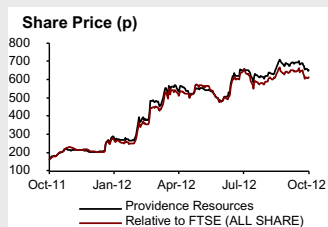


## HOLD

### From Buy

Current Share Price	656p
Target Price	642p
Market Capitalisation	£423m
Shares In Issue	64m
RIC/BLBG	PVR.L/PVR LN
Avg. Daily Volume (3M)	196,469
Net Cash (Debt) (12/12F)	€31.0m

Current share price(s) timed at 4:30PM on 25/10/12



Performance %	1M	3M	12M
Absolute	-3	1	312
Relative	-2	-5	287

Source: Datastream

### Analyst

**Sanjeev Bahl**  
+44 (0)20 7260 1279  
s.bahl@numis.com

This research was prepared and approved by  
**Numis Securities Ltd**  
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT, UK  
Tel +44 (0)20 7260 1000  
Fax +44 (0)20 7260 1010  
Email mail@numis.com

## Providence Resources

### Company Update

### Feedback from DECC PILOT oil and gas event

We have decided to take a more conservative view when valuing Providence Resources after participating in a DECC discussion group on E&P appraisal and development funding. Industry participants admitted that the outlook for funding of appraisal activity in the UK North Sea was bleak; debt was not even a consideration, and equity finance has become increasingly expensive. Without government intervention, we believe the only obvious access to funding for non-producing small/mid-cap E&Ps is through divestment / farm-down. However, we see an increasing number of un-funded appraisal/development opportunities within small-cap E&P portfolios and we expect this to be reflected in farm-in valuations. High quality, conventional assets with resource upside are likely to attract the best deals.

Whilst Barryroe may have a company calculated P50 recoverable of 280mmbbl (assuming 41 horizontal wells, 22 horizontal water-injection well and gas lift) we believe that a potential farm-in partner is likely to focus on a more conservative P90 STOIP and recovery scenario. In our view, the most likely farm-down scenario will involve Providence having to 'give-up' significant equity for an appraisal carry (testing the field extents with a horizontal well), and is likely to face further dilution when pursuing a full development carry - we reflect this in our valuation.

Our NAV now assumes a P90 scenario for the Barryroe Lower Wealdon rather than previous P50. Our 642p/share target price is based on a 60% discount to our 1604p/share NAV in order to pre-empt potential farm-down dilution.

- **Appraisal funding a issue for the industry as a whole:** Whether the UK North Sea, Celtic Sea or the Falklands, appraisal funding is hard to come by. We believe the highest quality assets will make it through the data room with the least equity dilution. Providence Resources has been one of our five top picks for 2012, and also one of the best performers and as a result trades at 2.8\$/bbl (P50 Barryroe) compared to stocks such as Borders and Southern at 0.6\$/bbl (P50 Darwin liquids). In our view, Darwin is the higher quality asset but logistically more challenging. Darwin boasts significantly greater av. net pay (68m vs c.7m for Barryroe Lower Wealdon); porosity (22% vs 16%); lower well count and drilling capex per barrel (10 wells vs 64 horizontal wells); and higher quality liquids (light sweet condensate versus a waxier crude) and is our preferred appraisal play.
- **Funding:** We estimate that Providence has retained cash of c.\$45m after accounting for the sale of Singleton - enough to fund the company's share of the 2013 E&A programme and G&A.
- **Exploration - Dalkey Island and Dunquin the standouts:** Highlights over the next year are Dalkey Island (4Q12/1Q13, 250mmbbl, 10% CoS, 61% unrisks NAV upside) and Dunquin (1Q13, 1.7bn boe, 10% CoS, 85% NAV upside). Clearly, success at either prospect has the potential to be game-changing.

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## Providence NAV

Figure 1. Providence NAV

<b>Providence Resources</b>	Ticker	PVR.L	Market Capitalisation	£413m	Financial Year End	Jun
<b>Hold</b>	Current Share Price	656p	Enterprise Value (EV)	£393m	Reporting Currency	EUR
<b>642p</b>	Implied Return	-2%	Net Cash (Debt)	£20m	Shares in Issue	63m

Asset	Location	WI %	Fluid	CCoS* %	Resource (mmboe)		Unrisked \$/boe	Risked NPV \$mn	Risked NPV p/sh	% Total	Unrisked p/sh	Upside p/sh
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Singleton sold to IGas

Liabilities (admin & decomm.)								(31)	(30)		(30)	
Net cash / (debt)								31	31		31	

<b>Core NAV</b>					<b>0.0</b>	<b>0.0</b>		<b>1</b>	<b>1</b>	<b>0%</b>	<b>1</b>	
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Barryroe Middle Wealdon	Celtic Sea	80%	Oil	80%	46	37	14	412	408	25%	510	102
Barryroe Basal Wealdon (P90)	Celtic Sea	80%	Oil	70%	104	83	12	699	692	43%	989	297

Hook Head	Celtic Sea	73%	Oil	30%	20	15	8	34	34	2%	112	79
Dragon	Celtic Sea	88%	Gas	30%	35	31	5	48	48	3%	159	112
Spanish Point	Atlantic Margin	32%	Gas-Cond.	50%	100	32	6	89	89	6%	177	89
Burren	Atlantic Margin	32%	Oil	50%	66	21	7	74	73	5%	146	73

<b>Development NAV (Contingent Resource)</b>					<b>371</b>	<b>218</b>		<b>1357</b>	<b>1343</b>	<b>84%</b>	<b>2094</b>	<b>750</b>
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Dunquin	Atlantic Margin	16%	Gas-Cond.	10%	1716	275	6	153	152	9%	1519	1368
Dalkey Island	Ireland	50%	Oil	10%	250	125	9	110	108	7%	1085	976

<b>Exploration &amp; Appraisal NAV (Prospective Resource)</b>					<b>1966</b>	<b>400</b>		<b>263</b>	<b>260</b>	<b>16%</b>	<b>2604</b>	<b>2344</b>
<b>Total NAV</b>					<b>2337</b>	<b>618</b>		<b>1620</b>	<b>1604</b>		<b>4699</b>	<b>3094</b>

Material Near Term Catalysts					Risked	Unrisked	Upside
Prospect	Rig	Spud date	Est Result date	Detail / Numis Comment	p/sh	p/sh	%
Dalkey Island		1Q13	1Q13		108	1085	61%
Dragon		2Q13	3Q13		48	159	7%
Dunquin		1Q13	1Q13		152	1519	85%
Spanish Point		3Q13	4Q13		89	177	6%

Source: Numis Securities Research Department





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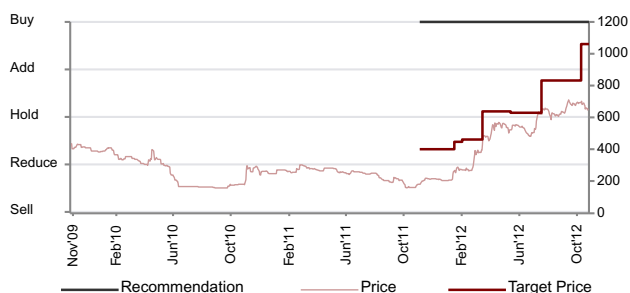
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### Three Year - Recommendation, Target Price, Share History

#### Providence Resources



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