

# PETRO MATAD

## OIL & GAS

28 September 2023

**MATD.L**

3.15p

Market Cap: £35.1m

### SHARE PRICE (p)



12m high/low

7.1p/1.7p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (debt)/cash	\$8.4m (at 30/06/23)
Enterprise value	£28.1m
Index/market	AIM
Next news	Finals, March
Shares in issue (m)	1,113.9
Chairman	Enkhmaa Davaanyam
Chief Executive	Mike Buck
Head of Finance	Tamir Battogtokh

### COMPANY DESCRIPTION

Petro Matad is a UK-listed exploration company that is focused on Mongolia.

[petromatadgroup.com](http://petromatadgroup.com)

PETRO MATAD IS A RESEARCH CLIENT OF  
PROGRESSIVE

### ANALYSTS

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## Interim results reflect progress and frustrations

Petro Matad has this morning reported interim results for the six months to 30 June. The company is pushing to resolve the land access issue that would allow it to complete the Heron-1 well as an oil producer. Although progress has been made with Mongolia's central government, the provincial government has been slow to respond, and it remains uncertain that this well can be completed before the winter shutdown. Elsewhere Petro Matad is making exciting progress on its renewable energy operations, and management has submitted applications for new blocks in the exploration tender round.

- **Heron-1 – Slow progress.** Petro Matad is still trying to sort out the land access issues to allow it to complete the Heron-1 oil well as a production well and to start generating cash flows. The company has made progress with the central government to get the registration of the Exploitation Area as Special Purpose Land in accordance with Mongolia's land law. However, the provincial government has been very slow to respond in order to allow completion of this process. This creates the risk that the well will not be completed before the winter shutdown. Local authorities have indicated that they are willing to consider the company operating in parallel with the slow-moving bureaucracy if central government is happy with this.
- **Renewables – Good progress.** Petro Matad is moving forward with its renewable energy JV, SunSteppe Renewable Energy. The JV is actively pursuing two projects: a battery storage facility and a green hydrogen project. Both of these have the potential to start generating revenue in the near term.
- **Exploration tender round.** Petro Matad continues to participate in MRPAM's 2022/23 licencing round. Management has submitted applications for two new licences and is looking at one further application. Success in this licencing round will allow the company to build momentum and use the expertise that has been built up within Mongolia.
- **Financials.** Petro Matad has announced a loss of US\$1.9m compared with a loss of US\$1.6m a year earlier. After its fundraising in February, the company has cash balances of US\$8.4m compared with US\$6.6m a year earlier.
- **Valuation.** Our RENAV (Risky Exploration Net Asset Value) is standing at 23.6p/share, reduced from 26.7p/share due to the exchange rate. We believe that the resolution of the land access issue will give investors more clarity into timing of work and hence the underlying value of the company.

## Block XX

Petro Matad's main focus remains getting production started from Block XX, where it is the operator with 100% working interest. The company has discovered oil at the Heron-1 exploration well and is eager to complete this well as a producing well, and to start generating cash flow. However, the company has struggled to gain land access in order to allow works to continue in this licence. In July, Petro Matad announced that the Cabinet of the Mongolian Government had approved the certification of the Block XX Exploitation Area as a special purpose land, which would have helped the company to gain the land access. Management is now trying to gain a tripartite agreement between the Land Agency, the Ministry of Mining and Heavy Industry (HMHI) and the provincial government to get this finalised. The provincial government appears to be slowing this process down and is looking to complete herder compensation first. This delay could lead to further delays, which could mean that the company is not in a position where it could complete the Heron-1 well before winter when the oilfield contractors shut down operations. To this aim, Petro Matad is asking the local authorities to allow the Heron-1 operations to continue in parallel with these negotiations. The local authorities are willing to do this as the central government supports this process.

On a more positive note, Petro Matad is moving ahead with getting the oil field service side sorted ahead of gaining land access. The company has finalised negotiations with DQE Drilling, the main provider of drilling services in Mongolia, on a long-term drilling contract. This will be submitted to MRPAM (the Mineral Resources and Petroleum Authority of Mongolia) for discussion and approval. Separately, the company is in advanced negotiation with PetroChina for the use of its production infrastructure in the adjacent Block XIX.

## Renewables

At the beginning of the year, Petro Matad announced that it had formed a joint venture, Sunsteppe Renewable Energy (SRE), with Wolfson LLC. Wolfson is an investment management company focusing on the Mongolian market and provides renewable experience, expertise and government contacts while Petro Matad provides skills in project execution capability and in-country infrastructure. Over the course of the year, the partners have been ramping up activity.

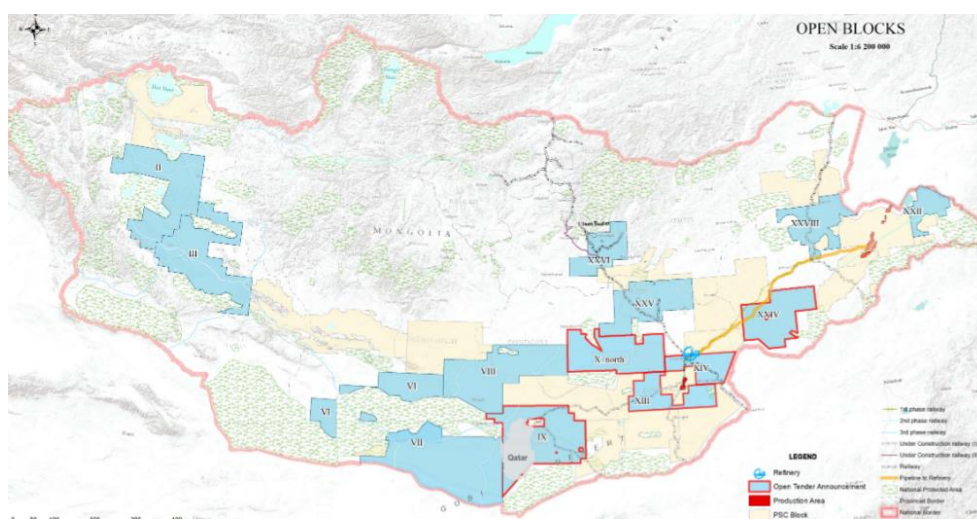
The first potential project is a battery energy storage system, which is designed to help improve the stability of the electricity grid. The partners are in consultation with the Ministry of Energy over the construction of a plant in Central Mongolia with a storage of 50MW and delivery of 150MWh. The feasibility and grid connection studies have been completed, and submitted to and accepted by the National Technology Committee of the Ministry of Energy. Once the committee's approval is on hand, this project could be on stream in 2025 and generating a double-digit rate of return. There is believed to be significant follow-up potential if this project proves to be viable.

The second potential project is looking at using a utility scale wind farm to generate electricity to be used to manufacture green hydrogen that would be used in a mining operation in the South Gobi. This initiative has the strong support of the Mongolian Government and an MOU (Memorandum of Understanding) has been signed with the Ministry of Energy. This project could also be up and running in 2025. SRE is also looking at many other renewable energy projects.

## Licencing Round

Petro Matad has been keen to build up its exploration portfolio and has been participating in MRPAM's 2022/23 Exploration Tender Round. Petro Matad has already submitted two applications for new blocks and is actively looking at one more area where a third application could be submitted. For the existing two applications, management is in the process of negotiating contractual terms. Petro Matad has developed significant expertise in Mongolia over the last few years and, as the country's leading explorer, can be seen as having a huge competitive advantage over new players wanting to enter the country.

### 2022/23 MRPAM exploration block tender round



Source: MRPAM

## Financials

Petro Matad reported a net loss for the six months ending 30 June 2023 of US\$1.9m, which compares to a net loss of US\$1.6m a year earlier. Given that the company is pre-production, we believe that this is not important to most investors. The balance sheet remains strong with net cash at US\$8.4m (US\$0.8 million in cash and US\$7.6 million in financial assets). This compares with US\$6.6 million a year earlier. This comes after a successful gross fundraise of US\$6.6m in February 2023. The cash spent over the first six months of the year was on the drilling of the Velociraptor exploration well in Block V, the development of the renewables business, and equipment required for works to restart operations on Block XX.

## Valuation

### Methodology

For valuing E&P companies, we take the traditional approach to asset valuation that is used by the industry. Investors should therefore view any valuation in the context of their own assessments of the relevant risks. This valuation is derived through using a DCF (discounted cash flow) methodology to the known fields and discoveries of the company. The field production profiles, capital expenditure and operating costs are modelled under the appropriate fiscal regime to give a cash flow profile, which is discounted to provide a net present value for each asset. We usually add an element of value for the risked exploration upside to give an indication of how this asset value may change over the next 12 months. The risk that we take is based on the play chances (reservoir, source and seal) coupled with the local chances (seal, migration and trap). Adding these together, we can derive a RENAV (Risked Exploration Net Asset Value). For full analysis please see our note [Activity set to pick up in 2023](#), 2 March 2023.

The table below details the asset value we derive for the company. For the Heron Base development, we derive a value of approximately 8.2p/share. The Heron Target development upside and risked exploration in Block XX add a further 8.3p/share and 6.2p/share. Adding year-end cash, the RENAV would be 23.6p/share.

Petro Matad RENAV (p/share)				
	Risking %	NPV US\$m	GBP	p/share
<b>Fields</b>				
Heron Base	100%	89.1	73.6	8.2
<b>Exploitation upside</b>				
Heron Target	50%	89.9	74.3	8.3
<b>Exploration upside</b>				
Gobi Bear	17%	34.2	28.3	3.1
Saiga	57%	33.3	27.5	3.1
Cash	100%	10.0	8.3	0.9
<b>Total</b>		256.5	212.0	23.6

Source: Progressive Equity Research estimates

Note: The above analysis is for information purposes only and does not represent a stock price valuation or target price. Investors should view any valuation in the context of their own assessment of the relevant risks.

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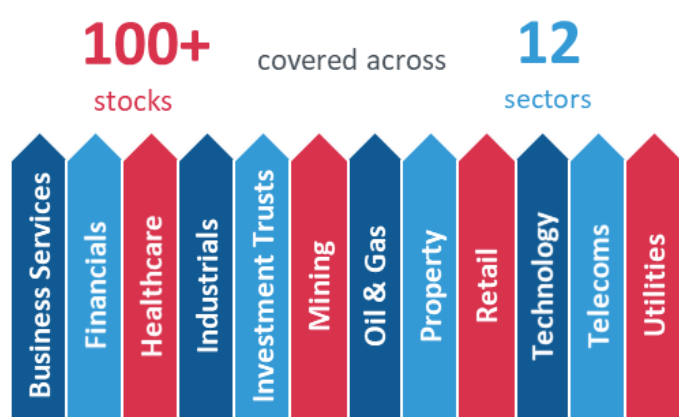
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## Analyst calibre

