Pura Vida Energy

Morocco, Gabon and Madagascar

2015 results and 2016 outlook

Oil & gas

Pura Vida (PVD) has had no success with the drill bit this year, but the company has protected its cash position by reducing its G&A and pursuing farm-downs. Offshore Madagascar remains a high-risk venture but discoveries around the Gabon licences could assist the farm-out process during 2016. We adjust our RENAV to A$0.21/share, founded on the MZ-2 well, which we assume will go ahead in Q316. However, with the proposed spin-off of Freeport's E&P business, we believe this timing remains a risk.

Year end	Revenue (A$m)	PBT (A$m)	Capex (A$m)	Operating cash flow (A$m)	Net (debt)/cash (A$m)
06/13	0.1	(5.1)	(15.9)	(3.2)	(0.2)
06/14	14.8	(0.2)	(0.0)	(13.2)	20.5
06/15	0.1	(16.2)	(0.0)	(21.5)	7.3
06/16e	0.0	(4.9)	(3.0)	(4.8)	(0.5)

Note: *PBT is normalised, excluding intangible amortisation, exceptional items and share-based payments. Given the nature of the company, we are only including estimates for one year.

2015 drill bit

The MZ-1 well offshore Morocco (as discussed in our previous notes) was disappointing and although fully carried by Freeport-McMoRan, it had a negative effect on PVD's share price. Continued volatility and depressed investor sentiment towards the resource sector has not helped. A second well is contractually planned for Q316 although no location has been identified until full assessment of MZ-1 (expected in Q116) is completed. Currently no rig is contracted; the original contract was cancelled on very sensible commercial grounds based on the expectation of rig availability and reducing prices. However, the outcome of Freeport's decision to sell off its oil and gas arm remains in the air. If and when the well is drilled, it could be a major catalyst for PVD.

Gabon and Madagascar

Seismic interpretation continues on the 3D survey acquired over the deepwater block offshore Madagascar and initial results are expected in early 2016 together with a route forward. The deepwater and early stage of the area plus Exxon's exit from a neighbouring block place uncertainty over this and as such we view the Gabon assets (currently being farmed-out) as the most likely to contribute to RENAV adjustment in 2016. The continued farm-out process is hampered by sector weakness, but there have been a number of promising discoveries around the block (see our previous notes) that should assist the process.

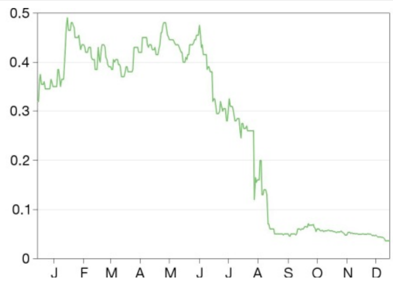
Valuation: Slightly reduced RENAV

PVD has reduced G&A costs materially in 2015, which could fall further to maintain its cash position. The contracted well offshore Morocco remains the only RENAV component, although a farm-out on Gabon could change this. We reduce our RENAV to A$0.21/share (we assume later development if there is a discovery), which still represents significant upside as or when the well is drilled.

16 December 2015

Price	**A$0.04**
Market cap	**A$6m**
	A$0.72/US$
Net cash (A$m) at Sept 2015	6.4
Shares in issue	150.7m
Free float	88%
Code	PVD
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(26.5)	(34.5)	(88.8)
Rel (local)	(24.3)	(33.5)	(88.3)
52-week high/low		A$0.49	A$0.04

Business description

Pura Vida is an ASX company engaged in exploration activities offshore Morocco, Gabon and Madagascar. Its fully carried well, MZ-1, failed to encounter hydrocarbons in 2015; a second contracted well is planned by Q316.

Next event

Second Morocco well	Q316

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Edison profile page

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Focus on 2016

2015 exploration informs 2016 activities

The carried exploration well offshore Morocco failed to find commercial hydrocarbons during 2015. This frontier area has had mixed results and the outcome unfortunately disappointed the company and investors, but that is the nature of the beast. The original farm-down deal requires a second well by September 2016.

The progress of the second well, part of the farm-out to Freeport-McMoRan (see previous notes), remains subject to post-well analysis of MZ-1. In addition, Freeport has released the first rig contract quite sensibly in light of falling service costs, but a question mark remains over the status of the operator as the parent company, heavily focused on mining, looks to sell the oil and gas arm. Analysis on the MZ-1 well will be completed during Q116 and a route forward will then be expected. Needless to say there will be contractual ramifications in PVD's favour if the second well is not scheduled, but we (and obviously shareholders) would much prefer a well to be drilled.

Work on the company's asset offshore Madagascar continued with the acquisition and analysis of 3D data. Results from this are expected during Q116 as well and a forward path is expected, but the extreme water depth (c 3,000m) and Exxon's exit from the neighbouring block during 2015 (see previous notes) means this asset probably currently ranks third place in the portfolio.

Gabon farm-out

Farm-out work on the Gabon permit remains ongoing. The volatility and fall in commodity prices are clearly affecting this – and indeed many other farm-outs industry-wide. However, there is compelling activity around the Nkembe block and a number of pre-salt discoveries since the block was awarded in 2013.

Valuation: Little changed

Little has changed since our last note. We note the continued control of costs and maintain the second well offshore Morocco in our RENAV as it remains contracted to be drilled during 2016 and fully funded by Freeport. Due to the lack of drive in the oils sector given headline oil prices, we have moved back our expectations for first production from any possible discovery. We have also reduced our valuation, though this is partially offset by a reduction in G&A and that we are moving to a 2016 discount year. Other than this we see farm-out activity on Gabon as catalysts in 2016.

Exhibit 1: RENAV

Asset			Overall	Recoverable reserves				
	Country	WI	CoS	Gross	Net	NPV	Net risked value	
		%	%	mmboe	mmboe	US$/boe	US$m	$A/share
Net (debt)/cash – June 2015e							5	0.05
SG&A							(10)	(0.09)
Core NAV							**(5)**	**(0.04)**
Exploration								
MZ-2 250mmboe field	Morocco	23%	5.0%	250	58	9.6	28	0.25
RENAV							**36**	**0.21**

Source: Edison Investment Research. Note: We explicitly assume here that the carried MZ-2 well is drilled by September 2016 as per the farm-out agreement. The date of a well has not been announced as planning depends on the results of the work carried out after the MZ-1 well.

Financials

The company's cash position in September of A$6.4m is enough to fund ongoing G&A activities for some time, but not enough to progress meaningful exploration work at its licence properties. We expect the company to continue to seek farm-downs of its Gabon licences and seek partners to drill in Madagascar (subject to results of the seismic interpretation).

Exhibit 2: Financial summary

A$000s	2012	2013	2014	2015	2016e
Year-end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	30	56	14,758	83	45
Cost of Sales	0	0	0	0	0
Gross Profit	30	56	14,758	83	45
EBITDA	(2,221)	(4,798)	996	(18,586)	(4,955)
Operating Profit (before amort. and except.)	(2,242)	(4,867)	918	(18,645)	(5,035)
Intangible Amortisation	0	0	0	0	0
Share based payments	(519)	(1,250)	(804)	(377)	(1,000)
Other	0	0	0	0	0
Operating Profit	(2,761)	(6,117)	114	(19,022)	(6,035)
Net Interest	(193)	(259)	(1,155)	2,433	147
Profit Before Tax (norm)	(2,435)	(5,126)	(237)	(16,212)	(4,888)
Profit Before Tax (FRS 3)	(2,954)	(6,376)	(1,042)	(16,589)	(5,888)
Tax	0	0	0	0	0
Profit After Tax (norm)	(2,435)	(5,126)	(237)	(16,212)	(4,888)
Profit After Tax (FRS 3)	(2,954)	(6,376)	(1,042)	(16,589)	(5,888)
Average Number of Shares Outstanding (m)	21	65	136	153	153
EPS - normalised (p)	(11.4)	(7.9)	(0.2)	(10.6)	(3.2)
EPS - (IFRS) (p)	(13.8)	(9.8)	(0.8)	(10.9)	(3.9)
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	74	35	2,955
Intangible Assets	992	12,005	0	0	2,920
Tangible Assets	89	115	74	35	35
Investments	0	0	0	0	0
Current Assets	3,831	8,361	20,619	9,715	2,386
Stocks	0	4,824	0	0	0
Debtors	94	159	159	2,386	2,386
Cash	3,738	3,378	20,460	7,329	0
JV Cash	0	0	0	0	0
Current Liabilities	(653)	(4,174)	(1,745)	(1,089)	(1,089)
Creditors	(653)	(640)	(1,745)	(1,089)	(1,089)
Short term borrowings	0	(3,534)	0	0	0
Long Term Liabilities	0	0	0	0	(479)
Long term borrowings	0	0	0	0	(479)
Other long term liabilities	0	0	0	0	0
Net Assets	4,261	16,307	18,948	8,661	3,772
CASH FLOW					
Operating Cash Flow	(1,949)	(3,185)	(13,173)	(21,509)	(4,808)
Net Interest	0	0	0	0	0
Tax	0	0	0	0	0
Capex	(815)	(15,863)	(49)	(20)	(3,000)
Acquisitions/disposals	0	0	14,681	0	0
Financing	6,502	16,258	19,741	8,397	0
Dividends	0	0	0	0	0
Net Cash Flow	3,738	(2,790)	21,200	(13,131)	(7,808)
Opening net debt/(cash)	0	(3,738)	155	(20,460)	(7,329)
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)	(7,329)	479

Source: Company accounts, Edison Investment Research. Note: We assume any cash required is raised by debt in this model in reality this will more likely come from equity.

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