospect, PVD is free carried for a 2nd well (likely late CY'15).

Un-risked Toubkal Value @\$5/bbl			
Prospective Resource	Low	Best	High
Volumetric (gross) - mmboe	436	1,168	3,074
NPV (net PVD)	\$ 501	\$ 1,343	\$ 3,535
\$/sh (net PVD)	\$ 3.33	\$ 8.91	\$ 23.44

At the current EV (~\$40m) PVD represents an undervalued opportunity. The Toubkal prospect with a 31% POS assigned (3rd party) will be one of the largest exploration target appraised by any junior ASX listed company. As the well spud date approaches (H1 CY'15) significant market interest is expected and moreover share price appreciation anticipated.



Key assumptions include:

- In-ground oil = \$5/bbl
- AUD:USD = 1:92 long term flat.
- Cash \$21.5m and Debt \$0.0m.

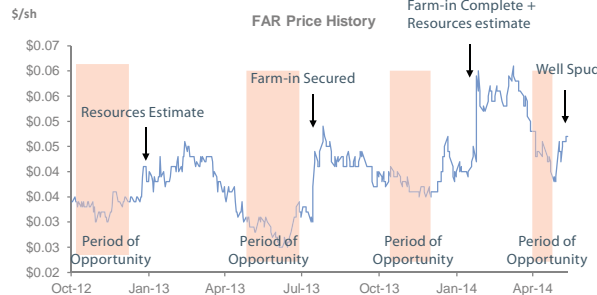
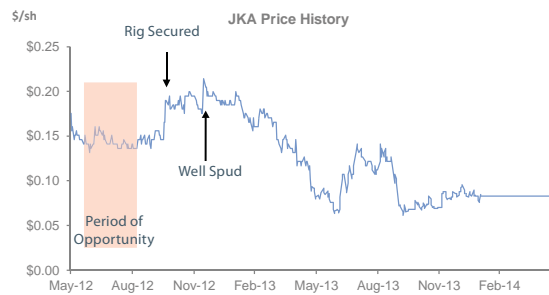
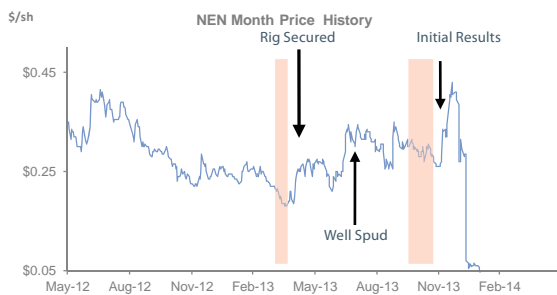
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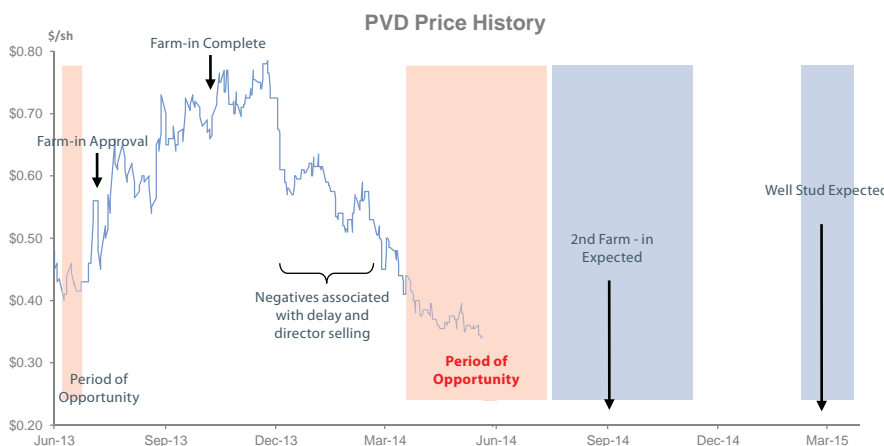
### Period of Opportunity

The oil and gas exploration space has produced a raft of opportunities in recent times, specifically stock entry ahead of key corporate and operational milestones. These milestones that have typically augured positive share price results (see NEN, JKA, PCL, RIA, TPT and FAR), examples of such include: farm-in joint ventures, 3rd party resource estimations, rig securement and high impact drilling operations.

There has been 'periods of opportunity' in each of the stocks analysed, these periods typically occur some 3-6 months prior to a material event. Identification of such opportunity allows for discounted stock entry ahead of 'fairly' predictable share price appreciation.



The **period of opportunity** for PVD is now. Recent negatives associated with timing delays and past director selling has weighed on PVD's share price (now circa \$0.42/sh; EV of ~\$40M), this deflated price represents an opportunity to purchase stock ahead of highly material events: the farm-out of Gabon and drilling of Toubkal at Morocco. These two events anticipated in Q3 of CY'14 and H2 of CY'15 respectively are expected to garner significant market interest and result in material share price appreciation over the course of CY'14, and CY'15.



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## Investment Issues

### Moroccan Farm-out

In November of CY'13 PVD completed the farm-out of their Morocco permit to Freeport. Key details include:

- A cash payment of US\$15m (past costs) from Freeport.
- A free-carried two well drilling program offshore Morocco capped at US\$215 million.
- Freeport designated operator.

### Gabonese Farm-out

At present PVD is running a farm-out process for their Gabonese permit. We anticipate the conclusion of this process in H2 of CY'14. We are hopeful that PVD can secure past cost recovery and a 1 to 2 well free-carry within the farm-out agreement.

### Drilling Schedule

The first well (the Toubkal prospect) in the 2 well Moroccan program is schedule for spud in H1 of CY'15. The drill time is estimated as <45days.

The second well in the program will be spud 6-9 months following Toubkal, this will a) adhere to the rig availability, and b) allow time for Toubkal data interpretation.

### Funding

At this point in time PVD is fully funded through to CY'15 end. The \$21.5m in available cash will support G&A costs and cover the Madagascar seismic acquisition in CY'15. Furthermore we are hopeful that PVD can recoup past costs at Gabon (~\$15m est.) in the farm-out process.

### Prospective Resources

PVD has a raft of drillable prospects and leads within each permit; we have identified the 4 prospects that in our opinion may be appraised in the coming years. Madagascar has no prospective resource identified at this stage.

Forecast Medium-Term Drillable Prospects	Gross (mmboe)	Net (mmboe)	POS
<b>Morocco (PVD 23%)*</b>			
Toubkal	1,168	269	31%
Tafraoute	807	186	32%
Amtoudi East	478	110	32%
Amtoudi West	342	79	32%
<b>Total</b>	<b>2,795</b>	<b>643</b>	
<b>Gabon (PVD 80%)**</b>			
MVIM West	639	511	n/a
POM Deep	225	180	n/a
Lepidote Deep	131	105	n/a
Loba Deep	24	19	n/a
<b>Total</b>	<b>1,019</b>	<b>815</b>	
<b>Grand Total</b>	<b>3,814</b>	<b>1,458 mmboe</b>	

\* Best Estimate Resources

\*\* Mean Estimate Resources

### Dividends

We do not forecast any dividends at this stage.

### Balance Sheet

We assume ~\$21.5 in cash and no debt.

### Currency

All financial reported in AUD\$ unless otherwise stated.

# Pura Vida Energy NL

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### Key Risks

#### Geological

PVD is an exploration company, no reserves have been certified and no discovery yet made. We do however highlight the obvious: no drilling activity has yet been conducted.

Geological risk factors are associated with each project/permit. Standard geological unknowns are associated with identified prospects, specifically Trap, Reservoir, Charge, and Seal ambiguity. The greatest unknown at Toubkal likely stands Trap quality, this is however accounted for within the 3rd party defined POS (31%)

We highlight that the results of Toubkal will alter the prospects and leads inventory at Morocco and moreover the POS's assigned. Upon success confidence will be enhanced, and conversely poor results will alter to POS factors and possibly redefine the target of the 2nd well (yet to be released).

We do highlight the pleasing risk mitigation measures that the company has inbuilt; specifically:

- Free carried exploration exposure
- A multiple (rather than single) well program
- 3D seismic acquisition and utilisation
- Transfer of operatorship
- Past cost recovery, and
- Utilisation of independent 3rd parties for reservoir interpretation and resource identification.

#### Funding

PVD with \$21.5m in cash, a US\$215m free carry in Morocco and a pending farm-out at Gabon is well funded through CY'14 into CY'15. Primary capital spend will be associated with G&A (~\$4m/annum) and 3D seismic in Madagascar (CY'15 ~\$13m).

We highlight that if a) the seismic program over-runs or b) unforeseen events require additional capital, PVD will have limited funds available to meet such requirement.

#### Moroccan Farm-out Funding Risk

PVD is carried for US\$215m at Morocco. The capital will be deployed for drilling and possible testing of 2 deep-water wells; these wells are estimated to cost circa \$70 and \$90m respectively. If the work program costs over-run above US\$215m, PVD will be required to fund its 23% equity share, representing a funding risk.

In our opinion such risk is diminished via the significant capital 'buffer' inbuilt within the US\$215 agreement.

#### Sovereign & Geopolitical

PVD operates in Africa, there is sovereign risk associated. Fortunately personal risk and HSE risk is diminished as all assets are located offshore.

Morocco's and Gabon's risk profile are viewed as comparatively low for the African region. Furthermore the number of international oil and gas companies operating within the regions provides further confidence. In our opinion sovereign risk is further diminished as both governments openly advocate the exploration and development offshore oil and gas.

Madagascar's risk profile is more precarious largely associated with past politically instability. This political risk is now reducing, however we do highlight its presence. Confidence is garnered via the presence of Exxon Mobile in country and moreover immediately adjacent to PVD's permit location.

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## Key Assets

### Morocco (PVD 23%)

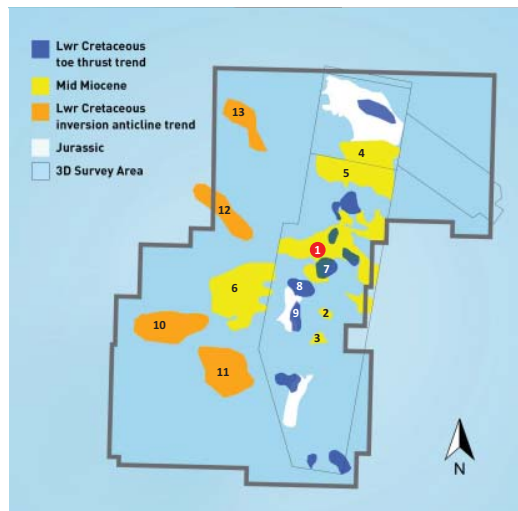
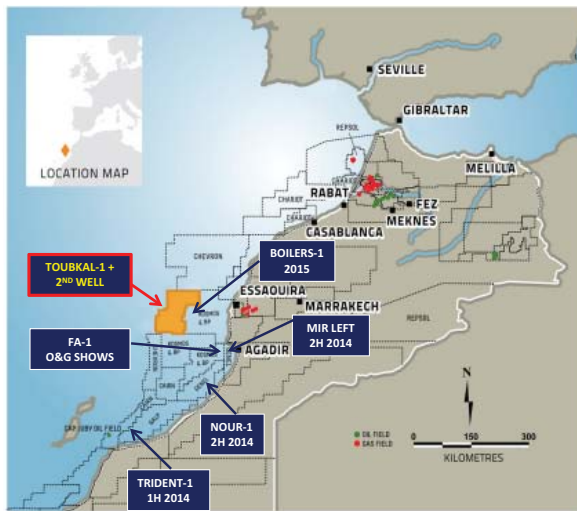


**Location:** Atlantic Ocean, 100km offshore Morocco.  
**Area:** 10,900km<sup>2</sup>  
**Water Depth:** 1,000-2,100 (Deep Water)  
**Equity:** PVD 24%, Freeport 52%, ONHYM 25%.  
**Operator:** Freeport

The Moroccan oil and gas industry has seen a surge of activity in recent years; major operators including Chevron and BP have secured offshore positions. PVD position lies immediately adjacent to both Chevron's and Kosmos's permits.

Multiple (13) prospects and leads have been identified within the block with POS ranging 19 - 34%. The total gross prospective resource estimate stands 7.0Bbbl (3rd party derived).

"Preparation is underway for drilling of the first well in the permit, which will test the high-impact Toubkal prospect. The work is being carried out by Freeport as Operator". We anticipate drilling in H1 of CY'15.



Source: PVD

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## Gabon (PVD 80%)



**Location:** Atlantic Ocean, 30km offshore Gabon.

**Area:** 1,210km<sup>2</sup>

**Water Depth:** 50-500m

**Equity:** PVD 80%, State of Gabon 20%

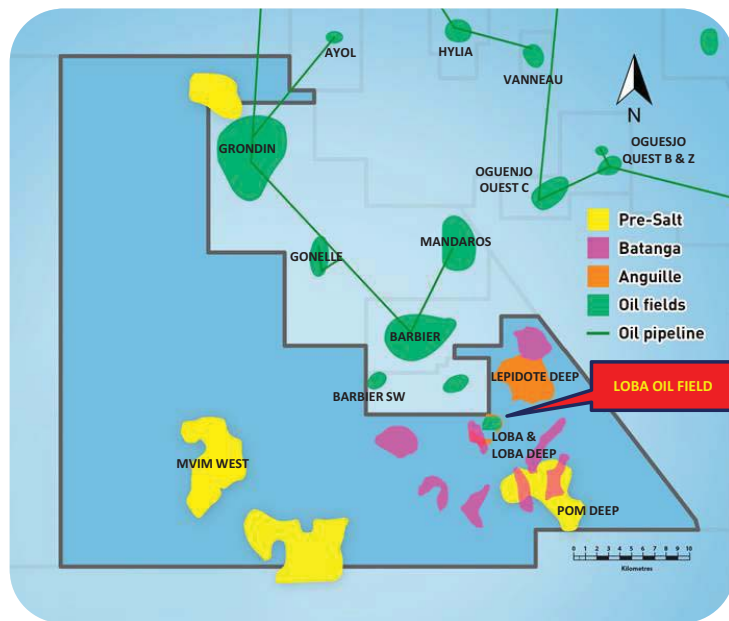
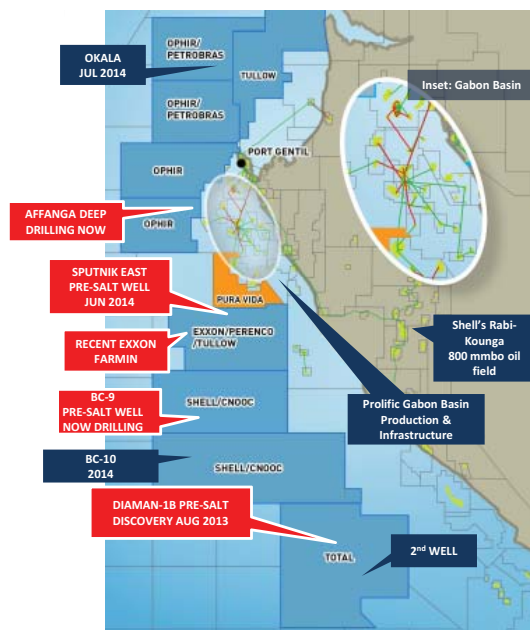
**Operator:** PVD

The 'Nkembe' permit is surrounded by producing fields operated by Total. Furthermore a discovery (Loba in 1976) has been previously made within the permit; 20mmboe of 2C resources are associated.

Prospectivity centres in two primary regions, the east portion and potential shallow targets, and larger deeper water targets to the west.

Four (4) primary targets have been identified within the block. The total gross prospective resource estimate stands 1.0Bbbl (3rd party derived).

"PVD's first phase work program comprises acquiring 550 km<sup>2</sup> of Multi Azimuth 3D seismic data and the drilling of one well to 2,000 metres below the sea bed, which is required to be completed by 2017". We anticipate the pending farm-out will cover all of these commitments.



Source: PVD

## Pura Vida Energy NL (PVD\$0.42) Spec. Buy, Initiation of Coverage

### Madagascar (PVD 50%)



**Location:** Indian Ocean, offshore NW Madagascar.

**Area:** 17,650km<sup>2</sup>

**Water Depth:** 0-2,000m

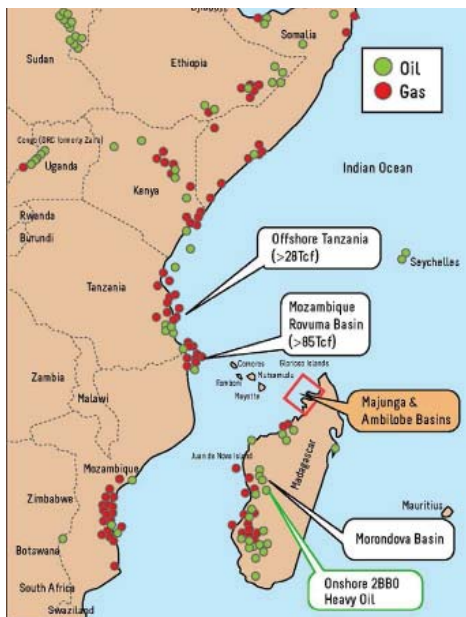
**Equity:** PVD 50%, Sterling Energy 50%

**Operator:** Sterling Energy

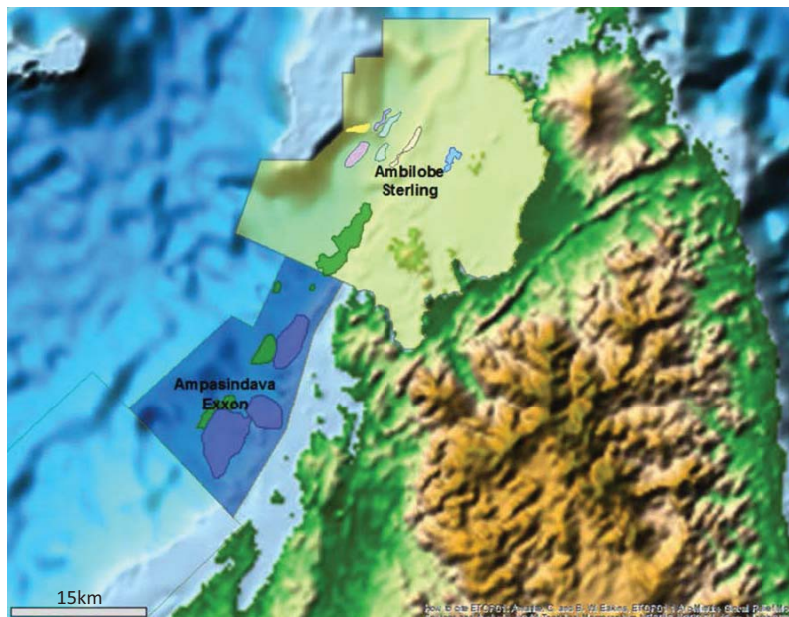
The ‘Ambilobe’ permit (both shallow and deep-water) is adjacent to the permit held by Exxon Mobil.

No drilling activity has occurred within the permit. Furthermore seismic is required to provide accurate volumetric estimates of potential target sizes.

“Pura Vida has commenced the design and planning of the 1,250 km<sup>2</sup> 3D seismic program.” Acquisition may commence in the H2 of 2014, however there is a possibility that this will be delayed in to CY’15. An exploration well will be required in the subsequent program phase (likely CY’16).



Source: PVD





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## Board of Directors and Management

### Damon Neaves - Managing Director

Mr Neaves is a founding director and shareholder of Pura Vida Energy. He has worked in various commercial, operational and management roles and brings a wealth of international oil and gas expertise. Prior to forming Pura Vida, he was the Business Development Manager of a mid-cap international E&P company and his international experience spans countries throughout Africa, Europe, the Middle East and the Asia Pacific. Mr Neaves has established an extensive worldwide network and has fostered key relationships with government and industry organisations. Mr Neaves brings a commercial focus and governance discipline to this role. Prior to working in the oil and gas industry, Mr Neaves practised as a lawyer and corporate advisor.

### Jeff Dowling - Non-Executive Chairman

Mr Dowling was the Managing Partner at Ernst & Young in Perth, where he held a number of senior leadership roles, with a particular focus on the mining and oil and gas sectors. He has over 35 years' experience in the professional services industry with significant experience in audit, risk management and finance gained during an extensive career at Ernst & Young. Mr Dowling's current Board positions include two ASX200 companies. He is the Chairman of Sirius Resources, a nickel and gold explorer focused on high value mineral resources in Australia and Canada and a Non-executive Director of Atlas Iron Limited, a Western Australian based iron ore producer.

### Ric Malcolm - Non-Executive Director

Mr Malcolm is a professional geoscientist with 33 years of varied oil and gas experience within seven international markets. He began his career as a Petroleum Geologist with Woodside Petroleum in Perth, exploring for oil and gas on the Northwest Shelf. He spent 10 years with Ampolex Limited (Perth & Sydney) as a Senior Explorationist and then Exploration Manager in Western Australia and Asset Manager for Northern and Eastern Australia. He previously held the position of Managing Director with OMV (UK) Limited, a subsidiary of OMV, one of Europe's leading oil and gas companies. Between 2008-2013 Mr Malcolm was the CEO of Gulfsands Petroleum plc, an AIM listed oil and gas production, exploration, and development company with operations in Syria, Iraq, Morocco, Colombia, Tunisia and the USA.

## Issued Capital

### The current issued capital is:

Fully paid ordinary shares	127,168,198
Unquoted partly paid shares	21,052,235
Options (ex @ var. prices)	15,357,693
Performance shares	1,072,605
<b>Total Issued</b>	<b>164,650,731</b>

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### Director Shareholdings

Director	Role	Ordinary Shares	Perf Rights + Option
J Dowling	Chairman	-	1,000,000
D Neaves	Managing Director	5,000,000	8,750,000
Ric Malcolm	Non-Exec. Director	-	500,000

### Top 20 Shareholders

#	Shareholder	Units	% of Issue Capital
1	Group Holding - Damon Neaves	5.00	3.93
2	Mr David Ormerod	4.03	3.17
3	J P Morgan Nominees Australia Limited	4.02	3.17
4	Crescent Nominees Limited	3.63	2.85
5	Citicorp Nominees Pty Limited	2.93	2.30
6	Hsbc Custody Nominees	2.30	1.81
7	Stone Axe Pty Ltd	2.04	1.60
8	National Nominees Limited	1.72	1.36
9	Dynamic Supplies Investments	1.72	1.35
10	Group Holding - Da Neaves Family A/C	1.53	1.20
11	Hsbc Custody Nominees	1.46	1.15
12	Ms Jewel Okwechime & Ms Rose Okwechime	1.41	1.11
13	Bt Portfolio Services Limited <Warrell Holdings S/F A/C>	1.38	1.09
14	Hsbc Custody Nominees (Australia) Limited - A/C 3	1.35	1.06
15	Sydney Equities Pty Ltd <Superannuation Fund A/C>	1.00	0.79
16	Celtic Capital Pte Ltd <Trading 1 A/C>	0.94	0.74
17	Abn Amro Clearing Sydney Nominees Pty Ltd	0.94	0.74
18	Mr Brian Henry Mccubbing & Mrs Adriana Maria Mccubbing	0.87	0.68
19	National Nominees Limited	0.85	0.67
20	Mr Michael Foster Black & Mrs Lynette Robin Black	0.80	0.63
	<b>Total</b>	<b>39.91</b>	<b>31.40</b>

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