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Maha Energy

Waiting for the next step

July production at 85% of H2 2022 levels

With Maha Offshore – the assets in Brazil that came with the acquisition of DBO 2.0 – contributing the vast majority, Maha produced almost 2,000 boepd of oil in Q2 and 2,175 boepd in July. For comparison, it produced an average of around 2,500 boepd in H2 2022. In other words, the new assets have already replaced a large part of the volumes lost through the divestment of Maha Brazil. We expect a further ramp-up of Offshore to a peak of 4.0–4.1 kboepd in 2027e–2028e.

Extension requested on initial phase of Block 70 in Oman

The minimum work obligations for the initial phase of the EPSA (exploration and production-sharing agreement) for Block 70 in Oman were finalised during Q2. Eight production wells were tested for the short term, with five wells producing oil at an average rate of 300 boepd per well; three had to be suspended. To improve the support for any decision regarding Block 70's declaration of commerciality (which would prompt additional further capex), Maha has asked the Omani authorities for an extension of the initial phase of the EPSA. No timeline has been disclosed for this.

Believe that further transactions are in the pipeline

After the end of the quarter, the company announced a change of management and board. The board has appointed one of DBO 2.0's founders, Kjetil Solbaekke, as CEO as the current CEO step into the chair of the board position. Maha currently has around USD 150m in cash, which is about to be deployed. Given its 50–60% debt financing, we estimate Maha's room for acquisitions is around USD 250m. Using similar multiples as for the acquisition of DBO 2.0, we believe Maha could add some USD 1bn in assets. As the current asset value is about USD 175m, this would imply a significant change in Maha's profile. We deconsolidate all assets except Illinois Basin in the US in our estimates and add the equity contribution from Maha Offshore. Based on our NPV analysis, we see a fair value of SEK 17–19 for Maha.

Change in estimates

	23e	24e	25e
Total revenue	-56,1%	-93,9%	-92,2%
EBITDA, adj.	N.m.	3,4%	48,8%
EPS, adj.	-15,5%	47,1%	>100%

Upcoming events

Q3 - report	14 November 2023

Company facts (USDm)

Number of shares	178m
Market capitalisation	147
Net debt	-119 603
EV	147
Free float	72%
Daily trading volume, average	388k
Bloomberg Ticker	MAHAA SS EQUITY

Analyst

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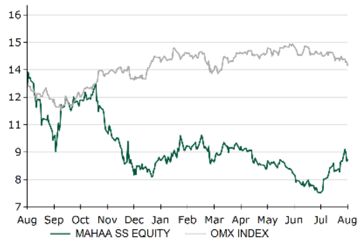
Forecast (US$ m)

	2022	2023e	2024e	2025e
Total revenue	12	7	4	4
Revenue growth	-82%	-43%	-48%	0%
EBITDA, adj.	0	0	27	30
EBIT, adj.	-3	-2	25	28
EPS, adj.	-0,1	0,0	0,1	0,1
EPS growth, adj.	N.m.	N.m.	N.m.	12%
BV/share	1,2	0,9	1,1	1,2
Dividend per share	0,0	0,0	0,0	0,0
EBIT margin	Neg.	Neg.	>100%	>100%
ROE, adj.	Neg.	Neg.	13,1%	12,9%
ROCE, adj.	Neg.	1,3%	12,7%	12,6%
EV/Sales	11,7x	20,9x	40,6x	40,8x
EV/EBITDA	-	-	5,4x	4,8x
EV/EBIT	-	-	5,8x	5,2x
P/E, adj.	-	-	6,3x	5,6x
P/BV	0,7x	0,9x	0,8x	0,7x
Net debt / EBITDA	-63,6x	603,4x	-4,1x	-3,7x

Value and risk

Fair value	SEK 17,0 - 19,0
Share price	SEK 9,0
Risk level	High

Price Performance 12 months



Conflicts of interest

	Yes	No
Liquidity provider		✓
Certified adviser		✓
Transactions 12m		✓

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 its main owner, we have seen a transformation of Maha. A key part of this has been the announced sale of Maha Brazil (including the Tie field and Tartaruga) for USD 138m plus potential earn-outs. Adding together the cash at the end of Q2 and the proceeds from the capital raise in mid-December, Maha's cash position will be in line with its current market cap.

…decreasing the risk in the share: Maha has experienced several problems in recent years, inhibiting the market's confidence in the company, 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 nonetheless be curbed.

DBO transaction brought in new assets at an attractive price: The combination of DBO and Maha, with DBO's assets being brought in at 0.20–0.25x NAV, implies a production profile that should hold 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 market communication: 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 listed Swedish upstream oil and gas (O&G) producer. The company has begun a transformation that includes the sale of Maha Brazil and the acquisition of DBO 2.0, providing new assets in Brazil. After closing the ongoing transactions, Maha 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 around 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 basin.

• LAK Ranch is a heavy oil field that has so far 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, producing Ghaba basin in central Oman.

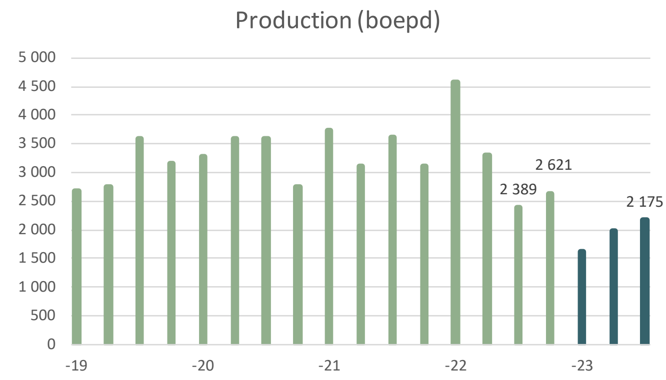
Valuation

We value Maha's assets using inputs from external sources. We value the assets using NPV analysis with a WACC of 10%. Our fair value is some USD 290m, corresponding to a fair value range of SEK 17–19 per share.

Brief overview of the quarter

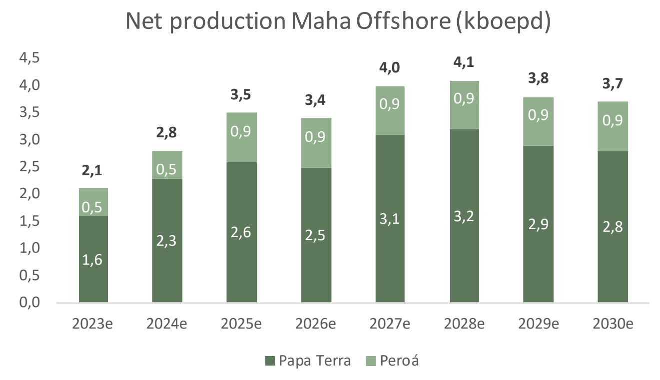
The transition of Maha continued in Q2. The transaction with DBO 2.0 closed on 23 May, and Peroá and Papa Terra – in which Maha holds 15% and 9.375% working interest – were formed into Maha Offshore. Pro forma, Maha produced almost 2,000 boepd in Q2, which increased to 2,175 boepd in July (chart 1). The production in Maha Offshore will continue to ramp up in coming years (chart 2) but we note that July's production was at 85–90% of the levels achieved in H2 2022. Peroá reached lifting costs of USD 5.8/boe, while Papa Terra saw USD 30.1/boe.

Chart 1: July production reached almost 90% of the H2 2022 average…



Source: Company, EPB

Chart 2: …and production in Maha Offshore will continue to expand



Source: Company, EPB

The initial phase of the EPSA (exploration and production-sharing agreement) for Block 70 in Oman is approaching its conclusion (October 2023) and the minimum work obligations were finalised during Q2. Eight production wells were tested for the short term. Five of them produced oil at an average rate of 300 boepd per well, while three wells had to be suspended. The oil produced had higher viscosity than anticipated and Maha is now scaling up the chemical treatment of the oil to enhance flowability. 4,000 boe is currently stored, awaiting shipment and as soon as it is offloaded, Maha intends to restart production.

To improve the support for any decision regarding Block 70's declaration of commerciality (which would prompt additional capex), Maha has asked the Omani authorities for an extension of the initial phase of the EPSA. No timeline has been disclosed for this.

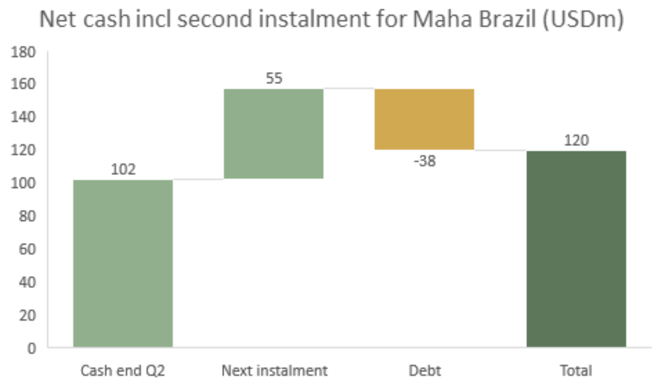
On 11 August, the company announced that the current CEO, Paulo Thiago Mendonca, is proposed to end the EGM as the chair of the board. Kjetil Solbaekke, who has more than 30 years of experience from various positions in the Norwegian oil and gas sector, including being a co-founder of DBO 2.0, will be appointed as the new CEO. The EGM is planned for 18 September.

Valuation

Including the next instalment of the payment for Maha Brazil (USD 55m), which is due during August, Maha had cash of around USD 157m at the end of the quarter (chart 3), implying net debt of USD 120m after deducting bank debt. We note the current market cap is largely in line with the cash position, while net debt represents some three-quarters of the market cap (chart 4).

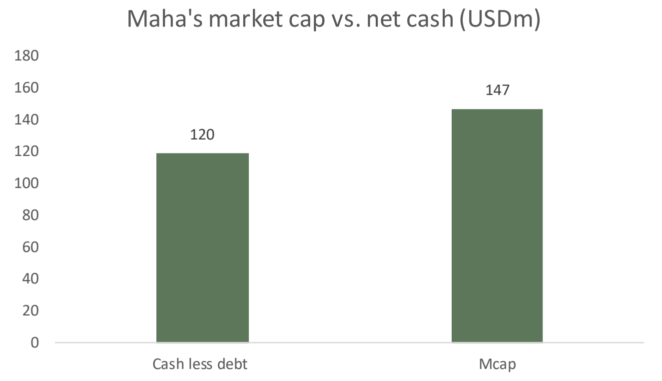
Maha will utilise the cash in new transactions to be made using a mixture of equity and debt. During the conference call, management suggested the targeted level of equity used would be 40–50% and that the cash chest for acquisitions is thus around USD 250m. The DBO transaction was made at 0.23x NAV (using 1P and 2P reserves), and assuming similar multiples for the next transaction, Maha could add around USD 1bn in NPV by deploying its cash.

Chart 3: USD 157m in cash and USD 120m in net debt



Source: Company, EPB

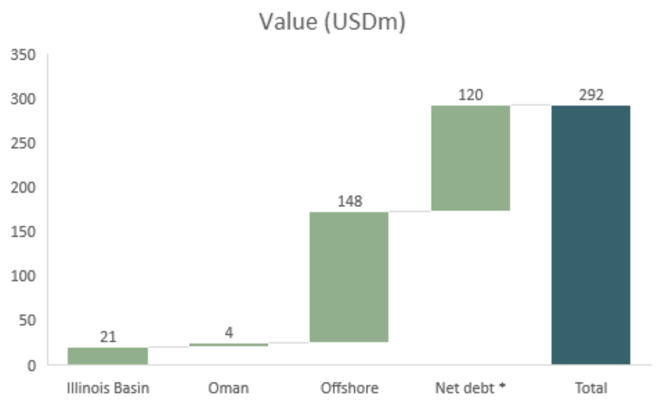
Chart 4: Net cash accounts for around three-quarters of market cap…



Source: Company, EPB

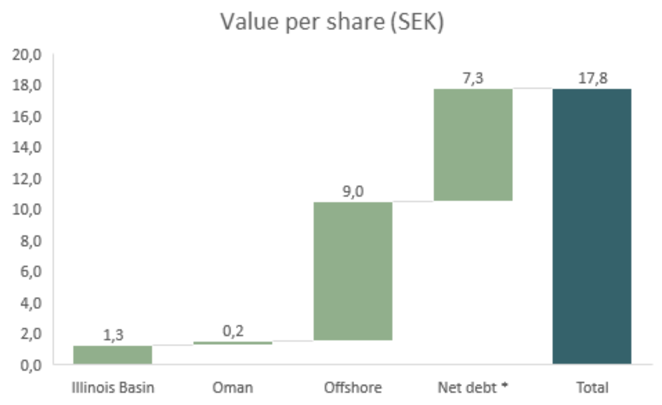
We value Maha using a sum-of-the-parts model employing external sources for the NPV calculations. The value of the assets includes 1P and 2P reserves, while we assign no value to 3P resources. Offshore accounts for some 85% of the asset value. We estimate the total equity value at almost USD 300m, of which net cash accounts for around 40%. This corresponds to SEK 18 per share.

Chart 5: …and the accumulated asset value is USD 173m plus net cash…



Source: EPB

Chart 6: …which corresponds to around SEK 18 per share



Source: EPB

Table 1: DCF – key assumptions and conclusions

Valuation output	
Sum of PV of FCF (explicit period)	105
PV of terminal value (perpetuity formula)	0
Enterprise value	**105**
Latest net debt	-120
Minority interests & other	0
Equity value	**224**
No. of shares outstanding (millions)	178
Equity value per share (USD)	**1,3**
USD/SEK	10,91
Equity value per share (SEK)	**14**

WACC assumptions	
Risk free nominal rate	2,5%
Risk premium	5,5%
Small cap premium	4,0%
Extra risk premium	0,0%
WACC	**12,0%**

Terminal value assumptions	
Long term growth rate	0,0%
Long term EBIT margin	0,0%
Depreciation (% of sales)	2,0%
Capex (% of sales)	2,0%
Working cap. (% of sales)	0,0%
Tax rate	26%

Source: EPB

Table 2: DCF – sensitivity

Sensitivity analysis

		Long-term growth rate				
		2,0%	2,5%	3,0%	3,5%	4,0%
	10,0%	1,34	1,34	1,34	1,34	1,34
	11,0%	1,30	1,30	1,30	1,30	1,30
WACC	12,0%	1,26	1,26	1,26	1,26	1,26
	13,0%	1,22	1,22	1,22	1,22	1,22
	14,0%	1,18	1,18	1,18	1,18	1,18

		Long-term EBIT margin				
		25,0%	27,5%	30,0%	32,5%	35,0%
	10,0%	1,34	1,34	1,34	1,34	1,34
	11,0%	1,30	1,30	1,30	1,30	1,30
WACC	12,0%	1,26	1,26	1,26	1,26	1,26
	13,0%	1,22	1,22	1,22	1,22	1,22
	14,0%	1,18	1,18	1,18	1,18	1,18

Source: EPB

Income statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	**15**	**38**	**56**	**39**	**68**	**12**	**7**	**4**	**4**
Total revenus	**15**	**38**	**56**	**39**	**68**	**12**	**7**	**4**	**4**
Gross profit	**15**	**38**	**56**	**39**	**68**	**12**	**7**	**4**	**4**
Other Operating Expenses	-11	-16	-20	-21	-21	-13	-7	24	27
EBITDA	**3**	**22**	**36**	**-3**	**48**	**0**	**0**	**27**	**30**
Items affecting comparability	0	0	0	-21	0	0	0	0	0
EBITDA, adjusted	**3**	**22**	**36**	**18**	**48**	**0**	**0**	**27**	**30**
Depreciation	-2	-3	-7	-6	-9	-3	-2	-2	-2
EBITA, adjusted	**1**	**20**	**29**	**12**	**39**	**-3**	**-2**	**25**	**28**
EBIT	**1**	**20**	**29**	**-9**	**39**	**-3**	**-2**	**25**	**28**
EBIT, adjusted	**1**	**20**	**29**	**12**	**39**	**-3**	**-2**	**25**	**28**
Net Financial Items	-4	-5	-4	-5	-10	-9	-3	-2	-2
Profit before tax	**-3**	**15**	**25**	**-14**	**29**	**-13**	**-5**	**23**	**26**
Profit before tax, adjusted	**-3**	**15**	**25**	**7**	**29**	**-13**	**-5**	**23**	**26**
Taxes	0	11	-5	3	-8	0	0	0	0
Net income	**-3**	**26**	**20**	**-10**	**22**	**-13**	**-5**	**23**	**26**
Net income, adjusted	**-3**	**26**	**20**	**11**	**22**	**-13**	**-5**	**23**	**26**
Sales Growth	*-*	*>100%*	*46%*	*-30%*	*75%*	*-82%*	*-43%*	*-48%*	*0%*
Gross Margin	*100,0%*	*100,0%*	*100,0%*	*100,0%*	*100,0%*	*100,0%*	*100,0%*	*100,0%*	*100,0%*
EBIT Margin, Adjusted	*6,9%*	*52,0%*	*52,5%*	*31,4%*	*57,4%*	*Neg.*	*Neg.*	*>100%*	*>100%*
EPS, Adjusted	*-0,03*	*0,25*	*0,18*	*0,10*	*0,19*	*-0,10*	*-0,03*	*0,13*	*0,15*
EPS Growth, Adjusted	*-*	*N.m.*	*-27%*	*-45%*	*89%*	*N.m.*	*N.m.*	*N.m.*	*12%*

Source: Maha Energy, EPB

Cash flow statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	1	20	29	-9	39	-3	-2	25	28
Other Cash flow Items	-2	-1	0	28	-8	58	-9	-27	-30
Cash flow from operating activities	**-1**	**18**	**29**	**19**	**31**	**55**	**-11**	**-2**	**-2**
Investments in Fixed Assets	-2	-13	-28	-20	-44	-48	0	0	0
Investments in intangible fixed assets	-1	-3	-1	0	-3	-15	1	0	0
Cash Flow From Investments	**-3**	**-16**	**-28**	**-20**	**-47**	**-63**	**1**	**0**	**0**
Free cash flow	**-4**	**3**	**0**	**-1**	**-16**	**-8**	**-10**	**-2**	**-2**
Acquisitions & Divestments	-33	0	0	-15	0	0	151	0	0
New share issue / repurchase	18	0	0	0	9	19	0	0	0
Change in liabilities	33	0	0	0	19	-11	-27	2	2
Other items	-3	2	3	2	8	-1	0	0	0
Cash flow from financing	**15**	**2**	**3**	**-13**	**36**	**6**	**124**	**2**	**2**
Cash flow	**11**	**4**	**3**	**-14**	**20**	**-2**	**114**	**0**	**0**
Net debt	**14**	**11**	**9**	**34**	**33**	**27**	**-114**	**-113**	**-111**

Source: Maha Energy, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS									
Tangible fixed assets	47	59	76	86	113	14	12	10	8
Shares in associated companies	0	0	0	0	0	0	31	58	88
Other fixed assets	18	32	30	27	22	184	31	31	31
Total fixed assets	**65**	**91**	**106**	**112**	**135**	**198**	**74**	**99**	**127**
Accounts receivable	2	4	5	3	6	1	0	0	0
Other current assets	4	3	3	1	1	1	0	0	0
Cash and cash equivalents	19	20	22	7	26	20	134	134	134
Total current assets	**25**	**28**	**30**	**12**	**33**	**21**	**134**	**134**	**134**
TOTAL ASSETS	**90**	**119**	**136**	**124**	**168**	**218**	**208**	**233**	**261**
EQUITY AND LIABILITIES									
Equity	48	69	88	56	91	141	166	190	216
Total equity	**48**	**69**	**88**	**56**	**91**	**141**	**166**	**190**	**216**
Long-term interest-bearing liabilities	33	31	31	0	44	27	0	2	4
Long-term lease liabilities	0	0	0	3	2	0	0	0	0
Other long-term liabilities	2	10	10	7	3	22	22	22	22
Total long-term liabilities	**35**	**41**	**41**	**11**	**50**	**48**	**22**	**23**	**25**
Short-term interest-bearing liabilities	0	0	0	36	11	20	20	20	20
Accounts payable	4	4	5	11	10	4	0	0	0
Short-term lease liabilities	0	0	0	1	1	0	0	0	0
Other current liabilities	4	5	2	10	5	6	0	0	0
Total current liabilities	**8**	**9**	**7**	**58**	**27**	**29**	**20**	**20**	**20**
TOTAL EQUITY AND LIABILITIES	**90**	**119**	**136**	**124**	**168**	**218**	**208**	**233**	**261**

Source: Maha Energy, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	>100%	46%	-30%	75%	-82%	-43%	-48%	0%
EBITDA growth, adjusted	-	>100%	60%	-50%	>100%	N.m.	N.m.	N.m.	11%
EBIT growth, adjusted	-	>100%	47%	-58%	>100%	N.m.	N.m.	N.m.	12%
EPS growth, adjusted	-	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	12%
Gross margin	100,0%	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%	Neg.	Neg.	>100%	>100%
EBITDA margin, adjusted	22,0%	58,8%	64,5%	46,4%	69,9%	Neg.	Neg.	>100%	>100%
EBIT margin	6,9%	52,0%	52,5%	Neg.	57,4%	Neg.	Neg.	>100%	>100%
EBIT margin, adjusted	6,9%	52,0%	52,5%	31,4%	57,4%	Neg.	Neg.	>100%	>100%
Profit margin, adjusted	Neg.	67,3%	35,4%	27,5%	31,6%	Neg.	Neg.	>100%	>100%

Source: Maha Energy, EPB

Return

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	44%	25%	15%	29%	Neg.	Neg.	13%	13%
ROCE, adjusted	Neg.	23%	27%	11%	32%	Neg.	1%	13%	13%
ROIC, adjusted	Neg.	28%	33%	13%	37%	Neg.	Neg.	39%	31%

Source: Maha Energy, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Inventory / total revenue	2%	0%	1%	1%	0%	1%	-	-	-
Accounts receivable / total revenue	15%	11%	9%	8%	9%	5%	5%	5%	4%
Total short-term liabilities / total cost	68%	56%	36%	>100%	>100%	>100%	>100%	-84%	-74%
Working capital / total revenue	-9%	-2%	2%	-40%	-11%	-67%	-2%	-2%	-3%
Capital turnover rate	0,2x	0,4x	0,5x	0,4x	0,5x	0,1x	0,0x	0,0x	0,0x

Source: Maha Energy, EPB

Financial position

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	14	11	9	34	33	27	-114	-113	-111
Equity ratio	53%	58%	65%	45%	54%	65%	80%	81%	83%
Net debt / equity	0,3x	0,2x	0,1x	0,6x	0,4x	0,2x	-0,7x	-0,6x	-0,5x
Net debt / EBITDA	4,3x	0,5x	0,2x	-11,8x	0,7x	-63,6x	603,4x	-4,1x	-3,7x

Source: Maha Energy, EPB

Per share data

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-0,03	0,25	0,18	-0,10	0,19	-0,10	-0,03	0,13	0,15
EPS, adjusted	-0,03	0,25	0,18	0,10	0,19	-0,10	-0,03	0,13	0,15
FCF per share	-0,05	0,03	0,00	-0,01	-0,14	-0,07	-0,05	-0,01	-0,01
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Book value per share	0,56	0,68	0,81	0,52	0,81	1,16	0,93	1,06	1,21
Number of shares, m	86,6	102	108	106	113	121	179	179	179
Number of shares after dilution, average	86,6	102	108	106	113	121	179	179	179

Source: Maha Energy, EPB

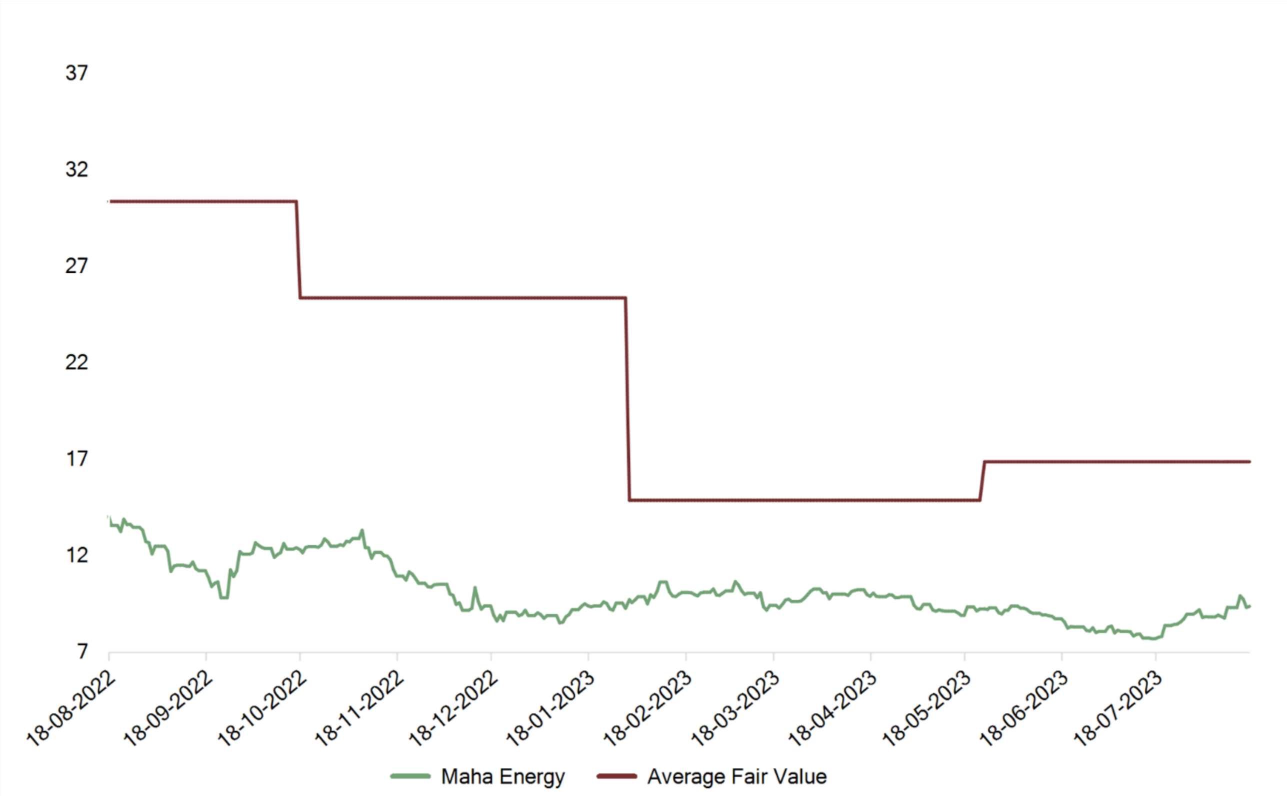
Valuation

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	5,8x	14,6x	18,0x	6,4x	Neg.	Neg.	6,3x	5,6x
P/BV	1,3x	2,2x	3,3x	3,5x	1,5x	0,7x	0,9x	0,8x	0,7x
P/FCF	Neg.	53,5x	583,7x	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
FCF-yield	Neg.	2%	0%	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Dividend yield	0,0%	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%	0,0%
EV/Sales	5,3x	4,0x	4,9x	5,6x	2,6x	11,7x	20,9x	40,6x	40,8x
EV/EBITDA, adjusted	24,1x	6,9x	7,6x	12,0x	3,8x	Neg.	Neg.	5,4x	4,8x
EV/EBIT, adjusted	76,7x	7,8x	9,3x	17,8x	4,6x	Neg.	Neg.	5,8x	5,2x
EV	77	154	272	218	180	144	147	147	147
Share price, year end	0,7	1,5	2,6	1,8	1,2	0,8	0,8	0,8	0,8

Source: Maha Energy, EPB

Share Price and Fair Value Chart

Maha Energy (MAHAA SS EQUITY)



Source: EPB, IDC

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