



Rating
Buy

North America
United States

Industrials
Oil & Gas Exploration &
Production

Company
**Cobalt International
Energy Alert**

Reuters CIE.N Bloomberg CIE UN Exchange NYS Ticker CIE

Date
19 December 2013

Forecast Change

Price at 18 Dec 2013 (USD)	15.66
Price Target	25.00
52-week range	30.20 - 15.33

Ryan Todd
Research Analyst
(+1) 212 250-8342
ryan.todd@db.com

Stephen Richardson
Research Analyst
(+1) 212 250-8356
stephen.richardson@db.com

Josh Silverstein
Research Associate
(+1) 212 250-7897
josh.silverstein@db.com

One Last Lump of Coal

No, Virginia, there is no Santa Claus...or at least it feels that way sometimes. In a fitting finish to what has been a difficult past 6 months, CIE unexpectedly reported a dry hole at US GoM prospect, Aegean. At this point, valuation has taken a back seat, as lack of confidence in the story, fund flows, year-end derisking, tax-loss selling, lack of catalysts and general frustration have the stock trading well below our \$22/sh estimate of discovered resource (\$15/sh of US GoM discovered resource). While valuation remains extremely attractive, we expect the stock to struggle in the near-term as the market wrestles with the value of discovered resource and potential paths to monetization, but see value for those able to withstand near-term volatility. Maintain Buy.

Enter the debate: What is discovered resource? And what is it worth? In our view, for the time being the stock has flipped from a "resource-plus" model (ie. discovered resource plus some risked value for future exploration) to a "discount to resource" model. With significant disagreement on discovered resource, however, we see a couple of potential paths towards greater clarity:

- 1) Improved transparency on discovered barrels - CIE has given little clarity on discovered resource, and would benefit greatly from some disclosure on resource ranges and accompanying geologic scenarios. (see "Cameia", where many attribute 200-250 mmbob, the company's "minimum threshold", despite what is clearly a much larger deposit.
- 2) Monetization - CIE is clearly on the path towards monetization in the form of "farm-downs" as a funding vehicle, but these are likely contingent on additional appraisal activity at Shenandoah and North Platte, making monetization likely a 2015 event. We would expect to see some rising pressure on the company to act earlier to arbitrage the gap between GoM asset deals and current CIE valuation.

We expect a more proactive approach from the company on the first point in 2014, but remain skeptical of the company's willingness to leave money on the table through an accelerated sale. However, with the stock trading at a 34% discount to DB's \$22/sh of discovered resource, and a \$0.50/sh discount to the US GoM alone, expect continued market pressure on both avenues.

What happened? And What's next? PT from \$32 to \$25

CIE reported a dry hole at the Aegean prospect in the US GoM (CIE 60%, Total 40%), a three-way trap targeting the inboard Lower Tertiary. CIE will now release the Ensco 8503 rig. Upcoming targets include Bicular (late 1Q/2Q) and Orca (2Q14) in Angola, as well as three non-operated US GoM wells in 2014: CVX's Anchor (1H14, CIE 24%), BHP's Rum Ramsey (2H14, CIE 24%) and ENI's Goodfellow (2H14, CIE 30%). We have reduced our PT from \$32 to \$25 to account for ~\$2.50 of risked Aegean value and higher risk to future exploration.

Key changes			
Price Target	32.00 to 25.00	↓	-21.9%
Source: Deutsche Bank			

Stock & option liquidity data			
Market Cap (USD)	6,371.3		
Shares outstanding (m)	406.9		
Free float (%)	100		
Volume (18 Dec 2013)	779,642		
Option volume (und. shrs., 1M avg.)	257,879		
Source: Deutsche Bank			

Key data				
FYE 12/31	2012A	2013E	2014E	
1Q EPS	-0.09	-0.16A	-0.20	
2Q EPS	-0.35	-0.12A	-0.19	
3Q EPS	-0.10	-0.19	-0.20	
4Q EPS	-0.16	-0.20	-0.20	
FY EPS (USD)	-0.70	-0.66	-0.78	
P/E (x)	-	-	-	

Source: Deutsche Bank
* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Deutsche Bank does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

FOR OTHER IMPORTANT DISCLOSURES PLEASE VISIT

MICA(P) 054/04/2013.