

VALEURA ENERGY INC (TSX: VLE)

May 11, 2023

Share price: C\$2.20

Target: C\$6.00

Delivering on plan. Already 2.6 mbbbl/d production at Wassana

- Since production re-start at Wassana on 28 April, 11 of the 13 wells have been brought back into production. Production is gradually ramping up and is already averaging ~2,600 bbl/d. We are increasing our average production forecast for Wassana in 2Q23 from 700 bbl/d to 1,700 bbl/d. Drilling of additional wells at Wassana is expected to start in August with a YE23 exit rate of >5 mbbbl/d.
- Production from the Mubadala assets averaged 20,475 bbl/d in 1Q23 and total production (including Wassana) has recently increased to over 23 mbbbl/d.
- The Nong Yao C development project remains on track to deliver first oil from a new facility in 1Q24.
- Just under half of the US\$180-200 mm FY23 capex programme is associated with production growth with the balance dedicated to production and maintenance activities. The production and maintenance capex is consistent with the US\$70-85 mm per year historical capex spent by Mubadala to maintain production and replace 2P reserves year on year.
- The shares continue to offer deep value, production and cashflow growth with reserves upside. Confirmation that the ~US\$300 mm of tax losses associated with Wassana could be applied to the other fields would be a very material impact event.
- We re-iterate our target price of C\$6.00 per share.

Financials

Valeura held US\$268.5 mm in cash at the end of March, as well as inventory of US\$95.6 mm including US\$64.4 mm associated with oil in storage and receivables of US\$45.8 mm. Accounts payables and accrued liabilities of US\$172.5 mm include SRB payables. Current income tax payables stand at US\$113.2 mm. Working capital of US\$104 mm is in line with expectations and reflects the large tax and SRB payments in 2Q23 and 3Q23. Valeura has booked a bargain purchase gain amount of US\$207.6 mm for the acquisition of Mubadala's assets in Thailand. This represents C\$2.93/sh.

Valuation

We have trimmed our Brent price assumptions for 3Q23 and adjusted the US\$/C\$ exchange rate in line with current levels. Our new Core NAV is ~C\$5.70 per share with a ReNAV of C\$5.90 per share. We now forecast the company will hold US\$245 mm in net cash (cash minus debt) at YE23 as we incorporate the impact of lower oil prices and the actuals. Assuming only US\$75/bbl over the balance of 2023 and 2024, YE23 net cash is ~US\$165 mm (= the current market cap) and YE24 net cash is ~US\$340 mm (2x the current market cap).

Rating & target	Old	New	
Target	C\$6.00	n.c.	
Yield		0%	
Implied total return		173%	
Share data	2022	2023e	2024e
Shares dil., mm	95	109	109
Mkt cap, US\$mm	\$153	\$178	\$192
EV, US\$mm	\$145	(\$67)	(\$341)
Financial data	2022	2023e	2024e
Gas, mmcf/d	0.0	0.0	0.0
Liquids, bbl/d	0	18,035	24,279
Total boe/d (6:1)	0	18,035	24,279
CFO, US\$mm	(\$17)	\$186	\$387
Net capex, US\$mm	\$16	(\$70)	\$100
Net debt, US\$mm	(\$8)	(\$245)	(\$532)
CFPS dil., US\$/shr	(\$0.20)	\$1.86	\$3.80
EPS dil., US\$/shr	\$0.01	\$0.01	\$0.01
Valuation	2022	2023e	2024e
Share price, C\$/shr	C\$2.20	C\$2.20	C\$2.20
EV/DACF	n.a.	-0.4x	-0.9x
EV per boe/d	n.a.	(\$3,741)	(\$14,031)
Net asset value			
CNAV, C\$/shr			C\$5.72
RENAV, C\$/shr			C\$5.91
ENAV, C\$/shr			C\$8.87
P/CNAV			0.4x
P/RENAV			0.4x
P/ENAV			0.2x

All figures in US\$ unless otherwise noted

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Figure 1. Financial & operating information
Valeura Energy Inc. (VLE)

Financial & Operating Information		2021	2022	2023e	2024e	2025e	2026e
Commodity Prices							
Brent	US\$/bbl	\$70.35	\$99.05	\$88.79	\$92.45	\$73.71	\$70.00
USD/CAD	US\$/C\$	\$0.77	\$0.77	\$0.74	\$0.80	\$0.80	\$0.80
USD/GBP	US\$/£	1.375	1.240	1.200	1.300	1.300	1.300
Production							
Oil and Liquids	bbl/d	4	0	18,035	24,279	18,286	12,448
Natural Gas	mmcf/d	1	0	0	0	0	0
Total (6 mcf = 1 boe)	boe/d	169	0	18,035	24,279	18,286	12,448
% Oil and Liquids	%	2%	0%	100%	100%	100%	100%
Netbacks							
Realized Price	US\$/boe	n.a.	n.a.	\$89.63	\$91.66	\$72.53	\$68.39
Royalties	US\$/boe	n.a.	n.a.	\$9.87	\$9.63	\$7.61	\$7.28
Production Costs	US\$/boe	n.a.	n.a.	\$25.84	\$26.04	\$31.61	\$46.44
Operating Netback	US\$/boe	n.a.	n.a.	\$53.91	\$55.98	\$33.30	\$14.67
Taxes	US\$/boe	n.a.	n.a.	\$23.93	\$10.74	\$11.85	\$8.05
Cash Flow Netback	US\$/boe	n.a.	n.a.	\$28.27	\$43.67	\$19.66	\$3.98
Government Take	%	0%	0%	27%	12%	16%	12%
Financials							
Cash Flow (CFO)	US\$mm	(\$4)	(\$17)	\$186	\$387	\$131	\$18
CFPS - diluted	US\$/shr	(\$0.04)	(\$0.20)	\$1.86	\$3.80	\$1.29	\$0.18
EBITDAX	a US\$mm	(\$4)	(\$16)	\$349	\$486	\$214	\$59
E&D Capex	US\$mm	(\$0)	\$1	\$161	\$100	\$70	\$70
A&D Capex, Net	US\$mm	(\$15)	\$15	(\$231)	\$0	\$0	\$0
Total Net Capex	US\$mm	(\$15)	\$16	(\$70)	\$100	\$70	\$70
Total Net Capex/CFO	x	3.8x	-0.9x	-0.4x	0.3x	0.5x	3.9x
Leverage							
Net Debt	US\$mm	(\$44)	(\$8)	(\$245)	(\$532)	(\$593)	(\$541)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	87	87	101	101	101	101
Diluted Shares o/s @ YE	mm	92	95	109	109	109	109
Market Capitalization	US\$mm	\$31	\$153	\$178	\$192	\$192	\$192
Enterprise Value	US\$mm	(\$13)	\$145	(\$67)	(\$341)	(\$402)	(\$350)
Dividends & Sustainability							
Dividends	US\$mm	0	0	0	0	0	0
Dividends	CAD/shr	0	0	0	0	0	0
Dividend Yield	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free Cash Flow	US\$mm	\$11	(\$34)	\$257	\$287	\$61	(\$52)
Cash Use/CFO	%	376%	-94%	-38%	26%	53%	387%
Performance							
Prod. Per Shr Growth (Y/Y) - dil	%	-74%	-100%	n.a.	35%	-25%	-32%
PPS Growth (Y/Y) DDA - dil. b	%	-117%	-100%	n.a.	-234%	-61%	-35%
CFPS Growth (Y/Y) - dil.	%	366%	344%	-1037%	104%	-66%	-86%
CFPS Growth (Y/Y) DDA - dil. b	%	-402%	276%	-1036%	-303%	-82%	-87%
ROCE	%	0%	0%	0%	0%	0%	0%
Net Asset Value							
CNAV (Atax) - diluted	CAD/shr	C\$5.72					
RENAV (Atax) - diluted	CAD/shr	C\$5.91					
Unrisked NAV (Atax) - diluted	CAD/shr	C\$8.87					
P/CNAV	x	0.4x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.2x					
Valuation		2021	2022.0x	2023e	2024e	2025e	2026e
Share Price, YE/Current	CAD/shr	C\$0.44	C\$2.09	C\$2.20	C\$2.20	C\$2.20	C\$2.20
P/CF	x	-7.6x	-8.1x	0.9x	0.5x	1.4x	9.9x
EV/DACF	x	n.a.	n.a.	-0.4x	-0.9x	-3.0x	-15.8x
Target EV/DACF	x	n.a.	n.a.	0.2x	-0.6x	-2.1x	-10.4x
EV per boe/d	US\$/boepd	n.a.	n.a.	(\$3,741)	(\$14,031)	(\$21,976)	(\$28,113)
EV per 2P boe	US\$/boe	n.a.	\$26.21	\$63.79	\$34.34	\$24.22	\$16.56

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 12-May-23

Figure 2. NAV Table

Asset Valuation	WI Reserves/ Resources (mmboe)	GCoS (%)	Unrisked (US\$mm)	EMV (US\$mm)	Unrisked NAV - C\$/Share	EMV - C\$/Share	% Total
Corporate			193	193	2.57	2.57	43.6%
Net Debt YE 2022 (\$mm)			245	245	3.27	3.27	55.3%
G&A (\$mm)			-52	-52	-0.69	-0.69	-11.7%
Thailand							
Thailand - Wassana (G10/48) 2P Reserves	6.85	100%	107	107	1.43	1.43	24.2%
Thailand - Nong Yao 2P Reserves	11.17	100%	115	115	1.53	1.53	25.9%
Thailand - Jasmine/Ban Yen 2P Reserves	10.03	100%	17	17	0.23	0.23	3.8%
Thailand - Manora	1.79	100%	-3	-3	-0.04	-0.04	-0.6%
Total Core NAV			429	429	5.72	5.72	96.8%
Thailand - G10/48 Niramai and Mayuira 2C resources	8.99	10%	141	14	1.87	0.19	3.2%
Thailand Nong Yao 2C Resources	0.00	0%	32	5	0.43		0.0%
Thailand Jasmine 2C Resources	0.00	0%	32	6	0.42		0.0%
Thailand Manora 2C Resources	0.00	0%	32	5	0.42		0.0%
Total Risked Upside			236	31	3.15	0.19	3.2%
RENAV			665	460	8.87	5.91	100.0%

Source: Auctus Advisors, Company Reports

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