



Madalena Energy

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Madalena to benefit from improving macro picture in Argentina

Shares of Argentina-focused oil and gas junior Madalena Energy (CVE:MVN) are poised for some upside, with Morgan Stanley calling for significant increases to Argentine equities on the back of an improving macro picture in the country heading into the 2015 election year.

Madalena has 14 concessions across Argentina over 1 million net acres of land, with a major foothold in an area dominated by industry majors such as YPF, Chevron, Total, Exxon and several others. Argentina is becoming more investment-friendly, with a new hydrocarbon law approved last month to boost oil investment in the famous Vaca Muerta shale, spelling out greater transparency and improved fiscal terms in Argentina.

The country is estimated to hold 27 billion barrels of technically recoverable oil and 802 trillion feet of technically recoverable shale gas, much of it attributed to the prized Vaca Muerta shale formation in the Neuquen basin, the fourth largest shale oil deposit in the world.

Morgan Stanley recommended in its report an overweight position in Argentine equities, saying it believes that in the short term, the prospect of an agreement with debt holdouts in early 2015 should support local stocks. In the medium term, the possibility of more orthodox policies after the October 2015 Presidential election should extend the current bull market.

The investment bank said it believes the key drivers of Argentine equities over the next few months will be news (or lack of) about the negotiation with holdouts, potential bond acceleration, further weakening of the local economy and losses of international reserves as well as the government's response to deteriorating fundamentals.

Morgan Stanley also pointed out that the energy sector has the potential to improve Argentina's situation on an external front, as well as fiscally and on a monetary basis. The country suffered from a US\$5.9 billion energy deficit in 2013, but Argentina has sizeable shale formations and therefore has the potential to reverse its energy shortfall, said the capital markets firm.

A 2013 report from the US Energy Information Administration estimates 27.0 billion barrels of shale resources in the country, equivalent to 5.0 times annual GDP and 11.5 times the amount of proven reserves. Morgan Stanley said its favourite vehicle in the local equity market is state oil and gas producer YPF.

All these macro factors could influence shares of Madalena, which is focused on developing its Vaca Muerta assets in Argentina, and is well positioned for the anticipated rebound in the Argentina energy market.

ExxonMobil (NYSE:XOM), in its third quarter results, also spoke favourably recently on the Vaca Muerta shale, commenting on a multi-well horizontal program underway.

The company said: "We have drilled and successfully tested two ExxonMobil-operated horizontal wells. The Bajo del Choique X-2 well flowed at an average initial rate of 770 barrels of oil per day, and is currently on the long term test. And I'll note this is the highest unconventional oil production rate test in Argentina.

"Our active Vaca Muerta shale program continues with additional drilling and testing later this year and into 2015."

Price: C\$0.34

Market Cap: C\$175.898M

1 Year Share Price Graph



Share Information

Code: MVN

Listing: TSX-V

Sector: Oil & Gas Exploration & Production

Website: www.madalenaenergy.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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