

Calima Energy

Cash returns to shareholders and strong growth

Calima shareholder return framework

Last week Calima laid out a shareholder cash return framework and reported its Q3'21 results. Calima is able to both increase investment for 2022 and initiate an attractive and growing dividend as a result of the development potential of its assets and higher oil and gas prices. At US\$80/bbl WTI (slightly lower than current spot prices and around in line with the 2022 forward curve), Calima expects to generate C\$81mm in adjusted EBITDA and C\$41mm of free cash flow (38% FCF yield). Calima plans to pay out 30% of its FCF to shareholders implying a potential ~C\$12mm (11% yield) for 2022. This strong FCF is despite the fact that Calima is intending to spend C\$35mm in 2022, as it plans to drill 13 wells and grow exit production to 5.6kboe/d by YE'22 (25% growth exit to exit).

Q3'21 results: continued growth in production and EBITDA

Q3'21 production was 3.3kboe/d (+10% q/q) which led to adjusted EBITDA of A\$8.4mm (~C\$31mm on an annualised basis). Production should grow substantially into year-end with expected exit production of 4.5kboe/d and average production of 4kboe/d in Q4'21. Calima has three wells on its Thorsby acreage that are due to come online in the coming weeks with the potential to add around 1kboe/d in aggregate and pay back in under six months. 2021 capex guidance was increased by 10% to C\$22mm due to higher than expected costs on the Thorsby drilling programme. 2021 adjusted EBITDA is forecast at C\$26mm.

Net debt should have peaked in Q3'21; hedging continues to be layered on

Net debt is expected to have peaked at end-Q3'21 at C\$20mm and should reduce to around C\$18mm by YE'21. This is higher than the previously guided C\$11mm due to higher capex and opex plus the delay of the Thorsby wells coming online. The learnings from the drilling issues on the Thorsby wells mean that they should not be repeated in the future. Calima has a strategy of hedging the production that is required to reach payback on the capital invested, which is generally six or less months per well. ~50% is hedged for Q4'21; 35% for H1'22 and 20% for H2'22, leaving plenty of exposure to current high prices and the ability to lock in future hedges and secure cash flow from the payback period of the new wells being drilled.

Catalysts: Blackspur well performance; Montney and LNG activity

The key catalysts are continued well performance from its current Thorsby drilling campaign. We also expect some small bolt-on acquisitions around the existing assets. In the Montney, we expect continued corporate activity and progress of LNG projects to increase the market value of the play. The performance of the other listed Montney focused stocks (e.g., Tourmaline, Storm Resources and Arc Resources) and drilling results from nearby acreage (e.g. Tourmaline) could be catalysts for Calima. We see the potential for a transaction on Calima's assets over the coming months as it looks to unlock value through joint ventures, farm-outs or asset dispositions.

Valuation: ~200% upside to our increased risked NAV

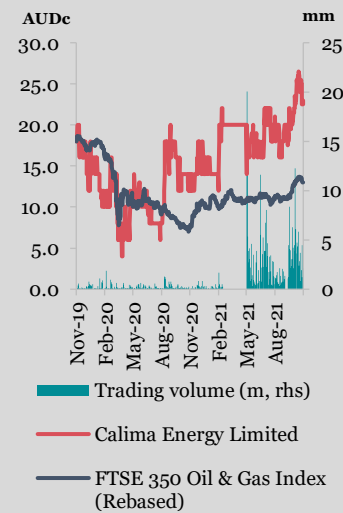
Calima offers a combination of value, growth and shareholder return potential. It offers organic growth through the drill-bit with >20 years reserve life. We have slightly increased our risked NAV to AUD 70c/sh from AUD 51c/sh on the back of marking to market oil prices and revised guidance. There is also 45% upside to our Core NAV of AUD 33c/sh, which only includes the 1P reserves. Our 2022 forecasts are based on US\$70/bbl Brent or US\$67/bbl WTI. On a multiple basis, we estimate that Calima is trading on 2022 EV/CFFO of 2.0x. Using the ~C\$25mm valuation for the Montney implied pre-Blackspur (which we see as conservative in the current environment), sees it trading on just 1.6x EV/CFFO in 2022. On operational metrics, we see Calima trading on EV/2P reserves of C\$5.6/boe and on a flowing barrel basis on \$23k per boe/d in 2022. We expect C\$31/boe of post-tax cashflow per barrel in 2022. We currently forecast a C\$8mm dividend for 2022 or a 7% yield at US\$67/bbl WTI; this would rise to >10% at strip pricing.

GICS Sector	Energy
Ticker	ASX:CE1
Market cap 29-Oct-21 (US\$mm)	87
Share price 29-Oct-21 (AUD c)	22.5

NAV summary (AUD c/sh)

Asset	Unrisked	Risked
Core NAV	36	33
Development	79	37
Exploration	39	1
Total NAV	154	70

Source: H&P estimates



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Valuation

Our favoured valuation methodology is a bottom-up risk NAV, in which we have built a DCF valuation of the 2P reserves, plus the main development and exploration prospects (assuming they will be developed), and then risked them for geological and commercialisation risk. We also take a look at how Calima compares on a multiple basis.

In our base case scenario, we use US\$57/bbl WTI long-term flat from 2022, a US\$14/bbl differential to WCS pricing, US\$2.5/MMBtu AECO gas price in 2021 and US\$2.75/MMBtu AECO gas price in 2022+, a US\$1.33/AUD exchange rate, US\$1.25/CAD exchange rate and a 10% discount rate from 1/1/2022.

NAV

Asset	Gross		Net	NPV	Unrisked		Geological Commercial		Risked	
	mmboe	Interest			mmboe	C\$/boe	C\$m	A\$/sh	CoS	CoS
Net debt (end-Apr '21)					-\$18	-3.6			-\$18	-3.6
Asset retirement obligations					-\$13.9	-2.8			-\$13.9	-2.8
Options proceeds					\$2.1	0.4			\$2.1	0.4
Hedging gain/loss					-\$6.5	-1.3			-\$6.5	-1.3
Brooks PDP reserves	2.7	100%	2.7	\$19.6	\$53.1	10.6	100%	100%	\$53.1	10.6
Thorsby PDP reserves	2.0	100%	2.0	\$14.8	\$30.1	6.0	100%	100%	\$30.1	6.0
Brooks planned PUD	5.7	100%	5.7	\$18.8	\$107.3	21.3	100%	90%	\$96.6	19.2
Thorsby planned PUD	5.6	100%	5.6	\$9.8	\$54.3	10.8	100%	90%	\$48.9	9.7
H2 Sweet					\$0.4	0.1			\$0.4	0.1
Workovers/other capex					-\$18.9	-3.8			-\$18.9	-3.8
Capitalised G&A	@ 2x	-5.0			-\$10.0	-2.0			-\$10.0	-2.0
1P Core NAV	16.0		16.0	\$11	\$180	35.8			\$164	32.5
Incremental Brooks 2P	2.5	100%	2.5	\$13.8	\$35.1	7.0	90%	90%	\$28.4	5.6
Incremental Thorsby 2P	3.4	100%	3.4	\$9.8	\$32.8	6.5	90%	90%	\$26.5	5.3
Brooks remaining unbooked	12.9	100%	12.9	\$10.3	\$133.2	26.5	50%	50%	\$33.3	6.6
Thorsby remaining unbooked	6.6	100%	6.6	\$7.3	\$48.0	9.5	50%	50%	\$12.0	2.4
Montney 2C 50mmcf/d	125	100%	125	\$2.6	\$330	65.6	90%	25%	\$74.2	14.8
Montney remaining 2C	68	100%	68	\$1.0	\$67.8	13.5	75%	20%	\$10.2	2.0
Development upside	192.4		192.4		\$398	79.0			\$185	36.7
Montney Prospective Resource	364	100%	364	\$0.5	\$182.1	36.2	33%	5%	\$3.0	0.6
PEL-10 production licence					\$6.3	1.2	25%	25%	\$0.4	0.1
PEL-10 commercial production					\$6.3	1.2	25%	10%	\$0.2	0.0
SADR exploration		50%							\$0.0	0.0
5% in Discover Exploration Ltd									\$1.0	0.2
Exploration upside	364.1		364.1		\$195	38.7			\$5	0.9
Total NAV					\$772	153.5			\$353	70.1

Source: H&P estimates

NAV sensitivities

We look at the risked NAV for Calima at various oil prices and discount rates relative to our base case.

Risked NAV (AUD c/sh) at different oil prices and discount rates

		Brent Oil price (US\$/bbl)				
		\$50.00	\$60.00	\$70.00	\$80.00	\$90.00
Discount rate	6%	82.5c	86.6c	90.8c	94.9c	99.1c
	8%	71.8c	75.5c	79.2c	82.9c	86.6c
	10%	63.3c	66.7c	70.1c	73.6c	77.0c
	12%	56.5c	59.7c	62.9c	66.1c	69.3c
	14%	50.9c	53.9c	57.0c	60.0c	63.1c

Source: H&P estimates

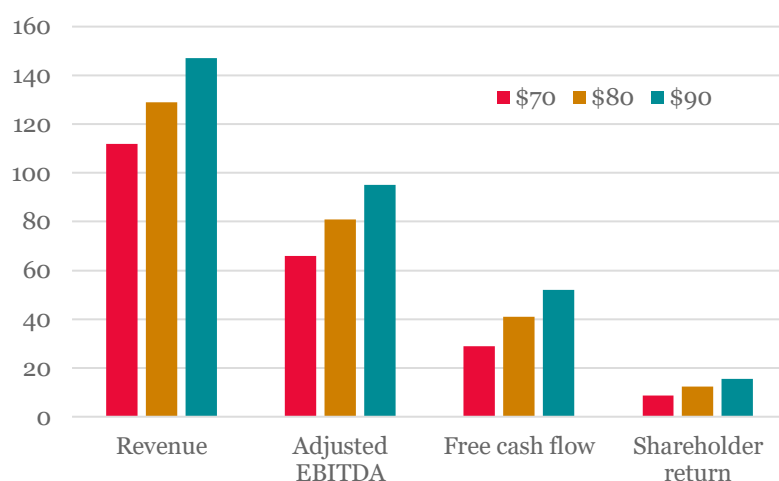
Valuation metrics and multiples

The table below shows the key financial ratio and operational metrics for Calima.

Financial ratios and multiples (C\$mm)	2021E	2022E	2023E	2024E	2025E
Market capitalisation	108.6	108.6	108.6	108.6	108.6
Net debt	17.8	-\$1.0	-\$19.0	-\$43.1	-\$67.5
EV	126.4	126.4	126.4	126.4	126.4
Equity	171.5	201.5	236.6	270.5	301.8
Capital employed	189.3	200.5	217.6	227.4	234.3
EV/2P reserves (2020)	\$5.6	\$5.6	\$5.6	\$5.6	\$5.6
EV per boe per day (\$ per kboe/d)	\$37.4	\$23.1	\$19.1	\$17.5	\$19.3
Cashflow per barrel (\$/boe)	\$22.4	\$31.0	\$28.0	\$25.3	\$25.0
EBITDA per barrel (\$/boe)	\$30.9	\$31.2	\$30.4	\$29.3	\$28.1
Net income per barrel (\$/boe)	-\$4.9	\$19.0	\$17.7	\$16.8	\$17.5
P/E	-26.9x	2.9x	2.5x	2.5x	2.6x
P/CFPS	5.9x	1.8x	1.6x	1.6x	1.8x
EV/EBITDA	5.0x	2.0x	1.7x	1.6x	1.9x
EV/CFFO	6.9x	2.0x	1.9x	1.9x	2.1x
ROAE	-2.4%	18.9%	18.1%	16.4%	13.8%
ROACE	-2.1%	19.0%	19.6%	19.5%	17.8%
FCF yield	-3.3%	24.7%	23.6%	31.7%	32.0%
Dividend yield	0.0%	7.4%	7.1%	9.5%	9.6%
Net debt/EBITDA	0.7x	0.0x	-0.3x	-0.6x	-1.0x
Net debt/equity	10.4%	-0.5%	-8.0%	-15.9%	-22.4%
Net debt/capital employed	9.4%	-0.5%	-8.7%	-19.0%	-28.8%

Source: H&P estimates, CapIQ

Calima 2022 key guidance (C\$mm) at various WTI oil prices (US\$/bbl)



Source: H&P estimates, Calima

Financial Summary

Assumptions	2021E	2022E	2023E	2024E	2025E
USD:AUD FX rate	\$1.33	\$1.33	\$1.33	\$1.33	\$1.33
CAD:AUD FX rate	\$1.06	\$1.06	\$1.06	\$1.06	\$1.06
Brent (US\$/bbl)	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00
WTI (US\$/bbl)	\$67.00	\$67.00	\$67.00	\$67.00	\$67.00
WCS (C\$/bbl)	\$68.75	\$66.88	\$66.88	\$66.88	\$66.88
Henry Hub (US\$/mcf)	\$4.00	\$3.00	\$3.00	\$3.00	\$3.00
AECO (US\$/mcf)	\$4.38	\$3.44	\$3.44	\$3.44	\$3.44
Brooks oil price (C\$/bbl)	\$71.25	\$69.38	\$69.38	\$69.38	\$69.38
Thorsby oil price (C\$/bbl)	\$63.75	\$61.88	\$61.88	\$61.88	\$61.88
NGL price (C\$/bbl)	\$41.88	\$41.88	\$41.88	\$41.88	\$41.88
Gas price (C\$/mcf)	\$4.38	\$3.44	\$3.44	\$3.44	\$3.44
Oil production (bbl/d)	2,389	3,713	4,383	4,634	4,173
Gas production (mcf/d)	5,644	10,052	12,854	14,747	13,567
NGL production (kbbbl/d)	51	86	98	116	109
Total production (kboe/d)	3,381	5,474	6,623	7,208	6,543

Income Statement (C\$mm)	2021E	2022E	2023E	2024E	2025E
Revenue	\$46.9	\$104.3	\$124.5	\$133.2	\$119.1
Royalties	-\$8.4	-\$18.8	-\$22.4	-\$24.0	-\$21.4
Opex and transportation	-\$10.0	-\$18.2	-\$22.5	-\$25.6	-\$24.6
G&A	-\$3.1	-\$5.0	-\$6.0	-\$6.6	-\$6.0
EBITDA	\$25.4	\$62.4	\$73.5	\$77.0	\$67.1
DD&A	-\$22.4	-\$23.8	-\$25.0	-\$22.3	-\$17.9
EBIT	\$3.0	\$38.6	\$48.5	\$54.7	\$49.2
Cash Interest	-\$0.5	-\$0.5	\$0.2	\$1.0	\$2.0
Hedging (gains) losses	-\$6.5	\$0.0	\$0.0	\$0.0	\$0.0
EBT	-\$4.0	\$38.1	\$48.7	\$55.7	\$51.1
Tax	\$0.0	\$0.0	-\$6.0	-\$11.5	-\$9.4
Net income	-\$4.0	\$38.1	\$42.7	\$44.2	\$41.8

Source: H&P estimates

Cash flow (C\$mm)	2021E	2022E	2023E	2024E	2025E
Earnings before interest and tax	\$3.0	\$38.6	\$48.5	\$54.7	\$49.2
Depreciation	\$22.4	\$23.8	\$25.0	\$22.3	\$17.9
Share based remuneration	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash interest charge	-\$0.5	-\$0.5	\$0.2	\$1.0	\$2.0
Cash tax	\$0.0	\$0.0	-\$6.0	-\$11.5	-\$9.4
Other	-\$6.5	\$0.0	\$0.0	\$0.0	\$0.0
Cash flow from operations (pre w/c)	\$18.4	\$61.8	\$67.8	\$66.5	\$59.7
Decrease/(increase) in trade receivables	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Increase/(decrease) in trade creditors	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Decrease/(increase) in inventory	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash flow from operations (post w/c)	\$18.4	\$61.8	\$67.8	\$66.5	\$59.7
Capital expenditure	-\$22.0	-\$35.0	-\$42.1	-\$32.1	-\$24.9
Free cashflow	-\$3.6	\$26.8	\$25.7	\$34.5	\$34.8
Acquisitions	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Disposals	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Dividends	\$0.0	-\$8.1	-\$7.7	-\$10.3	-\$10.4
Change in net debt	-\$3.6	\$18.8	\$18.0	\$24.1	\$24.4

Source: H&P estimate

Balance Sheet (C\$mm)	2021E	2022E	2023E	2024E	2025E
Cash and cash equivalents	\$0.3	\$19.1	\$37.1	\$61.2	\$85.6
Trade and other receivables	\$3.9	\$3.9	\$3.9	\$3.9	\$3.9
Prepaid expenditures and deposits	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Risk management assets	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8
Total current assets	\$5.1	\$23.9	\$41.9	\$66.0	\$90.4
Other assets	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Property, plant and equipment	\$138.4	\$149.6	\$166.7	\$176.4	\$183.4
Right of use asset	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Exploration and evaluation expenditure	\$62.9	\$62.9	\$62.9	\$62.9	\$62.9
Investments	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4
Total non-current assets	\$202.9	\$214.1	\$231.2	\$241.0	\$247.9
TOTAL ASSETS	\$208.0	\$238.0	\$273.1	\$307.0	\$338.3
Bank indebtedness	\$18.1	\$18.1	\$18.1	\$18.1	\$18.1
Trade and other payables	\$2.9	\$2.9	\$2.9	\$2.9	\$2.9
Other Liabilities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total current liabilities	\$21.0	\$21.0	\$21.0	\$21.0	\$21.0
Decommissioning obligation	\$9.7	\$9.7	\$9.7	\$9.7	\$9.7
Deferred income tax liability	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
Restoration provision	\$4.8	\$4.8	\$4.8	\$4.8	\$4.8
Lease liabilities	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Loan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Non-Current Liabilities	\$17.0	\$17.0	\$17.0	\$17.0	\$17.0
TOTAL LIABILITIES	\$38.0	\$38.0	\$38.0	\$38.0	\$38.0
NET ASSETS	\$170.0	\$200.0	\$235.1	\$269.0	\$300.3
Issued capital	\$346.7	\$346.7	\$346.7	\$346.7	\$346.7
Options/Mgmt Rights	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Fundraising Costs	-\$3.1	-\$3.1	-\$3.1	-\$3.1	-\$3.1
Contributed surplus	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Reserves	\$18.3	\$18.3	\$18.3	\$18.3	\$18.3
Accumulated losses	-\$190.6	-\$160.6	-\$125.5	-\$91.7	-\$60.3
TOTAL EQUITY	\$171.5	\$201.5	\$236.6	\$270.5	\$301.8

Source: H&P estimate

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