



ERIK PENSER BANK

Penser Access | Oil, Gas & Consumable Fuels | Sweden | 30 January 2023

Maha Energy

Sale of Maha Brazil will result in cash larger than market cap

A company undergoing transformation

Since Starboard became the main shareholder of Maha at the end of September, it has started a transformation of the company. So far, two major transactions have been announced: the sale of Maha Brazil, which includes Tie and Tartaruga; and the acquisition of DBO 2.0, which adds two offshore O&G assets in Brazil. It has also carried out a directed share issue that strengthened the finances and broadened the ownership base, and it is collecting bids for the US assets. We believe this is only the beginning.

Cash in line with market cap reduces the downside risk

Post proceeds for the sale of Maha Brazil and minus the issued bank debt, Maha will have a cash position that is largely in line with its current market cap. It is still uncertain what the proceeds from the divestment will be used for, but downside in the share should nevertheless be curbed. We also believe the operational risk in DBO's assets, which are operated by 3R Offshore – in turn 85% owned by publicly listed 3R Petroleum – is lower than it was for Tie and Tartaruga.

First take of fair value is SEK 13-16

We leave estimates unchanged as no transaction has yet closed and as we do not have sufficient information to add DBO's assets to our forecasts. We do, however, adjust the number of shares for the rights issue in mid-December and fine-tune our fair value to reflect our first take of the value following all transactions. Based on independent NPV10 calculations, we reach a potential value for Maha of USD 260-320m or SEK 13-16 per share (based on the total number of shares including the shares used to pay for DBO). Our previous fair value range was SEK 21-23.

Change in estimates (US\$)					Forecast (US\$ m)					Value and risk													
	22e	Δ%	23e	Δ%		2021	2022e	2023e	2024e	Fair value	SEK 13 - 16												
Total revenue	89	0,0	124	0,0	Total revenue	68	89	124	173	Share price	SEK 9,2												
EBITDA, adj.	55	0,0	70	0,0	Revenue growth	75%	31%	40%	39%	Risk level	High												
EPS, adj.	0,2	-16,5	0,2	-16,5	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	0,2	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		✓																					
Q1 - report	15 May 2023				EPS growth	>100%	N.m.	N.m.	50%														
Company facts (US\$ m)					BV/share	0,8	0,8	1,0	1,2	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		✓																					
Number of shares	144m				EBIT margin	57,4%	46,2%	33,7%	29,9%														
Market capitalization	117				ROE, adj.	29,4%	23,2%	17,4%	21,4%														
Net debt	56				ROCE, adj.	31,9%	23,8%	22,0%	28,0%														
EV	174				EV/Sales	2,6x	1,9x	1,2x	0,6x														
Free float	79%				EV/EBITDA	3,8x	3,1x	2,1x	1,1x														
Daily trading volume, average	509k				EV/EBIT	4,6x	4,2x	3,6x	2,1x														
Bloomberg Ticker	MAHAA SS EQUITY				P/E, adj.	6,4x	4,9x	5,8x	3,9x														
Analyst					P/BV	1,5x	1,0x	0,9x	0,7x														
Markus Almerud					FCF yield	-	-	28%	35%														
markus.almerud@penser.se					Net debt / EBITDA	0,7x	1,0x	0,3x	-0,2x														

Investment case

Divestment of Maha Brazil puts cash position in line with the market cap... Since the end of September 2022, when the Brazilian investment firm Starboard became the main owner of Maha, we have seen a transformation of the company. A key part of this has been the announced sale of Maha Brazil, which includes the Tie field and Tartaruga, for USD 138m plus potential earn-outs. Together with the cash at the end of Q3 and the proceeds from the capital raise in mid-December and minus the issued bank debt, Maha's cash position will be in line with its current market cap.

...which decreases the risk in the share: Maha has seen several problems in recent years, reducing the market's confidence, we believe. That the market cap will now largely equal the cash position decreases the risk, in our view. It is still uncertain what the proceeds from the divestment will be used for, but downside in the share should nevertheless be curbed.

The DBO transaction will bring in new assets at an attractive price: The combination of DBO and Maha, with DBO's assets being brought in at 0.2-0.4x NAV, imply a production profile that should offer lower risk than Tie and Tartaruga. The reserves and resources have been certified by renowned third parties and the assets are operated by 3R Offshore, a factor that decreases the execution risk, in our view.

After transforming the company, management intends to increase communication with the market: After announcing the DBO transaction and the sale of Maha Brazil, the new management team will, we believe, increase communication with the market, which could be a catalyst for a share.

Company profile

Maha Energy is a Swedish listed upstream Oil & Gas (O&G) producer. The company has started a transformation that includes the sale of Maha Brazil and the acquisition of DBO 2.0, bringing new assets in Brazil. After closing the ongoing transactions, it will have five assets in three countries: Peroá and Papa Terra in Brazil, LAK and Illinois in the US, and Mafraq in Oman.

- Peroá is a gas cluster located in the Espírito Santo basin, offshore Brazil in shallow waters. Approximately 72% gas has been recovered and the cluster has a 55 km hgas pipeline connection to the Cacimbas gas processing plant operated by Petrobras. The unmanned platform has opex of c. USD 5/boe.

- Papa Terra is a heavy oil field located in deep waters in the Campos Basin, approximately 100 km off the coast of Rio de Janeiro, Brazil. The asset has six years of operations and the offtaker is under negotiation. Around 2% of the oil has been recovered so far.

- Illinois Basin is a conventional light oil field that has so far produced around 4m boe, with an estimated 10m boe to be extracted in the 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.

- Mafraq is a shallow, undeveloped heavy oil field in Block 70, which is in the oil-rich, oil-producing Ghaba basin in central Oman.

Valuation

Maha's assets are valued using external estimates for the assets that are not yet part of Maha. They are valued using NPV analysis with a WACC of 12%. Our fair value is c. USD 260-320m, corresponding to SEK 13-16 per share.

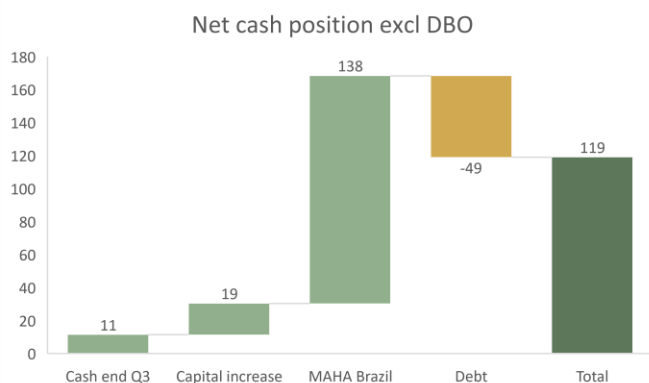
Selling Brazilian assets will take cash position in line with current market cap

There have been a number of significant changes and announcements in Maha Energy (Maha) in recent months, in many ways changing the fundamentals and the structure of the company. The most important announcements have been:

- 28 September 2022: Kvalitena AB announced it had sold around 10% of the shares in Maha Energy (Maha) to Starboard, a Brazilian investment management firm. Starboard, which has previously successfully developed 3R Petroleum in Brazil, brings significant sectorial expertise and a vast network in the sector, particularly in Brazil. Since then, Starboard has gradually increased its ownership and currently controls around 19.9% of the shares in Maha.
- 3 November 2022: An EGM decided to elect Fabio Vassel, Paulo Thiuago Mendonça and Enrique Penã as new ordinary Board Members, to dismiss Jonas Lindvall, Nicholas Walker and Christer Lindholm, and to appoint Fabio Vessel as Chairman.
- 4 November 2022: The company announced a change in management with Paulo Thiuago Mendonça, Managing Director at Starboard, taking over as CEO and Bernardo Guterres, Partner and Executive Director at Starboard, as CFO.
- 2 December 2022: The company announced it was investigating two potential M&A transactions that could result in the sale of its Brazilian and US assets.
- 5 December 2022: A combination with DBO 2.0, a private upstream oil and gas company focusing on mature offshore fields in Brazil, was announced. This is expected to close in Q1.
- 14 December 2022: A directed new share issue of USD 19m net of fees was completed.
- 28 December 2022: Maha Brazil, which includes the Tie and Tartaruga fields, were sold to PetroRecôncio for USD 138m plus a potential USD 36m in earnouts.

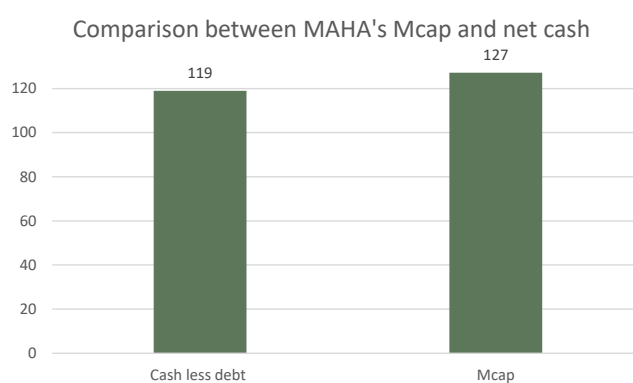
Maha had USD 11m in cash and cash equivalents at the end of Q3. Given the capital raised in the issue in mid-December, plus the proceeds from the divestment of Maha Brazil, and minus the issued bank debt, Maha has cash of USD 119m (Chart 1). Unknowns are the cash burn in Q4 and the proceeds from the farm-out of 35% of Block 70 in Oman to Mafraq Energy LLC. We note that the cash position adjusted for the sale of Maha Brazil is largely in line with the current market cap (Chart 2), which should decrease the risk in the share.

Chart 1: Post-closing MAHA will have net cash...



Source: Company, EPB

Chart 2: ...in line with its market cap



Source: Company, EPB

DBO brings USD 145m in NPV, giving total asset value of SEK 13-16 per share

The business combination with DBO 2.0 (DBO) is for a consideration of 36.8m shares, which corresponds to an implicit value of slightly more than USD 30m.

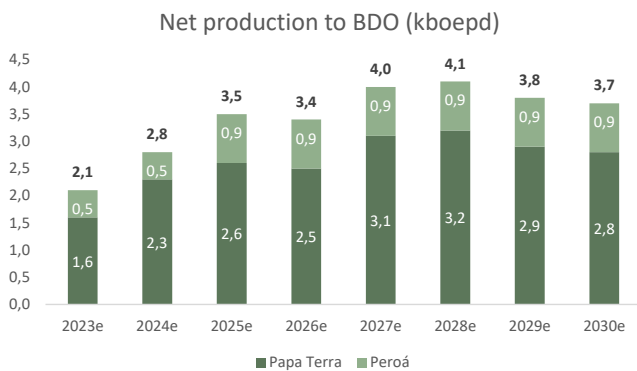
DBO owns 15% in 3R offshore, which owns and operates two offshore fields in Brazil – Papa Terra and Peroá. The remaining 85% is owned by 3R Petroleum, a Brazilian listed upstream O&G operator that Starboard founded. In other words, thanks to the current management’s backgrounds in Starboard, they should know the Brazilian assets quite well.

The two fields produced 1.8-1.9 kboepd in October 2022 and are expected to produce 2.1 kboepd in 2023e (net DBO, Chart 3). As a comparison, Maha produced 3.4 kboepd in 9m 2022 and around 2.3-2.4 kboepd in October. Based on public reserve reports from DeGolyer and MacNaughton and from Gaffney Cline and using an oil price of USD 71/bbl for 2023e and USD 66/bbl thereafter, the NPV10 of P1 reserves are USD 86m and the NPV10 of P2 reserves is USD 145m (Chart 4).

Minus DBO’s share of 3R Offshore’s contingent payment, USD 21m, the potential value of Maha Energy following all transactions would be USD 316m or around SEK 16 per share (including the shares to be issued to DBO, Chart 5). DBO’s assets would then account for more than half of the value of Maha (Chart 6).

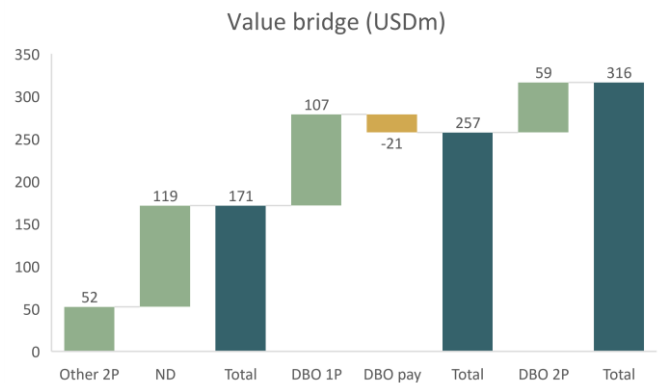
The transfer price of DBO using Maha’s current share price and USD/SEK rate (SEK 9.09, USD/SEK 10.3) is P/NAV of c. 0.4x on P1 reserves and 0.2x using P2 reserves.

Chart 3: DBO's assets will give around 2,000 boepd in 2023...



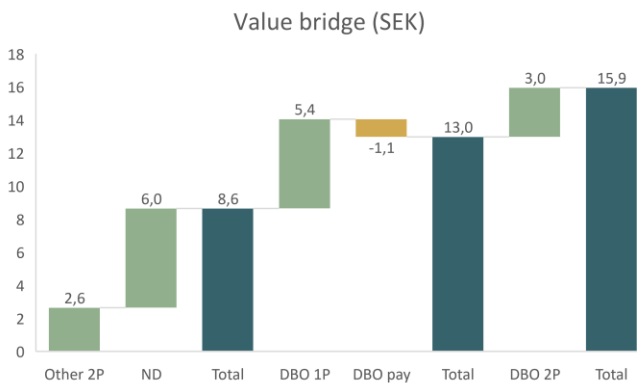
Source: Company, EPB

Chart 4: ...and will add USD 145m in NPV...



Source: Company, EPB

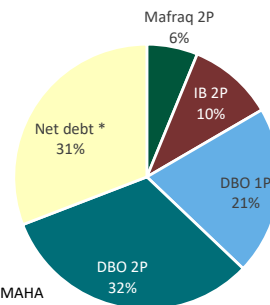
Chart 5: ...which gives a total value of around SEK 16 per share



Source: Company, EPB

Chart 6: DBO's assets will account for a little more than half the value

Contribution of value after close of transactions



* After closing of sales of MAHA Brazil excl. earn-outs and net of DBO's contingent payment

Source: Company, EPB

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%	N.m.	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	0,17	0,15	0,23
EPS, adjusted	-0,03	0,25	0,18	0,10	0,19	0,17	0,15	0,23
FCF per share	-0,05	0,03	0,00	-0,01	-0,14	-0,15	0,25	0,31
Book value per share	0,56	0,68	0,81	0,52	0,81	0,80	0,96	1,19
Number of shares, m	86,6	102	108	106	113	144	144	144
Number of shares after dilution, average	86,6	102	108	106	113	144	144	144

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	4,9x	5,8x	3,9x
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.	3,5x	2,9x
FCF-yield	Neg.	2%	0%	Neg.	Neg.	Neg.	28%	35%
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	1,9x	1,2x	0,6x
EV/EBITDA, adjusted	24,1x	6,9x	7,6x	12,0x	3,8x	3,1x	2,1x	1,1x
EV/EBIT, adjusted	76,7x	7,8x	9,3x	17,8x	4,6x	4,2x	3,6x	2,1x
EV	77	154	272	218	180	174	149	107
Share price, year end	0,7	1,5	2,6	1,8	1,2	0,8	0,9	0,9

Source: Maha Energy, EPB

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