



## ERIK PENSER BANK

Penser Access | Oil, Gas & Consumable Fuels | Sweden | 17 November 2023

# Maha Energy

## Asset in Venezuela provides optionality

### Acquisition in Venezuela provides optionality

With the acquisition of 24% of PetroUrdaneta in Venezuela for EUR 9m (if the transaction is completed), Maha has created considerable optionality. Venezuela has the highest share of oil reserves in the world, but and production there has suffered significantly owing to the pandemic and sanctions. Due diligence for the acquisition is ongoing and details regarding potential production levels etc. are scarce at present, but we believe there should be considerable potential upside.

### Ongoing deployment of the cash position – Oman decision next

We believe the next step in Maha's transformation will be a decision on Oman, followed by further M&A. Maha has received an extension of the first phase of the exploration and production (E&P) sharing agreement in Oman until 31 December, after which it needs to decide whether to declare commerciality or not. Maha had cash of USD 140m at the end of Q3, which we believe provides it with about USD 200-250m in M&A fire power for acquisitions if debt financing is considered. We calculate this could add up to USD 1bn in asset values – a game changer for Maha.

### Net cash still accounts for large part of market cap

Production is almost back to where it was before the divestment of Maha Brazil, but the balance sheet is considerably stronger. Net cash at the end of Q3 accounted for almost 60% of the market cap, or USD 120m. We value the assets at around USD 170m, which is in line with the market cap. We see Venezuela as pure optionality – our valuation does not reflect PetroUrdaneta. The key to value creation will be how Maha chooses to deploy this cash. We adjust our fair value range to SEK 16–17 (17–19) to account for the change in the cash position, while asset values are unchanged.

Change in estimates				Forecast (US\$ m)				Value and risk	
	23e	24e	25e		2022	2023e	2024e	2025e	
Total revenue	-19,8%	0,0%	0,0%	Total revenue	12	6	4	4	Fair value
EBITDA, adj.	N.m.	-25,4%	-22,9%	Revenue growth	-82%	-54%	-36%	0%	SEK 16,0 - 17,0
EPS, adj.	N.m.	-29,8%	-29,2%	EBITDA, adj.	0	-1	20	23	Share price
				EBIT, adj.	-3	-6	18	21	SEK 9,9
				EPS, adj.	-0,1	0,0	0,1	0,1	Risk level
				EPS growth, adj.	N.m.	N.m.	N.m.	13%	High
				BV/share	1,2	0,9	1,0	1,1	
				Dividend per share	0,0	0,0	0,0	0,0	
				EBIT margin	Neg.	Neg.	>100%	>100%	
				ROE, adj.	Neg.	Neg.	9,6%	9,8%	
				ROCE, adj.	Neg.	Neg.	9,4%	9,6%	
				EV/Sales	11,7x	11,3x	17,6x	17,7x	
				EV/EBITDA	Neg.	-46,7x	3,1x	2,7x	
				EV/EBIT	Neg.	-11,2x	3,5x	3,0x	
				P/E, adj.	-7,9x	-19,9x	10,2x	9,0x	
				P/BV	0,7x	1,0x	0,9x	0,8x	
				FCF yield	-8%	-9%	-5%	-6%	
				Net debt / EBITDA	-63,6x	40,1x	-2,2x	-1,6x	

### Upcoming events

Q4 - report	26 February 2023
Q1 - report	28 May 2023

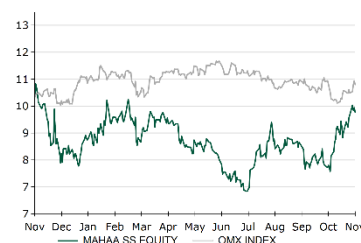
### Company facts (US\$ m)

Number of shares	178m
Market capitalization	167
Net debt	-103
EV	64
Free float	72%
Daily trading volume, average	728k
Bloomberg Ticker	MAHAA SS EQUITY

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### 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. Maha has four assets in three countries: Peroá and Papa Terra in Brazil, Illinois in the US, and Mafrag 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.
- Mafrag 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 apply an NPV analysis with a WACC of 10%. Our fair value is some USD 275m, corresponding to a new fair value range of SEK 16–17 per share.

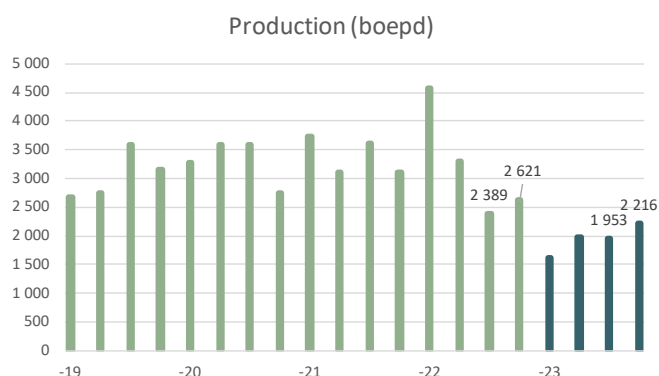
## Brief overview of the quarter

The transition of Maha continued in Q3 and following the close of the quarter. The company has announced the signing of an exclusivity agreement allowing it to indirectly acquire 24% of the O&G company PetroUrdaneta, operating in Venezuela. According to independent consultant Rystad Energy, the assets hold more than eight billion barrels of oil and there is an opportunity for rapid ramp-up through small investments. At any time during the two years following closing of the deal, Maha has the call option to increase ownership to 40%. Venezuela has the largest proven oil reserves in the world, and on 23 October, the US Department of the Treasury temporarily authorised transactions with certain sanctioned parties in Venezuela, including the main shareholder of PetroUrdaneta. The transaction consideration is EUR 4.6m with another EUR 4.6m if Maha decides to extend exclusivity from nine months to 21 months. There are also potential earn-outs of EUR 18m that could be paid out after two, three, and four years following closure of the transaction.

Maha produced almost 2,000 boepd in Q3 (Chart 1). Significant preventive and corrective maintenance has been carried out at Papa Terra, Maha's largest asset, during the year, which has resulted in greater production stability. At the end of the quarter, Maha reached 2,127 boepd, while in October it reached more than 2,200 boepd, which is almost 90% of the levels achieved in H2 2022. Peroá reached lifting costs of USD 5.7/boe, while Papa Terra saw USD 35/boe.

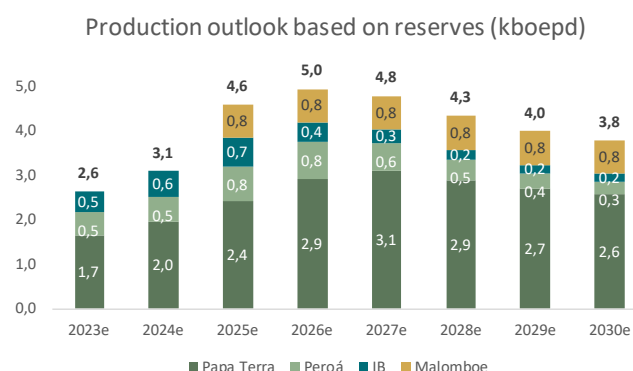
The initial phase of the EPSA (exploration and production-sharing agreement) for Block 70 in Oman has been extended until 31 December. The extended time will be used for gathering data that will support any decision regarding the future of the block.

Chart 1: October production reached almost 90% of the H2 2022 average...



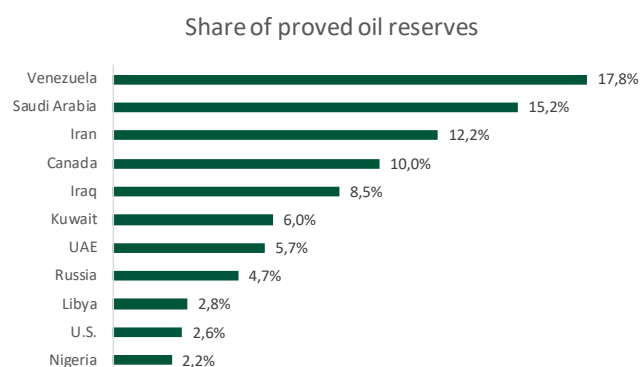
Source: Company, EPB

Chart 2: ...and production will continue to expand



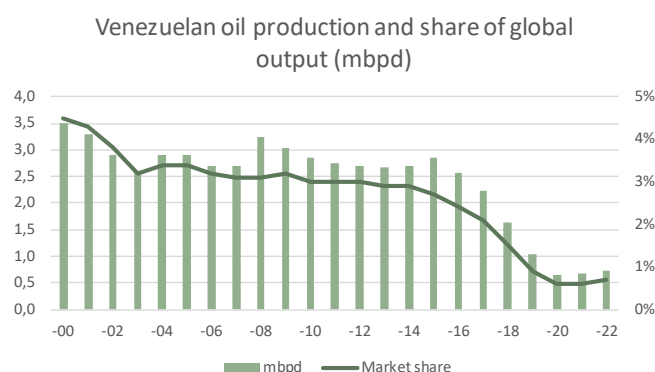
Source: Company, EPB

Chart 3: Venezuela has the largest reserves in the world...



Source: EIA, Maha Energy, EPB

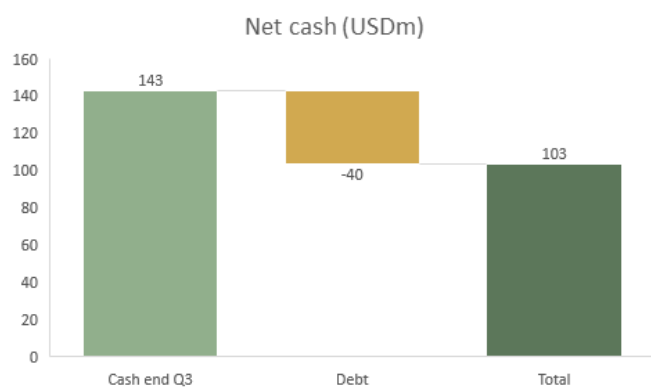
Chart 4: ...but accounts for less than 1% of global oil production



Source: EIA, Maha Energy, EPB

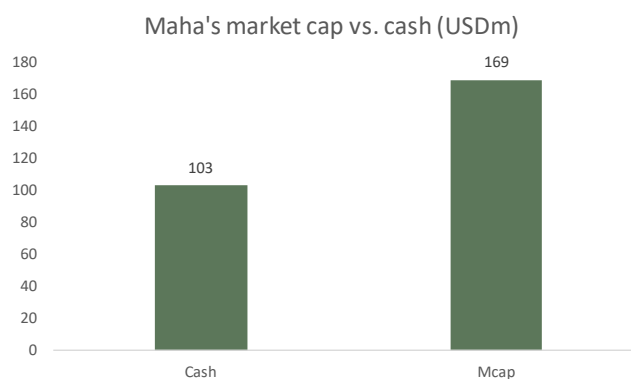
## Valuation

Chart 5: USD 157m in cash and USD 120m in net debt



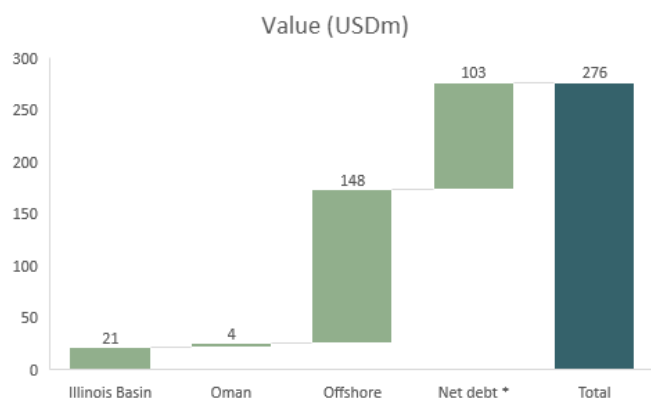
Source: Company, EPB

Chart 6: Net cash accounts for around 60% of market cap...



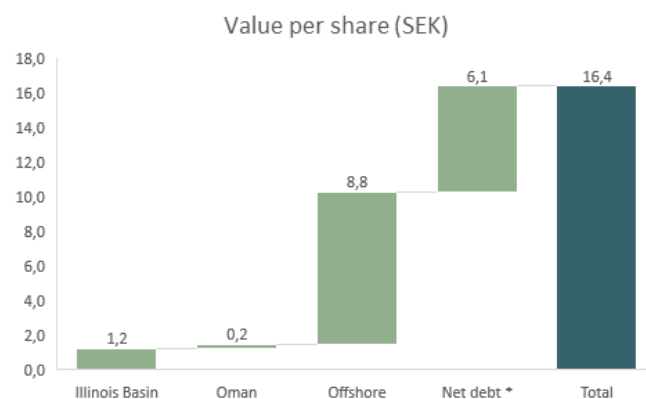
Source: Company, EPB

Chart 7: ...and the accumulated asset value is USD 173m plus net cash...



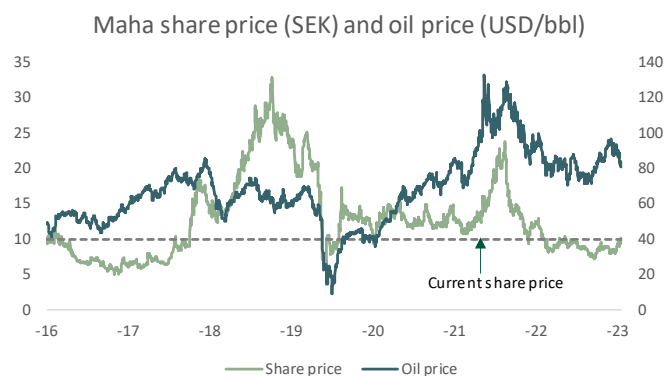
Source: EPB

Chart 8: ...which corresponds to around SEK 16 per share



Source: EPB

Chart 9: Low correlation between share price and the oil 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)	89	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%
<b>Enterprise value</b>	<b>89</b>	Small cap premium	4,0%	Depreciation (% of sales)	2,0%
Latest net debt	-103	Extra risk premium	0,0%	Capex (% of sales)	2,0%
Minority interests & other	0	<b>WACC</b>	<b>12,0%</b>	Working cap. (% of sales)	0,0%
<b>Equity value</b>	<b>192</b>			Tax rate	26%
No. of shares outstanding (millions)	178				
<b>Equity value per share (USD)</b>	<b>1,1</b>				
USD/SEK	10,57				
<b>Equity value per share (SEK)</b>	<b>11</b>				

Source: EPB

Table 2: DCF – sensitivity

Long-term growth rate						Long-term EBIT margin					
	2,0%	2,5%	3,0%	3,5%	4,0%		25,0%	27,5%	30,0%	32,5%	35,0%
WACC	10,0%	1,15	1,15	1,15	1,15	1,15	10,0%	1,15	1,15	1,15	1,15
	11,0%	1,11	1,11	1,11	1,11	1,11	11,0%	1,11	1,11	1,11	1,11
	12,0%	1,08	1,08	1,08	1,08	1,08	12,0%	1,08	1,08	1,08	1,08
	13,0%	1,04	1,04	1,04	1,04	1,04	13,0%	1,04	1,04	1,04	1,04
	14,0%	1,01	1,01	1,01	1,01	1,01	14,0%	1,01	1,01	1,01	1,01

Source: EPB

Income statement									
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>Net sales</b>	15	38	56	39	68	12	6	4	4
<b>Total revenue</b>	15	38	56	39	68	12	6	4	4
<b>Gross profit</b>	15	38	56	39	68	12	6	4	4
Other Operating Expenses	-11	-16	-20	-21	-21	-13	-7	17	20
<b>EBITDA</b>	3	22	36	-3	48	0	-1	20	23
Items affecting comparability	0	0	0	-21	0	0	0	0	0
<b>EBITDA, adjusted</b>	3	22	36	18	48	0	-1	20	23
Depreciation	-2	-3	-7	-6	-9	-3	-4	-2	-2
<b>EBITA, adjusted</b>	1	20	29	12	39	-3	-6	18	21
<b>EBIT</b>	1	20	29	-9	39	-3	-6	18	21
<b>EBIT, adjusted</b>	1	20	29	12	39	-3	-6	18	21
Net Financial Items	-4	-5	-4	-5	-10	-9	-3	-2	-3
<b>Profit before tax</b>	-3	15	25	-14	29	-13	-8	16	19
<b>Profit before tax, adjusted</b>	-3	15	25	7	29	-13	-8	16	19
Taxes	0	11	-5	3	-8	0	0	0	0
<b>Net income</b>	-3	26	20	-10	22	-13	-8	16	19
<b>Net income, adjusted</b>	-3	26	20	11	22	-13	-8	16	19
<i>Sales Growth</i>	-	>100%	46%	-30%	75%	-82%	-54%	-36%	0%
<i>Gross Margin</i>	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
<i>EBIT Margin, Adjusted</i>	6,9%	52,0%	52,5%	31,4%	57,4%	Neg.	Neg.	>100%	>100%
<i>EPS, Adjusted</i>	-0,03	0,25	0,18	0,10	0,19	-0,10	-0,05	0,09	0,10
<i>EPS Growth, Adjusted</i>	-	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	13%

Source: Maha Energy, EPB

Cash flow statement									
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	1	20	29	-9	39	-3	-6	18	21
Other Cash flow Items	-2	-1	0	28	-8	58	-10	-27	-31
<b>Cash flow from operating activities</b>	-1	18	29	19	31	55	-16	-9	-9
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
<b>Cash Flow From Investments</b>	-3	-16	-28	-20	-47	-63	1	0	0
<b>Free cash flow</b>	-4	3	0	-1	-16	-8	-15	-9	-9
Acquisitions & Divestments	-33	0	0	-15	0	0	96	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	9	9
Other items	-3	2	3	2	8	-1	0	0	0
<b>Cash flow from financing</b>	15	2	3	-13	36	6	69	9	9
<b>Cash flow</b>	11	4	3	-14	20	-2	55	0	0
<b>Net debt</b>	14	11	9	34	33	27	-54	-46	-36

Source: Maha Energy, EPB

## Balance sheet

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>ASSETS</b>									
Tangible fixed assets	47	59	76	86	113	14	9	7	5
Shares in associated companies	0	0	0	0	0	0	34	61	91
Other fixed assets	18	32	30	27	22	184	86	86	86
<b>Total fixed assets</b>	<b>65</b>	<b>91</b>	<b>106</b>	<b>112</b>	<b>135</b>	<b>198</b>	<b>130</b>	<b>155</b>	<b>183</b>
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	74	74	74
<b>Total current assets</b>	<b>25</b>	<b>28</b>	<b>30</b>	<b>12</b>	<b>33</b>	<b>21</b>	<b>75</b>	<b>74</b>	<b>74</b>
<b>TOTAL ASSETS</b>	<b>90</b>	<b>119</b>	<b>136</b>	<b>124</b>	<b>168</b>	<b>218</b>	<b>205</b>	<b>230</b>	<b>258</b>
<b>EQUITY AND LIABILITIES</b>									
Equity	48	69	88	56	91	141	163	179	198
<b>Total equity</b>	<b>48</b>	<b>69</b>	<b>88</b>	<b>56</b>	<b>91</b>	<b>141</b>	<b>163</b>	<b>179</b>	<b>198</b>
Long-term interest-bearing liabilities	33	31	31	0	44	27	0	9	18
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
<b>Total long-term liabilities</b>	<b>35</b>	<b>41</b>	<b>41</b>	<b>11</b>	<b>50</b>	<b>48</b>	<b>22</b>	<b>30</b>	<b>40</b>
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
<b>Total current liabilities</b>	<b>8</b>	<b>9</b>	<b>7</b>	<b>58</b>	<b>27</b>	<b>29</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>90</b>	<b>119</b>	<b>136</b>	<b>124</b>	<b>168</b>	<b>218</b>	<b>205</b>	<b>230</b>	<b>258</b>

Source: Maha Energy, EPB

## Growth and margins

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	>100%	46%	-30%	75%	-82%	-54%	-36%	0%
EBITDA growth, adjusted	-	>100%	60%	-50%	>100%	N.m.	N.m.	N.m.	15%
EBIT growth, adjusted	-	>100%	47%	-58%	>100%	N.m.	N.m.	N.m.	16%
EPS growth, adjusted	-	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	13%
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.	10%	10%
ROCE, adjusted	Neg.	23%	27%	11%	32%	Neg.	Neg.	9%	10%
ROIC, adjusted	Neg.	28%	33%	13%	37%	Neg.	Neg.	15%	14%

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%	-119%	-101%
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	-54	-46	-36
Equity ratio	53%	58%	65%	45%	54%	65%	80%	78%	77%
Net debt / equity	0,3x	0,2x	0,1x	0,6x	0,4x	0,2x	-0,3x	-0,3x	-0,2x
Net debt / EBITDA	4,3x	0,5x	0,2x	-11,8x	0,7x	-63,6x	40,1x	-2,2x	-1,6x

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	-0,05	0,09	0,10
EPS, adjusted	-0,03	0,25	0,18	0,10	0,19	-0,10	-0,05	0,09	0,10
FCF per share	-0,05	0,03	0,00	-0,01	-0,14	-0,07	-0,08	-0,05	-0,05
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	0,91	1,00	1,11
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

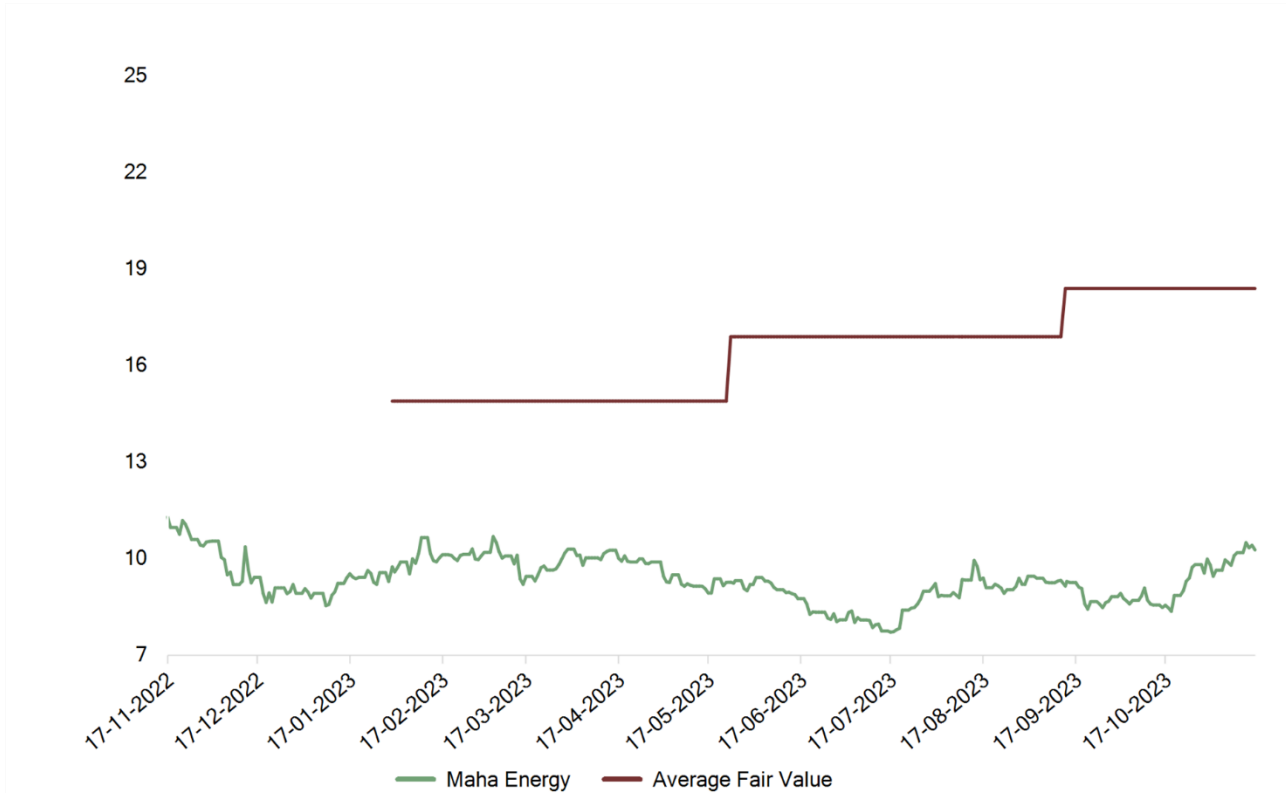
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	5,8x	14,6x	18,0x	6,4x	Neg.	Neg.	10,2x	9,0x
P/BV	1,3x	2,2x	3,3x	3,5x	1,5x	0,7x	1,0x	0,9x	0,8x
P/FCF	Neg.	53,5x	583,7x	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
FCF-yield	Neg.	2%	0%	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	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	11,3x	17,6x	17,7x
EV/EBITDA, adjusted	24,1x	6,9x	7,6x	12,0x	3,8x	Neg.	-46,7x	3,1x	2,7x
EV/EBIT, adjusted	76,7x	7,8x	9,3x	17,8x	4,6x	Neg.	-11,2x	3,5x	3,0x
EV	77	154	272	218	180	144	64	64	64
Share price, year end	0,7	1,5	2,6	1,8	1,2	9,9	0,9	0,9	0,9

Source: Maha Energy, EPB



## Share Price and Fair Value Chart

### Maha Energy (MAHAA SS EQUITY)



Source: EPB, IDC

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