

# Calima Energy

## Initiating both dividend and buybacks

### Dividend declaration and on-market share buy-back

Calima has confirmed that it will pay a dividend in H2'22 and has also announced its intention to commence a share buyback. Calima intends to pay a dividend of A\$2.5mm in H2'22, which equates to an annualised yield of close to 5%. We see upside to this dividend in 2023 if oil prices remain at elevated levels as Calima's hedges roll-off and there is the potential to grow production in 2023. The share buyback is planned to start in June, with authorisation to buy back up to 10% of shares outstanding. We see this as positive as the shares are trading at a substantial discount to our risked NAV. There remains the potential for additional returns to shareholders if Calima can monetise its Montney acreage. Calima's shares traded up >10% on the announcement, which we believe is a signal that the market continues to want to see cash returns from E&P companies.

### Calima's strong balance sheet has paved the way for cash returns

Calima ended 2021 with A\$28mm of net debt, issued A\$18.3mm of equity in mid-February (net of fees) and net debt should fall to close to zero at mid-year. Also, Calima has a C\$27mm (~A\$30mm) revolving credit facility which was signed when it had lower production and reserves and in a much lower oil and gas price environment. Therefore, we expect that the facility will be increased at the next review later in Q2'22.

### Investing to maintain production and grow reserves whilst generating FCF

Calima's drilling plans through Q3'22 should allow it to maintain production between 4.1-4.4kboe/d for 9M'22, which should generate ~A\$80mm of adjusted EBITDA (pre-hedging) at strip pricing for FY'22. Calima plans to recommence its development drilling campaign in June with two Gemini wells (Brooks Sunburst conventional play which will payout in ~6 months at strip) and two Pisces wells (fracture stimulated Glauconitic play which payout in ~9 months at strip). In late Q2, Calima plans to complete the already drilled Leo #4 well into the Sparky formation with a 53-stage fracture completion, which should allow booking of new reserves and derisk further drilling in the area. The four wells and completion of Leo #4 will cost ~A\$9.5mm. This compares to Q1'22 capex of A\$16mm and Q2'22 of A\$3.5mm. There will then be a further drilling programme planned for Q4'22.

### Montney: further improvements in gas prices and LNG export outlook

We expect Calima's acreage position in the Montney to see renewed interest given higher global gas prices, the revival of many proposed North American LNG export facilities, the increased focus on security of supply of gas with North America as a source, increased drilling activity near to Calima's lands and the recent acquisition of Montney-focused company Leucrotta by Vermillion. We expect Calima to update the market shortly on the status of its ongoing process to unlock shareholder value through development, partnerships, farm-out or outright sale.

### Valuation: ~190% upside to our risked NAV

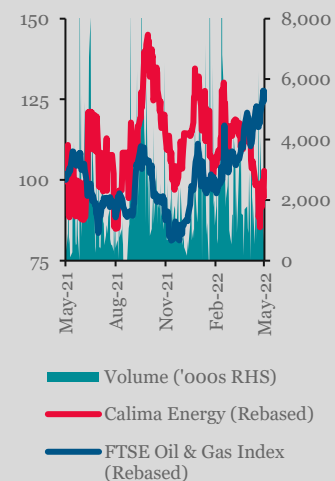
Calima offers a combination of value, growth and shareholder return potential. It offers organic growth through the drill-bit with a reserve life of >15 years. Our risked NAV of AUD 58c/sh implies ~190% upside from the current share price. There is also ~70% upside to our Core NAV of AUD 38c/sh, which only includes the 1P reserves. Our 2022 forecasts are based on US\$90/bbl Brent and US\$70/bbl flat from 2023 onwards; at US\$80/bbl long-term our risked NAV would increase by ~20%. On a multiple basis, we estimate that Calima is trading on 2022 EV/EBITDA of 1.7x. 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 1.4x EV/CFFO in 2022. On operational metrics, we see Calima trading on EV/2P reserves of C\$6.2/boe and on a flowing barrel basis on \$33k per boe/d in 2022.

<b>GICS Sector</b>	<b>Energy</b>
Ticker	ASX:CE1
Market cap 23-May-22 (US\$m)	88
Share price 23-May-22 (AUD c)	20

### NAV summary (AUD c/sh)

Asset	Unrisked	Risked
Core NAV	40	38
Development	118	19
Exploration	33	1
<b>Total NAV</b>	<b>192</b>	<b>58</b>

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\$90/bbl in 2022 and US\$70/bbl Brent long-term flat from 2023, a US\$14/bbl differential to WCS pricing, US\$3.75/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	Unrisked	Geological	Commercial	Risked	Risked
	mmboe	Interest								
Net debt (end-'21)					-\$26	-4.5			-\$26	-4.5
2022 Equity Raise					\$20.0	3.4			\$20.0	3.4
Asset retirement obligations					-\$14.0	-2.4			-\$14.0	-2.4
Options proceeds					\$3.1	0.5			\$3.1	0.5
Hedging gain/loss					-\$17.8	-3.0			-\$17.8	-3.0
Brooks PDP reserves	3.3	100%	3.3	\$19.3	\$64.0	10.9	100%	100%	\$64.0	10.9
Thorsby PDP reserves	2.7	100%	2.7	\$18.1	\$48.2	8.2	100%	100%	\$48.2	8.2
Brooks planned PUD	5.9	100%	5.9	\$18.0	\$106.9	18.3	100%	90%	\$96.2	16.4
Thorsby planned PUD	6.1	100%	6.1	\$9.7	\$59.5	10.2	100%	90%	\$53.5	9.1
H2 Sweet					\$0.4	0.1			\$0.4	0.1
Capitalised G&A	@ 2x	-3.9			-\$7.8	-1.3			-\$7.8	-1.3
<b>1P Core NAV</b>	<b>18.0</b>		<b>18.0</b>	<b>\$13</b>	<b>\$236</b>	<b>40.3</b>			<b>\$219</b>	<b>37.5</b>
Incremental Brooks 2P	2.5	100%	2.5	\$3.1	\$7.8	1.3	90%	90%	\$6.3	1.1
Incremental Thorsby 2P	3.4	100%	3.4	\$7.7	\$25.8	4.4	90%	90%	\$20.9	3.6
Brooks remaining unbooked	12.9	100%	12.9	\$2.3	\$29.8	5.1	75%	50%	\$11.2	1.9
Thorsby remaining unbooked	6.6	100%	6.6	\$5.8	\$37.8	6.5	75%	50%	\$14.2	2.4
Montney 2C 50mmcf/d	125	100%	125	\$5.0	\$623	106.4	90%	10%	\$56.1	9.6
Montney remaining 2C	68	100%	68	\$1.0	\$67.8	11.6	75%	10%	\$5.1	0.9
<b>Development upside</b>	<b>192.4</b>		<b>192.4</b>		<b>\$691</b>	<b>118.0</b>			<b>\$114</b>	<b>19.4</b>
Montney Prospective Resource	364	100%	364	\$0.5	\$182.1	31.1	33%	5%	\$3.0	0.5
PEL-10 production licence					\$6.4	1.1	25%	25%	\$0.4	0.1
PEL-10 commercial production					\$6.4	1.1	25%	10%	\$0.2	0.0
SADR exploration		50%							\$0.0	0.0
5% in Discover Exploration Ltd									\$1.0	0.2
<b>Exploration upside</b>	<b>364.1</b>		<b>364.1</b>		<b>\$195</b>	<b>33.3</b>			<b>\$5</b>	<b>0.8</b>
<b>Total NAV</b>					<b>\$1,121</b>	<b>191.6</b>			<b>\$338</b>	<b>57.7</b>

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%	45c	60c	75c	91c	107c
	8%	39c	52c	66c	79c	93c
	10%	34c	46c	<b>58c</b>	70c	82c
	12%	30c	40c	51c	62c	73c
	14%	27c	36c	46c	56c	66c

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)	2022E	2023E	2024E	2025E
Market capitalisation	112.5	112.5	112.5	112.5
Net debt	-\$6.9	-\$16.4	-\$46.5	-\$80.5
<b>EV</b>	<b>139.0</b>	<b>139.0</b>	<b>139.0</b>	<b>139.0</b>
Equity	107.1	137.5	173.0	205.9
Capital employed	100.2	121.1	126.6	125.4
EV/2P reserves (2020)	\$6.2	\$6.2	\$6.2	\$6.2
EV per boe per day (\$ per kboe/d)	\$32.6	\$25.7	\$20.5	\$22.2
Cashflow per barrel (\$/boe)	\$34.5	\$30.1	\$28.6	\$28.6
EBITDA per barrel (\$/boe)	\$46.3	\$31.6	\$33.4	\$32.7
Net income per barrel (\$/boe)	\$19.2	\$17.5	\$19.6	\$20.8
P/E	3.8x	3.3x	2.3x	2.4x
P/CFPS	2.1x	1.9x	1.6x	1.7x
EV/EBITDA	1.9x	2.2x	1.7x	1.9x
EV/CFFO	2.6x	2.3x	2.0x	2.1x
ROAE	27.8%	25.1%	28.0%	23.0%
ROACE	29.7%	28.5%	38.2%	37.8%
FCF yield	18.5%	12.1%	38.2%	43.2%
Dividend yield	5.6%	3.6%	11.4%	12.9%
Net debt/EBITDA	-0.1x	-0.3x	-0.6x	-1.1x
Net debt/equity	-6.4%	-11.9%	-26.9%	-39.1%
Net debt/capital employed	-6.9%	-13.6%	-36.7%	-64.2%

Source: H&P estimates, CapIQ

## Financial Summary

Assumptions	2021E	2022E	2023E	2024E	2025E
USD:AUD FX rate	\$1.40	\$1.40	\$1.40	\$1.40	\$1.40
CAD:AUD FX rate	\$1.09	\$1.09	\$1.09	\$1.09	\$1.09
Brent (US\$/bbl)	\$70.67	\$90.00	\$70.00	\$70.00	\$70.00
WTI (US\$/bbl)	\$67.80	\$90.00	\$68.50	\$68.50	\$68.50
WCS (C\$/bbl)	\$70.40	\$97.92	\$70.40	\$70.40	\$70.40
Henry Hub (US\$/mcf)	\$0.00	\$4.00	\$4.00	\$4.00	\$4.00
AECO (US\$/mcf)	\$4.48	\$4.80	\$4.80	\$4.80	\$4.80
Brooks oil price (C\$/bbl)	\$72.96	\$100.48	\$72.96	\$72.96	\$72.96
Thorsby oil price (C\$/bbl)	\$65.28	\$92.80	\$65.28	\$65.28	\$65.28
NGL price (C\$/bbl)	\$42.88	\$57.60	\$43.84	\$43.84	\$43.84
Gas price (C\$/mcf)	\$4.48	\$4.80	\$4.80	\$4.80	\$4.80
Oil production (bbl/d)	2,389	2,879	3,572	4,385	4,042
Gas production (mcf/d)	5,644	7,821	10,449	13,565	12,594
NGL production (kbbbl/d)	51	74	100	131	114
Total production (kboe/d)	3,381	4,257	5,413	6,776	6,255

Income Statement (C\$mm)	2021E	2022E	2023E	2024E	2025E
Revenue	\$43.6	\$118.3	\$110.8	\$137.7	\$127.0
Royalties	-\$8.4	-\$21.3	-\$19.9	-\$24.8	-\$22.9
Opex and transportation	-\$11.7	-\$21.2	-\$23.5	-\$24.2	-\$23.9
G&A	-\$4.8	-\$3.9	-\$4.9	-\$6.2	-\$5.7
<b>EBITDAX</b>	<b>\$18.8</b>	<b>\$72.0</b>	<b>\$62.4</b>	<b>\$82.5</b>	<b>\$74.6</b>
DD&A	-\$51.3	-\$23.8	-\$25.0	-\$22.3	-\$17.9
<b>EBIT</b>	<b>-\$32.5</b>	<b>\$48.2</b>	<b>\$37.3</b>	<b>\$60.2</b>	<b>\$56.7</b>
Cash Interest	-\$1.5	-\$0.6	\$0.4	\$1.0	\$2.2
Hedging (gains) losses	-\$5.8	-\$17.8	\$0.0	\$0.0	\$0.0
<b>EBT</b>	<b>-\$39.8</b>	<b>\$29.8</b>	<b>\$37.7</b>	<b>\$61.1</b>	<b>\$58.9</b>
Gain on acquisition	\$10.5	\$0.0	\$0.0	\$0.0	\$0.0
Tax	-\$0.2	\$0.0	-\$3.2	-\$12.7	-\$11.5
<b>Net income</b>	<b>-\$29.5</b>	<b>\$29.8</b>	<b>\$34.5</b>	<b>\$48.4</b>	<b>\$47.4</b>

Source: H&P estimates

Cash flow (C\$mm)	2021E	2022E	2023E	2024E	2025E
Earnings before interest and tax	-\$32.5	\$48.2	\$37.3	\$60.2	\$56.7
Depreciation	\$51.3	\$23.8	\$25.0	\$22.3	\$17.9
Share based remuneration	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash interest charge	-\$1.5	-\$0.6	\$0.5	\$1.0	\$2.3
Cash tax	-\$0.2	\$0.0	-\$3.2	-\$12.7	-\$11.5
Other	-\$5.8	-\$17.8	\$0.0	\$0.0	\$0.0
<b>Cash flow from operations (pre w/c)</b>	<b>\$11.3</b>	<b>\$53.6</b>	<b>\$59.6</b>	<b>\$70.8</b>	<b>\$65.4</b>
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
<b>Cash flow from operations (post w/c)</b>	<b>\$11.3</b>	<b>\$53.6</b>	<b>\$59.6</b>	<b>\$70.8</b>	<b>\$65.4</b>
Capital expenditure	-\$24.5	-\$32.8	-\$45.9	-\$27.8	-\$16.8
<b>Free cashflow</b>	<b>-\$13.3</b>	<b>\$20.8</b>	<b>\$13.7</b>	<b>\$43.0</b>	<b>\$48.6</b>
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	-\$2.3	-\$4.1	-\$12.9	-\$14.6
<b>Change in net debt</b>	<b>-\$13.3</b>	<b>\$18.5</b>	<b>\$9.6</b>	<b>\$30.1</b>	<b>\$34.0</b>

Source: H&P estimate

Balance Sheet (C\$mm)	2021E	2022E	2023E	2024E	2025E
Cash and cash equivalents	\$3.2	\$38.7	\$48.3	\$78.5	\$112.5
Trade and other receivables	\$6.8	\$6.8	\$6.8	\$6.8	\$6.8
Prepaid expenditures and deposits	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Risk management assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total current assets	\$10.8	\$46.3	\$55.9	\$86.0	\$120.1
Deferred income tax asset	\$11.6	\$11.6	\$11.6	\$11.6	\$11.6
Property, plant and equipment	\$122.6	\$122.6	\$143.5	\$149.0	\$147.8
Right of use asset	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Exploration and evaluation expenditure	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Investments	\$1.1	\$1.1	\$1.1	\$1.1	\$1.1
Total non-current assets	\$135.3	\$135.3	\$156.2	\$161.6	\$160.5
<b>TOTAL ASSETS</b>	<b>\$146.0</b>	<b>\$181.6</b>	<b>\$212.1</b>	<b>\$247.7</b>	<b>\$280.6</b>
Bank indebtedness	\$20.7	\$20.7	\$20.7	\$20.7	\$20.7
Trade and other payables	\$16.3	\$16.3	\$16.3	\$16.3	\$16.3
Other Liabilities	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8
Total current liabilities	\$39.8	\$39.8	\$39.8	\$39.8	\$39.8
Decommissioning obligation	\$24.2	\$24.2	\$24.2	\$24.2	\$24.2
Deferred income tax liability	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Restoration provision	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Lease liabilities	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Loan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Non-Current Liabilities	\$24.5	\$24.5	\$24.5	\$24.5	\$24.5
<b>TOTAL LIABILITIES</b>	<b>\$64.3</b>	<b>\$64.3</b>	<b>\$64.3</b>	<b>\$64.3</b>	<b>\$64.3</b>
<b>NET ASSETS</b>	<b>\$81.8</b>	<b>\$117.3</b>	<b>\$147.8</b>	<b>\$183.4</b>	<b>\$216.3</b>
Issued capital	\$333.8	\$333.8	\$333.8	\$333.8	\$333.8
Options/Mgmt Rights	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0
Fundraising Costs	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Contributed surplus	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Reserves	\$5.4	\$5.4	\$5.4	\$5.4	\$5.4
Accumulated losses	-\$273.5	-\$246.0	-\$215.5	-\$179.9	-\$147.0
<b>TOTAL EQUITY</b>	<b>\$81.8</b>	<b>\$109.3</b>	<b>\$139.7</b>	<b>\$175.3</b>	<b>\$208.2</b>

Source: H&P estimate

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