

Calima Energy Limited (ASX:CE1)

February 1, 2023

Share price: A\$0.14

Target: A\$0.50

High production guidance in 1Q23

- 1Q23 production is expected to be 4,378 boe/d. This is above our forecast of ~4,100 boe/d and reflects the very strong performance of the new wells (3xGemini + 2xPisces). On 10 January, Calima had reported production of 4,500 boe/d but we had estimated a steep decline over the quarter. Current production is above 4,700 boe/d.
- 4Q22 production of 3,727 boe/d including 1,132 boe/d at Thorsby and 2,595 boe/d at Brooks was below our expectations of 3,970 boe/d. Brooks production was impacted by third party shutdowns, workovers, power outages and repairs and maintenance. This downtime included Calima having to shut-in and then limit production on the Pisces #5 well due to a third-party sales gas compliance issue. This is now resolved.
- 4Q22 capex stood at A\$15.1 mm which is above expectations (A\$8.9 mm). This reflects bringing forward the costs associated with drilling Pisces #6 and #7 along with costs overruns due to a down hole tool being lost in a Brooks well as well as additional workover costs.
- 1Q23 capex of A\$9.7 mm plus A\$2.8 mm for the Montney programme is close to our forecast (total of A\$11.4 mm).
- Operating costs have increased to A\$21.7/boe in 4Q22 (A\$18.66/boe in 3Q22). This reflects inflationary pressures and incremental trucking costs as Calima trucked more production to sell its production at higher prices (see below).
- We have reduced our target price to A\$0.50/sh as we incorporate (1) the impact of a weaker US\$ versus A\$, (2) higher opex, and (3) higher 4Q22 capex.

Other important take aways

As previously indicated, the WCS/WTI differentials continue to be high (US\$25/bbl expected in 1Q23 and US\$21.71/boe over 2Q-4Q23). However, Calima is proactively moving oil production to different delivery points. This has resulted in additional sales revenue of ~C\$7.80/boe in 4Q22. We have not factored in the impact of a similar strategy in 2023. The capex to maintain flat production is estimated at A\$25-35 mm/y. At current production levels and assuming ~US\$93/bbl for WTI, we forecast an annualized operating cash flow of ~A\$70 mm, implying a free cashflow run rate of at least A\$35 mm per year.

Adding a high impact event to the cashflow story

We now forecast overall FCF of >A\$55 mm across 2023-2024, which represents ~60% of the market cap of the company. Our valuation for the business based on its 2P reserves only is A\$0.30/sh which represents over 100% upside. Re-testing the Montney wells could increase the chance to monetize the Montney assets. On an unrisksed basis, we estimate that this asset could be worth A\$45 mm (see our note dated 19/01/2023) or ~A\$0.11/sh.

Rating & target	Old	New	
Target	\$0.60	\$0.50	
Yield		6%	
Implied total return		263%	
Share data	2021	2022e	2023e
Shares dil., mm	545	659	659
Mkt cap, US\$mm	\$90	\$64	\$66
EV, US\$mm	\$112	\$72	\$64
Financial data	2021	2022e	2023e
Gas, mmmcf/d	4.1	8.1	8.8
Liquids, bbl/d	1,680	2,571	2,982
Total boe/d (6:1)	2,362	3,921	4,450
CFO, US\$mm	\$10	\$35	\$48
Net capex, US\$mm	\$43	\$31	\$36
Net debt, US\$mm	\$22	\$8	(\$2)
CFPS dil., US\$/shr	\$0.00	\$0.06	\$0.08
EPS dil., US\$/shr	(\$0.01)	\$0.05	\$0.09
Valuation	2021	2022e	2023e
Share price, A\$/shr	\$0.21	\$0.14	\$0.14
EV/DACF	10.5x	2.0x	1.3x
EV per boe/d	\$47,437	\$18,244	\$14,352
Net asset value			
CNAV, A\$/shr			\$0.30
RENAV, A\$/shr			\$0.51
Unrisksed NAV, A\$/shr			\$1.31
P/CNAV			0.5x
P/RENAV			0.3x
P/Unrisksed 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		2020	2021	2022e	2023e	2024e	2025e	2026e
Commodity Prices								
WTI	US\$/bbl	\$37.26	\$67.44	\$94.34	\$93.30	\$89.45	\$70.71	\$67.00
AECO	US\$/mcf	\$2.43	\$2.46	\$4.78	\$2.00	\$4.38	\$4.50	\$4.50
USD/CAD	US\$/C\$	0.750	0.788	0.770	0.750	0.800	0.800	0.800
USD/AD	US\$/A\$	0.808	0.789	0.692	0.715	0.720	0.720	0.720
Production								
Oil and Liquids	bbl/d	20	1,680	2,571	2,982	3,362	3,371	3,417
Natural Gas	mmcf/d	0	4	8	9	10	10	10
Total (6 mcf = 1 boe)	boe/d	20	2,362	3,921	4,450	5,028	5,048	5,132
% Oil and Liquids	%	100%	71%	66%	67%	67%	67%	67%
Netbacks								
Realized Price	US\$/boe	\$27.46	\$45.12	\$58.21	\$56.91	\$56.46	\$44.39	\$41.79
Royalties	US\$/boe	\$0.00	\$8.64	\$11.20	\$10.78	\$10.67	\$8.38	\$7.88
Production Costs	US\$/boe	\$194.42	\$12.08	\$12.49	\$13.42	\$14.50	\$14.91	\$15.35
Operating Netback	US\$/boe	(\$166.96)	\$18.36	\$25.46	\$32.72	\$31.29	\$21.10	\$18.56
Taxes	US\$/boe	\$0.13	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.47
Cash Flow Netback	US\$/boe	(\$518.19)	\$15.72	\$24.00	\$29.93	\$28.94	\$18.75	\$14.77
Government Take	%	0%	0%	0%	0%	0%	0%	4%
Financials								
Cash Flow (CFO)	US\$mm	\$0	\$10	\$35	\$48	\$53	\$34	\$28
CFPS - diluted	US\$/shr	(\$0.00)	\$0.00	\$0.06	\$0.08	\$0.08	\$0.05	\$0.04
EBITDAX	US\$mm	(\$7)	(\$19)	\$33	\$49	\$53	\$35	\$30
E&D Capex	US\$mm	\$0.35	\$17	\$31	\$33	\$25	\$29	\$26
A&D Capex, Net	US\$mm	\$0	\$26	\$0	\$3	\$0	\$0	\$0
Total Net Capex	US\$mm	\$0	\$43	\$31	\$36	\$25	\$29	\$26
Total Net Capex/CFO	x	0.0x	4.3x	0.9x	0.7x	0.5x	0.8x	0.9x
Leverage								
Net Debt	US\$mm	(\$0)	\$22	\$8	(\$2)	(\$27)	(\$29)	(\$27)
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.	\$1	\$0	n.a.	n.a.	n.a.
Capital Structure								
Basic Shares o/s @ YE	mm	2192	514	612	612	612	612	612
Fully Diluted Shares o/s @ YE	mm	2264	545	659	659	659	659	659
Market Capitalization	US\$mm	\$16	\$90	\$64	\$66	\$66	\$66	\$66
Enterprise Value	US\$mm	\$16	\$112	\$72	\$64	\$40	\$38	\$39
Dividends & Sustainability								
Dividends	US\$mm	0	0	2	4	4	4	4
Dividends	A\$/shr	\$0.00	\$0.00	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01
Dividend Yield	%	0%	0%	2.9%	5.8%	5.8%	5.8%	5.8%
Free Cash Flow	US\$mm	(\$0)	(\$33)	\$3	\$13	\$28	\$5	\$2
Cash Use/CFO	%	n.a.	427%	90%	74%	47%	84%	93%
Performance								
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	n.a.	n.a.	10%	13%	0%	2%
PPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	29%	89%	6%	-3%
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	39%	9%	-35%	-20%
CFPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	57%	83%	-32%	-23%
ROCE	%	n.a.	n.a.	n.a.	32%	31%	31%	31%
Net Asset Value								
CNAV (Atax) - diluted	A\$/shr	\$0.297						
RENAV (Atax) - diluted	A\$/shr	\$0.505						
Unrisked NAV (Atax) - diluted	A\$/shr	\$1.311						
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	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14
P/CF	x	-7.3x	74.0x	1.7x	1.3x	1.2x	1.8x	2.3x
EV/DACF	x	n.a.	10.5x	2.0x	1.3x	0.7x	1.1x	1.4x
Target EV/DACF	x	n.a.	25.3x	6.8x	4.8x	4.0x	6.1x	7.7x
EV per boe/d	US\$/boe/d	\$836,351	\$47,437	\$18,244	\$14,352	\$7,876	\$7,474	\$7,659
EV per 2P boe	US\$/boe	\$0.66	\$4.68	\$3.18	\$3.06	\$2.08	\$2.19	\$2.56
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 31-Jan-23

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 YE23			2	2	0.004	0.004	1%
G&A			-34	-34	-0.072	-0.072	-14%
Brooks 2P	11.6	100%	83	83	0.174	0.174	34%
Thorsby 2P	12.1	100%	86	86	0.181	0.181	36%
Total Core NAV			141	141	0.297	0.297	59%
Brooks upside							
Brooks 100 Unbooked Locations	15.5	30%	110	33	0.070	0.281	14%
Brooks increasing recovery factor by 10% - Booked locations	11.6	10%	83	8	0.017	0.210	3%
Brooks new Sunburst pools	0.0	0%	0	0	0.000	0.000	0%
Thorsby upside							
Thorsby 78 Unbooked locations	19.5	30%	138	42	0.088	0.353	0%
Thorsby - Better recovery performance (+30%) - Booked loctions	3.6	10%	26	3	0.005	0.066	1%
Montney Acreage							
Contingent resources	200.8	30%	45	14	0.028	0.115	0%
Prospective resources	158.7	0%	79	0	0.000	0.202	0%
Total Risked Exploration			481	99	0.208	1.226	41%
Total			622	240	0.505	1.311	100%
Unrisked NAV					1.31		
P/Core NAV					47%		
P/NAV					28%		
P/Unrisked NAV					11%		

Source: Auctus Advisors, Company Reports

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