



# Madalena Energy

Oct 17<sup>th</sup> 2013

## Haywood Securities calls on investors to take heed of Madalena Energy ahead of several potentially material events

Now is the time for investors to pay close attention to Madalena Energy (CVE:MVN), according to Haywood Securities analyst Darrell Bishop, who initiated coverage on the junior oil and gas company Thursday with a buy rating and a 90 cent price target.

"With valuation trading below that of its nearest Argentinean peer and supported by the junior domestic peer group, we believe now is the time for investors to begin doing their homework on Madalena ahead of several potential momentum building macro events in Argentina as well as a series of potentially material company specific catalysts," Bishop wrote in a note emailed to clients this morning.

Aside from existing and expanding production from the Paddle River area of west-central Alberta, Madalena is focused on multi-billion barrel potential on three blocks within Argentina's Neuquen basin. It holds 135,000 net acres on the Coiron Amargo, Curamhuele and Cortadera blocks, seeking joint ventures to the appraisal of its shale resources in the Vaca Muerta formation. It has estimated contingent and prospective resources of 2.9 billion barrels in Argentina.

Bishop noted that investment appetite is returning to the Neuquen Basin, following a history of government intervention in Argentina culminating with the expropriation of YPF from Repsol in April 2012, which resulted in Madalena "being screened out" by investors for the past 18 months.

The analyst said, however, that a series of recent developments led him to the conclusion that the setting is changing for Madalena, citing several factors such as the fact that the company is one of the only small caps remaining in the "sweet spot" of the Neuquen Basin.

"The government has softened its hard line stance against the energy industry over the past several months as highlighted by cuts to oil export taxes, and the commitment of higher gas price," Bishop wrote.

He also took note of the fact that offsetting Neuquen joint venture transactions in the area validate a "steep valuation disconnect". Indeed, the area has been witness to a recent bustle of activity by oil majors, including between state-owned YPF and Dow Chemical, Chevron, and Bidas/CNOOC, as well as the most recent joint venture by GyP and Wintershall.

"The JV's highlighted above equate to an average transaction metric of ~\$10,000/acre. These JVs are within close proximity to Madalena's Coiron Amargo block with the read-through implying ~\$500m (~\$1.40/sh) for Coiron Amargo alone," explained Bishop.

Further, to look at the valuation a different way, Bishop calculates that applying \$40,000 per barrel of oil equivalent per day (boe/d) to Madalena's current Canadian production of 1,500 boe/d (\$60 million in value), the remaining \$90 million in the company's current enterprise value implies about just \$650 per acre for the Argentina assets.

Madalena has already initiated a formal joint venture process to unlock the value across its unconventional assets in

**Price:** C\$0.47

**Market Cap:** C\$160.88M

### 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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Argentina -- with hopes of an agreement by early 2014 -- all this while "oil-weighted operational momentum is building below the radar in Canada", Bishop said. He added that the Canadian results and potential have been overlooked as the market is focused on Argentina.

In fact, a recent three-day production test from Madalena's most recent horizontal Ostracod oil well in the Paddle River area showed oil flow of 1,045 barrels of oil equivalent a day, or boe/d -- two to three times the liquids yield of most recent two Hz Ostracod wells were drilled earlier this year. The Calgary-based company has a large land base of over 150 net sections in the Greater Paddle River area, of which the company controls approximately 60 net sections of land across the Ostracod oil trend, with a sizable inventory of drill-ready horizontal locations for Ostracod development.

On a 2014 cash flow basis, Bishop noted that Madalena trades at a premium to the Canadian domestic peer group consensus estimate average, but at a discount to its closest Argentinean peer. "We believe Madalena's premium to the domestic junior peers is justified on the basis of the company's Argentina assets," he said.

Finishing off the report, the analyst noted some operational and regulatory risks to his forecasts, including the horizontal multi-stage frac technology at an early stage in Canada, and the Argentinean government's long history of intervention in the private sector, despite indications for a turnaround.

Madalena, which has a strong balance sheet comprised of \$7.7 million in working capital plus another \$7.25 million from a recent equity raise and a \$13 million credit facility, is currently trading at 47.5 cents - almost half of Bishop's target price.

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