

Oil, Gas & Consumable Fuels | Sweden | 18 March 2024

Keeps on transforming

Most of the earnings consist of share of income from investment in associate and interest payments, leaving uncertainty high, as visibility is low. NAVs are more stable, however. Current assets hold a NAV of around USD250m or ~SEK14.5 per share, which is about half the current share price and suggests a fair value range of SEK14–16. The current NAV includes the market value of the 3R holding. Should the suggested restructuring of the Brazilian E&P sector materialise and if we were to include the potential growth of 3R's assets, we would see upside exceeding SEK23 per share, with even more given the inclusion of PetroUrdaneta.

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Investment case

Undergoing transformation...: 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 sale of Maha Brazil (including the Tie field and Tartaruga) for USD138m plus potential earn-outs, the business combination with DBO, the divestment of Block 70 in Oman and, most recently, the purchase of 5% of 3R Petroleum's shares.

...and there is plenty of optionality through restructuring of Brazilian E&P: In conjunction with buying 5% of 3R, Maha is calling for an EGM to reduce seats on 3R's board by two to five and suggesting a carveout of 3R's onshore assets, followed by a business combination with PetroReconcavo, another listed Brazilian company. The business combination would provide synergies in infrastructure, portfolios and performance and, in combination with the potential growth in 3R's assets, we see significant upside for Maha's NPV.

Not reflected in valuation: Maha is trading at a fraction of the multiples of other Brazilian E&P companies. The share trades at less than 50% of the NAV of its existing portfolio, not taking into account the potential from the possible restructuring of Brazilian E&P or Venezuela.

Huge potential in Venezuela at a low price: Maha paid an initial EUR 4.6m for the right to acquire a stake in PetroUrdaneta. Although the risk is high, the potential is vast. PetroUrdaneta has P2 reserves of 759 mboe compared with the current portfolio's 21.5 mboe.

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 Venezuelan asset. Maha has three assets in two countries: Peroá and Papa Terra in Brazil and Illinois Basin 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 gas pipeline connection to the Cacimbas gas-processing plant operated by Petrobras. The unmanned platform has opex of around USD5/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 operation 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 USD250m, corresponding to a fair value range of SEK14–16 per share.

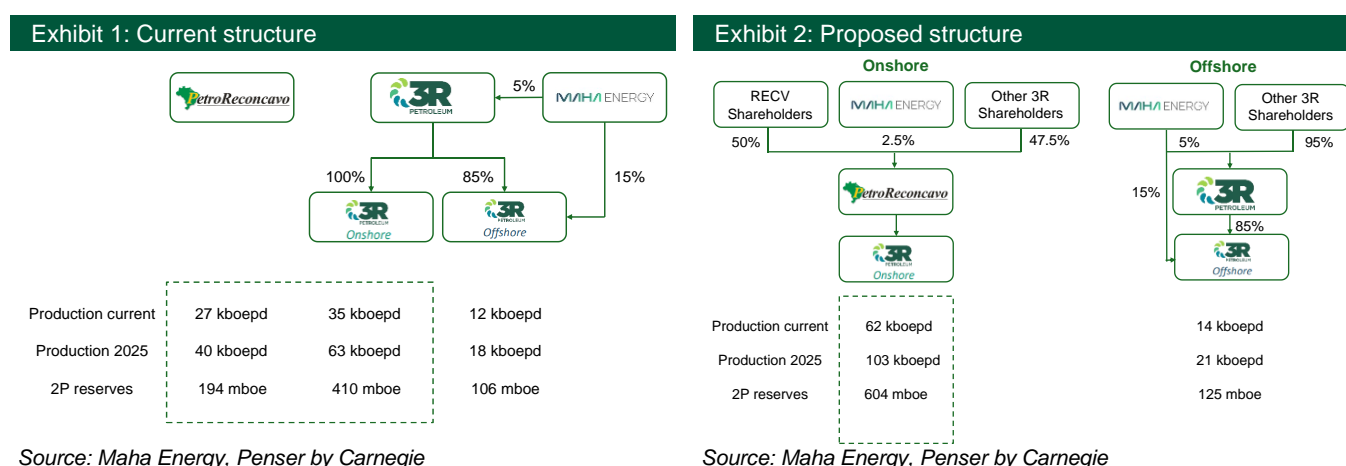
Keeps transforming

Proposing a restructuring of the Brazilian E&P sector

Maha Energy has undergone a number of transformational events in the past 18 months:

- Nov 2022: Starboard appoints a new board of directors
- Feb 2023: Maha Brazil, which included the assets Tie and Tartaruga (for up to USD187m) is divested
- May 2023: DBO transaction, which brought in 15% of 3R offshore with the Papa Terra and Peroá assets, is closed
- Oct 2023: Exclusivity to acquire up to 40% of PetroUrdaneta with assets in Venezuela
- Jan 2024: Exits Block 70 in Oman
- Jan 2024: Acquires 5% of 3R Petroleum shares and proposes a business combination with PetroReconcavo

As part of the acquisition process of the 3R shares, Maha sent an open letter to 3R's board detailing its objectives with the investment and outlining its enhancement proposal. In short, the letter suggests a carveout of 3R's onshore assets. Under the proposal, these would then merge with PetroReconcavo (Exhibits 1 and 2). Maha has called for an EGM to decrease the number of board members from seven to five and to elect Paulo Thiago Mendonca and Fabio Vessel, chair and board member at Maha, respectively, to 3R's board of directors.

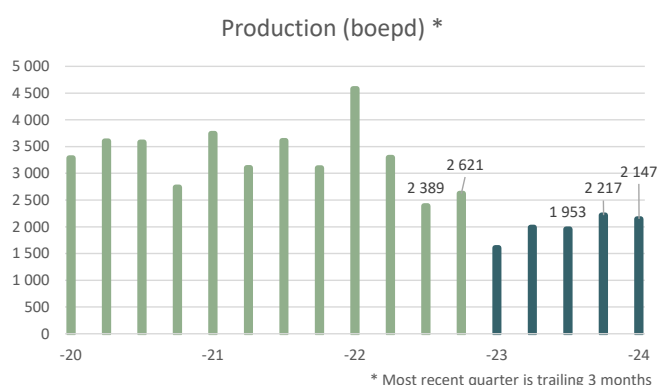


Production fell more than 30% in February, but we see significant upside in coming years

Given 1,652 boepd of daily average production in February, which is down more than 30% from January owing to workovers in Papa Terra, the average QTD is down somewhat from Q4. 3R Petroleum, of which Maha owns 5%, produced 42,709 boepd (Exhibit 3) in February, down 10% from January. 3R sees significant upside in its production in the coming years (Exhibit 4).

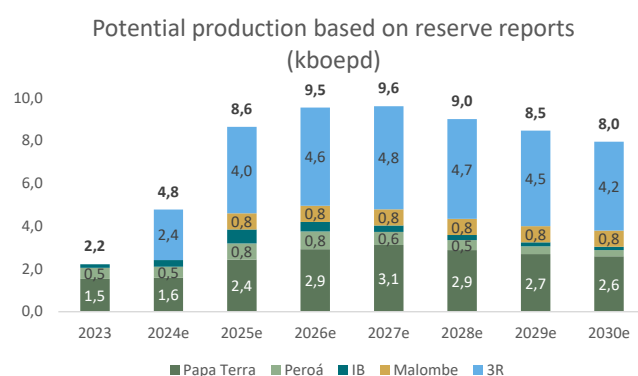
There is further potential upside from PetroUrdaneta in Venezuela, which is currently producing 1,600 bopd but holds potential production of 20,000 bopd.

Exhibit 3: Maha production (boepd) until February 2024



Source: Company data, Penser by Carnegie

Exhibit 4: Significant potential production increase

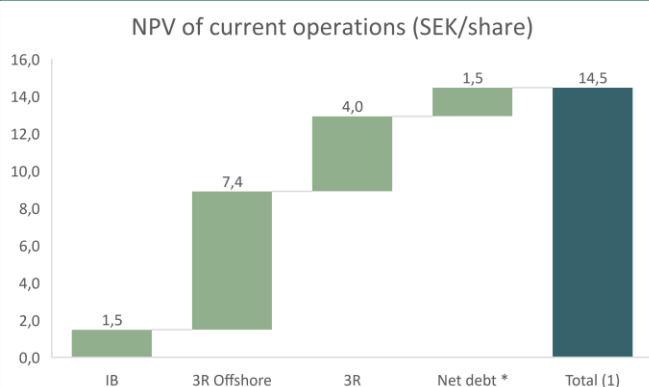


Source: Maha Energy, Penser by Carnegie

NPV of almost SEK15 per share with potential upside to SEK23

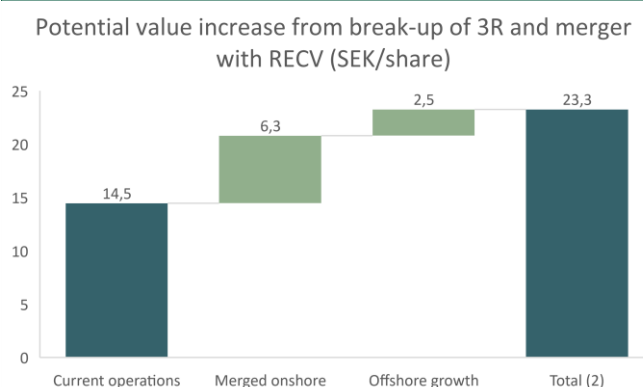
Adding the NPV for 3R offshore and Illinois Basin (IB) with the market value of 3R and net debt, we arrive at an NPV of SEK14–15 for Maha (Exhibit 5). If we also add the potential growth in 3R's onshore and offshore portfolios and if the suggested merger with PetroReconcavo materialises, there is further upside of almost SEK9 per share to NPV, thus totalling more than SEK23 (Exhibit 6).

Exhibit 5: NPV of SEK14–15 per share...



Source: Maha Energy, Penser by Carnegie

Exhibit 6: ...with upside to SEK23 if the proposed transaction with PetroReconcavo materialises



Source: Maha Energy, Penser by Carnegie

Income statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	38	56	39	68	12	5	5	4	4
Other Operating Expenses	-16	-20	-21	-21	-13	-8	10	18	23
EBITDA	22	36	-3	48	0	-5	15	22	27
Items affecting comparability	0	0	-21	0	0	-2	0	0	0
EBITDA, adjusted	22	36	18	48	0	-3	15	22	27
Depreciation	-3	-7	-6	-9	-3	-2	-2	-2	-2
EBITA, adjusted	20	29	12	39	-3	-4	13	20	25
EBIT	20	29	-9	39	-3	-7	13	20	25
EBIT, adjusted	20	29	12	39	-3	-4	13	20	25
Net Financial Items	-5	-4	-5	-10	-9	2	-3	-4	-5
Profit before tax	15	25	-14	29	-13	-5	9	16	20
Profit before tax, adjusted	15	25	7	29	-13	-3	9	16	20
Taxes	11	-5	3	-8	0	0	0	0	0
Net income	26	20	-10	22	-13	-5	9	16	20
Net income, adjusted	26	20	11	22	-13	-3	9	16	20
Sales Growth	Neg.	46%	-30%	75%	-82%	-58%	-12%	-18%	0%
Gross Margin	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
EBIT Margin, Adjusted	52.0%	52.5%	31.4%	57.4%	Neg.	Neg.	N.m.	N.m.	N.m.
EPS, Adjusted	0.25	0.18	0.10	0.19	-0.10	-0.02	0.05	0.09	0.11
EPS Growth, Adjusted	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	65%	27%

Source: Maha Energy, Penser by Carnegie

Cash flow statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	20	29	-9	39	-3	-7	13	20	25
Other Cash flow Items	-1	0	28	-8	58	-6	-18	-27	-33
Cash flow from operating activities	18	29	19	31	55	-13	-5	-8	-8
Investments in Fixed Assets	-13	-28	-20	-44	-48	-3	0	0	-45
Investments in intangible fixed assets	-3	-1	0	-3	-15	-13	0	0	0
Cash flow from Investments	-16	-28	-20	-47	-63	-16	0	0	-45
Free cash flow	3	0	-1	-16	-8	-29	-5	-8	-53
Acquisitions & Divestments	0	0	-15	0	0	151	0	0	0
New share issue / repurchase	0	0	0	9	19	0	0	0	0
Change in liabilities	0	0	0	19	-11	-14	5	8	53
Other items	2	3	2	8	-1	-42	0	0	0
Cash flow from financing	2	3	-13	36	6	94	5	8	53
Cash flow	4	3	-14	20	-2	66	0	0	0
Net debt	11	9	34	33	27	-53	-48	-40	13

Source: Maha Energy, Penser by Carnegie

Balance sheet									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS									
Tangible fixed assets	59	76	86	113	14	14	13	11	54
Shares in associated companies	0	0	0	0	0	35	52	77	107
Other fixed assets	32	30	27	22	184	32	32	32	32
Total fixed assets	91	106	112	135	198	81	96	119	192
Accounts receivable	4	5	3	6	1	1	0	0	0
Other current assets	3	3	1	1	1	31	31	31	31
Cash and cash equivalents	20	22	7	26	20	88	88	88	88
Total current assets	28	30	12	33	21	121	120	120	120
TOTAL ASSETS	119	136	124	168	218	202	216	239	312
EQUITY AND LIABILITIES									
Equity	69	88	56	91	141	155	164	180	200
Total equity	69	88	56	91	141	155	164	180	200
Long-term interest-bearing liabilities	31	31	0	44	27	12	17	25	78
Long-term lease liabilities	0	0	3	2	0	0	0	0	0
Other long-term liabilities	10	10	7	3	22	8	8	8	8
Total long-term liabilities	41	41	11	50	48	21	26	34	87
Short-term interest-bearing liabilities	0	0	36	11	20	23	23	23	23
Accounts payable	4	5	11	10	4	3	3	2	2
Short-term lease liabilities	0	0	1	1	0	0	0	0	0
Other current liabilities	5	2	10	5	6	1	1	1	1
Total current liabilities	9	7	58	27	29	26	26	25	25
TOTAL EQUITY AND LIABILITIES	119	136	124	168	218	202	216	239	312

Source: Maha Energy, Penser by Carnegie

Growth and margins									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	46%	-30%	75%	-82%	-58%	-12%	-18%	0%
EBITDA growth, adjusted	Neg.	60%	-50%	164%	Neg.	Neg.	Neg.	46%	23%
EBIT growth, adjusted	Neg.	47%	-58%	221%	Neg.	Neg.	Neg.	52%	25%
EPS growth, adjusted	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	65%	27%
Gross margin	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
EBITDA margin	58.8%	64.5%	Neg.	69.9%	Neg.	Neg.	N.m.	N.m.	N.m.
EBITDA margin, adjusted	58.8%	64.5%	46.4%	69.9%	Neg.	Neg.	N.m.	N.m.	N.m.
EBIT margin	52.0%	52.5%	Neg.	57.4%	Neg.	Neg.	N.m.	N.m.	N.m.
EBIT margin, adjusted	52.0%	52.5%	31.4%	57.4%	Neg.	Neg.	N.m.	N.m.	N.m.
Profit margin, adjusted	67.3%	35.4%	27.5%	31.6%	Neg.	Neg.	N.m.	N.m.	N.m.

Source: Maha Energy, Penser by Carnegie

Return									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	25%	15%	29%	Neg.	Neg.	6%	9%	10%
ROCE, adjusted	Neg.	27%	11%	32%	Neg.	2%	7%	9%	9%
ROIC, adjusted	Neg.	33%	13%	37%	Neg.	Neg.	12%	15%	14%

Source: Maha Energy, Penser by Carnegie

Capital efficiency									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenue	0%	1%	1%	0%	1%	4%	4%	4%	4%
Accounts receivable / total revenue	11%	9%	8%	9%	5%	21%	5%	4%	4%
Total short-term liabilities / total cost	56%	36%	>100%	>100%	>100%	>100%	-254%	-142%	-111%
Working capital / total revenue	-2%	2%	-40%	-11%	-67%	>100%	>100%	>100%	>100%

Source: Maha Energy, Penser by Carnegie

Financial position									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	11	9	34	33	27	-53	-48	-40	13
Equity ratio	58%	65%	45%	54%	65%	77%	76%	75%	64%
Net debt / EBITDA	0.5x	0.2x	N.m.	0.7x	-63.6x	N.m.	-3.3x	-1.9x	0.5x

Source: Maha Energy, Penser by Carnegie

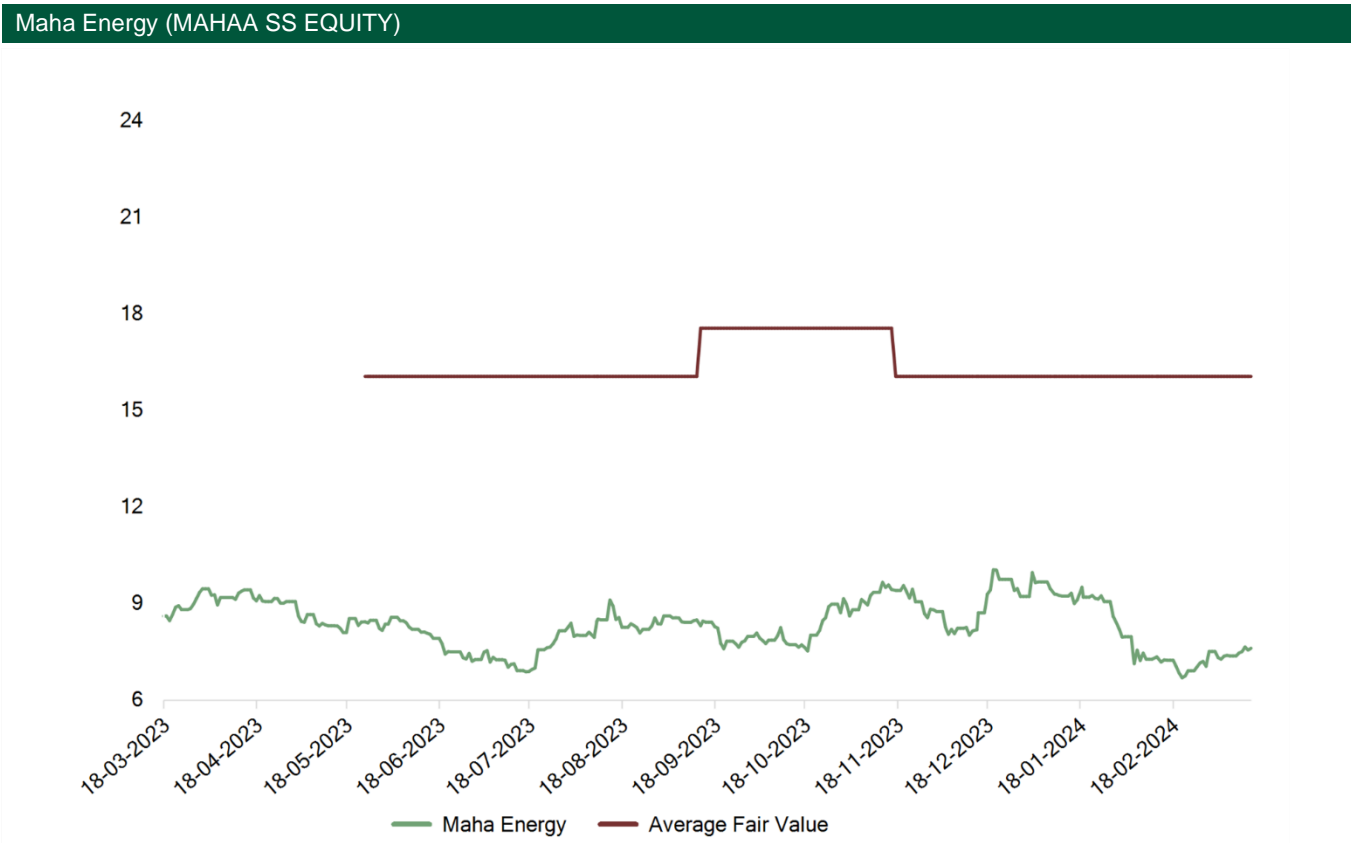
Per share data									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	0.25	0.18	-0.10	0.19	-0.10	-0.03	0.05	0.09	0.11
EPS, adjusted	0.25	0.18	0.10	0.19	-0.10	-0.02	0.05	0.09	0.11
FCF per share	0.03	0.00	-0.01	-0.14	-0.07	-0.16	-0.03	-0.04	-0.30
Book value per share	0.68	0.81	0.52	0.81	1.16	0.87	0.92	1.01	1.12
Number of shares, m	102	108	106	113	121	178	178	178	178
Number of shares after dilution, average	102	108	106	113	121	178	178	178	178

Source: Maha Energy, Penser by Carnegie

Valuation									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	5.8x	14.6x	18.0x	6.4x	Neg.	Neg.	14.6x	8.8x	7.0x
P/BV	2.2x	3.3x	3.5x	1.5x	0.7x	1.1x	0.8x	0.8x	0.7x
P/FCF	53.5x	100x	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
FCF-yield	2%	0%	Neg.	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	4.0x	4.9x	5.6x	2.6x	11.7x	22.5x	9.2x	11.2x	11.2x
EV/EBITDA, adjusted	6.9x	7.6x	12.0x	3.8x	Neg.	Neg.	2.9x	2.0x	1.6x
EV/EBIT, adjusted	7.8x	9.3x	17.8x	4.6x	Neg.	Neg.	3.3x	2.1x	1.7x
EV	154	272	218	180	144	118	42	42	42
Share price, year end	13.0	24.8	14.9	11.1	8.5	9.7	8.1	8.1	8.1

Source: Maha Energy, Penser by Carnegie

Share Price and Average Fair Value Chart



Source: Penser by Carnegie, IDC

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