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Providence Resources – Results and Operational Comment Reiterate 'Buy' at 3.48p with a 19p Target Price

Key Data

EPIC	PVR
Share Price	3.48p
Spread	3.26p – 3.7p
Total no of shares	2,485.4 million
Market Cap	£86.5 million
12 Month Range	1.73p – 8.98p
Net Debt	€66 million (est)
NMS	25,000
Market	AIM / IEX
Website	www.providenceresources.com
Sector	Oil & Gas Producers
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On the 21st of May Providence Resources announced its preliminary results for the 12 months to 31st December 2008, with the highlight being a major increase in revenue on the back of an, ahead-of-schedule, increase in production. The company had a very busy 2008 with the acquisition of the Triangle portfolio of productive assets in the Gulf of Mexico complementing its already strong exploration and development portfolio in the US, Ireland, the UK and Nigeria.

Having targeted daily output 2,000 barrels of oil equivalent per day (boepd) by the end of 2008, the company hit its target in July of the year after the acquisition of the Triangle portfolio of assets in the Gulf of Mexico. The total consideration for the transaction comprising 9 producing oil and gas fields, 2 development assets and a number of exploration opportunities, was $67.5 million. Not a company to rest on its past success, Providence has now set itself a target of daily output 3,000 boepd by the end of 2009 which it expects to achieve from its current and planned production increases at Singleton (onshore UK) and its assets in the Gulf of Mexico. Indeed, the May 2009 drilling of a development well at Singleton has already added an additional 250 bopd, well ahead of the estimated 150 bopd anticipated, and the company is already planning further production sources and increased flow rates for later in the year. Meanwhile off the coast of Louisiana in the Gulf of Mexico, Providence announced on the 8th of June that the Vermillion 60 field had increased its gas production to 600 boepd net to the company based on its 50% non-operating/36.7% net revenue interest.

Elsewhere in the US, Providence and its partner made a gas discovery at their Galveston Island A-155 prospect, and were due to have production fast tracked - before hurricanes delayed production until June 2009 - at an expected rate of c.200 boepd net to Providence. The reinstatement of hurricane-affected lost/deferred production, as well as increases in production rates, in the Gulf of Mexico will bring in around 900 boepd net to Providence.

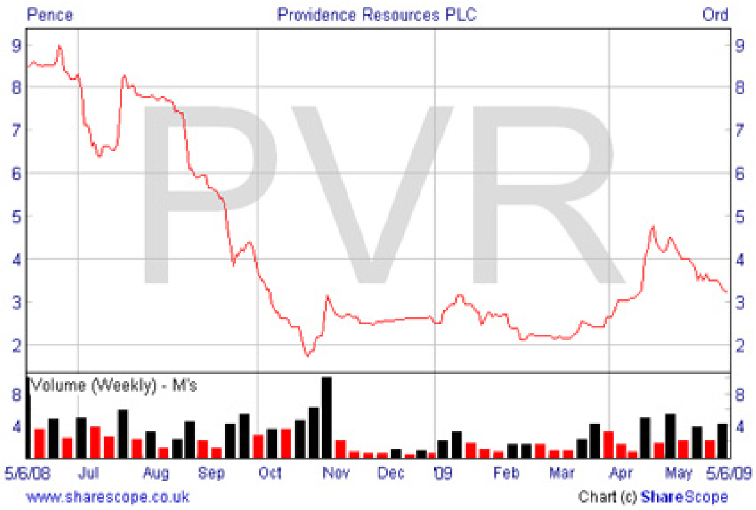
At the development/appraisal stage, Providence saw progress at a number of sites. At the offshore Ireland site of Spanish Port in the Porcupine Basin, the company was awarded four additional blocks by the Irish authorities, while in August 2008 Chrysaor Holdings Ltd, a privately owned exploration and production company, farmed in to Spanish Port through a series of commitments which could see its initial 30% interest rise to 70% through the achievement of certain development milestones. Also offshore Ireland, Hook Head and Dunmore had wells drilled. Neither hold led to decisions being taken on immediate development but both generated that will be integrated into each sites full field model for forward planning. In the St George's Channel Basin, Providence was granted an increase in its licence adjoining Marathon's proven UK Dragon gas field, and the company believes that approximately 25% of the field extends into its licensed area. The AJE-4 well in offshore Nigeria was successfully appraised and deemed a commercial discovery. Partner Chevron has now been authorised to prepare a development plan for the AJE field and this is currently in progress.

On the exploration front, in the Porcupine Basin, Providence surrendered operatorship to ExxonMobil at its Dunquin licence while venture partners Providence, ExxonMobil and Sosina were awarded 13 new blocks at the Drombeg licence. At Newgrange, 500 kilometres of new 2D seismic is in the process of being integrated with c.5,500 kilometres of historical 2D seismic to make an assessment of the area's prospectivity.

Providence's relationship with Star Energy/Petronas was strengthened through an August 2008 Memorandum of Understanding on the evaluation of carbon sequestration and gas storage potential in the Kish Bank Basin, offshore Dublin. The partnership was awarded a 3 year licensing option over 8 blocks named the ULYSSES project and is separately evaluating an exploration project called Dalkey Island.

Financially Providence reported a 473% increase in revenue to €24.8 million for the 12 months to 31st December 2008 and resulting 215% increase in gross profit to €11.2 million. However, through a combination of lower oil/gas prices, hurricane affected production in the Gulf of Mexico, poor drilling results in the Celtic sea and a tightening of credit markets, Providence decided to book a non-cash impairment charge of €49.7 million on its exploration and evaluation assets which resulted in an operating loss of €42.2 million, down from a profit of €5.2 million in 2007. Increased finance expenses of €8.3 million (€4.2 million in 2007) pushed the pre-tax loss to €50.0 million, compared to a profit of €1.5 million in the 12 months to 31st December 2007. The corresponding loss per share was 2.06 cents compared to earnings per share of 0.02 cents in 2007. After raising €42 million by way of a convertible bond in July 2008, and the partial use of its $250 million revolving credit facility with Macquarie Bank, Providence's net debt position was €66.6 million at 31st December 2008 compared to a net cash position of €2.3 million a year earlier.

Having increased its output four-fold to 2,000 boepd in 2008, Providence's target of 3,000 boepd by the end of this year appears more than achievable. With a target of 5,000 boepd to be achieved during 2011 Providence is rapidly transforming itself into a mid-tier oil producer. The company has a strong pipeline of projects, good access to capital and solid relationships with major industry players and thus we have no hesitation in continuing to recommend the company a **buy** with a target price of 19p.



Forecast Table

Year to 31st Dec	Sales (€ Million)	Pre-tax Profit (€ Million)	Earnings Per Share (cents)	Price Earnings Ratio	Dividends Per Share (cents)	Dividend Yield (%)
2007A	4.3	1.5	0.04	87	0	0.0
2008A	24.8	(50.0)^	(2.06)	NA	0	0.0
2009E	40	10	0.29	12	0	0.0
2010E	50	20	0.48	7.25	0	0.0

^includes asset impairment of €49.7 million

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