

Madalena Energy

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Madalena Energy to enjoy immediate benefits of Argentinian currency changes

Broker IA Securities reckons the relaxation of currency controls in Argentina is likely to have several positive benefits for upstream oil company Madalena Energy (CVE:MVN).

All of Madalena's finance expenses and income taxes are denominated in the Argentinian currency, and the broker estimates that the current credit facility of AR\$78.2mln has diminished in payback cost to about US\$6.6mln from US\$10.9mln prior to the devaluation of the peso.

The broker's back of the envelope calculations indicate an immediate US\$2.4mln of savings on the company's 2016 capital expenditure program.

"We anticipate further gains to Madalena's bottom line with 90% of its G&A [general & administration] costs incurred in AR\$, with 65% of the company's operating costs and 20% of its capital expenditures incurred and payable in AR\$," the broker noted.

Put simply, the higher the exposure to the Argentinian currency the greater the cost reduction to the company once converted back to Canadian or US dollars.

Madalena maintains a minimum amount of cash in Argentinian pesos and a maximum amount of bonds denominated in US dollars and settled in pesos, which are therefore protected from devaluation.

The company has liquidated around 50% of the bonds received to settle prior Petroleo Plus credits and estimates its remaining holdings to be worth about US\$7mln, IA observed.

Perhaps more importantly, with the economic growth of the company tethered to the energy sector, the new government will be keen to maintain economic growth and attract foreign investment into the country.

"Given how quickly they are delivering on campaign promises, it is clear that there will be a lot of changes coming in the near term. The start of talks to settle a politically sensitive lawsuit filed by US hedge funds demanding full repayment of debt on which Argentina defaulted on is high on the agenda. Settlement on this issue would go a long way to winning back international investor confidence, attracting additional foreign investment and help Argentina return to being an oil exporter," IA speculates.

One cloud on the horizon is the probable end this month to the regulated oil price of US\$77 a barrel for local producer, and IA acknowledges that the arrangement could be replaced by one that is a bit more adjacent to the current global oil price, but notes that any reduction would likely be offset by the devaluation of the peso.

"Economic growth of the country is tied to the energy sector and President Macri is highly incentivised to keep prices

Price: C\$0.295

Market Cap: C\$157.204M

1 Year Share Price Graph



Share Information

Code: MVN

Listing: TSX-V

52 week	High	Low
	0.425p	0.21p

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.

Author:

John Harrington

+44(0)1202770386

action@proactiveinvestors.com

high and to be rational in any price adjustment in order to maintain economic growth and foreign investment into the country," IA said.

The broker has reiterated its 'buy' recommendation and 80 cents target price.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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