

## Resources: Oilfield Services

# PEDEVCO Corp | PED - \$0.50 - NYSE:MKT | *Buy*

### Company Update

Estimates Changed

#### Stock Data

52-Week Low - High	\$0.31 - \$2.44
Shares Out. (mil)	44.20
Mkt. Cap.(mil)	\$22.1
3-Mo. Avg. Vol.	66,605
12-Mo.Price Target	\$0.70
Cash (mil)	\$2.3
Tot. Debt (mil)	\$48.7

Debt is Pro Forma Globa acquisition

#### EPS \$

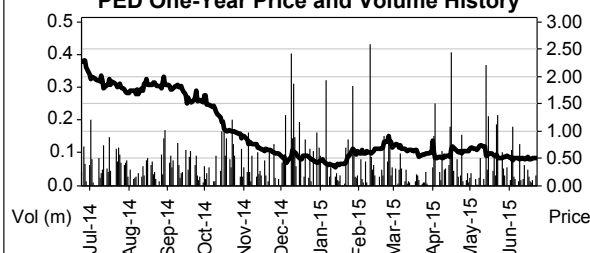
Yr Dec	—2014—	—2015E—		—2016E—	
		Curr	Prev	Curr	Prev
1Q	(0.55)A	(0.12)A	(0.12)A	-	-
2Q	(0.16)A	(0.06)E	(0.06)E	-	-
3Q	(0.17)A	(0.05)E	(0.05)E	-	-
4Q	(0.21)A	(0.03)E	(0.05)E	-	-
YEAR	(1.06)A	(0.24)E	(0.27)E	0.02E	0.01E
P/E	NM	NM	NM	25.0x	50.0x

2013 Annual: 2013 quarterly EPS does not add to full year EPS due to significant share count variance.

#### Revenue (\$ millions)

Yr Dec	—2014—	—2015E—		—2016E—	
		Curr	Prev	Curr	Prev
1Q	1.0A	1.5A	1.5A	-	-
2Q	2.1A	1.8E	1.8E	-	-
3Q	1.1A	1.8E	1.8E	-	-
4Q	0.6A	3.4E	1.8E	-	-
YEAR	4.8A	8.5E	6.9E	22.3E	18.6E

#### PED One-Year Price and Volume History



## PED: New Wells Improve Near-Term Outlook

On June 22, 2015, PED announced it will participate in additional seven gross wells in the Wattenberg, with Dome Energy AB set to provide the necessary financing. We are encouraged by the potential additional production of these wells as well as the collaboration between PED and Dome to avoid missing this opportunity for growth. We are maintaining our Buy rating and \$0.70 price target.

- **Additional wells accelerate growth potential.** PED announced it elected to participate in seven gross (1.75 net) wells in the Wattenberg. We estimate these wells will cost PED \$6.0-\$6.5 million based on current drill cost rates of other operators in the Wattenberg. We also assume they are drilled and completed by the end of Q3 2015. The addition of these wells should help to accelerate PED's production growth plan for the second half of 2015 and early 2016.
- **Dome financing encouraging.** PED also announced that Dome Energy AB (DOME:FN - NC) has entered into a financing agreement to cover the cost of the additional wells. We view this as an indication that the proposed merger is moving along smoothly and we continue to estimate the merger will close in August or September. Once the merger is completed, we expect PED to increase its drilling rates in the Wattenberg to leverage new drilling capital and grow production.
- **Maintaining Buy rating and \$0.70 price target.** Although today's announcement is an incremental positive, in our view, it did not impact our sum of the parts valuation for PED. Additionally, we believe the merger with Dome will be completed, but we do not include Dome's production in our current estimates. Thus, we are maintaining our Buy rating and \$0.70 price target.

## VALUATION

We assume a value of \$97 million for PED's 27,000 acres in the Wattenberg. After adjusting for net debt of \$44 million we arrive at a value of \$53.4 million for PED. We assume a fully diluted share count of 95.1 million shares as we exclude the 25 million preferred shares that can be repurchased. Thus, we arrive at a value of \$0.56 per share, to which we add a \$0.10 premium for the improved financial flexibility anticipated once the Dome merger is completed. We are maintaining our \$0.70 price target and our Buy rating.

Factors that could impede PED's ability to reach our price target include, but are not limited to: under performance of commodity prices, dilutive transactions, failure to close the Kazakhstan acquisition, poor operating results, failure to meet leasehold requirements, potential negative regulatory decisions, and other market factors.

## RISKS

- **Political risk.** Natural resource companies are subject to significant political risk. Although, most jurisdictions have known laws changes to the laws can significantly impact future earnings. PED has assets in the Mississippian Lime, Eagle Ford, and Niobrara currently and we expect additional acreage in Kazakhstan and the Niobrara during 2014. Thus, the company has a wide range of political risk in a variety of jurisdictions.
- **Commodity price risk.** All natural resource companies have some form of commodity price risk. This risk is not only related to final products, but can also be in regards to input costs and substitute goods. The most significant commodity for PED is oil and, to a lesser extent, natural gas. Swings in either commodity's price could significantly impact PED's valuation.
- **Operational and technical risk.** Natural resources companies have significant operational and technical risks. Despite completing reserve reports and "de-risking" acreage there still exists potential for issues to arise in production. Currently PED operates assets in the Niobrara, is a non-operator in the Eagle Ford, and has exploration targets in the Mississippian Lime. Thus, the company has a similar risk profile to companies in each of those plays on a technical basis.
- **Market risk.** Although, most natural resource companies are more closely tied to their individual commodity price performance large business cycle forces or economic crises can impact a company's valuation significantly. PED has similar market risk to that of other E&P companies.
- **Acquisition risks.** Our valuation of PED assumes the completion of both the Niobrara transaction and the Kazakhstan acquisition. Failure to complete either would materially impact our valuation of the company.
- **Default risk.** PED has significant debt default risk both on its existing \$43 million in debt and on its \$15.5 million of available credit facilities. The company's current operations are not sufficient to service current or anticipated debt. Thus, the company will need to immediately grow production in the Wattenberg asset in order to justify the loan magnitude and to service the debt.
- **Dilution risk.** It is possible that in an effort to increase production the company will raise capital and dilute existing shareholders. It is common for E&P companies to use equity financings to accelerate growth and this potential risk should be considered.

## COMPANY DESCRIPTION

PEDEVCO Corp is an energy company engaged primarily in the acquisition, exploration, development and production of oil and natural gas shale plays in the United States, and a secondary focus on conventional oil and natural gas plays. The Company is focused on the acquisition and development of its core oil and natural gas properties located in the Wattenberg Asset, Niobrara Asset and Mississippian Asset. It has approximately 16,379 net acres of oil and gas properties in the DJ Basin, including 13,995 net acres in its acquired Wattenberg Asset, and 2,384 net acres of oil and gas properties in its Niobrara Asset. As of December 31, 2013, the Company also owned an average 98% working interest in leases covering the Mississippian Lime located in Comanche, Harper, Barber and Kiowa Counties, Kansas. On March 10, 2014, PEDEVCO Corp acquired acres in the Niobrara Shale Formation, located in Colorado.

## PED Income Statement

Amounts in US\$ million	1Q 14A	2Q 14A	3Q 14A	4Q 14A	2014A	1Q15A	2Q15E	3Q15E	4Q15E	2015E	2016E
Revenue	1.0	2.1	1.1	0.6	4.8	1.5	1.8	1.8	3.4	8.5	22.3
Operating Expenses	12.4	3.4	3.0	8.2	27.0	4.8	2.3	2.3	2.7	12.1	14.5
Operating Income	(11.4)	(1.3)	(1.9)	(7.6)	(22.2)	(3.3)	(0.6)	(0.5)	0.7	(3.6)	7.8
Non Operating Expenses	2.9	3.1	3.0	1.4	10.4	0.9	1.9	1.9	1.9	6.5	5.1
Pretax Income	(14.3)	(4.3)	(5.0)	(8.9)	(32.6)	(4.2)	(2.4)	(2.4)	(1.2)	(10.1)	2.7
Taxes	-	-	-	-	-	-	-	-	-	-	0.9
Net Income	(14.3)	(4.3)	(4.8)	(6.4)	(29.9)	(4.2)	(2.4)	(2.4)	(1.2)	(10.1)	1.8
Basic EPS	(\$0.55)	(\$0.16)	(\$0.17)	(\$0.21)	(\$1.06)	(\$0.12)	(\$0.06)	(\$0.05)	(\$0.03)	(\$0.24)	\$0.04
FD EPS	(\$0.55)	(\$0.16)	(\$0.17)	(\$0.21)	(\$1.06)	(\$0.12)	(\$0.06)	(\$0.05)	(\$0.03)	(\$0.24)	\$0.02
CFPS	(\$0.08)	(\$0.06)	\$0.17	(\$0.21)	(\$0.20)	(\$0.11)	(\$0.04)	(\$0.04)	(\$0.01)	(\$0.17)	\$0.03
FCF to Equity	(15.5)	(3.6)	2.5	(13.9)	(30.5)	(3.6)	0.8	(1.6)	(6.4)	(10.8)	(22.1)

Source: SEC Filings, ROTH Capital Partners' estimates

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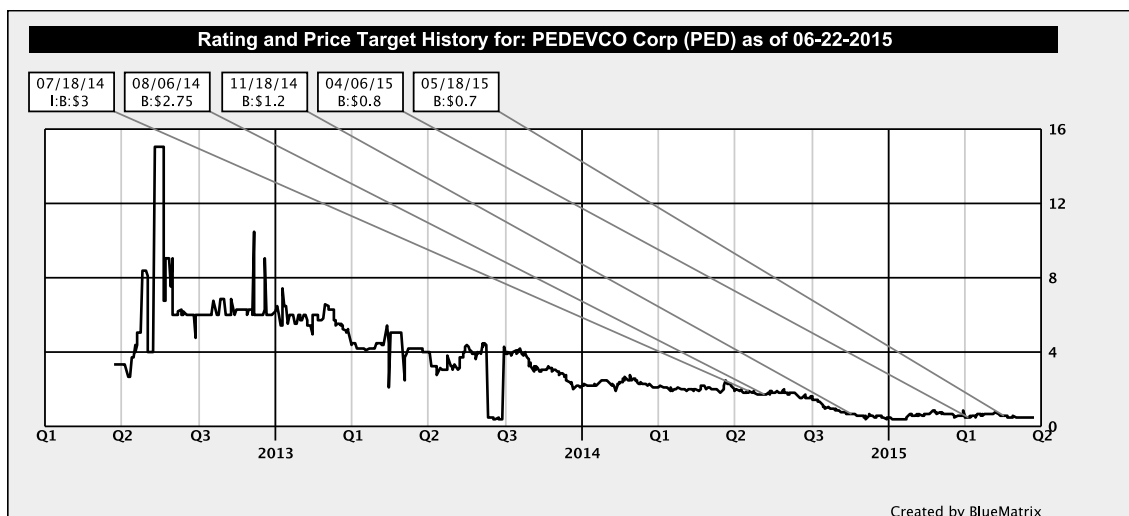
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ROTH makes a market in shares of PEDEVCO Corp and as such, buys and sells from customers on a principal basis.

Shares of PEDEVCO Corp may be subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities.

**On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.**

**On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.**



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

### Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 06/23/15	
			Count	Percent
Buy [B]	226	77.93	133	58.85
Neutral [N]	42	14.48	14	33.33
Sell [S]	0	0.00	0	0
Under Review [UR]	21	7.24	14	66.67

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**Neutral:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

**Sell:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review [UR]:** A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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