

Madalena Energy

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Madalena Energy undervalued, TD Securities says

Changes in Argentina since the change of government have been broadly positive for Madalena Energy (CVE:MVN), according to TD Securities.

Since early-December, we have seen Argentine currency control relaxation, a decrease in regulator-determined oil prices in the country, as well as the potential entry of American Energy Partners (AEP) into the Neuquén basin through an agreement with YPF, the broker noted.

The currency devaluation means Madalena's costs and outstanding credit balance have dropped relative to its US dollar-denominated revenues.

On the other hand, the salad days of enjoying government-inflated crude oil prices appear to be on the way out, with the decrease in the regulated "Medanito" benchmark crude price to US\$67.50 a barrel (bbl) in 2016 from US\$75.

Adjusting for FX changes, producers are realizing the equivalent of AR\$911/bbl vs. AR\$735/bbl earlier.

Having plugged the numbers into a spreadsheet, the team at TD Securities reckons the factors pretty much even out, but the broker believes the outlook for Argentinean economic growth, coupled with an energy trade deficit, could encourage the government to stick with providing incentives for upstream investments.

"The recent news of a potential entry by AEP (led by a pioneer of U.S. shale) into the Neuquén basin with a focus on the Vaca Muerta reaffirms the argument for Madalena's upside potential to this play," the broker said.

The price paid points to Madalena's interests in Coiron Amargo and Cortadera blocks being worth 60 cents a share for Madalena, more than twice Madalena's current share price of 26 cents.

Madalena has other assets, which explains why the broker's target price is higher still at 75 cents.

"We are attracted to Madalena Energy for its extensive acreage in Argentina, and particularly for the potentially large upside from its unconventional resources in the Vaca Muerta and Lower Agrio shales. These are complemented by multiple tight sand plays throughout the company's asset portfolio. We believe that the company has sufficient funds for its 2016 operations. However, we expect that the company may seek a partner to take its Curamhuele asset towards a full-field development," the broker said.

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Price: C\$0.265

Market Cap: C\$149.073M

1 Year Share Price Graph



Share Information

Code: MVN

Listing: TSX-V

52 week High Low
0.425p 0.225p

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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