

PETRO MATAD

OIL & GAS

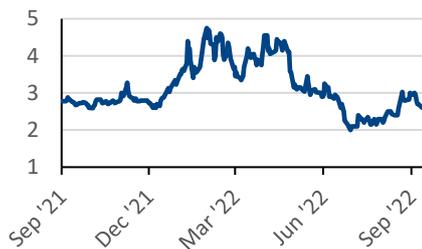
22 September 2022

MATD.L

2.6p

Market Cap: £23.4m

SHARE PRICE (p)



12m high/low

4.8p/2.0p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	\$6.6m (at 22/09/22)
Enterprise value	£18.7m
Index/market	AIM
Next news	Finals, June 2023
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

PETRO MATAD IS A RESEARCH CLIENT OF
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Interim results

Petro Matad, the Mongolia-based E&P company, has this morning released its interim results for the six months ending 30 June 2022. The financials would appear to be in line with market expectations. On the operating side, management has made some progress, although this has again been slowed by the impact of China's Covid lockdowns, as was mentioned in the company's previous trading update in May. Despite this, management has been working on the Heron-1 well; once the Covid restrictions are resolved, this will enable Petro Matad to move ahead swiftly with completing the well as an oil producer.

- Financials.** The interim financials appear to be very much in line with market expectations. The company has a strong balance sheet, with a cash balance of US\$6.6m after its US\$10.4m fundraise in August 2021. This should be sufficient for the initial development and appraisal of its Heron oil discovery in Mongolia. The company posted a loss of US\$1.6m, which compares with a US\$1.0m loss in the comparable period of 2021.
- Operational summary.** Petro Matad has been impacted by China's Covid lockdowns and travel restrictions, which have impacted operations in Mongolia. The key issue is the ability to secure access to Chinese oil field service providers, which has left the company unable to secure the rig that it requires. However, these restrictions would appear to be easing, allowing production to restart at the country's main producing fields.
- Land access.** Petro Matad is still having problems with local and central government authorities in Mongolia over the restoration of its land access rights, as per the requirements of the Production Sharing Contract and Petroleum Law. The company has submitted another application to local authorities and has urging the newly appointed Minister of Mining and Heavy Industry to help expedite this as a priority.
- Heron moving ahead.** Despite the problems with the lack of oil services, management has been moving ahead with the potential completion of the Heron-1 well as a producing oil well. The company has finalised the detailed Heron-1 completion plan. Management has also placed orders for the essential equipment required to put the well into production, and these are ready to be shipped from China. This will allow the company to move quickly ahead once the impact of the restrictions and the issue of land access have been resolved.
- Interims in-line, with Heron-1 moving forward.** Petro Matad's interim results proved to be in line with market expectations. Although the speed of progress on the operating side is disappointing, this had been flagged in its previous operating update and should not come as a surprise to investors. Despite these delays, management has been making progress on the Heron-1 development so that it can move ahead quickly once the restrictions have eased. This will leave the company in a position where it can start to generate cash flow, which in turn will allow it to grow the business.

Interim results & operational update

Financials

Petro Matad has issued its interim results this morning, with the financials very much in line with market expectations. The company has a strong balance sheet with net cash of US\$6.6m, up from US\$0.4m a year ago, which follows on from the placing in August 2021 that raised US\$10.4m of gross proceeds. In the first six months of the year, management has used part of these proceeds to order the essential equipment required to put the Heron-1 oil well into production. The company reported a net loss after tax of US\$1.6m, which compares with a loss of US\$1.0m a year earlier.

China Covid restrictions

Petro Matad has been impacted by China's Covid lockdowns and travel restrictions, which have impacted operations in Mongolia. The key issue is the ability to secure access to Chinese oil field service providers, which have been unable to send required oil services and drilling rigs across the border from China into Mongolia. This has left the company unable to secure the drilling rig that it requires for the completion of the Heron-1 discovery well into an oil production well, as well as the addition appraisal wells on the field. However, these restrictions would appear to be easing, allowing production to restart at the country's main producing fields. This delay in drilling had been flagged in the company's trading update in May 2022.

Land access

Petro Matad is still having problems with local and central government Mongolian authorities over the restoration of its land access rights, as per the requirements of Production Sharing Contract and Petroleum Law. These issues were caused by contradictions in Mongolia's land laws and created problems for most operators in the country. The lack of land access rights impacts the ability of the company to operate. Petro Matad has pushed for the central government to take action and has requested the newly appointed Minister of Mining and Heavy Industry to help expedite this. Petro Matad would like to see central government take action to certify its Block XX Exploitation Area as a Special Purpose Area, which would streamline the approvals process and help to solve the contradictions in the land law.

Heron moving ahead

Despite the problems mentioned above, management has been moving forward with the potential completion of the Heron-1 well as a producing oil well. The company has finalised the detailed Heron-1 completion plan with expert engineering input. This has included geodetic surveying over the Heron development area and the detailed construction plans required by regulators. Management has also placed orders for the essential equipment required to put the well into production. The power generation equipment is currently on the border and waiting to cross into Mongolia from China, while other essential equipment has been manufactured in Daqing and is ready to be shipped once restrictions are lifted. Petro Matad has been in negotiations with DQE, Mongolia's most active drilling contractor. The company already has a contract with DQE for new wells at Heron but is now negotiating to expand the size of the drilling programme, which should allow further price reductions and economies of scale. This will allow the company to move ahead quickly once the impact of the restrictions has eased and the issue of land access has been resolved.

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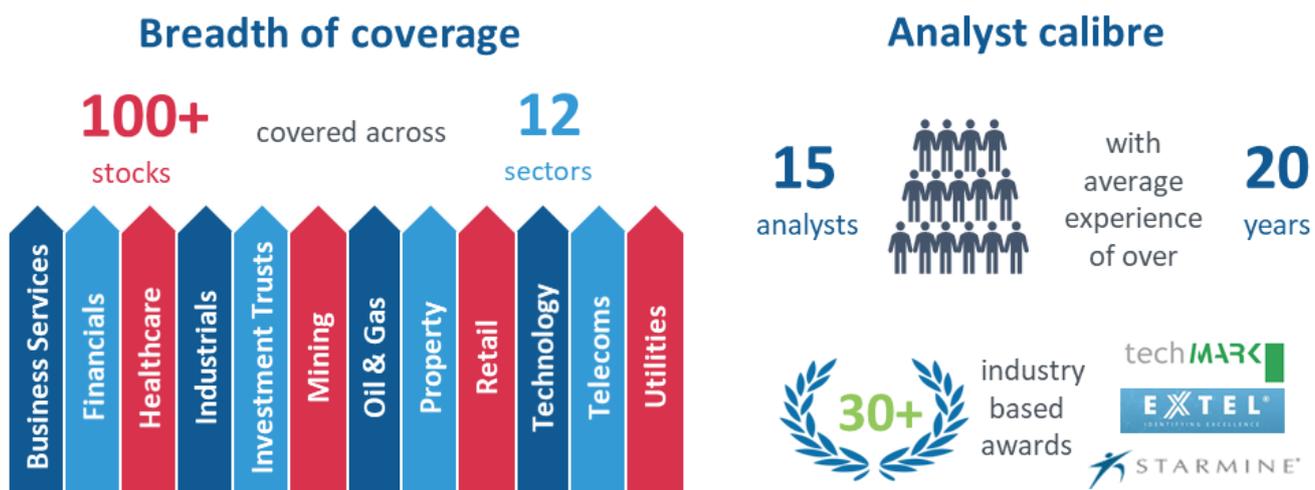
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