



Madalena Energy

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Analysts see significant share price upside on the horizon at Madalena Energy

Analysts remain confident in Madalena Energy's (CVE:MVN) prospects after the junior oil and gas company's release of second quarter results earlier this week, citing significant potential upside in its shares should the Canadian producer ink a successful joint venture agreement by the end of 2013.

The Calgary-based company, which posted Monday a year-over-year spike in its second quarter revenues to \$3.87 million, is focused on its properties in Argentina and Canada. Operating netbacks, a key measure in the oil and gas industry, climbed to \$13.72 per barrel of oil equivalent (boe), compared to \$9.57 per boe in the first quarter of 2012.

Mackie Research analyst Bill Newman kept his buy rating on the company and \$2.05 price target, citing "growing production in Canada and large shale resource potential in Argentina". Newman said the second quarter results, which included a narrowed net loss and higher average daily production of 1,020 barrels of oil equivalent per day, were in line with expectations. It ended the quarter with a positive working capital position of \$7.7 million.

The Canadian upstream oil and gas company's assets in Argentina, where it holds three large blocks within the prolific Neuquén Basin, are focused on delineating resources in the Vaca Muerta and Lower Agrio shales, alongside tight sand plays and conventional zones of interest. Its properties span 135,000 net acres across the Coiron Amargo, Cortadera and Curamhuele blocks, the latter of which the company is looking to joint venture.

This is expected to be a key catalyst for the stock, according to both Newman and analysts at National Bank of Canada. The company gained additional flexibility with the recent extension of the exploration period for its 90 per cent weighted interest in the Curamhuele block until November 8, 2014, to satisfy commitments of US\$13.8 million.

"Importantly, MVN recently engaged a financial advisor to seek a potential JV or sale related to its three blocks within the Neuquén Basin of Argentina (2.9bn boe of contingent + prospective resource) which could be a key major catalyst for the stock before year end," the National Bank analysts wrote in a report emailed to clients.

"Given they are positioned in the right jurisdiction of Argentina where recent activity has been robust and interest is on the rise, we see the potential for considerable interest to be shown by numerous Supermajor/NOC companies with low costs-of-capital."

Indeed, the area in which Madalena is operating is hot at the moment in light of recent developments in Argentina, including a decree last month that provides for new incentives for large investments into the oil and gas sector, with companies that invest over US\$1 billion over a five year period to be allowed to sell 20 per cent of their production at world prices, without paying export taxes. This was followed by Chevron and YPF completing a US\$1.24 billion joint venture deal that should see 100 wells drilled over the next 18 months targeting the Vaca Muerta shale.

"Furthermore, at the right price, we believe any of Madalena's three blocks (Curamhuele-90% WI, Coiron Amargo-35% WI and Cortadera-40% WI) could be up for grabs," the National Bank analysts added, saying that a joint venture for the company is a "real possibility" given recent transactions by supermajors that validated the appetite for unconventional

Price: C\$0.36

Market Cap: C\$123.54M

1 Year Share Price Graph



Share Information

Code: MVN

Listing: TSX-V

Sector: Oil & Gas Exploration & Production

Website: www.madalena-ventures.com

Company Synopsis:

Madalena is an independent, Canadian-based domestic and international upstream oil and gas company whose main business activities include exploration, development and production of crude oil, natural gas liquids and natural gas.

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Argentina acreage.

For the remainder of the year, Madalena is continuing to delineate resources on its Coiron Amargo block, while in Canada, where it has existing production in the greater Paddle River area, the company is working on road/lease preparation work associated with additional horizontal development locations.

"With these near-term catalysts in mind, we see bluesky "back-of-the-envelope" valuation for the Argentina assets and MVN's current Canadian production in its Greater Paddle River Core area to be supportive of up to \$4.00/sh in value (10x its current level)," National Bank concluded, calculating that based on the current share price and excluding Canadian current production and cash, this would imply around 20 cents of value being priced into the stock for its Argentina properties, leaving room for significant upside should a joint venture pan out.

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