

SINTANA ENERGY INC (TSX-V:SEI)

November 21, 2024

Share price: C\$0.95

Target: C\$1.85

Pure play on the world's exploration hotspot

- ~11 high impact appraisal/exploration wells will be drilled on various licences in Namibia over the coming months. This is very material and is expected to attract the attention of investors. Sintana provides exposure to three out of the six licences with high impact drilling.
- We believe that the recent weakness of Sintana's share price offers an opportunity with an asymmetric risk/reward profile.
- We estimate that Sintana's current share price trades at a discount to the market value of its interests in the Mopane discovery (PEL 83) that could be crystalized by an upcoming partial divestment process initiated by Galp. While further exploration and appraisal drilling is expected to take place before a sale is agreed, Sintana's costs are carried by Galp.
- The 4 well programme at PEL 83 is expected to include 2 exploration wells that could have a material impact on the size of the hydrocarbon volumes on PEL 83. Increasing the size of Mopane by 20% would add C\$0.24/sh.
- Chevron will also start drilling at PEL 90 by YE24. Sintana holds an indirect 4.9% WI in PEL 90. Not much detailed information is available but PEL 90 is adjacent to the licence with the Venus discovery. Our unrisks NAV for Sintana's interest in PEL 90 is C\$0.79/sh as Sintana is carried for this well.
- We anticipate that Woodside will exercise its option to farm into PEL 87 to also start exploration activities in 2025. Sintana would be carried until development. Our unrisks NAV is C\$1.77/sh.
- Rhino Resources and Azule Energy (bp/Eni) will also start drilling at PEL 85 around YE24 (2 wells). The block is located to the south east of PEL 83 and a success could have positive implications for the prospectivity of PEL 83. BWE Energy is also expected to drill 2 exploration wells near the Kudu field to test different plays.
- As we incorporate the latest readthrough value of transactions in Impact Oil & Gas, we have increased our target price to C\$1.85/sh in line with our new ReNAV.

Value build-up

Based on the limited disclosures on Mopane (PEL 83) and Venus (PEL 56), the discovered resources on Galp's and TotalEnergy's licences appear to be of a similar order of magnitude. Using the last price paid by Africa Oil for 7% in Impact suggests a value of ~US\$983 mm for Impact's ~9.5% carried interests in PEL 56. Adjusting for respective carried interests leads to an unrisks value of US\$507 mm for Sintana's interests in PEL 83. Deducting a worst case of 32% capital gain tax (assuming Sintana sell its interests) and using 90% chance of success leads to a value for the company of ~C\$1.08/sh based on PEL 83 alone. As we apply a similar approach to the other licences, our total unrisks NAV for Sintana is ~C\$4.54/sh.

Rating & target	Old	New	
Target	C\$1.60	C\$1.85	
Yield		0%	
Implied total return		93%	
Share data	2022	2023e	2024e
Shares dil., mm	270	395	400
Mkt cap (FD), US\$m	\$23	\$103	\$286
EV, US\$m	\$17	\$99	\$265
Financial data	2022	2023e	2024e
CFO, US\$m	(\$6)	(\$3)	(\$4)
Net capex, US\$m	\$1	\$0	\$3
Net debt, US\$m	(\$6)	(\$4)	(\$21)
CFPS dil., US\$/shr	(\$0.06)	(\$0.01)	(\$0.01)
EPS dil., US\$/shr	(\$0.01)	\$0.00	(\$0.00)
Valuation	2022	2023e	2024e
Share price, C\$/shr	\$0.11	\$0.35	\$0.96
EV/DACF	n.a.	n.a.	n.a.
Net asset value			
CNAV, C\$/shr			\$1.08
RENAV, C\$/shr			\$1.86
Unrisked NAV, C\$/shr			\$4.54
P/CNAV			0.9x
P/RENAV			0.5x
P/Unrisked NAV			0.2x
All figures in US\$ unless otherwise noted			

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Figure 1. Financial & operating information

Sintana Energy Inc. (SEIV)		Historical & Auctus Advisors Outlook					
Financial & Operating Information		2022	2023	2024e	2025e	2026e	2027e
Commodity Prices							
Brent	US\$/bbl	\$99.60	\$82.10	\$83.00	\$74.97	\$70.00	\$70.00
Henry Hub	US\$/mcf	\$6.42	\$3.00	\$4.38	\$5.50	\$5.50	\$5.50
USD / CAD	US\$/C\$	0.770	0.748	0.745	0.735	0.763	0.800
Production							
Oil & Gas	boe/d	0	0	0	0	0	0
Financials							
Cash Flow (CFO)	US\$mm	(\$6)	(\$3)	(\$4)	(\$3)	(\$3)	(\$3)
CFPS - diluted	US\$/shr	(\$0.06)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
EBITDAX	US\$mm	(\$5)	(\$4)	(\$4)	(\$4)	(\$4)	(\$4)
E&D Capex	US\$mm	\$0.00	\$0.17	\$0.00	\$0.00	\$0.00	\$0.00
A&D Capex, Net	US\$mm	\$0.86	\$0.00	\$2.67	\$0.00	\$0.00	\$0.00
Total Net Capex	US\$mm	\$0.86	\$0.17	\$2.67	\$0.00	\$0.00	\$0.00
Total Net Capex/CFO	x	-0.1x	-0.1x	-0.7x	0.0x	0.0x	0.0x
Leverage							
Net Debt	US\$mm	(\$6)	(\$4)	(\$21)	(\$18)	(\$15)	(\$12)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	(\$0)	n.a.	n.a.	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	270	282	385	385	385	385
Diluted Shares o/s @ YE	mm	270	395	400	400	400	400
Market Capitalization (fully diluted)	US\$mm	\$23	\$103	\$286	\$282	\$293	\$307
Enterprise Value	US\$mm	\$17	\$99	\$265	\$265	\$278	\$295
Dividends & Sustainability							
Dividends	US\$mm	0	0	0	0	0	0
Dividends	C\$/shr	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	%	0%	0%	0%	0%	0%	0%
Free Cash Flow	US\$mm	(\$7)	(\$3)	(\$6)	(\$3)	(\$3)	(\$3)
Cash Use/CFO	%	-14%	-5%	-71%	0%	0%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
PPS Growth (Y/Y) DDA - dil.	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	52771%	-47%	17%	-20%	0%	0%
CFPS Growth (Y/Y) DDA - dil.	%	13893%	-85%	-5%	-25%	-1%	-1%
ROCE	%	-2%	-38%	-29%	-29%	-22%	-22%
Net Asset Value							
CNAV (Atax) - diluted	C\$/shr	\$1.08					
RENAV (Atax) - diluted	C\$/shr	\$1.86					
Unrisked NAV (Atax) - diluted	C\$/shr	\$4.54					
P/CNAV	x	0.9x					
P/RENAV	x	0.5x					
P/Unrisked NAV	x	0.2x					
Valuation		2022.0x	2023.0x	2024e	2025e	2026e	2027e
Share Price, YE/Current	C\$/shr	\$0.11	\$0.35	\$0.96	\$0.96	\$0.96	\$0.96
P/CF	x	-1.4x	-23.3x	-70.7x	-91.3x	-94.8x	-99.4x
EV/DACF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Target EV/DACF	x	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-Nov-24

Extensive activities in Namibia from late 2024

Namibia is one of the world's hotspots for exploration. Since 2022, there have been a string of exploration successes across the Orange basin. The country is now entering a new phase of drilling activity, even more extensive and diverse than previously.

A total of 55 new wells have been permitted and we expect that ~11 could be drilled by YE25 across six different licences. Sintana holds interests in three of these. In addition, most of the wells to be drilled on licences where Sintana does not have an interest are likely to have readthrough value for Sintana's blocks.

PEL 83 – Galp has started a **four well** programme at PEL 83 that will include two exploration wells that could have a material impact on the size of the hydrocarbon volumes on PEL 83. The appraisal wells will firm up Galp's ongoing farm-out process.

PEL 90 - Chevron will start drilling by YE24 (**1 well** plus follow-up). PEL 90 is adjacent to the licence (PEL 56) with the ultra-deep water Venus discovery. We understand that Chevron will be targeting similar ultra-deep basin floor fans similar to Venus and Mopane.

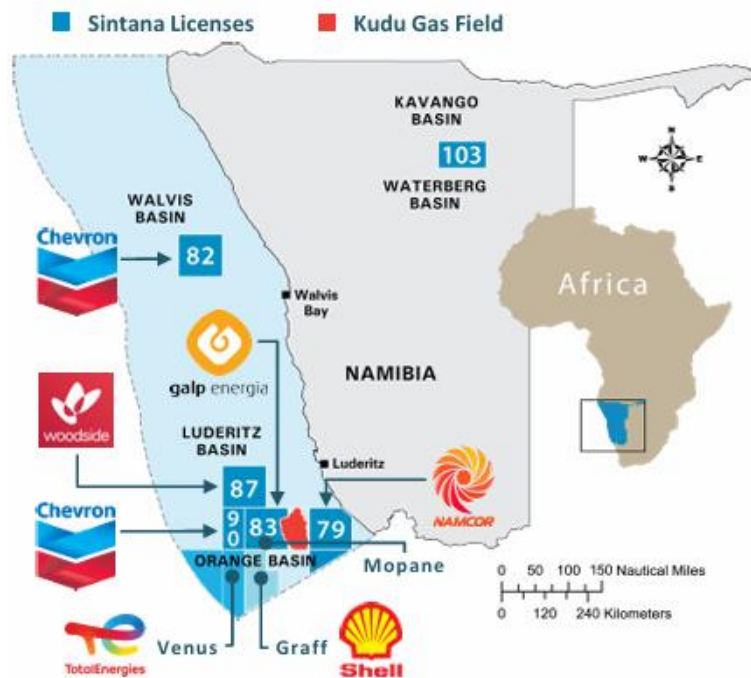
PEL 56 - TotalEnergies is drilling the ultradeep water Tamboti-1X exploration well (**1 well**) in the northeast part of PEL 56. The company is targeting ~1 bn boe prospective resources. Success could have positive implications for PEL 90.

PEL 85 - Rhino Resources and Azure Energy (bp/Eni) are drilling at PEL 85 around YE24 (**2 wells**). The block is located to the southeast of PEL 83 and successful wells could have positive implications for the prospectivity of PEL 83.

PEL 87 - Woodside could exercise its option to farm into PEL 87 to also start drilling in 2025/2026 (**1 well**). The area holds the Saturn Superfan. The geological setting is similar to Venus but the water depth is similar to Mopane (and much shallower than at PEL 56 and PEL 90).

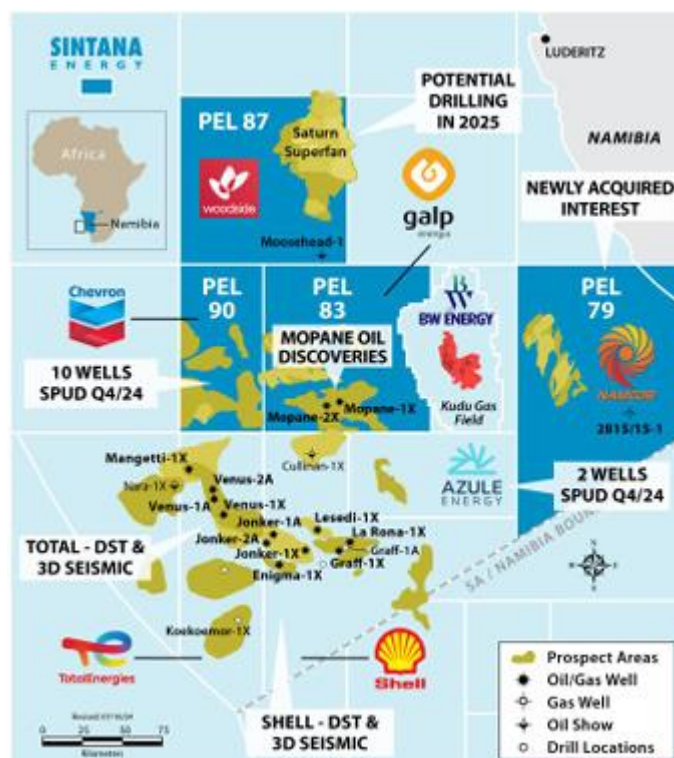
PEL 03 – BW Energy will drill **two wells** around the Kudu fields in 2025. This is part of a four well exploration campaign following a recent 3D seismic programme. The first well is the Kharas Prospect, north-west of the Kudu formation. We understand that BW Energy is targeting prospects different from the Kudu gas discovery. A success could have positive implications for the prospectivity of PEL 79 (shallower water).

Figure 2. Licences and operators in Namibia



Source: Company

Figure 3. Discoveries and upcoming drilling



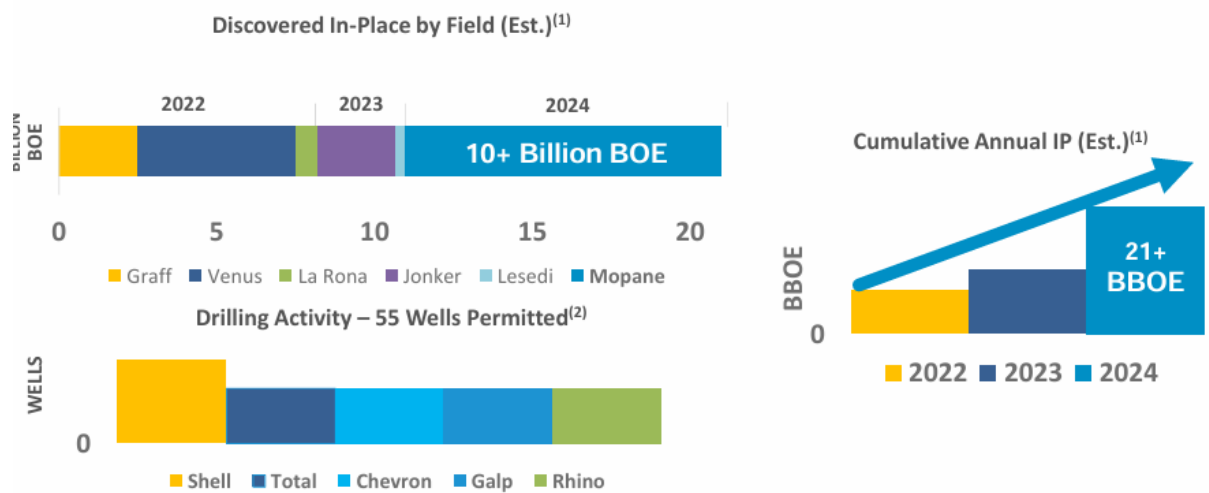
Source: Company

What has been discovered so far

So far there have been material discoveries on three blocks with estimated aggregate in place hydrocarbon volumes over 10 bn boe.

- PEL 56 is operated by TotalEnergies, with Impact Oil and Gas, QatarEnergy and Namcor as partners. The Venus discovery was made in 2022. The successful Mangetti well extended the size of the discovery westwards. Media reports suggest that the Venus complex holds ~5 bn bbl of light oil in place. The Mangetti well is expected to have added to these resources, but it not clear how much. The Tamboti-1X exploration well (currently drilling) could add further volumes. The Venus-1X and Venus-1A wells were tested but very limited information is available on achieved flow rates.
- PEL 39 is operated by Shell, with QatarEnergies and Namcor as partners. Multiple discoveries have been made since 2022 including Graff, La Rona, Jonker and Lesedi. The Namibia Ministry of Mines and Energy reported that Graff and Jonker alone could hold respectively 200 mmbbl and 300 mmbbl of recoverable oil resources. Jonker was estimated to hold 2.25 bn bbl of oil in place. In mid-2023, the Ministry of Mines and Energy indicated that a total of 11 bn bbl plus 9 tcf (in place) had been encountered at PEL 56 and PEL 39. Very limited information is available on flow rates achieved at PEL 39.
- PEL 83 is operated by Galp, with Custos and Namcor as partners. Sintana holds 49% of Custos. The Mopane discovery was made in 2024. Galp indicated that 10 bn boe in place had been discovered from two wells. Two significant light oil columns were encountered at two levels (AVO-1 and the deeper AVO-2). AVO-1 was encountered at both wells and the second well also encountered the AVO-3 anomaly and an additional deeper target. The first well was tested at 14 mboe/d production. This rate was constrained by surface infrastructure. Assuming 50% of the in-place resources is oil would put Mopane on par with Venus. Mopane is in much shallower water than Venus and the cost of drilling a well on PEL 83 is only 25%-50% of the cost of drilling a well on PEL 56. This has an important impact on economics.

Figure 4. Discovered volumes in Namibia and wells permitted



Source: Company

Sintana in Namibia

Sintana has interests in 5 offshore licenses and 1 onshore license. In the Orange basin, offshore Namibia, Sintana holds 4.9% indirect interests in PEL 83 (Galp operated) and PEL 90 (Chevron operated), 7.3% in PEL 87 (Woodside operated assuming Woodside exercises its option) and 16.7% in PEL 79 (Namcor operated).

In the Walvis basin, Sintana holds a 4.9% indirect interest in PEL 82 (Chevron operated). Onshore, Sintana holds a 15% indirect interest in PEL 103 in the Waterberg Basin, close to the Reconnaissance Energy Africa/BW Energy licences where there is ongoing exploration drilling activity. Reconnaissance holds 70% in PEL 073 and has a market cap of >C\$250 mm (~US\$180 mm).

Figure 5. Sintana's assets

Properties	Country	Operator	Interest	Unrisked NAV (C\$/sh)	Upcoming wells/newsflow	Expiry Date	Gross Area Acres
PEL 83	Orange Basin	Galp	4.9%	1.37	- Appraisal well ongoing to firm up the farm-in - two further exploration wells plus one appraisal well to grow resources by mid 2025 - Two exploration wells at adjacent PEL 85 (Rhino/bp/Eni) would derisk further PEL 83. First well by YE24 - Woodside exercises option to acquire 56% in PEL 87 and drills first exploration well	up tp 2026	9,890
PEL 87	Orange Basin	Woodside*	7.3%	1.70	87 and drills first exploration well	Up to 2028	10,947
PEL 90	Orange Basin	Chevron	4.9%	0.76	- First exploration well around YE24 - Two exploration wells at adjacent PEL 03 (BW) by YE25 would derisk PEL 79	Up to 2029	5,433
PEL 79	Orange Basin	Namcor	16.7%	0.23			
PEL 82	Walvis Basin	Chevron	4.9%	0.23		Up to 2025	11,464
PEL 103	Onshore	Apprentice Investment	13.5%			n.a.	4,860

* on exercising the option to acquire 56% interests in the licence

Source: Company

Source: Company, Auctus

Valuation and value build-up

Revisiting our valuation

We were previously valuing Sintana based on the terms of the farm out by Impact Oil & Gas of interests in PEL 56 to TotalEnergies. The transaction provided an implied valuation for PEL 56 based on an estimated capex to first oil. Given the uncertainty on capex to first oil, this methodology lacked accuracy. We have revisited our valuation based on a more recent equity transaction providing an independent, arms-length valuation of the equity of Impact. We also note that Impact is now fully carried to first oil by TotalEnergies. Impact is therefore a much closer analog to Sintana (which is also carried on most of its assets) than previously.

In August 2024, Africa Oil announced an option agreement with three shareholders in Impact Oil and Gas to purchase a 7.0% interest in Impact. Africa Oil paid an exercise price of £0.57 per share with an additional £0.08 per share for the price of the option for a total of £0.65 per share. Overall Africa Oil paid US\$68.8 mm. This suggests a value of US\$983 mm for Impact's ~9.5% carried interest in PEL 56.

Only a paucity of information is available on PEL 56 but based on the announcements by Namcor and the recent additional discoveries on the block, it appears that the total hydrocarbon volumes encountered at PEL 56 and PEL 83 are of the same order of magnitude. The discoveries at both blocks are believed to contain material gas volumes that will have to be managed. We appreciate that there are other differences (PEL 56 is closer to FID and a larger number of wells have been drilled, but PEL 83 is located in much shallower water and probably much lower cost to develop – some of this will be addressed by the ongoing drilling at PEL 83) but we believe that using the equity value of Impact as a reference point to estimate the unrisks value of Sintana's interests in PEL 83 is reasonable.

Based on the latest price paid by Africa Oil for Impact's shares, Impact's 9.5% carried interest in PEL 56 is worth US\$983 mm or US\$103 mm per percentage point of interest. Applying this figure to Sintana's 4.9% interests in PEL 83 suggests an unrisks value of ~US\$507 mm.

Given that Sintana has a broader portfolio of assets, we have assumed that Sintana will divest its interests in PEL 83. We have therefore applied a "worst case" 32% capital gain tax to the sale price. Overall, we now carry a value of ~US\$310 mm (US\$345 mm unrisks or ~US\$70 mm per percentage point of interest) for Sintana's interests in PEL 83. This equates to C\$1.06 per share.

We have also given some value to the ongoing exploration programme at PEL 83 where two exploration wells are being drilled. We have assumed 20% potential additional volumes (in case of success) to which we have applied a 35% chance of success.

We have applied the same US\$70 mm (post capital gain tax) unrisks value per percentage point of interest for PEL 87 where Sintana is also carried through development.

Sintana is only carried on one well at PEL 90 with Chevron. While we have applied the same US\$70 mm (post capital gain tax) unrisks value per percentage point of interest, we have assumed a 33% discount to the value to incorporate the more limited amount of carry.

Overall, our total unrisks NAV for Sintana is C\$4.54 per share.

Figure 6. NAV Table

Asset Valuation	WI Reserves and Resources (bcf)	CoS (%)	Unrisks (US\$mm)	EMV (US\$mm)	CS/Share (Risks)	CS/Share (Unrisks)	% Total
Net Cash/Debt YE24			15	15	0.05	0.05	3%
G&A			-9	-9	-0.03	-0.03	-2%
Options and Warrants exercise			2	2	0.01	0.01	0%
PEL 83 - Mopane (Namibia Offshore)	150.0	90%	345	310	1.06	1.19	57%
Total Core NAV			353	319	1.08	1.22	58%
PEL 83 - exploration (Namibia Offshore)	n.a.	35%	69	24	0.08	0.24	4%
PEL 90 (Namibia Offshore)	n.a.	35%	230	80	0.27	0.79	15%
PEL 87 (Namibia Offshore)	167.9	35%	514	106	0.36	1.77	19%
PEL 82 (Namibia Offshore)			69	5	0.02	0.24	1%
PEL 79 (Namibia Offshore)			69	2	0.01	0.24	0%
PEL 103 (Namibia Onshore)			0	0	0.00	0.00	0%
VMM 37 (Colombia)		80%	16	13	0.04	0.05	2%
Total Risks Exploration			966	230	0.78	3.09	42%
Total			1,319	548	1.86	4.54	100%
Unrisks NAV						4.54	
P/Core NAV							89%
P/NAV							51%
P/Unrisks NAV							21%

Source: Auctus Advisors, Company Reports

Value build-up

The upcoming appraisal drilling at Mopane on PEL 83 is expected to address some uncertainty on gas content and development scenario for the farm-out process being run by Galp. This is also expected to firm-up the price of the asset. A successful farm-out would provide a direct readthrough value for Sintana's interests in PEL 83. We estimate the unrisks value of the company based on PEL 83 alone at C\$1.22 per share. This represents a 20% premium to the current share price.

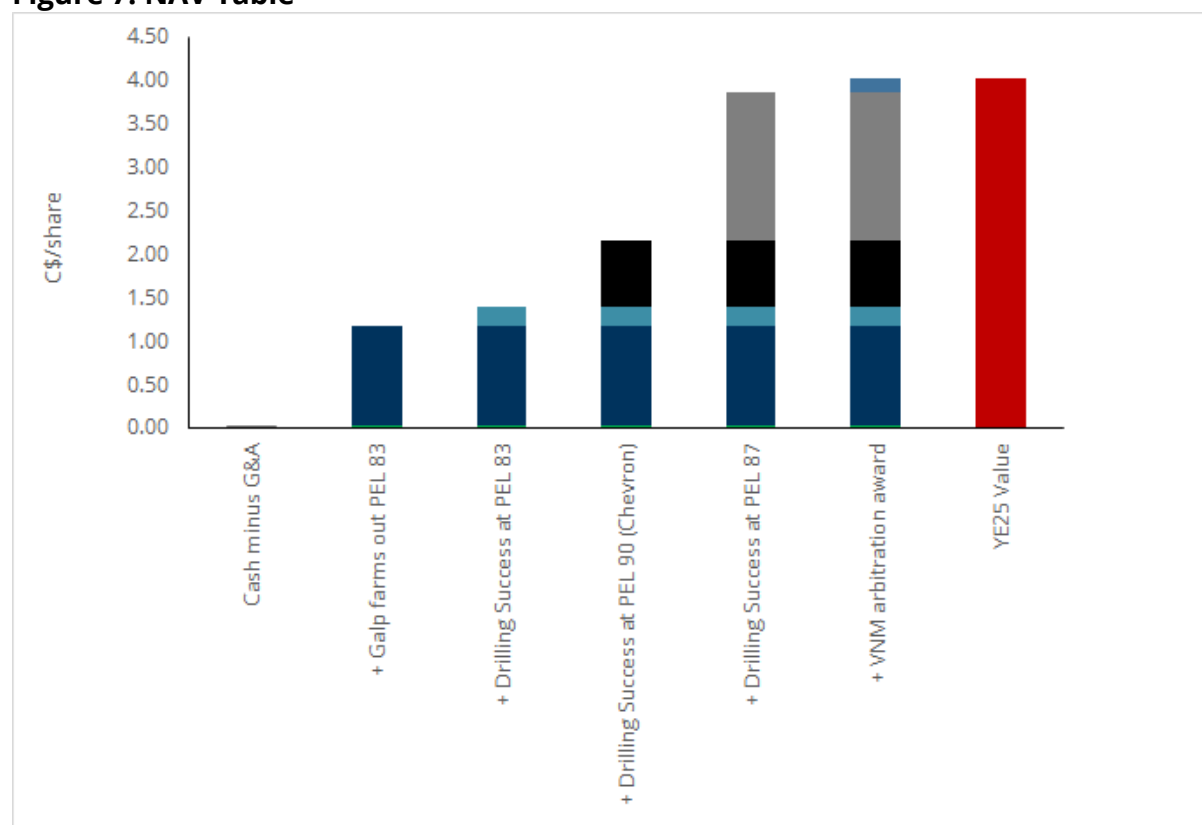
An exploration success (two exploration wells) on PEL 83 that adds 20% to the resources would add C\$0.24 per share to our Core NAV.

The unrisks NAV of PEL 90 (exploration drilling to start around YE24) is C\$0.79 per share.

Woodside exercising its option to acquire an interest in PEL 87 and making a discovery has an unrisks value of C\$1.77 per share.

Overall, our unrisks NAV for the company based on PEL 83 plus the upcoming drilling programme is ~C\$4.0 per share. This represents ~4.5x the current share price. In addition, any drilling success on PEL 03 (BW Energy) would have positive implications for the value of Sintana’s interests in PEL 79.

Figure 7. NAV Table



Source: Auctus

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