

# Calima Energy Limited (ASX:CE1)

June 26, 2023

Share price: A\$0.11

Target: A\$0.50

## Asset sale not proceeding. High free cash flow in 2Q23.

- While Calima received three unsolicited offers from Canadian entities to acquire assets from the company at a premium to Calima's current market cap, the preferred transaction could not complete due to the volatility of the equity market.
- Calima indicated that the rationale for Canadian entities to consider Calima's assets as an attractive target was the disconnect between the earnings multiples at which Calima shares trade in Australia (~1.5x P/E for 2023 on our forecasts) and similar Canadian multiples (2.5-3.5x according to Calima).
- 2Q23 production is estimated at 4,125 boe/d, close to the company's previous indications (4,200 boe/d) but ~100 boe/d above our more conservative forecasts. Calima also anticipates 2Q23 free cash flow of A\$7.5 mm, which is also well above our latest forecasts (~A\$5 mm).
- The high free cashflow reflects very low WTI/WCS differentials of just ~US\$14/bbl. This is well below our forecasts of US\$20/bbl.
- Calima has confirmed a second dividend distribution of A\$3 mm payable during 3Q23.
- We re-iterate our target price of A\$0.50/sh.

## Resilient production in 2H23. Assuming lower spending in following years

2H23 production is estimated at ~4.0-4.3 mboe/d with Calima's capex programme focusing on maintaining stable production. We are now conservatively assuming the same strategy for following years and forecast ~C\$30 mm capex per year to maintain production at 4.1-4.3 mboe/d rather than assuming growth capex to increase peak production to 5.1-5.2 mboe/d.

## Valuation

While we have reduced our production and capex forecast over 2024-2027, we have also reduced our expected WTI/WCS discount by ~US\$2/bbl to reflect recent market movements. We now forecast overall FCF of >A\$40 mm over 2023 and 2024 (almost unchanged versus our previous forecasts). This represents ~65% of the current market cap. Our Core Nav based on the company's 2P reserves only is A\$0.29 per share (~3.0x the current share price) while our ReNAV is A\$0.50/sh.

Rating & target	Old	New	
Target	\$0.50	n.c.	
Yield		4%	
Implied total return		359%	
Share data	2022	2023e	2024e
Shares dil., mrr	659	659	659
Mkt cap, US\$m	\$50	\$50	\$52
EV, US\$mm	\$58	\$47	\$36
Financial data	2022	2023e	2024e
Gas, mmcf/d	8.1	8.2	8.1
Liquids, bbl/d	2,571	2,834	2,845
Total boe/d (6:)	3,921	4,202	4,190
CFO, US\$mm	\$34	\$36	\$41
Net capex, US\$	\$31	\$24	\$24
Net debt, US\$m	\$7	(\$3)	(\$16)
CFPS dil., US\$/:	\$0.06	\$0.06	\$0.07
EPS dil., US\$/st	\$0.04	\$0.06	\$0.07
Valuation	2022	2023e	2024e
Share price, A\$	\$0.11	\$0.11	\$0.11
EV/DACF	1.6x	1.3x	0.9x
EV per boe/d	\$14,703	\$11,249	\$8,515
Net asset value			
CNAV, A\$/shr			\$0.29
RENAV, A\$/shr			\$0.50
Unrisked NAV, A\$/shr			\$1.47
P/CNAV			0.4x
P/RENAV			0.2x
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		2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Commodity Prices</b>								
WTI	US\$/bbl	\$67.44	\$94.34	\$82.55	\$89.45	\$70.71	\$67.00	\$67.00
AECO	US\$/mcf	\$2.46	\$4.78	\$1.50	\$1.38	\$2.50	\$2.50	\$2.50
USD/CAD	US\$/C\$	0.788	0.770	0.750	0.800	0.800	0.800	0.800
USD/AD	US\$/A\$	0.789	0.692	0.688	0.715	0.720	0.720	0.720
<b>Production</b>								
Oil and Liquids	bbl/d	1,680	2,571	2,834	2,845	2,873	2,796	2,912
Natural Gas	mmcf/d	4	8	8	8	8	8	9
Total (6 mcf = 1 boe)	boe/d	2,362	3,921	4,202	4,190	4,281	4,176	4,356
% Oil and Liquids	%	71%	66%	67%	68%	67%	67%	67%
<b>Netbacks</b>								
Realized Price	US\$/boe	\$45.12	\$58.18	\$49.36	\$54.42	\$42.06	\$41.24	\$41.11
Royalties	US\$/boe	\$8.64	\$11.20	\$9.67	\$10.32	\$7.96	\$7.80	\$7.77
Production Costs	US\$/boe	\$12.08	\$12.50	\$12.87	\$13.70	\$14.50	\$15.08	\$15.33
Operating Netback	US\$/boe	\$18.36	\$28.26	\$27.13	\$30.40	\$19.60	\$18.36	\$18.00
Taxes	US\$/boe	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow Netback	US\$/boe	\$15.72	\$23.58	\$23.40	\$26.83	\$16.08	\$14.75	\$14.55
Government Take	%	0%	0%	0%	0%	0%	0%	0%
<b>Financials</b>								
Cash Flow (CFO)	US\$mm	\$10	\$34	\$36	\$41	\$25	\$22	\$23
CFPS - diluted	US\$/shr	\$0.00	\$0.06	\$0.06	\$0.07	\$0.04	\$0.04	\$0.04
EBITDAX	<sup>a</sup> US\$mm	(\$19)	\$36	\$37	\$42	\$26	\$24	\$24
E&D Capex	US\$mm	\$17	\$31	\$24	\$24	\$23	\$25	\$28
A&D Capex, Net	US\$mm	\$26	\$0	\$0	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$43	\$31	\$24	\$24	\$23	\$25	\$28
Total Net Capex/CFO	x	4.3x	0.9x	0.7x	0.6x	0.9x	1.1x	1.2x
<b>Leverage</b>								
Net Debt	US\$mm	\$22	\$7	(\$3)	(\$16)	(\$15)	(\$8)	(\$0)
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.	\$1	\$0	n.a.	n.a.	n.a.	n.a.
<b>Capital Structure</b>								
Basic Shares o/s @ YE	mm	514	612	612	612	612	612	612
Fully Diluted Shares o/s @ YE	mm	545	659	659	659	659	659	659
Market Capitalization	US\$mm	\$90	\$50	\$50	\$52	\$52	\$52	\$52
Enterprise Value	US\$mm	\$112	\$58	\$47	\$36	\$37	\$44	\$52
<b>Dividends &amp; Sustainability</b>								
Dividends	US\$mm	0	2	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%	3.7%	4.5%	7.4%	7.4%	7.4%	7.4%
Free Cash Flow	US\$mm	(\$33)	\$3	\$12	\$17	\$2	(\$3)	(\$5)
Cash Use/CFO	%	427%	92%	66%	58%	92%	113%	120%
<b>Performance</b>								
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	n.a.	4%	0%	2%	-2%	4%
PPS Growth (Y/Y) DDA - dil. <sup>b</sup>	%	n.a.	n.a.	28%	40%	-2%	-17%	-13%
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	4%	14%	-39%	-11%	3%
CFPS Growth (Y/Y) DDA - dil. <sup>b</sup>	%	n.a.	n.a.	24%	61%	-42%	-24%	-14%
ROCE	%	n.a.	n.a.	26%	26%	26%	26%	26%
<b>Net Asset Value</b> <sup>c</sup>								
CNAV (Atax) - diluted	A\$/shr	\$0.288						
RENAV (Atax) - diluted	A\$/shr	\$0.503						
Unrisked NAV (Atax) - diluted	A\$/shr	\$1.474						
P/CNAV	x	0.4x						
P/RENAV	x	0.2x						
P/Unrisked NAV	x	0.1x						
<b>Valuation</b>								
Share Price, YE/Current	A\$/shr	\$0.21	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11
P/CF	x	74.0x	1.4x	1.3x	1.2x	2.0x	2.2x	2.2x
EV/DACF	x	10.5x	1.6x	1.3x	0.9x	1.5x	2.0x	2.3x
Target EV/DACF	x	25.3x	7.0x	6.3x	5.4x	9.0x	10.3x	10.4x
EV per boe/d	US\$/boe/d	\$47,437	\$14,703	\$11,249	\$8,515	\$8,748	\$10,501	\$11,957
EV per 2P boe	US\$/boe	\$4.68	\$2.56	\$2.25	\$1.84	\$2.09	\$2.68	\$3.53
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 21-Jun-23

**Figure 2. NAV Table**

Asset Valuation	WI Reserves and Resources (mmboe)	CoS (%)	Unrisked (US\$mm)	EMV (US\$mm)	A\$/Share (Risky)	A\$/Share (Unrisked)	% Total
Net Cash/Debt YE23			3	3	0.006	0.006	1%
FY23 Dividend			2	2	0.005	0.005	1%
G&A			-31	-31	-0.068	-0.068	-14%
Brooks 2P	11.6	100%	89	89	0.195	0.195	39%
Thorsby 2P	11.6	100%	64	64	0.142	0.142	28%
<b>Total Core NAV</b>			<b>130</b>	<b>130</b>	<b>0.288</b>	<b>0.288</b>	<b>57%</b>
<b>Brooks upside</b>							
Brooks 108 Unbooked Locations	16.7	30%	128	38	0.085	0.341	17%
Brooks increasing recovery factor by 10% - Booked locations	11.6	10%	89	9	0.020	0.236	4%
Brooks new Sunburst pools	0.0	0%	0	0	0.000	0.000	0%
<b>Thorsby upside</b>							
Thorsby 60 Unbooked locations	15.0	30%	83	25	0.055	0.222	0%
Thorsby - Better recovery performance (+30%) - Booked loctions	3.5	10%	27	3	0.006	0.071	1%
<b>Montney Acreage</b>							
Contingent resources	158.7	50%	45	23	0.050	0.120	0%
Prospective resources	102.3	0%	51	0	0.000	0.136	0%
<b>Total Risked Exploration</b>			<b>422</b>	<b>97</b>	<b>0.215</b>	<b>1.126</b>	<b>43%</b>
<b>Total</b>			<b>553</b>	<b>228</b>	<b>0.503</b>	<b>1.474</b>	<b>100%</b>
<b>Unrisked NAV</b>					<b>1.47</b>		
<b>P/Core NAV</b>				<b>38%</b>			
<b>P/NAV</b>				<b>22%</b>			
<b>P/Unrisked NAV</b>				<b>7%</b>			

Source: Auctus Advisors, Company Reports

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