

Deutsche Bank
Markets Research
Rating
Buy

North America
United States
Industrials

Oil & Gas Exploration &
Production
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 Bicuar (late 1Q/2Q) and

Orca (2014) 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.

Company

Cobalt International

Energy Alert

Reuters

Bloomberg

CIE.N CIE UN

Exchange

NYS

Ticker

CIE

Date

19 December 2013

Forecast Change

Price at 18 Dec 2013 (USD)

Price Target

52-week range

Ryan Todd

Research Analyst

(+ [REDACTED])

Stephen Richardson

Research Analyst

(+ [REDACTED])

Josh Silverstein

Research Associate

(+ [REDACTED])

Key changes

Price Target

Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USD)

Shares outstanding (m)

Free float (%)

Volume (18 Dec 2013)

Option volume (und. shrs., 1M avg.)

Source: Deutsche Bank

Key data

FYE 12/31

1Q EPS

2Q EPS

3Q EPS

4Q EPS

FY EPS (USD)

P/E (x)
15.66
25.00
30.20 - 15.33
32.00 to 25.00 ↓ -21.9%
6,371.3
406.9
100
779,642
257,879
2012A 2013E 2014E
-0.09 -0.16A
-0.35 -0.12A
-0.10
-0.16
-0.70
-0.19
-0.20
-0.66
—
—
-0.20
-0.19
-0.20
-0.20
-0.78
—

Source: Deutsche Bank

* Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

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