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Oil, Gas & Consumable Fuels | Sweden | 14 December 2023

Maha Energy

Transformation continues

Divestment of Oman...

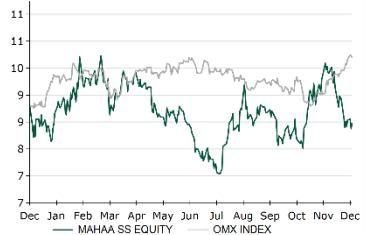
With the divestment of its interest in Block 70 in Oman, Maha has continued its transformation. It will receive USD 2m upon this closing, and there is a potential for another USD 12m when certain milestones have been met. We had already removed Oman from our forecasts, which are thus unchanged. Group production has continued increasing q/q, with Q4 up 13% so far versus from Q3 and production currently at 80–90% of the level before the Maha Brazil divestment (completed in February 2023). We expect production to keep ramping up in the coming quarters.

...opens up for new transactions

Before the decision on how to move forward with Oman, we believe Maha needed to keep its cash position relatively intact to be able to expand drilling, should it declare commerciality. Following the divestment of Oman, the probability for transactions in the near term has increased, in our view. We believe any larger deal could be partly financed by debt and that Maha has fire power of USD 200–250m. Assuming similar multiples to the DBO transaction implies Maha could potentially add NPV of ~USD 1bn versus its current asset base of ~USD 170m. Any such transaction would be a game-changer for Maha.

Venezuela provides optionality

In October, Maha announced the signing of an exclusive agreement allowing it to indirectly acquire 24% of PetroUrdaneta, operating in Venezuela. Including extending the exclusivity to 21 months and full earn-outs, the total price would be EUR 27m. There is limited data on the asset, making it difficult to value, but closing the transaction would increase Maha's resources from 22 mmbob to 192 mmbob, indicating the potential. Venezuela is not reflected in our fair value; we consider it to be optionality.

Change in estimates				Forecast (mUS\$)					Value and risk													
	23e	24e	25e		2022	2023e	2024e	2025e	Fair value	SEK 16.0 - 17.0												
Total Revenues	0.0%	0.0%	0.0%	Total Revenues	12	6	4	4	Share price	SEK 8.6												
EBITDA, adj.	0.0%	0.0%	0.0%	Revenue growth	-82%	-54%	-36%	0%	Risk level	High												
EPS, adj.	0.0%	0.0%	0.0%	EBITDA, adj.	0	-1	20	23	<div>Price performance 12 months</div> 													
Upcoming events				EBIT, adj.	-3	-6	18	21														
Q4 - report	26 February 2023			EPS, adj.	-0.1	0.0	0.1	0.1														
Q1 - report	28 May 2023			EPS growth, adj.	N.m.	N.m.	N.m.	13%														
Company facts (US\$m)				BV/share	1.2	0.9	1.0	1.1														
Number of shares	178m			EBIT margin	Neg.	Neg.	>100%	>100%	<div>Conflicts of interest</div> <table><tr><th></th><th>Yes</th><th>No</th></tr><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></table>			Yes	No	Liquidity provider		✓	Certified adviser		✓	Transactions 12m		✓
	Yes	No																				
Liquidity provider		✓																				
Certified adviser		✓																				
Transactions 12m		✓																				
Market capitalisation	147			ROE, adj.	Neg.	Neg.	9.6%	9.8%														
Net debt	-105			ROCE, adj.	Neg.	Neg.	9.4%	9.6%														
EV	41			EV/Sales	11.7x	7.4x	11.5x	11.5x														
Free float	72%			EV/EBITDA	Neg.	-30.5x	2.0x	1.8x														
Daily trading volume, average	448k			EV/EBIT	Neg.	-7.3x	2.3x	1.9x														
Bloomberg Ticker	MAHAA SS EQUITY			P/E, adj.	-7.9x	-17.5x	9.0x	7.9x														
Analyst				FCF yield	-8%	-10%	-6%	-6%														
Markus Almerud				Net debt / EBITDA	-63.6x	40.1x	-2.2x	-1.6x														
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Analyst

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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, Maha has undergone a transformation. 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. Maha's cash position is now largely in line with its current market cap.

...decreasing the risk in the share: Maha has experienced several problems in recent years, constraining 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 Maha will use the proceeds from the divestment 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 lower-risk production profile than Tie and Tartaruga. The reserves and resources have been certified by renowned third parties and the assets are operated by 3R Offshore, decreasing the execution risk, in our view.

Following the transformation, management intends to improve market communication: After announcing the DBO transaction and the sale of Maha Brazil, the new management team will, we believe, increase its 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, followed by the divestment of its interest in Oman and the acquisition of the option to buy a working interest in an asset in Venezuela. Maha has three assets in two countries: Peroá and Papa Terra in Brazil and Illinois in the US.

- 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.

Valuation

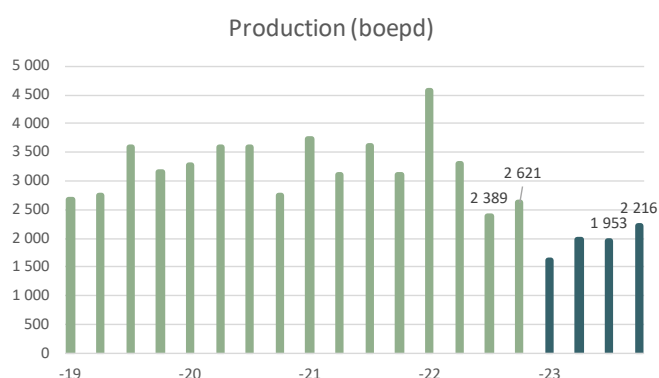
We value Maha's assets using inputs from external sources. We apply an NPV analysis with a WACC of 10%. Our fair value is some USD 275m, corresponding to a fair value range of SEK 16–17 per share.

Divesting Oman for a consideration of up to USD 14m

In early December, Maha announced it had divested its 65% working interest in Block 70 in Oman for up to USD 14m to Mafrag Energy, the partner in the block. It will receive USD 2m upon closing and the earn-out will be paid from a cumulative one million barrels, the maximum being reached if production extends to a cumulative 12 million barrels. Mafrag will be responsible for the project and cover all costs as of 1 December 2023.

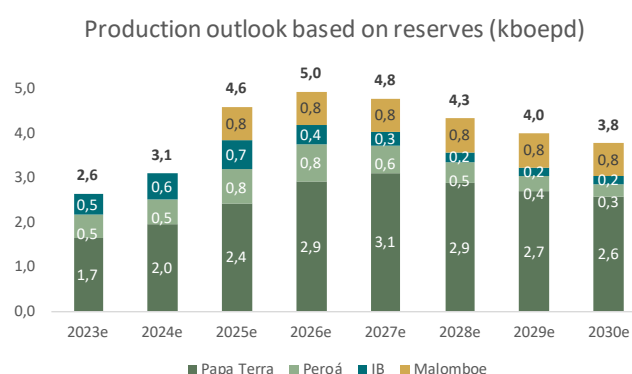
As we had already removed Oman from our forecasts, they remain unchanged. The group has production from its assets in the Illinois Basin (IB) in the US. It also has an equity participation in two offshore assets: the Peroá cluster, which includes the Peroá and Congoá producing fields and the Malomboe discovery, and the Papa Terra field. Production has continued increasing q/q, growing 13% so far in Q4 versus Q3, and production is currently at 80–90% of the level before the Maha Brazil divestment (completed in February 2023 – Exhibit 1). We expect production to continue ramping up in the coming quarters.

Exhibit 1: H2 production has so far reached almost 90% of the H2 2022 average...



Source: Company data, Carnegie Research

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



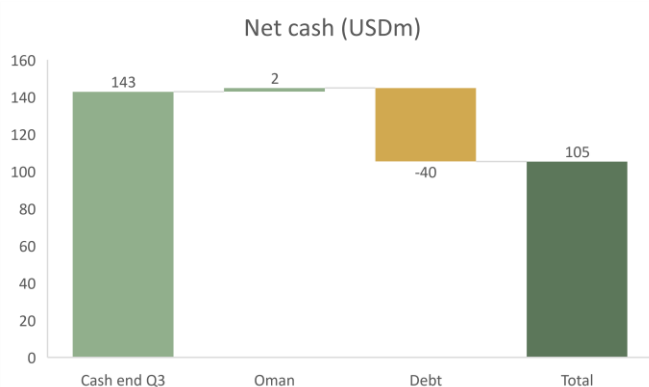
Source: Company data, Carnegie Research

Further transactions on the way?

Until the decision on how to move forward with Oman was reached, we believe Maha needed to keep its cash position relatively intact to be able to expand drilling, should it declare commerciality. Following the divestment of Oman, we believe the probability of further transactions in the near term has increased.

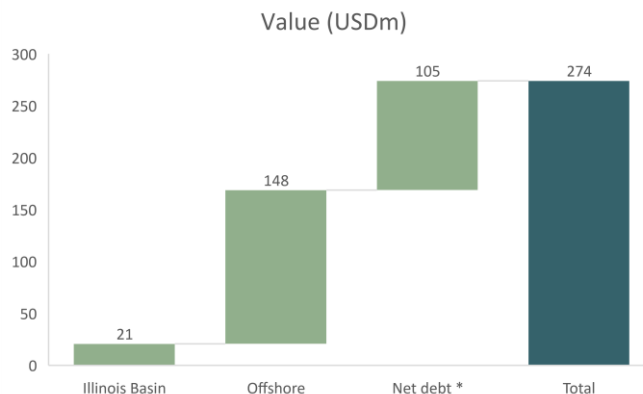
Including the initial proceeds from the divestment of Oman, Maha has cash of ~USD 145m (Exhibit 3). We believe it could partly finance any larger deal with debt and that it has fire power of USD 200–250m. Assuming similar multiples as in the DBO transaction, Maha could potentially add NPV of ~USD 1bn versus its current asset base, valued at ~USD 170m. Any such transaction would be a game-changer for Maha.

Exhibit 3: Using the cash of ~USD 145m...



Source: Company data, Carnegie Research

Exhibit 4: ...could add ~USD 1bn in asset values



Source: Carnegie Research

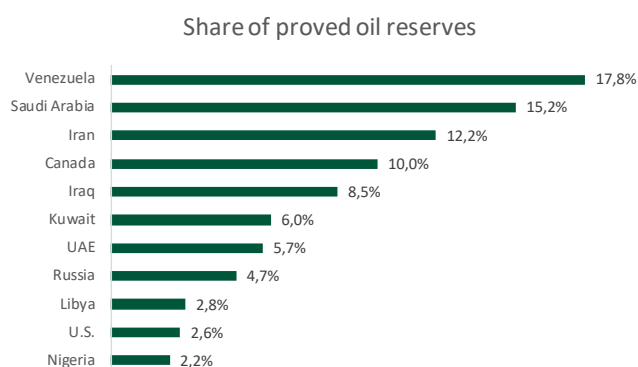
Optionality in Venezuela

In October, Maha announced the signing of an exclusive agreement allowing it to indirectly acquire 24% of the O&G company PetroUrdeneta, 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 its ownership to 40%.

Venezuela has the largest proven oil reserves in the world (Exhibit 5), and on 23 October, the US Department of the Treasury temporarily authorised transactions with certain sanctioned parties in Venezuela, including the main shareholder of PetroUrdeneta.

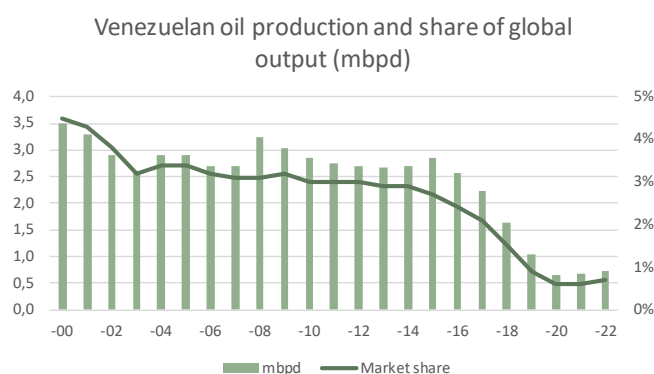
Maha has 2P reserves of 22 mmbœ. The 24% working interest in PetroUrdeneta could potentially add 170 mmbœ to these reserves – the potential is huge (although the risk is high). We can find very few operational forecasts of the asset, making it difficult to value. Although we recognise its potential, we consider it as optionality.

Exhibit 5: Venezuela has the largest reserves in the world...



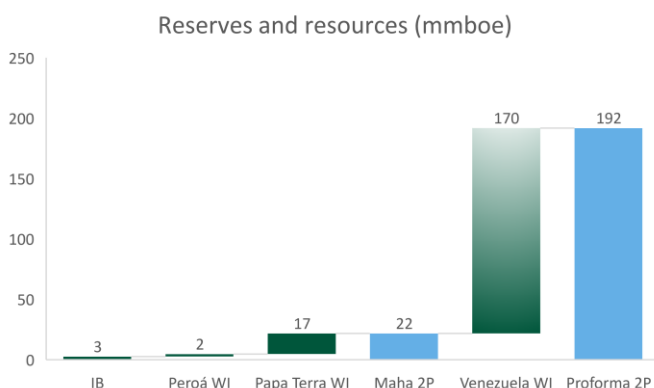
Source: EIA, Maha Energy, Carnegie Research

Exhibit 6: ...but accounts for less than 1% of global oil production



Source: EIA, Maha Energy, Carnegie Research

Exhibit 7: Significant upside in reserves from PetroUrdeneta

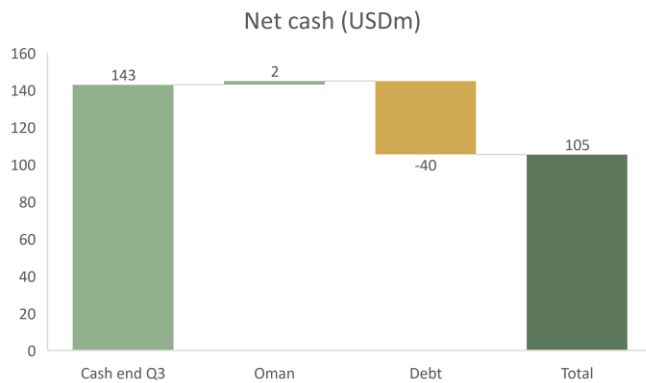


Source: Maha Energy, Carnegie Research

The transaction consideration is EUR 4.6m, with another EUR 4.6m should Maha decide 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 after closing of the transaction.

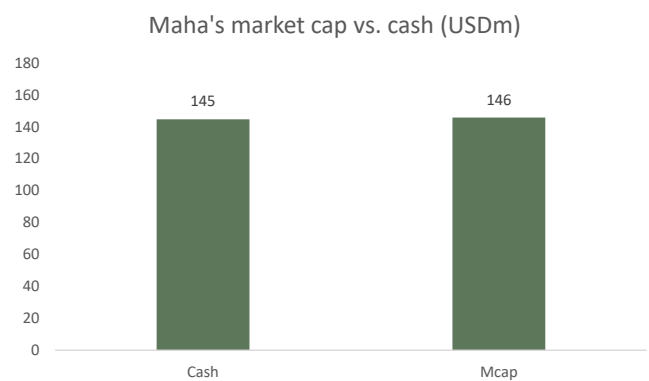
Valuation

Exhibit 8: USD 145m in cash and USD 105m in net debt



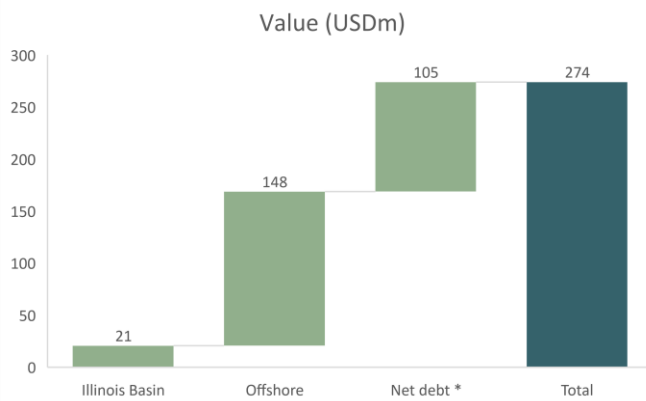
Source: Company, Carnegie Research

Exhibit 9: Market cap is largely in line with cash...



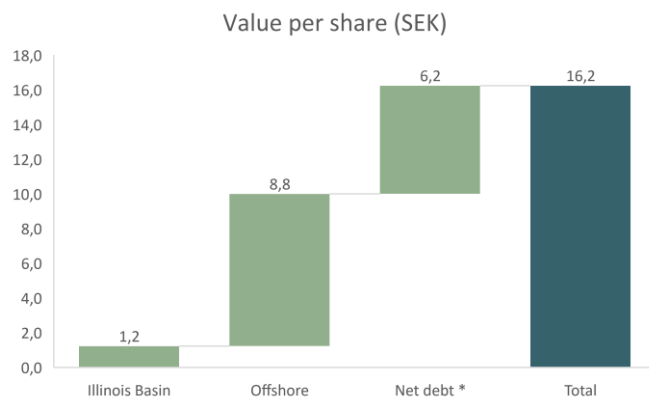
Source: Company, Carnegie Research

Exhibit 10: ...and the accumulated asset value is USD 169m plus net cash...



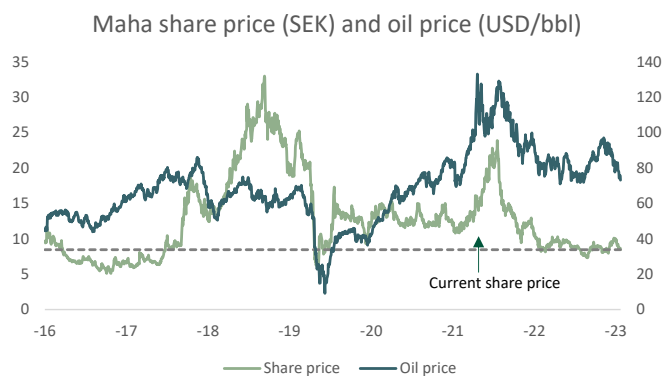
Source: EPB

Exhibit 11: ...which corresponds to around SEK 16 per share



Source: EPB

Exhibit 12: Low correlation between share price and the oil price



Source: Factset, Carnegie Research

Income statement									
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	15	38	56	39	68	12	6	4	4
Other Operating Expenses	-11	-16	-20	-21	-21	-13	-7	17	20
EBITDA	3	22	36	-3	48	0	-1	20	23
Items affecting comparability	0	0	0	-21	0	0	0	0	0
EBITDA, adjusted	3	22	36	18	48	0	-1	20	23
Depreciation	-2	-3	-7	-6	-9	-3	-4	-2	-2
EBITA, adjusted	1	20	29	12	39	-3	-6	18	21
EBIT	1	20	29	-9	39	-3	-6	18	21
EBIT, adjusted	1	20	29	12	39	-3	-6	18	21
Net Financial Items	-4	-5	-4	-5	-10	-9	-3	-2	-3
Profit before tax	-3	15	25	-14	29	-13	-8	16	19
Profit before tax, adjusted	-3	15	25	7	29	-13	-8	16	19
Taxes	0	11	-5	3	-8	0	0	0	0
Net income	-3	26	20	-10	22	-13	-8	16	19
Net income, adjusted	-3	26	20	11	22	-13	-8	16	19
Sales Growth	-	>100%	46%	-30%	75%	-82%	-54%	-36%	0%
Gross Margin	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
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	-0.05	0.09	0.10
EPS Growth, Adjusted	-	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	13%

Source: Maha Energy, Carnegie

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
Cash flow from operating activities	-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
Cash flow from Investments	-3	-16	-28	-20	-47	-63	1	0	0
Free cash flow	-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
Cash flow from financing	15	2	3	-13	36	6	69	9	9
Cash flow	11	4	3	-14	20	-2	55	0	0
Net debt	14	11	9	34	33	27	-54	-46	-36

Source: Maha Energy, Carnegie

Balance sheet									
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS									
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
Total fixed assets	65	91	106	112	135	198	130	155	183
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
Total current assets	25	28	30	12	33	21	75	74	74
TOTAL ASSETS	90	119	136	124	168	218	205	230	258
EQUITY AND LIABILITIES									
Equity	48	69	88	56	91	141	163	179	198
Total equity	48	69	88	56	91	141	163	179	198
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
Total long-term liabilities	35	41	41	11	50	48	22	30	40
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	205	230	258

Source: Maha Energy, Carnegie

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, Carnegie

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, Carnegie

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%

Source: Maha Energy, Carnegie

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 / EBITDA	4.3x	0.5x	0.2x	-11.8x	0.7x	-63.6x	40.1x	-2.2x	-1.6x

Source: Maha Energy, Carnegie

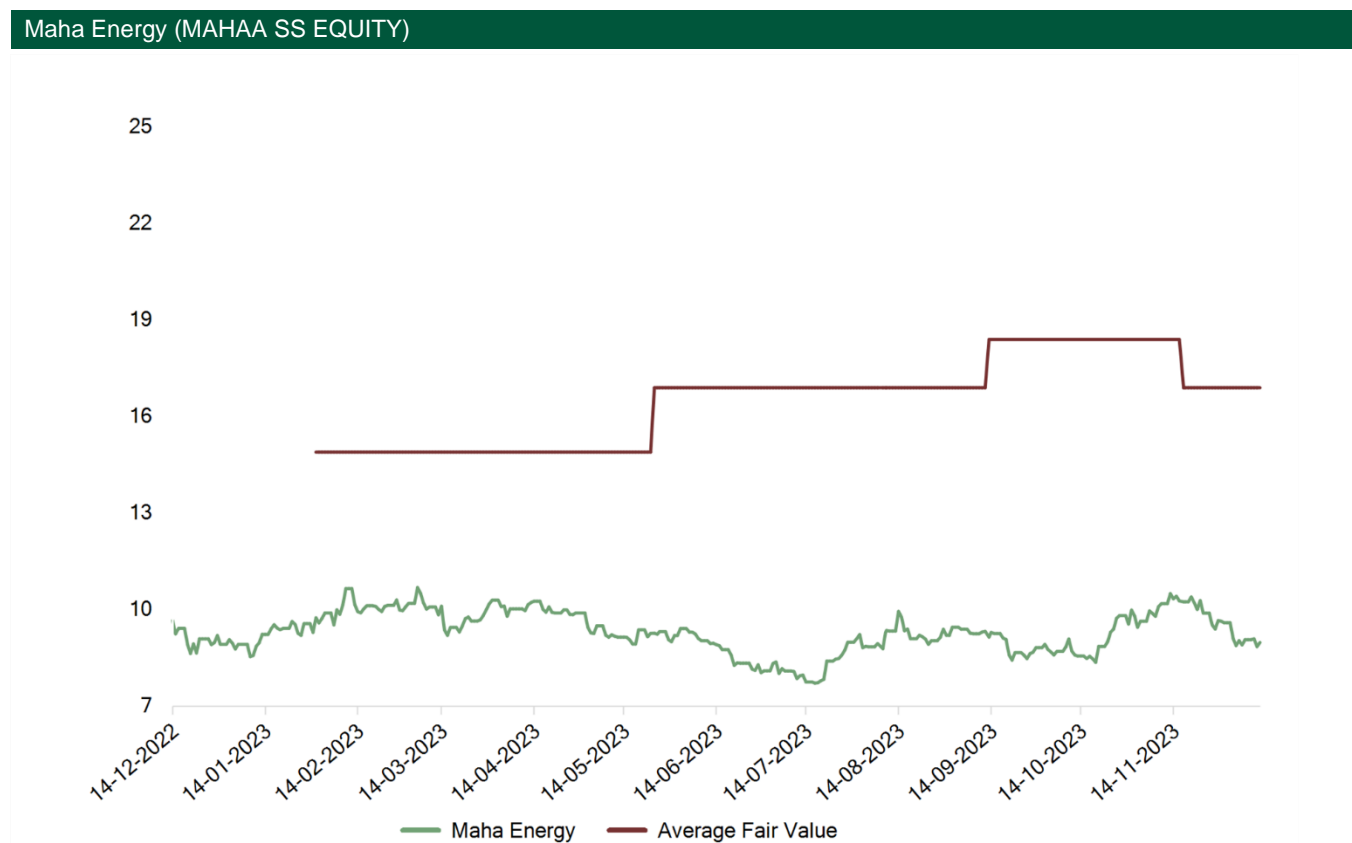
Per share data									
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-0.03	0.25	0.18	-0.10	0.19	-0.10	-0.05	0.09	0.10
EPS, adjusted	-0.03	0.25	0.18	0.10	0.19	-0.10	-0.05	0.09	0.10
FCF per share	-0.05	0.03	0.00	-0.01	-0.14	-0.07	-0.08	-0.05	-0.05
Book value per share	0.56	0.68	0.81	0.52	0.81	1.16	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, Carnegie

Valuation									
	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	5.8x	14.6x	18.0x	6.4x	Neg.	Neg.	9.0x	7.9x
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	7.4x	11.5x	11.5x
EV/EBITDA, adjusted	24.1x	6.9x	7.6x	12.0x	3.8x	Neg.	-30.5x	2.0x	1.8x
EV/EBIT, adjusted	76.7x	7.8x	9.3x	17.8x	4.6x	Neg.	-7.3x	2.3x	1.9x
EV	77	154	272	218	180	144	41	41	41
Share price, year end	0.7	1.5	2.6	1.8	1.2	8.6	8.6	8.6	8.6

Source: Maha Energy, Carnegie

Share price and average fair value



Source: Carnegie, IDC

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