

Pura Vida Energy

Oil – no show

Well update

Oil & gas

Results from the MZ-1 well, Pura Vida's first offshore Morocco, have shown no oil detected. The company was fully carried for two wells and attention now turns to the second well which must commence by Sept 2016. Within its wider portfolio, Pura Vida's attention turns to Gabon and Madagascar where farm-outs and seismic interpretation are the focus. Our RENAV based on committed drilling activity has been adjusted following the MZ-1 outcome to A\$0.31/share. This represents substantial upside to the current share price.

Year end	Revenue (A\$m)	PBT (A\$m)	Operating cash flow (A\$m)	Net (debt)/cash (A\$m)	Capex (A\$m)
06/13	0.1	(5.1)	(3.2)	(0.2)	(15.9)
06/14	11.6	5.3	(5.5)	20.5	(8.8)
06/15e	0.0	(4.6)	(4.5)	7.2	(12.7)
06/16e	0.0	(3.9)	(3.8)	0.4	(3.0)

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

MZ-1 outcome and plans for further drilling

The MZ-1 well was drilled to 6,150m subsea, having drilled through three 3D seismic-prognosed Jurassic fans and terminated in Triassic sediments. Although wirelines were still to be run, there were no oil shows in the cuttings and the well is expected to be plugged and abandoned as a dry hole. Pura Vida's Moroccan focus now shifts to the second well which is yet to be finalised, but Freeport the operator, will be renegotiating rig contracts, which we believe to be a highly prudent undertaking and should mitigate the potential of a cost overrun on this well. Pura Vida is carried through the two wells to a maximum of US\$215m. Although an overrun mechanism exists; we feel the risks of overrun are mitigated if rig negotiations are successful. The second well must commence drilling by the end of September 2016.

Gabon and Madagascar activities continue

Activity around Pura Vida's offshore Gabon block continues to demonstrate the presence of a pre-salt fairway and Pura Vida continues to pursue a farm-out process. In Madagascar, the Pura Vida-funded 3D seismic is complete and results are expected in early 2016.

Valuation: MZ-2 upside to current share price

With around A\$15.7m on the balance sheet at the end of June (not accounting for the Madagascar seismic spend), Pura Vida has cash to see it through 2016 spending, as it currently stands. However, farm-outs for Gabon will be required to reduce spending there in coming months, Madagascar spending will be based on the outcome of the seismic interpretation in early 2016. The second Moroccan well is carried and a successful renegotiated rig contract should reduce the risk of cost overruns in our opinion. We reduce our RENAV to A\$0.31/share (previously A\$1.42/share) based on the next well, with further upside possible when drilling plans are firmed up in Gabon and Madagascar.

24 August 2015

Price **A\$0.05**

Market cap **A\$7m**

A\$0.74/US\$

Net cash (A\$m) at June 2015 15.7

Shares in issue 147.7m

Free float 88%

Code PVD

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (79.6) (87.2) (88.4)

Rel (local) (77.8) (86.2) (87.4)

52-week high/low A\$0.56 A\$0.05

Business description

Pura Vida has a varied African exploration portfolio and is exposed to free-carried Moroccan drilling (to commence by Q316). It has executed timely and commercial astute farm-outs to increase shareholder exposure to world-class exploration.

Next events

Second Moroccan well 2016

Gabon farm-out 2016e

Madagascar seismic results Q116

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Exploration update

Potential high reward wells bring similar risks. With the odds firmly tipped in Mother Nature's favour, even the best planned and executed wells carry significant risk, as it was with MZ-1, the first well offshore Morocco for Pura Vida.

Reaching a final depth of 6,150m subsea, the well drilled through three 3D seismic-prognosed Jurassic fans and terminated in Triassic sediments. Although wirelines were still to be run there were no oil shows in the cuttings and the well is expected to be plugged and abandoned as a dry hole.

The deepening of the well has provided valuable information in this frontier area where exploration results have been mixed (see previous [notes](#)) and the Mazagan area, within which the MZ-1 well sits, contains a variety of prospects and leads.

Second well

Of benefit to shareholders is that the effect on the share price is much greater than on the balance sheet as Pura Vida was carried through the well by Freeport-McMoRan Oil and Gas. The farm-in was for two wells, up to a maximum gross expenditure of US\$215m. Although costs from the MZ-1 well have not yet been finalised, they are expected to be within budget. Even so, Freeport has taken the sensible step of cancelling the second slot under the rig-share agreement it had with Kosmos Energy, in order to capitalise on the weakness in the rig market to reduce the cost of the second well. The drilling of the second well must begin no later than September 2016.

While there is a cost overrun mechanism whereby Pura Vida can reduce its cash exposure by giving away more of its working interest, it is our opinion that by securing a lower day rate, the risk of cost overrun on the second well is reduced.

Other operations

Pura Vida remains engaged in a farm-out process to bring in an industry partner for Gabon where a well needs to be drilled by late 2017.

The Nkembe block lies in an increasingly established pre-salt fairway first established in August 2013, with a discovery by Total with the Diaman-1 well to the south of the Nkembe block, which encountered a 50-55m gas/condensate column in pre-salt reservoir.

Following Total's success, there was a string of pre-salt discoveries in Gabon in 2014, including the Nyonie Deep discovery drilled by Eni (estimated at 500 mmboe), the Leopard discovery drilled by Shell (approximately 200m net gas pay), and the Igongo discovery (90m net oil) drilled by Tullow.

In Madagascar, Pura Vida has completed the 3D seismic of the Ambilobe block covering an area of 1,175 km² and it is expected that final processed data will be available during Q116, with initial findings during the next few months.

Funding and value

Pura Vida's balance sheet remains relatively strong, with approximately A\$7m of available cash when accounting for the Madagascar seismic. With burn of approximately A\$4m pa for admin, there will be a growing need to strengthen the balance sheet if farm-outs cannot be achieved, as well as meeting ongoing costs for Gabon.

Due to the outcome of the MZ-1 well we have excluded this from our RENAV, (previously A\$1.42/share) and adjusted it to include a 250mmboe generic second target, which must

commence drilling by the end of September 2016. Currently this is based on a 10% geological chance of success that we will adjust as learnings from the MZ-1 well are incorporated in MZ-2 drill plans. This inclusion of the MZ-2 well decreases our RENAV to A\$0.31/share.

Exhibit 1: Pura Vida valuation										
Asset					Overall	Recoverable reserves				
	Country	WI	GCoS	CCoS	CoS	Gross	Net	NPV/boe	Net risked value	
		%	%	%	%	mmboe	mmboe	US\$/boe	US\$m	A\$/share
Net (debt)/cash – June 2015e									6	0.05
SG&A									(9)	(0.07)
Core NAV									(3)	(0.02)
Exploration										
MZ-2 250mmboe field	Morocco	23%	10.0%	50.0%	5.0%	250	58	13.7	39	0.33
RENAV									36	0.31
Source: Edison Investment Research										

Exhibit 2: Financial summary

	A\$000s	2012	2013	2014	2015e	2016e
June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		30	56	11,636	45	45
Cost of Sales		0	0	0	0	0
Gross Profit		30	56	11,636	45	45
EBITDA		(2,221)	(4,798)	6,555	(4,955)	(3,955)
Operating Profit (before amort. and except.)		(2,242)	(4,867)	6,476	(5,035)	(4,035)
Intangible Amortisation		0	0	0	0	0
Share based payments		(519)	(1,250)	(804)	(1,000)	(1,000)
Other		0	0	0	0	0
Operating Profit		(2,761)	(6,117)	5,672	(6,035)	(5,035)
Net Interest		(193)	(259)	(1,155)	409	144
Profit Before Tax (norm)		(2,435)	(5,126)	5,321	(4,626)	(3,891)
Profit Before Tax (FRS 3)		(2,954)	(6,376)	4,517	(5,626)	(4,891)
Tax		0	0	0	0	0
Profit After Tax (norm)		(2,435)	(5,126)	5,321	(4,626)	(3,891)
Profit After Tax (FRS 3)		(2,954)	(6,376)	4,517	(5,626)	(4,891)
Average Number of Shares Outstanding (m)		21	65	145	147	147
EPS - normalised (p)		(11.4)	(7.9)	3.7	(3.1)	(2.6)
EPS - (IFRS) (p)		(13.8)	(9.8)	3.1	(3.8)	(3.3)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		1,082	12,120	22,435	35,064	37,984
Intangible Assets		992	12,005	22,361	34,990	37,910
Tangible Assets		89	115	74	74	74
Investments		0	0	0	0	0
Current Assets		3,831	8,361	20,619	7,365	554
Stocks		0	4,824	0	0	0
Debtors		94	159	159	159	159
Cash		3,738	3,378	20,460	7,206	395
JV Cash		0	0	0	0	0
Current Liabilities		(653)	(4,174)	(1,745)	(1,745)	(1,745)
Creditors		(653)	(640)	(1,745)	(1,745)	(1,745)
Short term borrowings		0	(3,534)	0	0	0
Long Term Liabilities		0	0	0	0	0
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
Net Assets		4,261	16,307	41,309	40,683	36,792
CASH FLOW						
Operating Cash Flow		(1,949)	(3,185)	(5,452)	(4,546)	(3,811)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(815)	(15,863)	(8,827)	(12,709)	(3,000)
Acquisitions/disposals		0	0	15,739	0	0
Financing		6,502	16,258	19,741	4,000	0
Dividends		0	0	0	0	0
Net Cash Flow		3,738	(2,790)	21,200	(13,255)	(6,811)
Opening net debt/(cash)		0	(3,738)	155	(20,460)	(7,206)
HP finance leases initiated		0	0	0	0	0
Other		0	(1,103)	(585)	0	0
Closing net debt/(cash)*		(3,738)	155	(20,460)	(7,206)	(395)

Source: Company accounts, Edison Investment Research. Note: *Excludes JV cash.

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