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Pura Vida Energy

Oil & gas

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Investment summary: Deal almost secured

A two-well carry plus back costs puts Pura Vida Energy (PVD) top of the tree for farm-outs in one of the hottest exploration areas around, offshore Morocco. Completion of the deal, expected imminently, is a major catalyst, as is securing a rig for two wells to be drilled in 2014, kicking off with the 1.5bnboe Toubkal prospect. The farm-out implies a valuation of PVD in excess of A$4/share. While we do not expect equities to reflect industry valuations, a narrowing must be a possibility as drilling approaches.

Farm-out deal nearing completion

PVD's investment thesis largely hangs on the opportunity to drill two wells offshore Morocco on its Mazagan permit in 2014. To fund this, it has agreed a farm-out with Plains E&P (now a Freeport-McMoRan Copper & Gold Inc. subsidiary), giving it a US$215m two-well carry and US$15m in cash in return for 52% of its previous 75% operated stake. In-principle approval has recently been given by the Moroccan government for the farm-out and we consider expected completion of the deal in the coming weeks is a major catalyst for investors. Beyond this, the main things to watch out for are a rig deal, especially if one can be secured for early-2014, ahead of proximate drilling in the region by Cairn, Kosmos and Genel from probably Q413.

Top terms secured for unique Miocene play

At c 1,500mmbbl gross (350mmbbl net post farm-out) mean recoverable prospective resources, the first drill target, Toubkal, represents a hefty opportunity in itself. Unlike PVD's neighbours, who are chasing Jurassic carbonates and Cretaceous fans, Toubkal is a Miocene target offering investors differentiation from the main Moroccan activity. PVD has secured the most attractive terms of all the recent deals in Morocco, valuing the block at A$440m and PVD's post-farm-out stake at $100m, well ahead of the current share price (even without the drill carry). Not content to rest on its laurels in Morocco, PVD has also picked up an 80% interest in a block offshore Gabon. This offers lower-risk appraisal/development (Loba 20mmboe gross) and both sub-salt and pre-salt exploration, although exploration drilling here is unlikely until late-2014 at the earliest.

Valuation: Trading at an 85% discount to farm-in

Current target prices range from A$1.78 to A$2.60 per share, suggesting three to four times upside to the current share price. This is not surprising given the Plains farm-in terms alone suggest PVD should be trading at c A$4.10. The stock market is ascribing significant discounts to industry deals at present, but an 85% discount is excessive and we could expect this to close as drilling approaches in 2014.

Consensus estimates

Year End	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (A$)	Net cash/ (debt) (A$m)	Capex (A$m)
06/12	0.0	(2.9)	(2.9)	(0.14)	3.7	(1.0)
06/13e	0.0	(3.2)	(4.5)	(0.08)	12.0	(4.1)
06/14e	0.0	(3.7)	(5.3)	(0.04)	2.9	(10.0)

Source: Company accounts, Bloomberg

Price	A$0.61
Market cap	A$49m

Share price graph

Share details

Code	PVD
Listing	ASX
Sector	Oil and gas
Shares in issue	80.5m

Business description

Pura Vida Energy is an ASX-listed E&P with interests in blocks offshore Morocco and Gabon. The main focus is on high-impact exploration drilling in Morocco, with Gabon offering appraisal/development options in addition to exploration.

Bull

- Most attractive terms achieved to date for Morocco offshore farm-out.
- Strong partner with Miocene experience from GoM.
- Stock trading at 85% discount to farm-in implied value.

Bear

- Activities in Morocco require final government approval of the FCX farm-out. Without this, Pura Vida Energy is unfunded for any drilling in 2014.
- Unique Miocene play could limit upside in the event of neighbouring success in Cretaceous or Jurassic.
- Balance sheet will be tested in the event of drilling success.

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