

Pura Vida Energy

Reaction to drilling

Drilling reaction

Oil & gas

Since initiating on Pura Vida (PVD) on 26 May 2015, the company has commenced drilling of the MZ-1 well, offshore Morocco. Only three weeks into a minimum 60-day well, the stock has fallen by more than 30% and appears oversold on volatility driven without newsflow. Without doubt the MZ-1 is a high-risk well, but PVD is fully carried by an accomplished operator in Freeport that is currently executing a thorough and well-planned well. We maintain our RENAV of A\$1.42/share.

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)	4.7	(15.2)
06/16e	0.0	(5.1)	(5.0)	(12.3)	(12.0)

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

Sharp sell-off on no news

Since publishing our [initiation note](#) on PVD on 26 May, the stock has fallen nearly 30% from A\$0.42 per share to A\$0.30 per share (at the close of 19 June), a strange reaction to the commencement of a well that is expected to take at least another six weeks to drill to target depth. The simple answer is that nothing more is known about the down-hole target than at the start of drilling, nor will anything be known for some weeks to come.

Results expected no earlier than late July

The MZ-1 well, in 2,176m of water, has a primary total depth (TD) of over 5,000m, is targeting up to five stacked Cretaceous and Jurassic targets and is estimated to cost c US\$137m, fully carried by Freeport-McMoRan Oil & Gas. Drilling commenced on 1 June and is scheduled to take two to three months. As such, after three weeks of drilling, the well will not be anywhere near any zones of interest. The well is targeting five discrete plays with PVD-assessed mean gross unrisked prospective resources of more than 1.4bnbbbls.

Increased stock volatility not unusual

The sector remains volatile and while volumes have been above the daily trading average over the last few weeks, the stock has experienced similar episodes historically on positive newsflow, three in 2015 alone. Frontier exploration companies exposed to high-risk wells are no stranger to share price volatility and investors need look no further than the trading of Falkland Island stocks during drilling. Since there is no newsflow, we believe this latest volatility is oversold sentiment and an opportunity for investors cognisant of frontier exploration risks to benefit. We maintain our RENAV of A\$1.42/share and make no changes to our forecasts.

22 June 2015

Price **A\$0.30**

Market cap **A\$44m**

US\$/A\$ 1.3

Estimated current net cash (A\$m) post-February raise 5.5

Shares in issue 147.7m

Free float 88%

Code PVD

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (27.2) (22.4) (30.6)

Rel (local) (26.8) (17.9) (32.4)

52-week high/low A\$0.56 A\$0.30

Business description

Pura Vida has a varied African exploration portfolio and is currently drilling the MZ-1 well in Morocco and undertaking 3D seismic in Madagascar. It has executed timely and commercial astute farm-outs to increase shareholder exposure to world-class exploration.

Next events

Drilling results Q315

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Stock reaction

The MZ-1 well commenced drilling on 1 June, a little over three weeks ago. The well, in 2,176m of water, is targeting up to five stacked Cretaceous and Jurassic targets and is estimated to cost c US\$137m, with all costs being borne by Freeport-McMoran Oil & Gas (FMOG).

The well is expected to take between 60 and 90 days and has a planned TD of 5,600m with an option to deepen to 6,150m. After approximately three weeks' drilling, the well will be nowhere near the target horizons. With no shallow targets or interest in the surrounding geology, other than the ability for it to be drilled through, there is no information gleaned to date that will have any bearing on the much deeper target, its prospectivity or likelihood of success.

The aim of the current drill programme is to undertake a seismic check shot, a full suite of modern logs while drilling, and afterwards show a professional technical and scientific approach to drilling by FMOG to gain a full understanding of what is a high-risk exploration well.

The target: Company-making if successful

We reiterate our view that the MZ-1 well is commercially robust and interesting from a technical and operational standpoint, as it is located and designed to intersect five stacked targets and source rocks. These targets are in the Cretaceous (Cenomanian/Aptian), where two four-way closed traps have been identified, and in the Jurassic, where three fans have been identified. We draw readers' attention to the fact that the targets are not in the Miocene, which DeGolyer and MacNaughton (D&M) and RISC Advisory (RISC) rate as the primary target in their assessments, and we further note that wells drilled in the region have encountered oil shows of varying degrees in both the Cretaceous and Jurassic (see Exhibit 1 and 2 in our [initiation note](#) published on 26 May 2015). While these wells are a reasonable distance from the MZ-1, they add confidence to the decision to drill.

PVD has internally assessed its estimates for the MZ-1 targets and we maintain our view that the company has conservatively assessed these volumes in line with the risks used by D&M and RISC in their assessments of other leads in the block.

Exhibit 1: MZ-1 stacked targets

Interval	Gross prospective resource unrisks (mmboe)				GCoS	Net risk mean prospective
	Low	Best	High	Mean		
Cenomanian	9	39	95	47	23%	11
Aptian	42	238	680	309	30%	71
Lower Jurassic Fan 1	84	450	1,290	588	13%	135
Lower Jurassic Fan 2	21	79	189	95	12%	22
Lower Jurassic Fan 3	60	306	820	385	12%	89
Total (arithmetic)				1,424		328

Source: Pura Vida

Carried interest

It is also worth noting that PVD has further enhanced shareholder value ahead of drilling with the farm-out deal to FOMG. Under the farm-down deal, PVD retains 23% of the licence and its costs are carried as part of a maximum US\$215m gross costs two-well programme, plus a cash payment of US\$15m. In addition, there is a ratchet for overspend, but this is not relevant at this stage.



Volatility

Without doubt the E&P sector remains volatile throughout the world and while the wholesale drop in commodity prices has paused for a while, uncertainty and volatility remains. It is not uncommon for stocks to undergo rapid price swings as key wells are drilled; investors need only look at the volatility of stocks associated with drilling off the Falkland Islands in the South Atlantic.

Liquidity has been strong over the last three weeks, with more than 2.3m shares trading on 15 June 2015, and on most days since drilling commenced we have seen volumes over the daily average of c 500,000. However, these volumes are not unique in the stock, as this level of trading has been seen already in January, March and April 2015, where the price rose on these volumes following positive newsflow.

Since there is no newsflow in this instance, nor can there be any given the stage the well will be at, our view is that that the volatility and liquidity is driven by sentiment and has resulted in a buying opportunity for shareholders cognisant of the risk of frontier exploration drilling. We maintain our RENAV of A\$1.42/share and our forecasts are unchanged.

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)	(5,080)
Operating Profit (before amort. and except.)		(2,242)	(4,867)	6,476	(5,035)	(5,160)
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)	(6,160)
Net Interest		(193)	(259)	(1,155)	409	94
Profit Before Tax (norm)		(2,435)	(5,126)	5,321	(4,626)	(5,066)
Profit Before Tax (FRS 3)		(2,954)	(6,376)	4,517	(5,626)	(6,066)
Tax		0	0	0	0	0
Profit After Tax (norm)		(2,435)	(5,126)	5,321	(4,626)	(5,066)
Profit After Tax (FRS 3)		(2,954)	(6,376)	4,517	(5,626)	(6,066)
Average Number of Shares Outstanding (m)		21	65	145	147	147
EPS - normalised (p)		(11.4)	(7.9)	3.7	(3.1)	(3.4)
EPS - (IFRS) (p)		(13.8)	(9.8)	3.1	(3.8)	(4.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Fixed Assets		1,082	12,120	22,435	37,584	49,504
Intangible Assets		992	12,005	22,361	37,510	49,430
Tangible Assets		89	115	74	74	74
Investments		0	0	0	0	0
Current Assets		3,831	8,361	20,619	17,000	12,314
Stocks		0	4,824	0	0	0
Debtors		94	159	159	159	159
Cash		3,738	3,378	20,460	4,686	0
JV Cash		0	0	0	12,155	12,155
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	(12,301)
Long term borrowings		0	0	0	0	(12,301)
Other long term liabilities		0	0	0	0	0
Net Assets		4,261	16,307	41,309	52,838	47,772
CASH FLOW						
Operating Cash Flow		(1,949)	(3,185)	(5,452)	(4,546)	(4,986)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(815)	(15,863)	(8,827)	(15,229)	(12,000)
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	(15,775)	(16,986)
Opening net debt/(cash)		0	(3,738)	155	(20,460)	(4,686)
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)	(4,686)	12,301

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

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