

# PETRO MATAD

## OIL & GAS

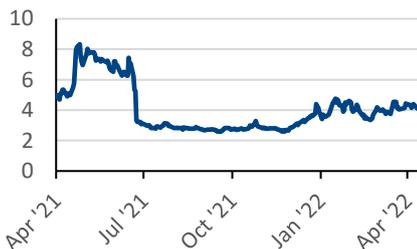
6 May 2022

### MATD.L

4.1p

Market Cap: £36.8m

#### SHARE PRICE (p)



12m high/low 8.3p/2.6p

Source: LSE Data (priced as at prior close)

#### KEY DATA

Net (Debt)/Cash	\$10.0m (at 05/08/21)
Enterprise value	£29.7m
Index/market	AIM
Next news	Finals - May '22
Shares in Issue (m)	898.5
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  
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## Operational Update

Petro Matad has issued an operational update. It would appear that the recent Covid lockdowns in China have had a knock-on impact on the company's operations in Mongolia. While this is a temporary problem, management is moving ahead with the completion of the Heron-1 discovery well into a producing well, which will allow the company to start generating cash flow once the situation in the region returns to normal.

- China Covid measures impacting Mongolia.** The Covid lockdowns and travel restrictions put in place by China have affected business in Mongolia. This has had two impacts for Petro Matad: first, lack of access to Chinese oil field service providers (for example, there are no Chinese rigs operating in the country at present); second, export of oil to China from blocks XIX and XXI has been suspended.
- Heron-1 completion a priority.** Although these impacts are disappointing, management is moving ahead to position the company to take advantage when the situation improves. The main priority is to complete the Heron-1 oil discovery well as a producing well. Petro Matad has chosen a completions contractor, and the contract is in final form and waiting for confirmation that the crews and equipment are available. This will leave the well ready to produce once export restrictions are lifted. Talks are also progressing well with PetroChina over the potential of sharing its infrastructure and logistics to allow exports.
- Progress with government licences.** Petro Matad has also been in discussions with the Mongolian central government to secure the necessary permits for its exploration and exploitation licences where there had been some reticence from local officials. The Mineral Resources and Petroleum Authority of Mongolia (MRPAM) has advised Petro Matad that it can work on its licences without the problems of land access delays. This will help the company with its plans to develop Heron and allow it to carry over its planned exploration programme.
- Securing Block V permits.** Petro Matad is now looking at securing the permits to allow it to start drilling on Block V, where it has a 100% working interest. The company is looking at drilling a well on the exciting Velociraptor prospect. Management is in discussions on securing a potential rig and the associated well costs. Timing on this well remains uncertain.
- Positioned to start generating cash flow.** Although these delays are frustrating, management is using the time to move its operations forward so that it is in an ideal position to take advantage once the restrictions are lifted. This will leave the company in a position where it can start to generate cash flow, which will allow it to grow the business.

## Potential delays due to China's Covid lockdowns

Petro Matad has issued an operational update. The main message is that the company's operations have been delayed by the Covid-19 lockdowns that have been put in place in China, which include tight controls over movement across its borders. This has had a knock-on impact in Mongolia, which borders China. For Petro Matad, the impact has been seen in availability of Chinese oil field service providers and the export of Mongolian crude oil to China. Although this is a small setback, management is working on moving its operations forward so that it can take advantage when the relaxation of these controls comes through.

Management is now looking to complete the Heron-1 oil discovery well in Block XX as a producing well so that it is able to start producing once exports of crude oil resume. The contract with a well completion contractor is now in its final form and the company is waiting for confirmation that the crews and equipment are available and can be mobilised. Petro Matad has also placed orders for the required surface facilities on this well. This will leave the well ready to produce once export restrictions are lifted and allow Petro Matad to start generating cash flow. Talks are also progressing with PetroChina over the potential of sharing its infrastructure in Block XIX to allow the crude produced to be processed and exported to China.

Petro Matad has also been in discussions with the Mongolian central government to secure the necessary permits for the exploration and exploitation licences. There had been some reticence from local officials on these licences, which has resulted in long-running land issues. The Mineral Resources and Petroleum Authority of Mongolia (MRPAM) has advised Petro Matad that it can work on its Production Sharing Contracts (PSC) without the problems of land access delays. This will help the company with its plans to develop Heron and allow it to carry over its planned exploration programme. Planned amendments to the land laws are also going through parliament, which should remove the legal ambiguities in the law. This will leave Petro Matad in a position where it can, hopefully, secure the necessary land certificates in Blocks XX and V.

As well as its operations in Block XX, Petro Matad is now looking at securing the permits to allow it to start drilling an exploration well on Block V, where it has a 100% working interest. Management has identified an in-country contractor with experience to drill a well. Discussions on securing a potential rig and the associated well costs are ongoing. The first well is expected to be drilled on the Velociraptor prospect, which has potential recoverable resources of 200 mmbbl. Success here would open up further nearby prospects. Although management is keen to drill this prospect, the timing of the well remains uncertain.

Although these delays are frustrating, management is using the time to move its operations forward so that it is in an ideal position to take advantage once the restrictions are lifted. This will leave the company in a position where it can start to generate cash flow, which will allow it to grow further. We are maintaining our RENAV (Risked Exploration Net Asset Value) of 29.0p/share – for more details on the methodology, please see our recent note [Promising outlook for 2022](#). However, investors should be aware that any material delays to the start-up of production could impact this valuation as cash flow is delayed. Investors should view any valuation in the context of their own assessments of the relevant risks.

**Disclaimers and Disclosures**

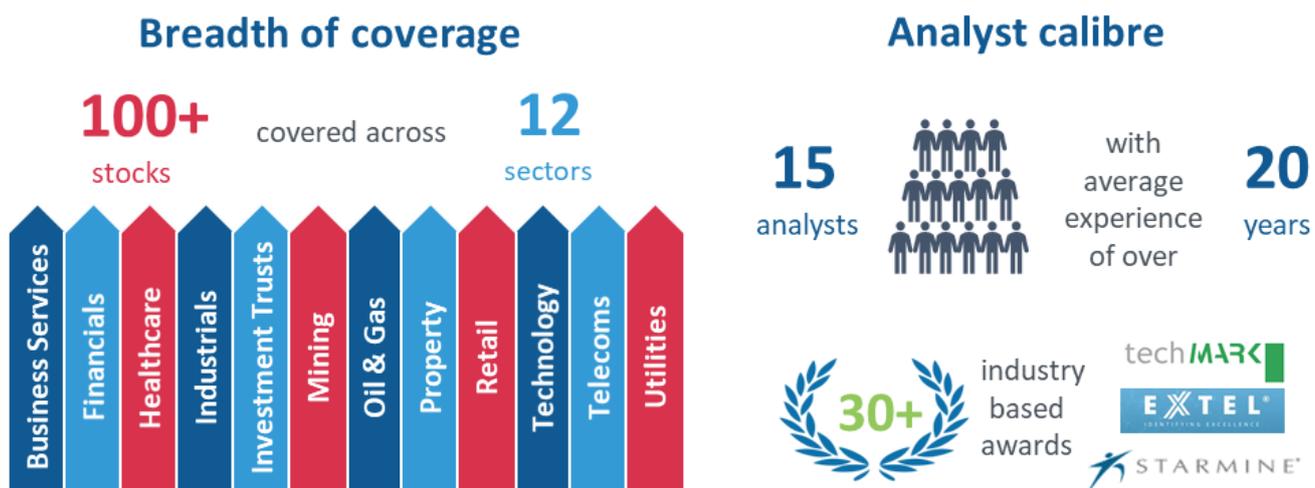
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