Cuda Oil & Gas Inc.

(CUDA-T: C$1.25)

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BUY
Target: C$2.75

Shannon Getting Recognition with Reserves Update

Cuda reported very significant Y/Y reserves growth, with 2P bookings increasing 1,239% from 2017 levels, driven by their Wyoming assets. While the update will have limited impact on our modeling given we have already given credit for the primary development of the Shannon play and beyond, we do see this as an important de-risking event for the stock given independent recognition of the upside in this story.

Main Takeaway:

- **Derisking & 3rd Party Recognition is Important:** While the upside in reserves is material, with PDP+PNP up 121% and 2P up 1,239%, we have recognized primary and secondary development of the core Shannon play so there is limited impact to our forward outlook. That said, the big take-away from the update is that independent engineers are starting to recognize the potential in this play; with that, we see the update as a major de-risking event.
- The FDC booked with 2P is $94.7 MM which would recognize the development we have modelled to mid-2022. Importantly, there is still all the potential upside for the horizontal zones (Frontier and Dakota being our focus) that is expected to drive more reserves adds beyond the FDC development timeframe.
- **A Word on Upside:** While we do not tend to focus on 3rd party evaluators' attributions of value, we did find it worth noting that in Ryder Scott's analysis, they see 2P value of $8.74/share (before net debt, $7.29/share after net debt). This highlights the significant upside in the story, as does our unrisked NAVPS of $7.37/share.

Target Price & Investment Thesis

- Our $2.75 price target is calculated similarly to our valuations for other E&Ps, based on a 50/50 blend of selected multiple on 2020 EV/DACF and NAVPS. On 2020 EV/DACF, we have applied a 3.0x target which is a ~1.0 point discount from our oil E&P average multiple of 4.0x. Our risked NAVPS stands at $3.69 (unrisked at $7.29), which does not even include upside for potential in Quebec given the political climate around energy development in that province. In taking a conservative approach, we do risk our NAVPS by 50% in our target price calculation versus par to NAVPS for other producers.
- That said, even with that heavy risking, we arrive at a $2.75 price target, which implies a return of 120% which is the highest in our Int./Jr. oil E&P coverage universe.

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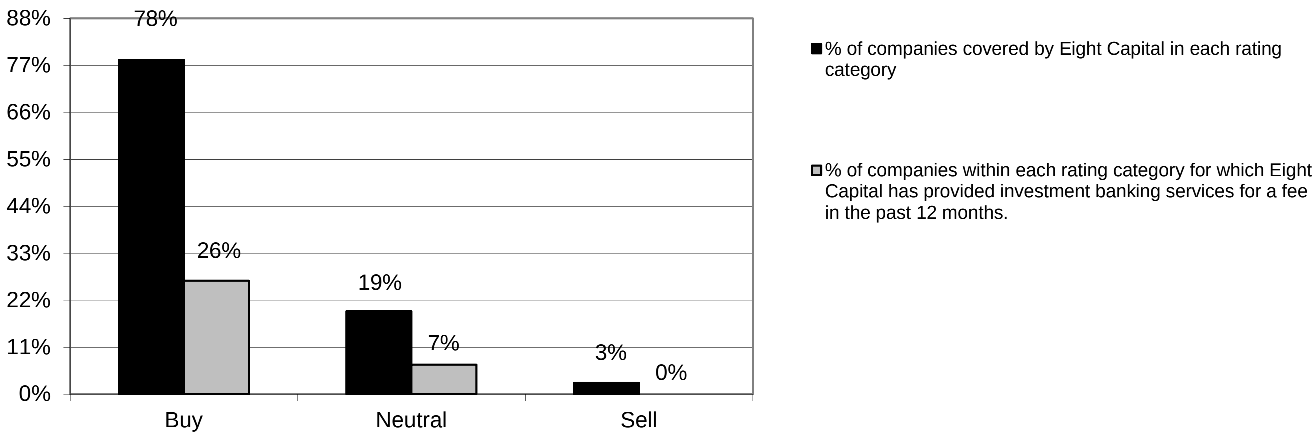

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