

Providence Resources (AIM:PVR) F

BUY

Share price	612.50p
Target price	1,797p (from 1,530p)
193% Upside	

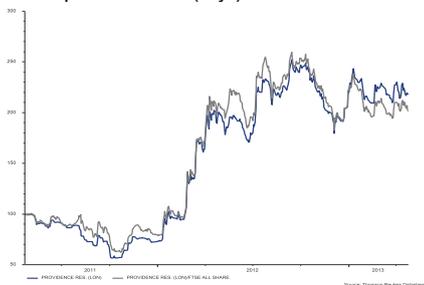
Market cap (£m)	395.7
Net cash (£m)	33.6
Enterprise value [^] (£m)	362.1
No. of shares (m)	64.5
Average daily vol ('000, -3m)	183

PER at Target price (Y1)	N/A
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12 month high/low (p)	710/159
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(%)	1m	3m	12m
Absolute	+6.3	+20.3	+238.2
FTA relative	+5.9	+16.4	+193.9

Price & price relative (-2yr)



Source: Datastream

Share price as at close: 25 April 13

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Next step: Dunquin

Providence's latest resource upgrade further underlines the considerable potential at the company's flagship Barryroe field ahead of critical farm out negotiations. Whilst Providence's success at the field has already had a transformational effect on the company's share price, its exploration and appraisal campaign is far from over. Providence will target multiple prospects across five further geological basins in the medium term. Drilling operations have now commenced at the much anticipated Dunquin prospect, which in a success case, could generate significant near term upside for investors.

Barryroe continues to grow

Following acquisition and interpretation of the new 2011 3D seismic data together with the subsequent drilling and testing in 2012, NSAI reported that the Basal Wealden oil reservoir has a 2C in-place resource volume of 761mmbo with recoverable resources of 266mmbo and 187bcf of associated gas. The total combined audited gross 2C recoverable resources estimate at Barryroe now stands at 346mmboe, comprising 311mmbo and 207bcf. This represents a 24% increase on the previous 2C level, and therefore considerably improves project economics ahead of the anticipated farm out of the field.

Farm down opportunities

Farming down its high interest positions offers Providence the opportunity to capture shareholder value whilst avoiding a significant capex spend as its assets move through field development. The company is likely to have its pick of partners; among those that have already signed agreements to assist in a \$500m exploration program of six basins are ExxonMobil (N/C), Repsol (N/C), Petronas (N/C) and ENI (N/C).

Compelling value ahead of key drilling

Providence has confirmed that drilling activities have now commenced on the Exxon operated Dunquin exploration prospect off the west coast of Ireland. Given the prospect is fully under explored at present and the risks associated with pure deepwater exploration of this type, we do not currently ascribe any value to Dunquin in our target valuation. However, if risked on a similar basis to our development asset RENAV, success at Dunquin could generate £1.85/share risked upside (£11.61/share unrisks).

Valuation and recommendation

Following the resource upgrade, we update our valuation in line with the increased 2C level at Barryroe. Our core valuation (Barryroe plus net cash) is 1,425p with exploration upside adding a further 372p. We therefore retain our BUY recommendation increasing our TP to 1,797p (from 1,530p).

F Forecast change

Year end December	Revenue (€m)	EBIT* (€m)	PBT* (€m)	Tax (%)	Adj. EPS* (c)
2010A	11.1	1.5	(6.0)	(64.4)	(29.5)
2011A	13.8	0.0	(5.2)	(86.4)	(20.8)
2012E	13.9	(25.0)	(28.2)	(12.6)	(51.3)

* excludes exceptional items and amortisation of acquired intangibles.

[^] EV calculation adjusted for core cash, investments etc.

Source: CFE Research estimates

Financial model

Income Statement

Year end December (€m)	2010A	2011A	2012E
Group revenue	11.1	13.8	13.9
Cost of sales	-4.7	-4.1	-5.2
Gross profit	6.4	9.7	8.8
Total operating expenses	-5.0	-9.7	-35.0
EBIT	1.5	0.0	-26.3
Net interest/financial income/(cost)	-7.4	-5.2	-3.2
Associate and Other non-op. income/(cost)	0.0	0.0	0.0
PBT	-6.0	-5.2	-29.5
Tax	-3.8	-4.5	-3.6
Effective tax rate (%)	-64.4	-86.4	-12.6
Minorities	0.0	0.0	0.0
Earnings	-9.8	-9.7	-33.1
EBITDA	1.5	0.0	-26.3
Adjusted EBITDA*	1.5	0.0	-26.3
Adjusted EBIT*	1.5	0.0	-26.3
Adjusted PBT*	-6.0	-5.2	-29.5
Adjusted earnings*	-9.8	-9.7	-33.1
DPS (c)	0.0	0.0	0.0
EPS (c)	-29.5	-20.8	-51.3
EPS [F. Dil.] (c)	-29.5	-20.8	-51.3
EPS [Adj.]* (c)	-29.5	-20.8	-51.3
EPS [Adj. F. Dil.]* (c)	-29.5	-20.8	-51.3
Weighted average no. shares (m)	33.2	46.8	64.5
Fully dil. w. ave. no. shares (m)	33.2	46.8	64.5
Year end no. shares (m)	33.2	46.8	64.5

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, CFE Research estimates

Cashflow Statement

Year end December (€m)	2010A	2011A	2012E
Operating income	-6.0	-5.2	-29.5
Amortisation of acquired intangibles	0.0	0.0	0.0
Amortisation of other intangibles	0.0	0.0	0.0
Depreciation	8.1	2.6	0.6
Net change in working capital	-0.5	5.4	11.4
Other	1.4	-3.3	21.7
Operating cash flow	3.0	-0.4	4.2
Capital expenditure	-10.7	-18.3	1.8
Investment in Other intangibles	0.0	0.0	0.0
Net interest/financial income/(cost)	0.2	0.1	0.6
Tax paid	0.0	0.0	0.0
Net acqns./disposals	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0
Other	0.0	0.0	0.0
Cash flow before financing	-7.4	-18.6	6.6
Proceeds from shares issued	16.5	47.7	84.4
Investments	0.0	0.0	0.0
Other	-1.0	-19.9	-76.0
Net movement in cash/(debt)	8.1	9.2	15.0
Opening net cash/(debt)	1.0	9.2	18.6
Adjustments (Forex, etc.)	0.1	0.2	0.0
Closing net cash/(debt)	9.2	18.6	33.6

Source: Company data, CFE Research estimates

Balance Sheet

Year end December (€m)	2010A	2011A	2012E
Property plant and equipment	57.5	46.2	42.5
Goodwill and Acquired intangibles	0	0	0
Other intangibles	10.1	36.2	63.6
Other fixed assets	3.5	11	10.5
Non current assets	71.2	93.4	116.6
Stocks & WIP	0	0	0
Trade receivables	3.6	6.6	22.5
Cash	9.2	18.6	33.9
Other current assets	16.8	18	3.5
Current assets	29.6	43.2	59.9
Total assets	100.7	136.6	176.5
Trade creditors	8.9	27.7	40.4
Short term borrowings	2.7	41.8	0
Long term borrowings	83.1	30	0
Other liabilities	29.8	29.3	34.1
Total liabilities	124.5	128.7	74.5
Net assets	-23.7	7.9	102
Issued share capital	15.1	16.7	18.1
Share premium account	86.9	130.5	209.6
Retained earnings	-136	-149	-127.6
Other reserves	10.3	9.7	1.8
Minority interests	0	0	0
Total equity	-23.7	7.9	102

Source: Company data, CFE Research estimates

Key Ratios

Year end December	2010A	2011A	2012E
Revenue growth (%)	n/a	24.1	1.2
Adj. EBITDA* growth (%)	n/a	(72.1)	(1,015.2)
Adj. EBIT* growth (%)	n/a	(97.9)	(80,726.8)
Gross margin (%)	57.9	70.5	62.9
Adj. EBITDA* margin (%)	86.3	19.4	(175.2)
Adj. EBIT* margin (%)	13.2	0.2	(179.6)
Gearing (%)	(300.2)	n/a	n/a
Interest cover (x)	0.2	0.0	(7.8)
Net debt/Adj. EBITDA* (x)	(7.5)	11.4	(1.4)
Dividend cover (x)	n/a	n/a	n/a
ROE (%)	41.3	(123.3)	(31.2)
ROIC (%)	(91.5)	(26.6)	(59.3)
ROCE (%)	(91.5)	(26.6)	(59.3)
Operating cash conversion (%)	109.9	180.6	(35.6)
Net cash conversion (%)	0.2	137.1	(34.8)
Net working cap / revenue (%)	(4.4)	39.4	81.5
Cap Ex / revenue (%)	96.7	265.4	385.0

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, CFE Research estimates

Valuation Metrics

Year end December	2010A	2011A	2012E
PER (x)	(29.2)	(41.5)	(16.8)
EV / Revenue [^] (x)	50.3	40.6	40.1
EV / Adj. EBITDA ^{^*} (x)	58.3	209.3	(22.9)
EV / Adj. EBIT ^{^*} (x)	380.5	17,993.2	(22.3)
EV / IC [^] (x)	11.7	(24.9)	8.2
EV / Taxed Adj. EBIT ^{^*} (x)	380.5	17,993.2	(22.3)
Yield (%)	0.0	0.0	0.0
P / CFPS (x)	n/a	(30.3)	50.3
NAV per share (c)	(71.5)	16.8	158.1

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Recommendation and Target Price History (11 October 2012 to 26 April 2013)

Providence Resources Plc			
Date	Recommendation	Target Price	Current Price
11/10/2012	BUY	1,530p	695p
26/04/2013	BUY	1,797p	614p

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