

Calima Energy Limited (ASX:CE1)

Share price: A\$0.18

Target: A\$0.75

April 28, 2022

Balancing shareholder return and growth

- 1Q22 production was ~4.0 mboe/d in line with our expectations.
- Production at the end of March was 4.3 mboe/d and with minimal capex in 2Q22, production is expected to be stable with 1H22 production expected to average 4.0-4.2 mboe/d. As we factor in the performance of the new wells as slightly below average and some production efficiencies, we are reducing our 2Q22 production forecast from 4.7 mboe/ to 4.3 mboe/d.
- Although the industry is facing inflationary pressure, some projects have been delivered under budget and the company's 1H22 capex forecast has been reduced from A\$20-22 mm to A\$19-20 mm.
- The 1Q22 drilling results have potentially important positive implications for reserves and production. The Leo#4 well could open-up up to 20 new locations in the Holborn area, just North of Thorsby. Wells in this area are expected to deliver higher production than the typical Leo wells. With typical EUR of 350-450 mboe, 10-20 wells could add 4-9 mmboe recoverable resources.
- The Gemini#5 vertical well is contributing 75 boe/d production, which is significantly above expectations. It has further delineated the Brooks land base, identifying up to 6 new Sunburst drilling locations. Each Sunburst well recovers ~ 220 mboe (~1.3 mmboe for six wells).
- With hardly any debt and important free cash flow in 2Q22, Calima is looking to start returning cash to shareholders through buy backs or dividends. The 2H22 capex programme will therefore incorporate this strategic objective while continuing to focus on growing production. Pending further details expected in May, we are now forecasting 4,700 boe/d production in 2H22 (5.3 mboe/d previously) with a new production plateau from 2023 of 5.2 mboe/d instead of 6.0-6.2 mboe/d. We are also more cautious on future well performance and are changing our target price from A\$0.85/sh to A\$0.75/sh.

Other considerations

The J2J pool waterflood programme is working well. An additional water injection well is being completed in April as part of the staged plan to repressurize the pool. This is expected to increase production 2-4 fold from current rates of ~180 boe/d. The increased water handling capacity could also have a positive impact on production.

Still a value name

Under our new Brent price assumptions and reflecting the currently planned drilling programme, we forecast Calima will now generate ~US\$50 mm free cash flow by YE23 and ~US\$85 mm by YE24. This would translate to YE24 net cash being in line with the current market cap.

Rating & target	Old	New	
Target	\$0.85	\$0.75	
Yield		0%	
Implied total return		295%	
Share data	2021	2022e	2023e
Shares dil., mm	552	652	652
Mkt cap, US\$m	\$85	\$88	\$88
EV, US\$m	\$105	\$82	\$41
Financial data	2021	2022e	2023e
Gas, mmcf/d	4.8	8.5	10.3
Liquids, bbl/d	1,559	3,020	3,495
Total boe/d (6:1)	2,362	4,442	5,209
CFO, US\$m	\$9	\$50	\$66
Net capex, US\$m	\$40	\$37	\$25
Net debt, US\$m	\$20	(\$6)	(\$48)
CFPS dil., US\$/s	\$0.00	\$0.11	\$0.14
EPS dil., US\$/sh	(\$0.01)	\$0.09	\$0.12
Valuation	2021	2022e	2023e
Share price, A\$	\$0.21	\$0.19	\$0.19
EV/DACF	10.6x	1.7x	0.6x
EV per boe/d	\$44,438	\$18,448	\$7,792
Net asset value			
CNAV, A\$/shr			\$0.36
RENAV, A\$/shr			\$0.74
Unrisked NAV, A\$/shr			\$1.90
P/CNAV			0.5x
P/RENAV			0.3x
P/Unrisked NAV			0.1x

All figures in US\$ unless otherwise noted

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Figure 1. Financial & operating information

Calima Energy Ltd (CE1)		Historical & Auctus Advisors Outlook						
Financial & Operating Information		2020a	2021	2022e	2023e	2024e	2025e	2026e
Commodity Prices								
WTI	US\$/bbl	\$37.26	\$67.44	\$99.62	\$97.00	\$89.45	\$70.71	\$67.00
USD/CAD	US\$/C\$	0.752	0.788	0.800	0.800	0.800	0.800	0.800
USD/A\$	US\$/A\$	0.750	0.743	0.720	0.720	0.720	0.720	0.720
Production								
Oil and Liquids	bbl/d	20	1,559	3,020	3,495	3,514	3,459	3,299
Natural Gas	mmcf/d	0	5	9	10	10	10	10
Total (6 mcf = 1 boe)	boe/d	20	2,362	4,442	5,209	5,241	5,158	4,928
% Oil and Liquids	%	100%	66%	68%	67%	67%	67%	67%
Netbacks								
Realized Price	US\$/boe	\$27.46	\$41.14	\$64.33	\$61.58	\$56.56	\$43.96	\$41.29
Royalties	US\$/boe	\$0.00	\$7.88	\$12.37	\$11.66	\$10.71	\$8.32	\$7.81
Production Costs	US\$/boe	\$194.42	\$11.01	\$11.67	\$13.10	\$13.44	\$13.82	\$14.36
Operating Netback	US\$/boe	(\$166.96)	\$16.74	\$32.97	\$36.81	\$32.41	\$21.83	\$19.13
Taxes	US\$/boe	\$0.13	\$0.00	\$0.00	\$0.00	\$0.61	\$3.53	\$2.83
Cash Flow Netback	US\$/boe	(\$518.19)	\$15.72	\$42.69	\$48.50	\$42.40	\$27.66	\$23.78
Government Take	%	0%	0%	0%	0%	1%	8%	7%
Financials								
Cash Flow (CFO)	US\$m	(\$0)	\$9	\$50	\$66	\$58	\$37	\$31
CFPS - diluted	US\$/shr	(\$0.00)	\$0.00	\$0.11	\$0.14	\$0.13	\$0.08	\$0.07
EBITDAX	US\$m	(\$6)	(\$18)	\$50	\$66	\$58	\$37	\$31
E&D Capex	US\$m	\$0.35	\$16	\$37	\$25	\$26	\$27	\$26
A&D Capex, Net	US\$m	\$0	\$25	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$m	\$0	\$40	\$37	\$25	\$26	\$27	\$26
Total Net Capex/CFO	x	-0.7x	4.3x	0.7x	0.4x	0.5x	0.7x	0.8x
Leverage								
Net Debt	US\$m	(\$1)	\$20	(\$6)	(\$48)	(\$78)	(\$82)	(\$82)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	\$0	n.a.	n.a.	n.a.	n.a.
Capital Structure								
Basic Shares o/s @ YE	mm	2192	514	614	614	614	614	614
Diluted Shares o/s @ YE	mm	2346	552	652	652	652	652	652
Market Capitalization	US\$m	\$15	\$85	\$88	\$88	\$88	\$88	\$88
Enterprise Value	US\$m	\$15	\$105	\$82	\$41	\$10	\$6	\$6
Dividends & Sustainability								
Dividends	US\$m	0	0	0	0	0	0	0
Dividends	A\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0%	0%	0%	0%	0%	0%	0%
Free Cash Flow	US\$m	(\$1)	(\$31)	\$13	\$41	\$32	\$10	\$5
Cash Use/CFO	%	-70%	427%	75%	38%	45%	72%	83%
Performance								
Prod. Per Shr Growth (Y/Y) - dil	%	15580%	4929%	1328%	14%	1%	-2%	-4%
PPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	4759%	1489%	130%	316%	62%	-3%
CFPS Growth (Y/Y) - dil.	%	n.a.	-303%	3779%	30%	-12%	-36%	-18%
CFPS Growth (Y/Y) DDA - dil. ^b	%	n.a.	-182%	32672%	155%	263%	5%	-16%
ROCE	%	-15%	-35%	36%	40%	31%	31%	31%
Net Asset Value								
CNAV (Atax) - diluted	A\$/shr	\$0.360						
RENAV (Atax) - diluted	A\$/shr	\$0.736						
Unrisked NAV (Atax) - diluted	A\$/shr	\$1.898						
P/CNAV	x	0.5x						
P/RENAV	x	0.3x						
P/Unrisked NAV	x	0.1x						
Valuation								
Share Price, YE/Current	A\$/shr	\$0.009	\$0.21	\$0.19	\$0.19	\$0.19	\$0.19	\$0.19
P/CF	x	-4.8x	55.0x	1.2x	1.0x	1.1x	1.7x	2.1x
EV/DACF	x	-30.7x	10.6x	1.7x	0.6x	0.2x	0.2x	0.2x
Target EV/DACF	x	-2660.3x	37.1x	7.0x	4.6x	4.7x	7.2x	8.8x
EV per boe/d	US\$/boe/d	n.a.	\$44,438	\$18,448	\$7,792	\$1,874	\$1,160	\$1,194
EV per 2P boe	US\$/boe	\$0.59	\$4.38	\$3.67	\$1.99	\$0.53	\$0.36	\$0.40
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; ^b DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus advisors, Company Disclosures

**Futures strip as of 26-Apr-22

Figure 2. NAV Table

Asset Valuation	WI Reserves and Resources (mmboe)	CoS (%)	Unrisked (US\$mm)	EMV (US\$mm)	A\$/Share (Risked)	A\$/Share (Unrisked)	% Total
Net Cash/Debt YE22			6	6	0.013	0.013	2%
G&A			-27	-27	-0.057	-0.057	-8%
Brooks 2P	11.6	100%	97	97	0.206	0.206	28%
Thorsby 2P	12.1	100%	93	93	0.199	0.199	27%
Total Core NAV			170	170	0.361	0.361	49%
Brooks upside							
Brooks 100 Unbooked Locations	15.5	45%	129	58	0.124	0.325	17%
Brooks increasing recovery factor by 10% - Booked locations	11.6	40%	97	39	0.083	0.244	11%
Brooks new Sunburst pools	0.0	0%	0	0	0.000	0.000	0%
Thorsby upside							
Thorsby 78 Unbooked locations	19.5	45%	150	68	0.144	0.378	0%
Thorsby - Better recovery performance (+30%) - Booked loctions	3.6	40%	30	12	0.026	0.076	4%
Montney Acreage							
Contingent resources	200.8	0%	100	0	0.000	0.252	0%
Prospective resources	158.7	0%	79	0	0.000	0.200	0%
Total Risked Exploration			586	177	0.376	1.475	51%
Total			756	346	0.737	1.902	100%
Unrisked NAV					1.90		
P/Core NAV					53%		
P/NAV					26%		
P/Unrisked NAV					10%		

Source: Auctus Advisors, Company Reports

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