



# Madalena Energy

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## Madalena Energy could be worth double what it is today: National Bank Financial

National Bank Financial analysts are saying Madalena Energy (CVE:MVN) could be worth double to where it is trading today, citing the oil and gas junior's collection of "top tier" assets in Argentina as well as low risk operations in Canada.

In a report released Wednesday initiating coverage on the Calgary, Alberta-based company, analyst Amy Chang assigned Madalena an 80 cent price target, well up from its current trading price of 37.5 cents, alongside an outperform recommendation.

She said that overall, Madalena's current valuation is an "attractive risk/reward proposition" for investors looking for exposure to the world class unconventional Vaca Muerta shale play in Argentina, backstopped by a "significant unbooked inventory" of Canadian horizontal locations -- or about 200 -- in the Greater Paddle River area in Alberta.

Indeed, aside from the prized play in Argentina, current production for Madalena hails from Canada, with output of 1,200 barrels of oil equivalent per day (boe/d). Chang reckons that once facility installations are completed by year-end, production will ramp up to about 1,700 boe/d, and exceed 2,000 boe/d by the first quarter of next year.

For the remainder of the year, Madalena will be focused on drilling and workover activity at its Ostracod oil well in Canada, as well as three key wells on its Argentina blocks, where a strategic partnership process is underway at its Curamhuele asset.

"Solidifying a potential joint venture deal to cover a \$13.8 million commitment or possible monetization of any of its three blocks in Argentina over the next six months represents a potentially meaningful catalyst," noted Chang, given the "immediate crystallization of value" for a portion of its large resource potential, which the analyst says is not being recognized in the current trading price.

The Canadian upstream oil and gas company's assets in the prolific Neuquén Basin in Argentina 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, with estimated contingent and prospective resources of 2.9 billion barrels.

A larger partner, Chang took note, would also validate resource potential and provide technical bench strength. Until a partner is secured, Madalena's balance sheet is supported in the near term by the company's recent \$7 million private placement, working capital of \$7.8 million and undrawn credit facility of \$13 million.

In the National Bank report, the analyst highlights the growing interest in Argentina, making it easier for Madalena to secure a partner, with recent transactions by supermajors "validating the appetite for acreage" in the Vaca Muerta shale. Earlier this summer, Chevron and YPF completed a US\$1.24 billion joint venture deal that should see 100 wells drilled over the next 18 months targeting the Vaca Muerta shale, where Argentine state oil player YPF recently reported good progress in fracking the wells as well as in lowering well costs.

**Price:** C\$0.38

**Market Cap:** C\$128.62M

### 1 Year Share Price Graph



### Share Information

**Code:** MVN

**Listing:** TSX-V

**Sector:** Oil & Gas Exploration & Production

**Website:** [www.madalena-ventures.com](http://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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"Based on a \$10,000/acre valuation metric implied by the Chevron deal announced in July 2013, this would attribute a valuation of ~\$494 million to Madalena's Coiron Amargo block (\$1.46/share net) or an implied bluesky valuation across the company's entire acreage of \$1.35 billion (or \$4.00/share), representing significant upside to Madalena's current share price," Chang wrote.

Meanwhile, an overall improvement in the investment climate in Argentina is evident, with the Chevron deal following the announcement of a decree that provides for new incentives for large investments into the oil and gas sector. Companies that invest over US\$1 billion over a five year period will be allowed to sell 20 per cent of their production at world prices, without paying export taxes "as the government continues to extend the olive branch to energy investors", Chang said.

The analyst calculates that Madalena could be worth double to where it is trading today based on National Bank's total return of 113 per cent. The bank estimates a total net asset value of 79 cents, including risked resource upside of 63 cents per share, which Chang believes is not reflected in the current share price.

"Given the potential positive catalysts on the horizon (particularly ahead of a potential joint venture deal), we see this as an attractive entry point into this Argentina player," she concludes. Drilling in Argentina this year will comprise of two vertical wells in the Vaca Muerta shale, and the first horizontal Sierras Blancas well targeting a conventional resource.

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