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Oil, Gas & Consumable Fuels | Sweden | 21 November 2024

Maha Energy

Waiting for Venezuela to clear

Unexpected headwinds for Brava Energia

Brava Energia (Brava), the company that is the result of the 3R Petroleum–Enauta merger, experienced some unexpected headwinds during Q3, including downtime and delayed start-up at its two largest assets. Maha is the largest industrial shareholder of Brava and the company is confident production will resume and start ramping up before year-end 2024. According to Maha's estimates, Brava has the potential, fully invested, to reach 100,000 boepd during the coming months. Based on an oil price (Brent) of USD70/bbl, Maha believes Brava will be able to distribute dividends to Maha over the next three years that correspond to Maha's current market cap.

Approval for sanction exemptions and start of production would be a game-changer

In Venezuela, Maha obtained the approval from the Venezuelan Oil Minister to acquire PetroUrdaneta. The company is still targeting an OFAC license from the US that would exempt it from the sanctions on the Venezuelan O&G sector. Maha's ambitions are to launch production as soon as possible. The preliminary analysis is that the PetroUrdaneta fields have the potential to reach production of more than 20,000 boepd within a few years. We believe a positive outcome in the OFAC application process and the start of production in Venezuela would be a game-changer for Maha.

Resumed production for Brava's two largest assets the key share price catalyst

Maha's share price is highly correlated with Brava's, which is natural since Brava accounts for the majority of Maha's value (not taking the optionality in Venezuela into account). Brava's share price fell 38% in September owing to the unexpected downtime and start-up delays at its two largest assets. Should production resume and the ramp-up prove successful, we would expect a bounce-back in Brava's share price, in turn driving up the Maha share. We reduce our fair value range to SEK8–10 (11–14) to reflect the drop in Brava's share price.

Change in estimates				Forecasts (USDm)				Value and risk														
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 8.0 - 10.0												
Total Revenues	-3.9%	0.0%	0.0%	Total Revenues	5	8	8	8	Share price	SEK 6.3												
EBITDA, adj.	-34.0%	N.m.	N.m.	Revenue growth	-58%	58%	-9%	0%	Risk level	High												
EPS, adj.	N.m.	-18.4%	-26.2%	EBITDA, adj.	-3	-2	-2	-2	Price Performance 12 months													
Upcoming events				EBIT, adj.	-4	-6	-6	-6														
Q4 - report	27 February 2025			EPS, adj.	0.0	-0.3	0.0	0.0														
Q1 - report	20 May 2025			EPS growth, adj.	N.m.	N.m.	N.m.	N.m.	Conflicts of interest													
Company facts (USDm)				BV/share	0.9	0.6	0.5	0.5	<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		✓
	Yes	No																				
Liquidity provider		✓																				
Certified adviser		✓																				
Transactions 12m		✓																				
Number of shares	171m			EBIT margin	Neg.	Neg.	Neg.	Neg.														
Market capitalisation	98			ROE, adj.	Neg.	Neg.	Neg.	Neg.														
Net debt	-10			ROCE, adj.	2.2%	Neg.	Neg.	Neg.														
EV	88			EV/Sales	22.5x	10.6x	11.6x	11.6x														
Free float	72%			EV/EBITDA	Neg.	Neg.	Neg.	Neg.														
Daily trading volume, average	119k			EV/EBIT	Neg.	Neg.	Neg.	Neg.														
Bloomberg Ticker	MAHAA SS EQUITY			P/E, adj.	Neg.	Neg.	Neg.	Neg.														
Analyst				P/BV	1.1x	1.0x	1.1x	1.3x														
Markus Almerud				FCF yield	Neg.	Neg.	Neg.	Neg.														
markus.almerud@carnegie.se				Net debt / EBITDA	N.m.	N.m.	N.m.	N.m.														

Investment case

Undergoing transformation...: Since the end of September 2022, when Starboard, a Brazilian investment firm, became its main owner, Maha has undergone a transformation. It has sold Maha Brazil (including the Tie field and Tartaruga) for USD138m plus potential earn-outs and acquired an interest in 3R Offshore's two assets through the business combination with DBO 2.0. It has divested Block 70 in Oman, and through the purchase of 5% of 3R Petroleum's shares, it could push for the merger of 3R and Enauta, which included the roll-up of its holding in 3R Offshore for newly issued shares in the merged company.

...and there is upside from value creation in the merged 3R–Enauta: According to Brava Energia (the merged 3R and Enauta), there is around USD1.2bn in potential synergies for the integrated company. There are also plans to raise production in the combined company by 85–90% over the next couple of years. We do not see this reflected in a valuation of the merged company, and thus anticipate potential for appreciation of the shares.

Huge potential in Venezuela at a low price: Maha paid an initial EUR4.6m for the right to acquire a stake in PetroUrdaneta. Although the risk is high, the potential is vast. It has filed an application for an exception to the US government's sanctions on the O&G sector in Venezuela.

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 a Venezuelan asset. Moreover, it has bought a stake in 3R Petroleum and recently rolled up its holding in 3R Offshore – and thus the interest in the assets in Brazil – for newly issued shares in the merged 3R and Enauta (named Brava Energia). It controls 4.76% of Brava. After the roll-up, it has one producing asset: Illinois Basin in the US, a conventional light oil field.

Valuation

We use a sum-of-the-parts valuation when valuing Maha. We value Illinois Basin, the only producing asset in its portfolio, using an NPV analysis based on inputs from external sources and applying a WACC of 10%. We also add the potential earn-outs from the sale of Maha Brazil to Petroreconcavo and Block 70 in Oman as well as the market value of its 3R position. Our fair value is some USD200m, corresponding to a fair value range of SEK8–10 (11–14) per share.

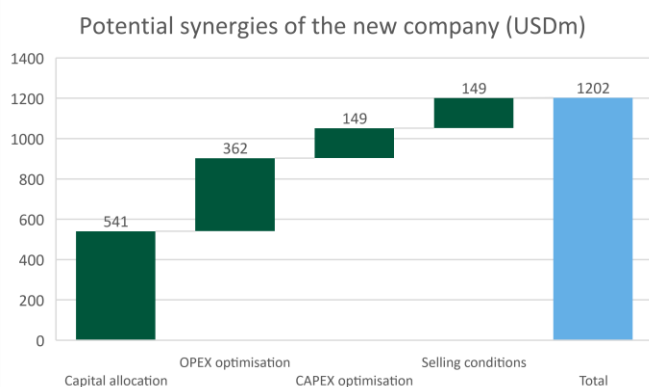
Next: outcome of application to operate in Venezuela

Following the finalisation of the merger of 3R Petroleum (3R) and Enauta, which included the roll-up of Maha's 15% stake in 3R Offshore for 2.17% of the new company and the creation of Brava Energia, Maha holds 4.76% of the shares in the new company.

Maha's management believes there is significant potential for value creation in the merged company, which should result in the appreciation of Brava's share price. According to Brava, there are significant potential synergies in the integrated company. Through capital allocation, OPEX and CAPEX optimisation, and co-ordinated selling, the company calculates a total of USD1.2bn in synergies (Exhibit 1). On top of these, Brava targets a production increase of 85–90% over the next few years (Exhibit 2).

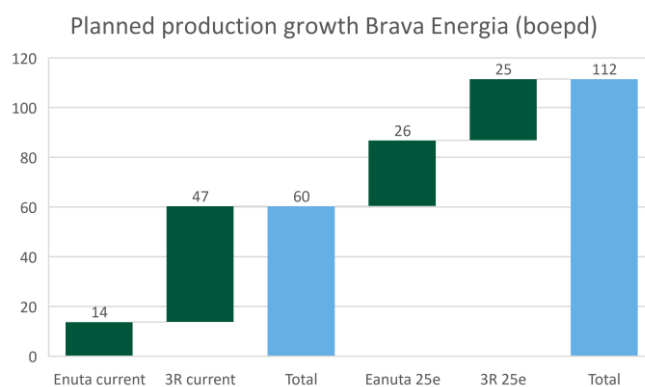
The Brava holding is booked as a short-term asset for Maha, meaning it is classified as being liquidated within a year. We believe, however, that Maha is in no rush to divest the stake but would like to see the scenarios play out.

Exhibit 1: The merger offers significant potential for synergies...



Source: Maha Energy, Brava Energia, Penser by Carnegie

Exhibit 2: ...and the combined entity should see higher production in coming years



Source: Maha Energy, Brava Energia, Penser by Carnegie

Next: outcome of application to operate in Venezuela

In October 2023, Maha signed for exclusivity to acquire 24–40% of PetroUrdaneta, which has assets in Venezuela. The US government has imposed sanctions on the Venezuelan O&G sector, which includes prohibiting US companies from engaging in transactions with state-owned oil company PDVSA, as well as forbidding exports of central goods, services, and technologies to the sector. Together with the Covid-19 pandemic, these sanctions have prompted a significant decrease in Venezuelan oil production.

Until the end of May 2024, there was an exception for the O&G sector in Venezuela, the so-called General Licence 44, which had been in effect since October 2023. Although it has since expired, there is a possibility to apply for a specific licence for an exception to the sanctions. Maha filed such an application in Q1 (24) and is in ongoing discussions with consultants in Washington D.C. and at the US State Department. Maha's management is very optimistic that its application will be approved.

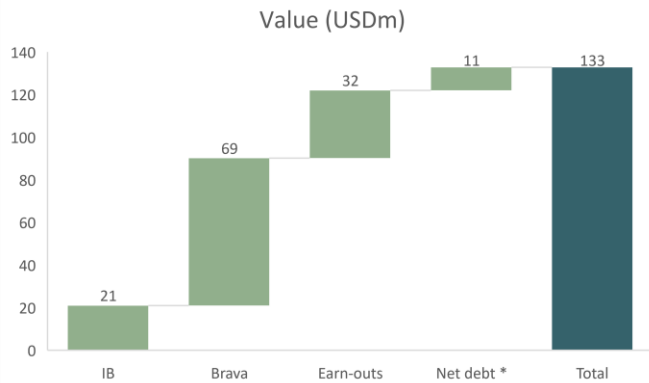
PetroUrdaneta currently produces around 1,000 boepd, but Maha believes it could raise production levels to around 20,000 boepd with limited investments. The plans have not been set yet, but during the conference call, management indicated initial investments in five wells and a total initial investment of up to USD25–30m. The company also expects revenues from the start and hopes for an off-take agreement to help financing investments.

In March 2024, it signed a definite agreement and paid the first instalment of EUR4.6m.

Valuation

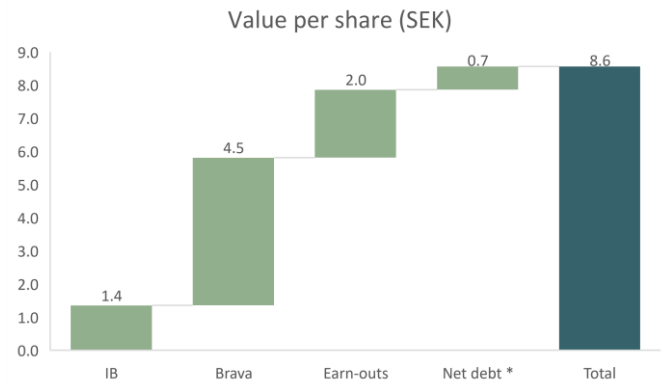
The 4.76% stake in Brava Energia now comprises the majority of the value in Maha (Exhibits 3 and 4). The value reflects the market value of Brava, which we do not believe takes the merger synergies into account. We note that Maha's share price moves in line with the value of its Brava holding (Exhibit 7).

Exhibit 3: The holding in Brava...



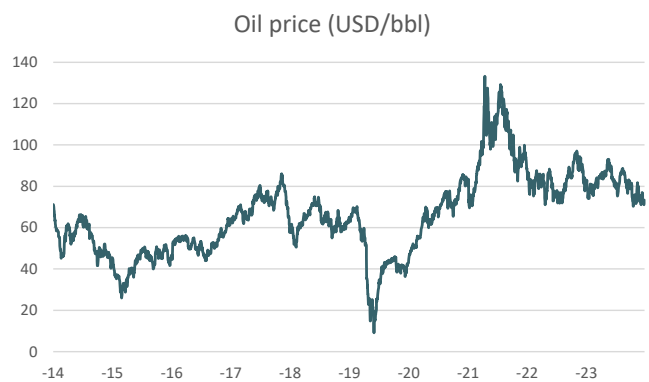
Source: Penser by Carnegie

Exhibit 4: ...comprises the majority of Maha's value



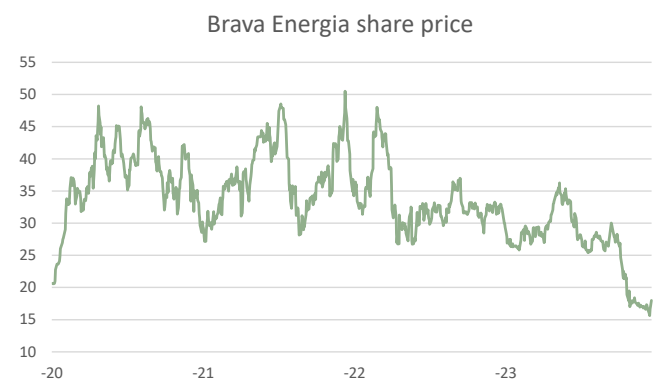
Source: Penser by Carnegie

Exhibit 5: The oil price has been relatively stable...



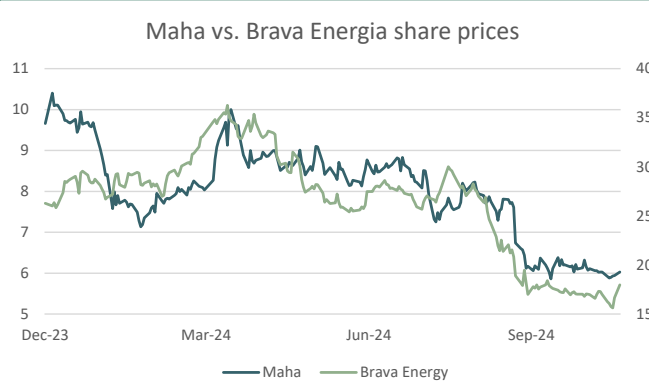
Source: Factset, Penser by Carnegie

Exhibit 6: ...while the Brava share trades at historical lows



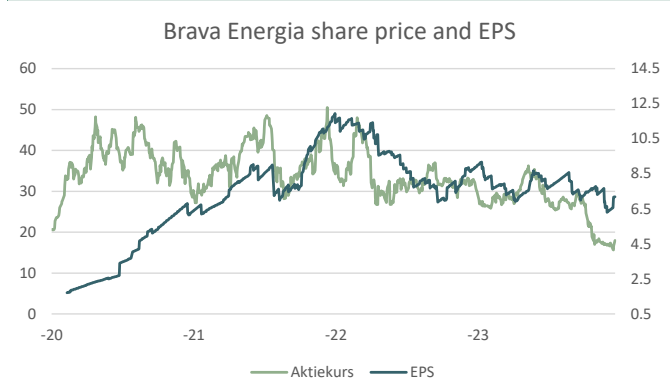
Source: Factset, Penser by Carnegie

Exhibit 7: Maha's and Brava's shares are highly correlated



Source: Factset, Penser by Carnegie

Exhibit 8: Brava's earnings trend and share price have diverged lately



Source: Factset, Penser by Carnegie

Income statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	38	56	39	68	12	5	8	8	8
Other Operating Expenses	-16	-20	-21	-21	-13	-8	-10	-10	-10
EBITDA	22	36	-3	48	0	-5	-2	-2	-2
Items affecting comparability	0	0	-21	0	0	-2	-1	0	0
EBITDA, adjusted	22	36	18	48	0	-3	-2	-2	-2
Depreciation	-3	-7	-6	-9	-3	-2	-4	-3	-3
EBITA, adjusted	20	29	12	39	-3	-4	-6	-6	-6
EBIT	20	29	-9	39	-3	-7	-7	-6	-6
EBIT, adjusted	20	29	12	39	-3	-4	-6	-6	-6
Net Financial Items	-5	-4	-5	-10	-9	2	-54	-2	-3
Profit before tax	15	25	-14	29	-13	-5	-61	-8	-8
Profit before tax, adjusted	15	25	7	29	-13	-3	-60	-8	-8
Taxes	11	-5	3	-8	0	0	1	0	0
Net income	26	20	-10	22	-13	-5	-60	-8	-8
Net income, adjusted	26	20	11	22	-13	-3	-59	-9	-8
Sales Growth	Neg.	46%	-30%	75%	-82%	-58%	58%	-9%	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.	Neg.	Neg.	Neg.
EPS, Adjusted	0.25	0.18	0.10	0.19	-0.10	-0.02	-0.35	-0.04	-0.05
EPS Growth, Adjusted	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	N.m.	N.m.

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	-7	-6	-6
Other Cash flow Items	-1	0	28	-8	58	-6	4	1	1
Cash flow from operating activities	18	29	19	31	55	-13	-3	-5	-5
Investments in Fixed Assets	-13	-28	-20	-44	-48	-3	-5	-2	-2
Investments in intangible fixed assets	-3	-1	0	-3	-15	-13	0	0	0
Cash flow from Investments	-16	-28	-20	-47	-63	-16	-5	-2	-2
Free cash flow	3	0	-1	-16	-8	-29	-8	-7	-7
Acquisitions & Divestments	0	0	-15	0	0	151	0	0	0
New share issue / repurchase	0	0	0	9	19	0	-1	0	0
Change in liabilities	0	0	0	19	-11	-14	-10	7	7
Other items	2	3	2	8	-1	-42	-37	0	0
Cash flow from financing	2	3	-13	36	6	94	-48	7	7
Cash flow	4	3	-14	20	-2	66	-56	0	0
Net debt	11	9	34	33	27	-53	-7	0	7

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	16	15	14
Shares in associated companies	0	0	0	0	0	35	0	0	0
Other fixed assets	32	30	27	22	184	32	20	20	20
Total fixed assets	91	106	112	135	198	81	36	35	34
Accounts receivable	4	5	3	6	1	1	0	0	0
Other current assets	3	3	1	1	1	31	65	65	65
Cash and cash equivalents	20	22	7	26	20	88	32	32	32
Total current assets	28	30	12	33	21	121	97	97	97
TOTAL ASSETS	119	136	124	168	218	202	133	132	131
EQUITY AND LIABILITIES									
Equity	69	88	56	91	141	155	94	86	78
Total equity	69	88	56	91	141	155	94	86	78
Long-term interest-bearing liabilities	31	31	0	44	27	12	2	9	16
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	11	18	25
Short-term interest-bearing liabilities	0	0	36	11	20	23	23	23	23
Accounts payable	4	5	11	10	4	3	5	4	4
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	29	28	28
TOTAL EQUITY AND LIABILITIES	119	136	124	168	218	202	133	132	131

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%	58%	-9%	0%
EBITDA growth, adjusted	Neg.	60%	-50%	164%	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT growth, adjusted	Neg.	47%	-58%	221%	Neg.	Neg.	Neg.	Neg.	Neg.
EPS growth, adjusted	N.m.	-27%	-45%	89%	N.m.	N.m.	N.m.	N.m.	N.m.
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.	Neg.	Neg.	Neg.
EBITDA margin, adjusted	58.8%	64.5%	46.4%	69.9%	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin	52.0%	52.5%	Neg.	57.4%	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin, adjusted	52.0%	52.5%	31.4%	57.4%	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	67.3%	35.4%	27.5%	31.6%	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Maha Energy, Penser by Carnegie

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

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%	>100%	>100%	>100%
Working capital / total revenue	-2%	2%	-40%	-11%	-67%	>100%	>100%	>100%	>100%
Capital turnover rate	0.4x	0.5x	0.4x	0.5x	0.1x	0.0x	0.1x	0.1x	0.1x

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	-7	0	7
Equity ratio	58%	65%	45%	54%	65%	77%	71%	65%	60%
Net debt / equity	0.2x	0.1x	0.6x	0.4x	0.2x	-0.3x	-0.1x	0.0x	0.1x
Net debt / EBITDA	0.5x	0.2x	N.m.	0.7x	-63.6x	N.m.	N.m.	N.m.	N.m.

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	-0.35	-0.04	-0.05
EPS, adjusted	0.25	0.18	0.10	0.19	-0.10	-0.02	-0.35	-0.04	-0.05
FCF per share	0.03	0.00	-0.01	-0.14	-0.07	-0.16	-0.05	-0.04	-0.04
Book value per share	0.68	0.81	0.52	0.81	1.16	0.87	0.55	0.51	0.46
Number of shares, m	102	108	106	113	121	178	171	171	171
Number of shares after dilution, average	102	108	106	113	121	178	171	171	171

Source: Maha Energy, Penser by Carnegie

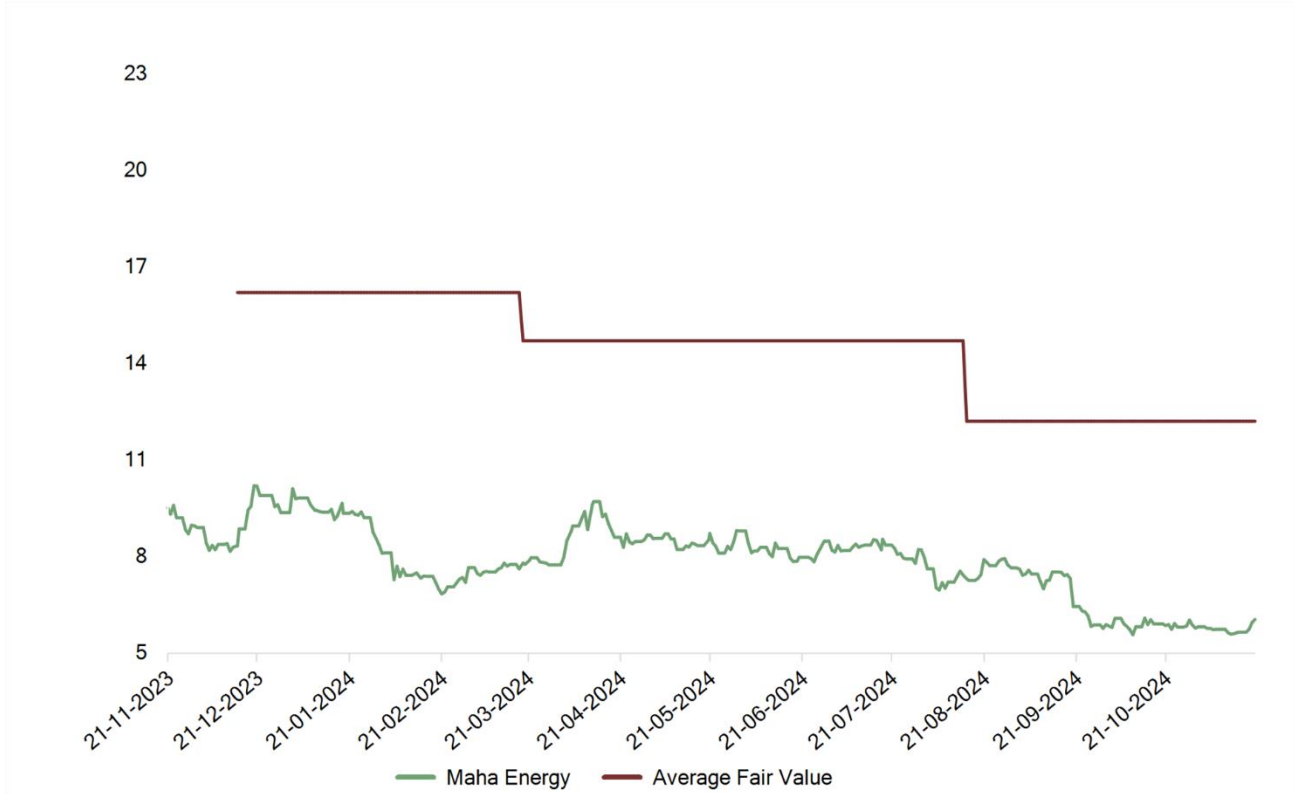
Valuation

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	5.8x	14.6x	18.0x	6.4x	Neg.	Neg.	Neg.	Neg.	Neg.
P/BV	2.2x	3.3x	3.5x	1.5x	0.7x	1.1x	1.0x	1.1x	1.3x
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	10.6x	11.6x	11.6x
EV/EBITDA, adjusted	6.9x	7.6x	12.0x	3.8x	Neg.	Neg.	Neg.	Neg.	Neg.
EV/EBIT, adjusted	7.8x	9.3x	17.8x	4.6x	Neg.	Neg.	Neg.	Neg.	Neg.
EV	154	272	218	180	144	118	88	88	88
Share price, year end	13.0	24.8	14.9	11.1	8.5	9.7	6.3	6.3	6.3

Source: Maha Energy, Penser by Carnegie

Share Price and Average Fair Value Chart

Maha Energy (MAHAA SS EQUITY)



Source: Penser by Carnegie, IDC

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Penser Access by Carnegie

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