



ERIK PENSER BANK

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Maha Energy

Robust indicators that the Tie wells are onstream

Lowest levels since 2018 but robust indicators that workover is completed

At 2,389 BOEPD, production levels in Q3 were the lowest since Q3 2018 and the company lowers guidance to 3,000-3,400 BOEPD for 2022. Although workover cost and lost production in the Tie field impacted production and EBITDA negatively, with the workover program completed and with signs that the wells in Tie are back onstream we should see production levels pick up coming quarters. With the lower levels in Q3 and a lower base we cut 2022-2024 EBITDA by 15-20%.

Management wants to use Maha as a platform for growth

Focus ahead is on expanding Maha's footprint, both through organic and inorganic growth. Opportunistic M&A transactions will be critical to realize this, and the capital structure needs to be optimized. The portfolio will be analyzed and we should expect both divestments and new developments. With diversification of production, including a higher share of natural gas, risks should decrease and cash flow should become more stable.

Risk/reward remains compelling

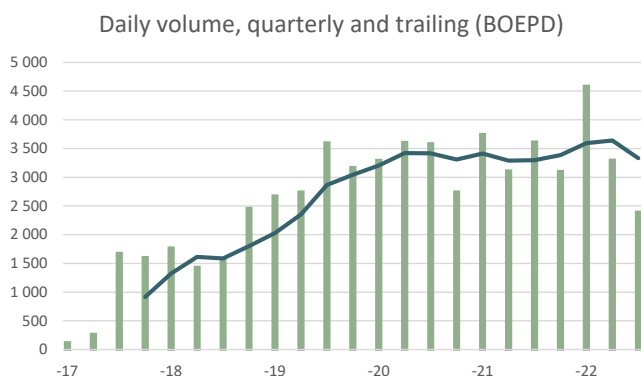
Even though the earnings trend has fallen sharply on the back of the production shortfalls, compared to historical levels, earnings are still high in absolute terms. The share price still fails to reflect this – the market clearly does not take the planned production increases for granted. In case the company is able to deliver on raising the production and the growth initiatives we believe there is significant upside in the share as we should see a rerating of the stock. We find risk/reward compelling.

Change in estimates (US\$)				Forecast (US\$ m)				Value and risk														
	22e	Δ%	23e	Δ%	2021	2022e	2023e	2024e	Fair value	SEK 21 - 23												
Total revenue	89	-12,9	124	3,7	Total revenue	68	89	124	173	Share price	SEK 10,6											
EBITDA, adj.	55	-14,9	70	-19,7	Revenue growth	75%	31%	40%	39%	Risk level	High											
EPS, adj.	0,2	-23,0	0,2	-53,1	EBITDA, adj.	48	55	70	97	Price Performance 12 months 												
Upcoming events				EBIT, adj.	39	41	42	52														
Q4 - report	28 February 2023			EPS, adj.	0,2	0,2	0,2	0,3														
Q1 - report	15 May 2023			EPS growth	>100%	5%	N.m.	50%														
Company facts (US\$ m)				BV/share	0,8	1,0	1,1	1,4														
Number of shares	120m			EBIT margin	57,4%	46,2%	33,7%	29,9%														
Market capitalization	119			ROE, adj.	29,4%	23,2%	17,4%	21,4%														
Net debt	56			ROCE, adj.	31,9%	23,8%	22,0%	28,0%														
EV	176			EV/Sales	2,6x	2,0x	1,1x	0,6x														
Free float	79%			EV/EBITDA	3,8x	3,2x	2,0x	1,0x														
Daily trading volume, average	710k			EV/EBIT	4,6x	4,3x	3,4x	1,9x														
Bloomberg Ticker	MAHAA SS EQUITY			P/E, adj.	6,4x	5,0x	5,4x	3,6x	Conflicts of interest <table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td>✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td>✓</td> </tr> <tr> <td>Transactions 12m</td> <td></td> <td>✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser		✓	Transactions 12m		✓
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Liquidity provider		✓																				
Certified adviser		✓																				
Transactions 12m		✓																				
Analyst				P/BV	1,5x	1,0x	0,9x	0,7x														
Markus Almerud				FCF yield	-	-	30%	37%														
markus.almerud@penser.se				Net debt / EBITDA	0,7x	1,0x	0,3x	-0,2x														

The quarter in summary

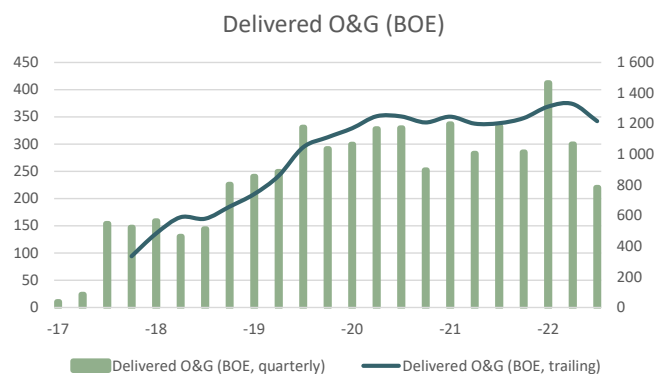
At a level that was the lowest since 2018, daily production kept falling during Q3 (Chart 1-2), which with EBITDA falling to historically low levels (Chart 3) despite the higher oil prices. Workover cost and lost production impacted the quarter, but there are robust indicators on the workover campaign being completed and the Tie wells are onstream. This should allow for production levels to rise in Q4 and Q1.

Chart 1: Volumes per day have been relatively stable since 2020



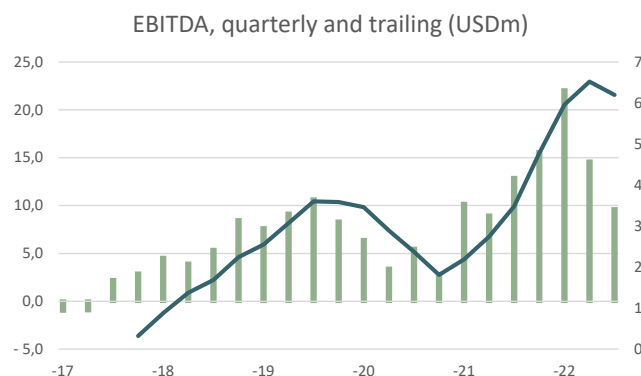
Source: Company, EPB

Chart 2: Production levels the lowest since 2018...



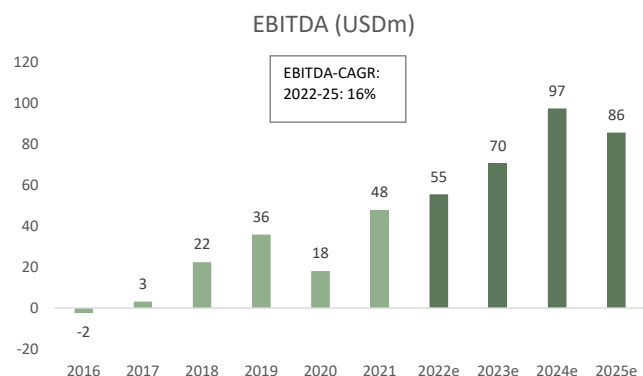
Source: Company, EPB

Chart 3: ...which puts pressure on EBITDA



Source: Company, EPB

Chart 4: We take a more cautious stance on earnings growth but still see significant growth



Source: Company, EPB

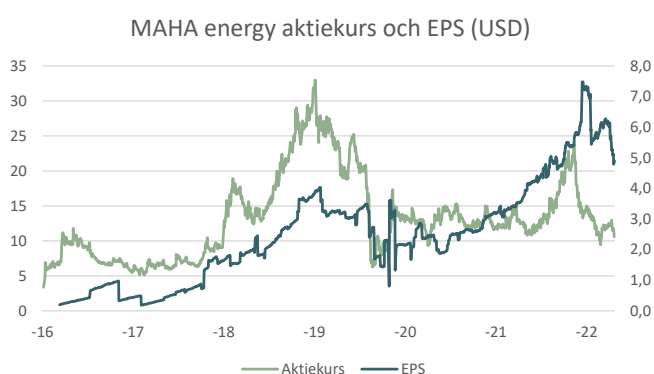
The focus ahead is to expand the company's footprint through organic and inorganic growth. Procurement and execution of opportunistic M&A transactions will be essential to the realization of this objective. The capital structure needs to be improved, and the balance sheet and the cash position strengthened. Portfolio optimization, including divestments and new developments, will be analyzed.

Valuation

Although the earnings trend (NTM EPS) has reversed sharply in recent months the level is still high compared to historical levels. Despite this the share price remains at the bottom of the traded range in the past three years (Chart 5-6). The market clearly does not believe in the growth profile seen in Chart 7. Given that the company has lowered guidance several times in 2021-2022 it is not surprising that the market takes a cautious stance.

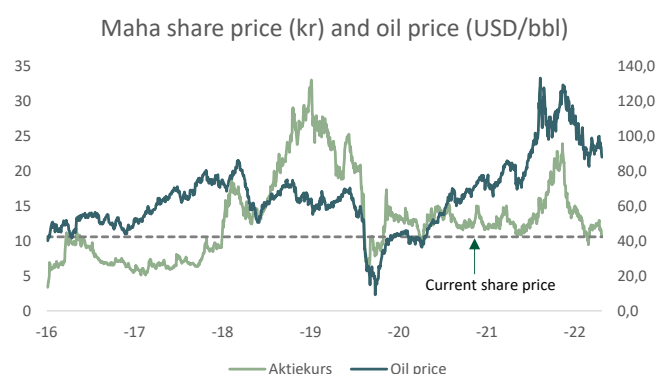
It also means that, as production levels return, and if the company can show that production has returned, there is significant scope for a rerating of the share. The share discount limited growth as well as lower long-term prices (Chart 8-9). Assuming USD 50/bbl long-term prices, that Tie peaks will be 25% below the planned production schedule and that Tartaruga will only be able to return to the levels seen in the past 4-5 years the share is worth SEK 12. We believe this makes risk/reward compelling.

Chart 5: Even though NTM earnings have fallen significantly...



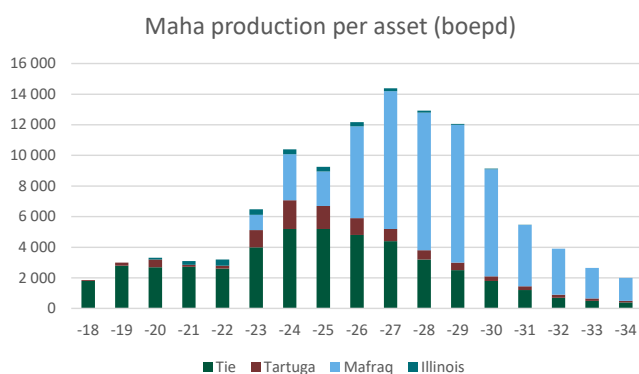
Source: Factset, EPB

Chart 6: ...the discrepancy between share price and earnings remains



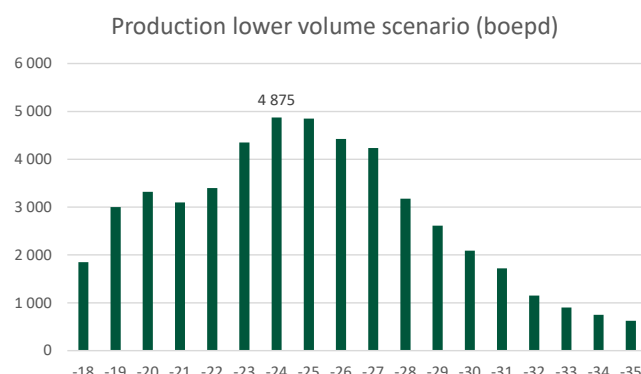
Source: Factset, EPB

Chart 7: We expect significant growth in volumes in coming years...



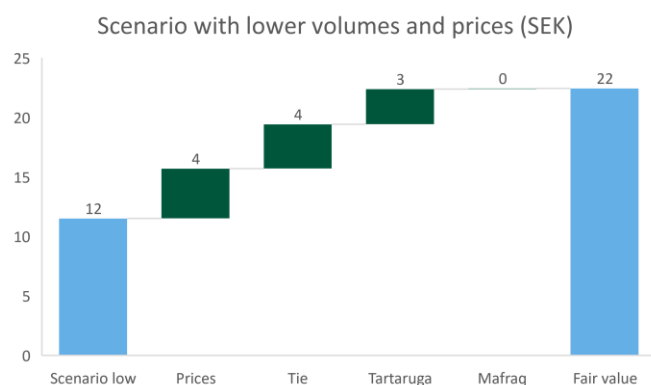
Source: Company, EPB

Chart 8: ...but our scenario with lower volumes...



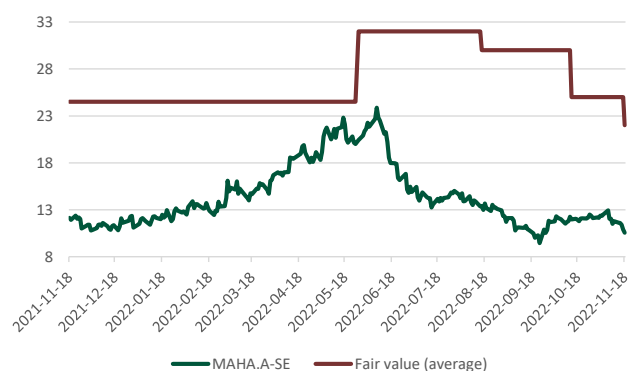
Source: EPB

Chart 9: ...show that the share reflects both lower prices and volumes



Source: EPB

Chart 10: Fair value and share price



Source: Factset, EPB

Table 1: DCF - key assumptions and conclusions

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	297	Risk free nominal rate	2,5%	Long term growth rate	0,0%
PV of terminal value (perpetuity formula)	0	Risk premium	5,5%	Long term EBIT margin	0,0%
Enterprise value	297	Small cap premium	4,0%	Depreciation (% of sales)	2,0%
Latest net debt	41	Extra risk premium	0,0%	Capex (% of sales)	2,0%
Minority interests & other	0	WACC	12,0%	Working cap. (% of sales)	0,0%
Equity value	256			Tax rate	26%
No. of shares outstanding (millions)	120				
Equity value per share (USD)	2,1				
USD/SEK	10,50				
Equity value per share (SEK)	22				

Source: EPB

Investment case

15% earnings CAGR the coming five years is not reflected in the share price performance...: Driven by Tie in Brazil and Mafrag in Oman we expect a sharp increase in production volumes coming years. The combination with the rise in oil prices after the pandemic should drive a significant acceleration of earnings in coming years. Despite this the share price keeps lagging the earnings trend. We expect earnings CAGR of 15% in the next five years.

...which is probably due to the production problems in Brazil: Maha has had to decrease production guidance several times in 2022 on the back of production problems in Brazil. We believe these problems are mechanical rather than geological and that the main reason for the delays is lack of equipment and spare parts. Starboard, a Brazilian private equity firm that has a solid background in the Brazilian oil and gas sector, became the largest owner at the end of September 2022. The composition of the Board and top management has since changed.

The new owner should be able to help Maha to work through the problems...: We believe that Starboard will be able to help Maha to get hold of critical equipment, which should allow for Tie to work through its problems and for volumes to accelerate again.

...which should lead to a rerating in the share: The new management plan to use Maha as a platform of growth and we expect acquisitions to diversify production and hence the risks. A focus is also to increase the share of gas in the production mix. As volumes return as the problems in the Tie field are solved and as the company grows we would expect the share to rerate.

Company profile

Maha is a Swedish listed upstream Oil & Gas (O&G) producer. Its core expertise is in primary, secondary and enhanced O&G recovery technologies and its business strategy is to target and develop underperforming assets. The company has five assets in three countries: Tie and Tartaruga in Brazil, LAK and Illinois in the US and Mafrag in Oman.

- The light oil field Tie is Maha's key asset and it currently accounts for the vast majority of the Group's production. We believe Tie has long-term operating cost of less than USD 5.5/boe.
- Tartaruga, also a light oil field, increased production with 586% 2017-2020 and have produced more than a million barrels since the field was discovered. Tartaruga has operating cost of USD 15/boe.
- Illinois Basin is a conventional light oil field. The basin has so far produced around 4m boe and there is an estimated 10m boe to be extracted in known field in the Illinois basin.
- LAK Ranch is a heavy oil field that so far has produced around 150,000 boe. The field is currently not producing.
- Mafrag is a shallow undeveloped heavy oil field in Block 70, which is in the oil rich, oil producing Ghaba basin in the centre of Oman.

Valuation

We have valued Maha with DCF backed up by SOTP. The valuation is based on the production profile and cost estimates that were published in the five-year strategy published in March 2021. The production profile is based on proven and probable reserves and resources which decreases the risk. We use a WACC of 12%.

Fair value

21-23 kr

Income statement

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Net sales	15	38	56	39	68	89	124	173
Total revenue	15	38	56	39	68	89	124	173
Gross profit	15	38	56	39	68	89	124	173
Other operating costs	-11	-16	-20	-42	-21	-34	-54	-75
EBITDA	3	22	36	-3	48	55	70	97
Items affecting comparability	0	0	0	-21	0	0	0	0
EBITDA, adjusted	3	22	36	18	48	55	70	97
Depreciation and amortization	-2	-3	-7	-6	-9	-14	-28	-46
EBITA, adjusted	1	20	29	12	39	41	42	52
EBIT	1	20	29	-9	39	41	42	52
EBIT, adjusted	1	20	29	12	39	41	42	52
Net financial items	-4	-5	-4	-5	-10	-9	-12	-7
Profit before tax	-3	15	25	-14	29	32	30	45
Profit before tax, adjusted	-3	15	25	7	29	32	30	45
Taxes	0	11	-5	3	-8	-9	-8	-12
Net income	-3	26	20	-10	22	24	22	33
Net income, adjusted	-3	26	20	11	22	24	22	33

Source: Maha Energy, EPB

Cash flow statement

	2017	2018	2019	2020	2021	2022e	2023e	2024e
EBIT	1	20	29	-9	39	41	42	52
Other Cash flow Items	(2)	(1)	0	28	(8)	(6)	8	27
Cash flow from operating activities	-1	18	29	19	31	35	50	78
Investments	-2	-13	-28	-20	-44	-47	-11	-32
Free cash flow	-4	3	0	-1	-16	-22	36	44
New share issue / repurchase	18	0	0	0	9	0	0	0
Acquisition	-33	0	0	-15	0	0	0	0
Changes in debt	33	0	0	0	19	23	-35	-33
Other items	0	0	0	0	-1	-1	-2	-2
Cash flow	11	4	3	-14	20	0	0	9
Translation differences	1	-3	-1	-2	-1	0	0	0
Net debt	14	11	9	34	33	56	22	-20

Source: Maha Energy, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022e	2023e	2024e
ASSETS								
Tangible fixed assets	47	59	76	86	113	147	131	120
Other fixed assets	18	21	21	11	14	24	26	29
Total fixed assets	65	91	106	112	135	179	166	156
Inventories	0	0	0	0	0	0	0	1
Accounts receivable	2	4	5	3	6	4	5	9
Other current assets	1	1	1	1	1	2	2	3
Cash and cash equivalents	19	20	22	7	26	26	26	35
Total current assets	25	28	30	12	33	32	33	47
TOTAL ASSETS	90	119	136	124	168	211	199	204
EQUITY AND LIABILITIES								
Equity	48	69	88	56	91	115	137	170
Total equity	48	69	88	56	91	115	137	170
Long-term interest-bearing liabilities	33	31	31	0	44	67	33	0
Other long-term liabilities	2	2	2	3	2	2	2	2
Total long-term liabilities	35	41	41	11	50	73	38	5
Short-term interest-bearing liabilities	0	0	0	36	11	11	11	11
Accounts payable	4	4	5	11	10	6	6	9
Other current liabilities	4	5	2	10	5	4	5	7
Total current liabilities	8	9	7	58	27	23	24	28
TOTAL EQUITY AND LIABILITIES	90	119	136	124	168	211	199	204

Source: Maha Energy, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Revenue growth	-	>100%	46%	N.m.	75%	31%	40%	39%
EBITDA growth, adjusted	-	>100%	60%	N.m.	>100%	16%	27%	38%
EBIT growth, adjusted	-	>100%	47%	N.m.	>100%	5%	2%	23%
EPS growth, adjusted	-	>100%	N.m.	N.m.	89%	5%	N.m.	50%
Gross margin	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
EBITDA margin	22,0%	58,8%	64,5%	Neg.	69,9%	62,2%	56,5%	56,4%
EBITDA margin, adjusted	22,0%	58,8%	64,5%	46,4%	69,9%	62,2%	56,5%	56,4%
EBIT margin	6,9%	52,0%	52,5%	Neg.	57,4%	46,2%	33,7%	29,9%
EBIT margin, adjusted	6,9%	52,0%	52,5%	31,4%	57,4%	46,2%	33,7%	29,9%
Profit margin, adjusted	Neg.	47,3%	35,4%	27,5%	31,6%	26,8%	17,7%	19,1%

Source: Maha Energy, EPB

Return

	2017	2018	2019	2020	2021	2022e	2023e	2024e
ROE, adjusted	Neg.	44%	25%	15%	29%	23%	17%	21%
ROCE, adjusted	Neg.	23%	27%	11%	32%	24%	22%	28%
ROIC, adjusted	Neg.	28%	33%	13%	37%	28%	25%	33%

Source: Maha Energy, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Inventory / total revenue	2%	0%	1%	1%	0%	0%	0%	0%
Accounts receivable / total revenue	15%	11%	9%	8%	9%	5%	4%	5%
Total short-term liabilities / total cost	68%	56%	36%	>100%	>100%	68%	43%	37%
Working capital / total revenue	-9%	-2%	2%	-40%	-11%	-5%	-3%	-2%
Capital turnover rate	0,2x	0,4x	0,5x	0,4x	0,5x	0,5x	0,7x	0,9x

Source: Maha Energy, EPB

Financial position

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Net debt	14	11	9	34	33	56	22	-20
Equity ratio	53%	58%	65%	45%	54%	55%	69%	84%
Net debt / equity	0,3x	0,2x	0,1x	0,6x	0,4x	0,5x	0,2x	-0,1x
Net debt / EBITDA	4,3x	0,5x	0,2x	-11,8x	0,7x	1,0x	0,3x	-0,2x

Source: Maha Energy, EPB

Per share data

	2017	2018	2019	2020	2021	2022e	2023e	2024e
EPS	-0,03	0,25	0,18	-0,10	0,19	0,20	0,18	0,28
EPS, adjusted	-0,03	0,25	0,18	0,10	0,19	0,20	0,18	0,28
FCF per share	-0,05	0,03	0,00	-0,01	-0,14	-0,18	0,30	0,37
Book value per share	0,56	0,68	0,81	0,52	0,81	0,96	1,15	1,42
Number of shares, m	86,6	102	108	106	113	120	120	120
Number of shares after dilution, average	86,6	102	108	106	113	120	120	120

Source: Maha Energy, EPB

Valuation

	2017	2018	2019	2020	2021	2022e	2023e	2024e
P/E, adjusted	Neg.	5,8x	14,6x	18,0x	6,4x	5,0x	5,4x	3,6x
P/BV	1,3x	2,2x	3,3x	3,5x	1,5x	1,0x	0,9x	0,7x
P/FCF	Neg.	53,5x	583,7x	Neg.	Neg.	Neg.	3,3x	2,7x
FCF-yield	Neg.	2%	0%	Neg.	Neg.	Neg.	30%	37%
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	5,3x	4,0x	4,9x	5,6x	2,6x	2,0x	1,1x	0,6x
EV/EBITDA, adjusted	24,1x	6,9x	7,6x	12,0x	3,8x	3,2x	2,0x	1,0x
EV/EBIT, adjusted	76,7x	7,8x	9,3x	17,8x	4,6x	4,3x	3,4x	1,9x
EV	77	154	272	218	180	176	141	99
Share price, year end	0,7	1,5	2,6	1,8	1,2	1,0	1,0	1,0

Source: Maha Energy, EPB

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Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM
Tel: +46 8 463 80 00 Fax: +46 8 678 80 33 www.penser.se