

## Pura Vida Energy

PVD AU / PVD.AX

## COMPANY NOTE

▶ **Market Cap**  
**US\$84.1**  
A\$88.6m

▶ **Avg Daily Turnover**  
**US\$0.26m**  
A\$0.28m

▶ **Free Float**  
**82.2%**  
104.06 m shares

Current **A\$0.73**  
Target **A\$3.22**  
Previous Target **A\$2.18**  
Up/downside **440%**

**SHORT TERM (3 MTH)** **LONG TERM**  
TRADING BUY **OUTPERFORM**  
TRADING SELL NEUTRAL  
UNDERPERFORM

# Escaping to Madagascar

*Pura Vida Energy (ASX:PVD) has announced that it has received all outstanding Government approvals for the farmout of the Mazagan permit to Freeport-McMoRan Oil & Gas (FM O&G). FM O&G is also in the process of securing a rig to drill the large Toubkal prospect. The farm-out process for the company's prospective acreage in Gabon is also on-going. In addition to this positive news, PVD has secured a 50% interest in a Madagascar block which is prospective for oil and is located above an ExxonMobil field due to be drilled in CY15. We retain a speculative buy recommendation as increased regional activity will likely stimulate greater investor awareness.*

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### Share price info

Major shareholders*	% held
Damon Neaves (CEO, MD)	10.68%
David Ormerod (Director)	9.71%
Bevan Tarratt (Chairman)	4.16%

\*Fully diluted and post option exercise and payment of partly paid shares.

### Morocco deal completed ▶

PVD has been successful in receiving Government approval for the farm-out of a 52% interest to FM O&G. This results in PVD receiving US\$15m from FM O&G and boosts PVD's cash balance to A\$22m. Drilling has commenced offshore Morocco by Cairn energy, testing a different play type, which may increase market interest in the area.

### Madagascar adventure beginning ▶

PVD has secured 50% of the Ambilobe PSC offshore Madagascar via a farm-in with UK listed Sterling Energy. The company sees the Ambilobe block as having a variety of plays relating to salt with potential for large scale oil discoveries. ExxonMobil is planning to drill a well in the adjacent block in 2015.

Furthermore, we anticipate that a bidding round for new block releases will increase interest in the region.

### Retain Outperform rating ▶

We view the acquisition of Ambilobe as a positive as it further diversifies PVD's projects across a number of basins at little cost. Asset value will likely be released as the prospects are defined, de-risked and farmed out. Most of our current valuation relates to the Mazagan permit in Morocco. The market may attribute further value to Mazagan as further farm outs in the region occur. Our total risked valuation has increased to A\$3.22 per share. We expect the stock to re-rate towards this level as market interest in the upcoming Gabon farm-out intensifies and the company sets a spud date for the Morocco drilling campaign. We retain our Outperform recommendation on the stock.

**Figure 1: Plenty of action in Morocco over the coming 12 months (excluding PVD)**

Companies involved in drilling	CY2013	CY2014
Kosmos/Pathfinder		1 well
Genel		1 well
Kosmos		1 well
Genel /San Leon/Longreach		1 well
Capricorn/ San Leon /Longreach	1 well	
Capricorn/Genel/Nautical		1 well
Galp/Tangiers		1 well

SOURCES: MORGANS, COMPANY REPORTS

## 1. MOROCCO

### 1.1 Government sign-off received for FM O&G farm-in ▶

PVD has been successful in receiving Government approval for the farm-out of a 52% interest to Freeport-McMoRan Oil & Gas (FM O&G). This results in PVD receiving US\$15m from FM O&G and boosts PVD's cash balance to A\$22m. FM O&G is also looking to secure a rig slot for the drilling of the very large Toubkal prospect in CY14.

### 1.1 Plenty of drilling in the region coming up ▶

There is a significant amount of upcoming drilling in Morocco. Cairn Energy has recently spudded its first wildcat exploration well offshore. Drilling is expected to take 60 days and the market will be keenly watching. Other upcoming wells are outlined in Figure 1. Additionally, BP Plc farmed into some Kosmos Energy acreage which reinforces the prospectivity of the region.

## 1. GABON

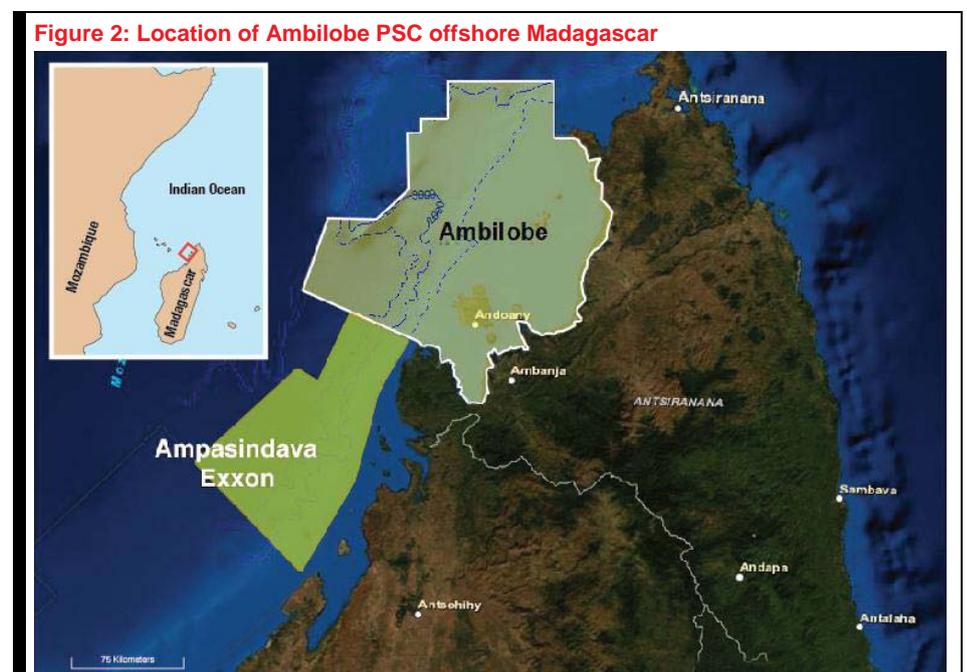
### 1.1 Waiting for the farm-out ▶

Gabon's recent offshore licensing round had significant interest from major companies including Ophir Energy, ExxonMobil, Marathon, Eni and Repsol. Shell, Total, Canadian Natural Resources, and Glencore participated in the round but were not awarded blocks. With PVD progressing its farm out of its offshore Gabon permit there should certainly be interest from these majors and others, especially with the commitment from the government to increase production to 500,000bopd once the blocks are operational, from 230,000bopd for 2014 (Source Reuters). Furthermore the recent gas and condensate discovery by Total, which was the first pre-salt play tested offshore Gabon, should keep investors focussed on the region. PVD believes the play extends into its Nkembe block.

## 3. MADAGASCAR

### 1.1 PVD secures interest in offshore block ▶

PVD has secured a 50% of the Ambilobe PSC offshore Madagascar via a farm-in with UK listed Sterling Energy. Under the agreement, PVD acquires a 50% interest in the Ambilobe PSC. Sterling will retain a 50% interest and Operatorship. The farm-in agreement is conditional upon approval by the Government of Madagascar.



SOURCES: COMPANY REPORTS

### 1.1 Madagascar Farm-in agreement ▶

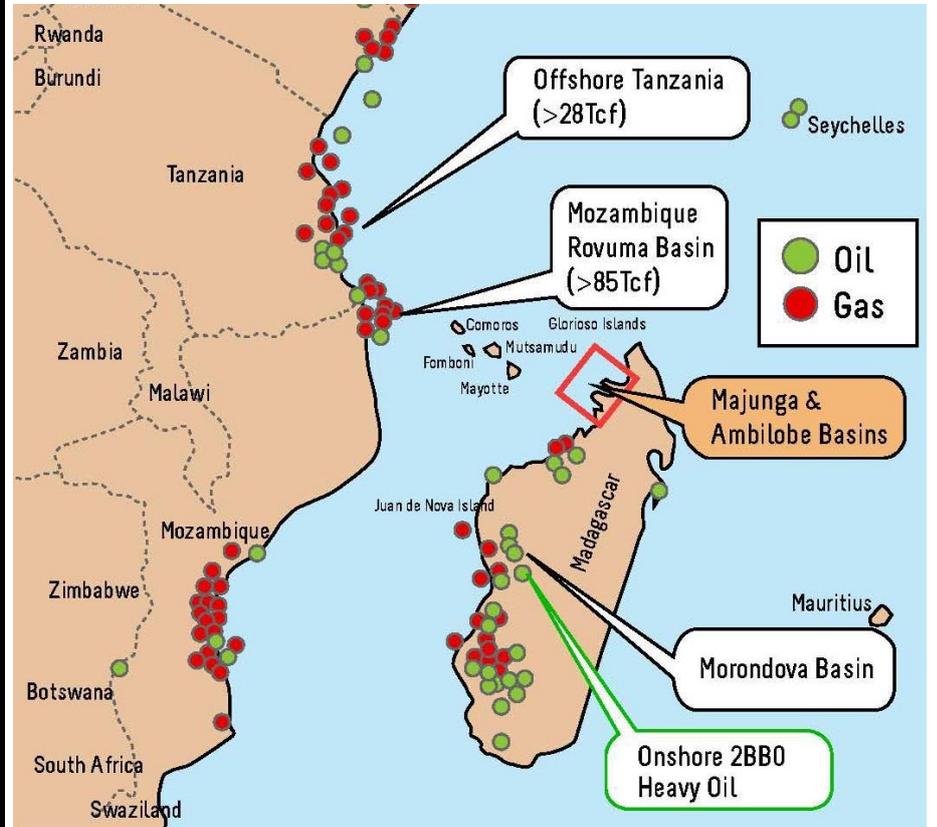
Under the farm-in agreement, PVD will reimburse US\$1.25 million in back costs to Sterling and fund the acquisition and processing of 1,000 km of 2D and 1,250 km<sup>2</sup> of 3D seismic data targeting substantial anticlinal and salt related prospects up to a maximum cost of US\$15 million. An opportunity is available to acquire the 2D data in the first half of CY2014 and discussions are underway regarding the use of a vessel with costs anticipated to be in the order of US\$2 million. The 3D acquisition will be undertaken separately following a competitive tender and timing will be determined by vessel availability (indicatively second half of CY2014).

### 1.2 Prospectivity of the region ▶

PVD sees the Ambilobe block as having a variety of plays relating to salt with potential for large scale oil discoveries. Exploration onshore in Madagascar has already resulted in the discovery of numerous heavy oil fields proving the existence of an abundant oil source. PVD believes that the large onshore discovered oil play extends into the Ambilobe block due to the oil seeps onshore on the eastern block boundary. Due to the depth of the reservoirs in the offshore area, it is PVD's view that any oil found in the area of the Ambilobe permit will be a light grade oil different to that found onshore.

ExxonMobil is Operator of the Ampasindava block located immediately to the South of Ambilobe where ExxonMobil is planning a deep exploration well (~US\$200m) in 2015. We also understand there is an upcoming offshore bidding round for new block releases and we would anticipate there would be significant interest from oil and gas majors looking to enter the region.

Figure 3: Significant discoveries in the region



SOURCES: COMPANY REPORTS

### 1.3 What we think ▶

We view the acquisition of this acreage as a positive for PVD as it will further diversify the company's projects across a number of basins while not costing

the company a significant amount. We believe this diversification will enable the value to be supported as the prospects are worked up following seismic, and through farm out, even in the event of an unsuccessful first well. The bulk of the current valuation is on the Mazagan permit in Morocco, as further farm outs occur, additional value may be placed on the other blocks as well as further wells entering the queue for PVD, which should maintain interest.

Following the completion of the farm-out of Morocco, and given progress is being made with regards to the Gabon Nkembe farm-out, we don't expect PVD to contribute significant capital in these permit areas. The company is free carried in Morocco and we would expect a similar deal is likely for its acreage in Gabon. Following the now fully funded seismic acquisition and interpretation in Madagascar, we would expect the farm out process to take a similar path to Morocco.

## 2. VALUATION, CATALYSTS AND RISKS

### 2.1 Risked valuation of A\$3.22/share ▶

We use a sum of the parts to value PVD, utilising the independent reviewers value estimates for two prospects in the Mazagan permit (Figure 7) to which we then apply a further risking to take into account market uncertainty.

- Our valuation for Gabon will be positively impacted upon a successful farm-out.
- Given the early nature of the Madagascar farm-in, we value the project at what PVD is paying for it (US\$1.25m in back costs and US\$15m for seismic).
- Following the completion of the farm-out on the Morocco acreage we have reduced the discount applied to the Toubkal prospect. We are now risking the project at 90% (down from 95% risked)

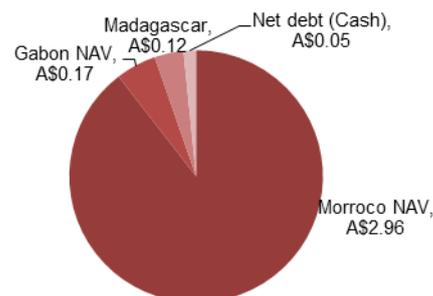
Our total risked valuation has increased to A\$3.22 per share. We expect the stock to re-rate towards this level as market interest regarding the upcoming Gabon farm-out intensifies and the company sets a spud date for the Morocco drilling campaign. We retain our speculative Outperform recommendation on the stock.

**Figure 4: Risked SOTP Valuation**

	A\$m	A\$/share
Morocco NAV	414.6	2.96
Gabon NAV	24.0	0.17
Net debt (Cash)	8.4	0.06
Corporate costs	-12.6	-0.09
<b>Total</b>	<b>451.5</b>	<b>3.22</b>

SOURCES: MORGANS

**Figure 5: PVD valuation**



SOURCES: MORGANS

## 2.2 Catalysts –on the horizon ▶

As PVD is not expected to be drilling a well until 2Q CY14 at the earliest, we believe market focus over the coming year to be on the farm-out at Gabon, further technical work on leads and prospects potential, and additional acreage acquisitions as key positive catalysts for the stock.

**Figure 6: Milestone Table**

Near-Term Catalysts and Milestones	Expected	Impact
Completion of Mazagan farmout and receipt of US\$15m	Achieved	+++
Announcement of timing and targets of high impact Mazagan drilling program	end CY13	++
Drilling results on neighbouring blocks offshore Morocco	Nov/Dec 13	+
Drilling results on neighbouring blocks offshore Gabon	2HCY13	+
Farmout of Nkembe block to secure funding for drilling program	2HCY13	++
Drilling in Mazagan	CY14	++++

SOURCES: MORGANS, COMPANY REPORTS

## 2.3 Risks ▶

Key risks include the ability for PVD to raise capital to meet future commitments, country risk, exploration risk, geologic risk, oil price and AUD/USD fluctuations.

We rate investment in PVD as speculative and high risk. Monitoring of upcoming milestones will be necessary. Though there is significant upside in the success case, if the first well is unsuccessful, we would expect the share price to significantly de-rate based on past performance of other explorers. The continued diversification of the company should provide some support to the share price and as the value of the additional blocks is proved up, especially as new prospects are worked up toward being drill ready and farm outs are completed.

**Figure 7: NAV of PVD's prospects**

Mazagan Permit, Morocco	PVD Interest		I.E CoS*	Valuation					
	WI	Mean Resource		NPV / bbl	Unrisked (m)	Unrisked /share	Risking#	Risked (m)	Risked /share
<b>Miocene Prospects</b>									
Toubkal	23%	346.7	31.20%	\$10.00	\$3,467	\$24.76	10.00%	\$347	\$2.48
Tafraoute	23%	240.8	32.20%	\$10.00	\$2,408	\$17.20	0.00%	\$0	\$0.00
Amrtoudi East	23%	135.8	32.20%	\$10.00	\$1,358	\$9.70	5.00%	\$68	\$0.48
Amrtoudi West	23%	100.0	32.20%	\$10.00	\$1,000	\$7.14	0.00%	\$0	\$0.00
Amchad	23%	18.3	33.60%	\$10.00	\$183	\$1.31	0.00%	\$0	\$0.00
Zagora	23%	15.0	33.60%	\$10.00	\$150	\$1.07	0.00%	\$0	\$0.00
<b>Lower Cretaceous Toethrust Trend</b>									
Jbel Musa	23%	64.6	19.20%	\$10.00	\$646	\$4.61	0.00%	\$0	\$0.00
Jbel Lakhdar	23%	48.0	19.20%	\$10.00	\$480	\$3.42	0.00%	\$0	\$0.00
Jbel Ayachi	23%	46.6	19.20%	\$10.00	\$466	\$3.33	0.00%	\$0	\$0.00
<b>Lower Cretaceous Inversion Anticline Trend</b>									
Jbel Tadrart	23%	202.2	19.20%	\$10.00	\$2,022	\$14.44	0.00%	\$0	\$0.00
Jbel Azayza	23%	190.8	19.20%	\$10.00	\$1,908	\$13.62	0.00%	\$0	\$0.00
Jbel Talmest	23%	109.2	19.20%	\$10.00	\$1,092	\$7.80	0.00%	\$0	\$0.00
Jbel Aroudane	23%	96.0	19.20%	\$10.00	\$960	\$6.85	0.00%	\$0	\$0.00
<b>Sub total</b>		<b>1,614.0</b>			<b>\$16,140</b>	<b>\$115.26</b>		<b>\$415</b>	<b>\$2.96</b>
<b>Nkembe Block, Gabon</b>									
<b>Loba Oil Field</b>									
Loba M 1	80%	16.0	N/A	\$10.00	\$160	\$1.14	15.00%	\$24	\$0.17
Loba Deep	80%	19.2	N/A	\$10.00	\$192	\$1.37	0.00%	\$0	\$0.00
<b>Other play types</b>									
MVIM West	80%	511.2	N/A	\$10.00	\$5,112	\$36.50	0.00%	\$0	\$0.00
POM Deep	80%	180.0	N/A	\$10.00	\$1,800	\$12.85	0.00%	\$0	\$0.00
Lepidote Deep	80%	104.8	N/A	\$10.00	\$1,048	\$7.48	0.00%	\$0	\$0.00
<b>Sub total</b>		<b>831</b>			<b>\$8,312</b>	<b>\$59</b>		<b>\$24</b>	<b>\$0.17</b>
<b>Total</b>		<b>2445</b>			<b>\$24,452</b>	<b>\$175</b>		<b>\$439</b>	<b>\$3.13</b>

I.E CoS\* relates to the chance of success as outlined in the DeGolyer & MacNaughton Independent Resource Assessment, September 2012

Risking# is RBSMs risk assigned to the probability of success of the well in addition to valuation discount applied to the prospect

SOURCES: MORGANS, COMPANY REPORTS

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Morgans Corporate Limited was a Joint Lead Manager to the May 2013 placement for Pura Vida and received fees in this regard. Morgans Corporate Limited was a Joint Lead Manager to the September 2013 placement for Pura Vida and received fees in this regard. An Analyst or family member of an Analyst who helped in the preparation of this report may hold shares in PVD.

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