



52-wk Range:	A\$0.35-1.80	Market Cap (M):	A\$40.8
12 month target	A\$1.50	EV (M):	A\$42.9

## Oil & Gas

## Castello Production Update

### Summary

Po Valley Energy is an independent Oil and Gas enterprise. The Company currently operates exclusively in northern Italy exploiting the large hydrocarbon system, and it is on the verge of becoming a gas producer in Italian market as it brings its first fields into production.



### Key Metrics

Shares Outstanding (M):	110.2
Current Price (A\$):	A\$0.37
Fully Diluted Shares (M):	111.3

### Event

Po Valley reported that there has been a faster than expected rate of decline in wellhead pressure at the Castello Gas Field. Castello has produced 5.4MMm<sup>3</sup> at an average daily rate of 60,000m<sup>3</sup>/d. The Company is investigating the possible reasons for such a larger than anticipated decline. Specifically the Company plans to conduct downhole pressure measurements at the earliest practical time, currently expected in the second half of May, assess the impact on reservoir performance and projected field life which may involve a reduction in daily production rates, and conduct a comprehensive and independent re-estimate of field reserves incorporating these pressure test results. These technical investigations will take time to complete and the Company will update the market on the timing of both well intervention and the evaluation of the downhole pressure measurements. At this stage, it is expected that the downhole pressure testing will be completed in May and an update on the results provided to the market in June. Based on technical analysis conducted following the March quarter of production, if the pressure reduction continues at current rates this would lead to lower production rates than previously projected and substantially reduced reserves. Proven reserves at Castello were previously estimated to be 4.6Bcf.

### Comment

This news comes on the back of a downward revision of resources at Bezzecca. The impact of the Bezzecca downgrade was about AU\$0.2-0.3 while the impact of a possible downgrade at Castello is in the order of AU\$0.1-0.2. Hence the share price reaction is not justified by the combined impact of those two events on valuation; however those two negative releases in succession dent the confidence of the market in any numbers previously released by the Company.

Taking out completely both Bezzecca and Castello from our risked NAV brings it down to AU\$2.5 while taking a cut to the exploration opportunity in the portfolio from 50Bcf to 25Bcf has a further AU\$0.5 negative impact. In addition we have decided to apply a -25% discount to all other estimates, to come up with a risked NAV of AU\$1.5 per share.

The Sillaro Gas Field and the up and coming San'Alberto account for AU\$1.2 of value per share and the value of Sillaro itself, even discounted by 25%, is enough to more than justify the current share price.

### Recommendation

Based on the above we have revised our target price down to AU\$1.5 and in view of the current share price we feel compelled to maintain our Buy rating.

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### Lionel Therond

Lionel has worked at Fox-Davies since April 2009. Prior to this, he had 13 years experience as an investor at JPMorgan Asset Management and had previously spent 10 years in the Oil&Gas industry at Shell. Lionel graduated in Geology and Geophysics (MSc) before gaining an MBA at Insead; he is also a CFA charterholder.

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Research disclosure as of 29 April 2010

Company Name	Disclosure
Po Valley (PVE)	8

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Oil & Gas					
Ascent Resources	AST LN Equity	BUY	22.04.10	£0.20	£0.05
Borders & Southern Petroleum	BOR LN Equity	BUY	01.02.10	£1.50	£0.50
Circle Oil	COP LN Equity	BUY	25.03.10	£0.80	£0.37
Desire Petroleum	DES LN Equity	HOLD	29.03.10	£1.00	£0.42
Enegi Oil	ENEG LN Equity	HOLD	17.12.09	£0.10	£0.13
Falklands Oil & Gas	FOGL LN Equity	BUY	01.02.10	£4.00	£1.44
Gulf Keystone	GKP LN Equity	BUY	15.03.10	£2.00	£0.78
Gulfsands Petroleum	GPX LN Equity	HOLD	22.04.10	£3.00	£3.20
Hardy Oil & Gas	HDY LN Equity	BUY	26.04.10	£3.00	£1.88
Matra Petroleum	MTA LN Equity	BUY	26.01.10	£0.11	£0.05
Max Petroleum	MXP LN Equity	BUY	24.03.10	£0.50	£0.18
Petrokamchatka	PKP CN Equity	HOLD	14.01.10	C\$0.15	C\$0.115
Po Valley	PVE AU Equity	BUY	29.04.10	A\$1.50	A\$0.37
Range Resources	RRL LN Equity	BUY	17.12.09	£0.08	£0.04
Rockhopper Exploration	RKH LN Equity	HOLD	01.02.10	£1.10	£0.40
San Leon Energy	SLE LN Equity	NA	NA	NA	£0.22
Sterling Energy	SEY LN Equity	HOLD	01.02.10	£1.50	£1.23
Tower Resources	TRP LN Equity	HOLD	23.03.10	£0.02	£0.01
Victoria Oil & Gas	VOG LN Equity	BUY	21.04.10	£0.09	£0.04

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