

# Orca Energy Group Inc.

## Oil and Gas, Exploration and Production

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## Outstanding shareholder distribution track record

### Canaccord Genuity view

Orca has given particular attention to shareholder distributions over the past year or more. At the same time, it has continued to make significant investments into its Songo Songo gas field in Tanzania to provide the long-term capacity to meet anticipated domestic demand expansion, while still maintaining a very strong balance sheet.

That combination of demonstrable commitment to substantial shareholder returns, continued asset investment and balance sheet strength is rare in the E&P sector, and we believe it provides a compelling investment case. We expect the combination of a very robust balance sheet (cash of over \$100m and net cash over \$50m at YE20) together with continued FCF generation to provide sufficient financial resources for sustained and growing dividends and potentially for further buybacks.

### FY20 results - no surprises

**Production:** FY20 production of 57.7 mmcf/d, down 9% on 2019, due to the twin impacts of COVID and more than normal hydropower generation resulting from an extended rainy season. FY21 production is expected to return to c.65 mmcf/d.

**Financials:** Revenues declined to \$77.9m in FY20 (from \$85.6m FY19) on lower production and essentially unchanged gas pricing of \$4.3/mcf. Despite that Op.CF rose to \$46.5m (\$34.9m FY19), helped by continued strong receivables collections. At YE20, Orca's balance sheet remained very strong with \$104m cash and \$50m net cash.

### Songo Songo gas field

**Songo Songo:** Orca operates the gas field (WI 92.1%) on/offshore Tanzania, which delivers gas to power and industrial customers in the Dar es Salaam area.

**Reserves:** Independently verified net 2P reserves of 229 bcf (to current licence expiry Oct 2026), giving a 2P reserve life of 11 years. Clearly there is ample scope to match higher demand levels, and the company also sees substantial resource potential beyond 2026.

**Investment:** Orca is in the midst of a \$38m programme - c.\$13m remaining - to support long-term capacity >100 mmcf/d through the Songas infrastructure.

### Shareholder returns - an outstanding track record

**Buybacks:** Since the start of 2020, Orca has carried out two Substantial Issuer Bids (SIB) totaling C\$90m buybacks (13.85m shares at C\$6.50/sh) and a smaller Normal Course Issuer Bid (NCIB) of C\$2.5m buybacks (0.48m shares at C\$5.32/sh). Through this process the company share count has been reduced from 34.3m at YE19 (A shares 1.75m, B shares 32.56m) to 20.0m now (A shares 1.75m, B shares 18.24m).

**Dividends:** Over the same period, Orca has increased its dividend from C\$0.06/sh (H1 20) to C\$0.08/sh (H2 20), and now (C\$0.10/sh) a current dividend yield of 7.4%.

This clearly demonstrates shareholder returns as a key part of Orca's investment appeal, and we expect the combination of continued FCF generation and the balance sheet strength to allow sustained and growing dividends and potential further buybacks.

### Valuation and rating

We make small changes to our longer-term production outlook and balance sheet adjustment following the FY20 results. As a result, we reduce our risked NPV12.5 based valuation to C\$10.1 (from C\$10.5). Our target price continues to apply a 20% discount for the B shares related to the overall A/B shareholder structure. Consequently, we trim our target price to C\$8.10 (from C\$8.40) and we maintain our BUY rating.

**Rating**  
**BUY**  
 unchanged

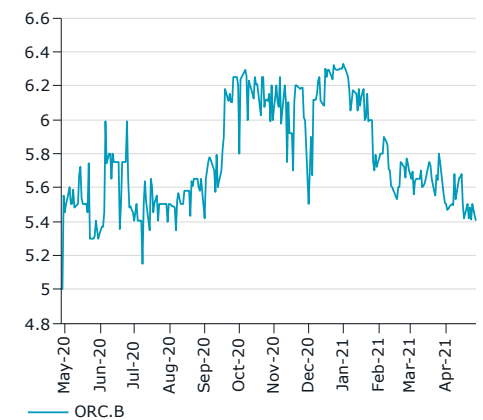
**Price Target**  
**C\$8.10↓**  
 from C\$8.40

**ORC.B-TSXV**
**Price**  
**C\$5.45**

### Market Data

52-Week Range (C\$) :	4.24 - 6.40
Avg Daily Vol (M) :	0.01
Market Cap (C\$M) :	107.9
Shares Out. (M) :	20.0
Dividend /Shr (C\$) :	0.40
Dividend Yield (%) :	7.4

FYE Dec	2020A	2021E	2022E	2023E
Sales (US\$m)	77.9	86.4↓	93.8↑	113.1
Previous	-	92.5	93.3	-
Total Production (MMcf/d)	57.7	65.7↓	76.9↓	92.2
Previous	-	66.3	77.5	-
Operating Cash Flow (Post-Tax) (US\$m)	47	52	51	43
Net Debt (Cash) (US\$m)	(50)	(37)↑	(68)↑	(87)
Previous	-	(71)	(103)	-



Priced as of close of business 26 April 2021

Orca Energy is currently focused on the operatorship of the Songo Songo gas field in Tanzania delivering to a range of power and industrial customers in country.

Figure 1: Orca Energy – NPV12.5 sum-of-parts valuation

Asset	Effective Interest (%)	Modelled Production Gross (bcf)	Modelled Production Net (bcf)	Net Unrisk Valuation (US\$m) (\$/boe)		Risking CoS (%)	Risky Valuation (US\$m) (C\$m) (C\$/sh)			Unrisked Valuation (C\$/sh)
<b>Production assets</b>										
Songo Songo	92.1%	233.9	215.4	163.0	4.5	100%	163.0	203.7	9.5	9.5
<b>Financials</b>										
Cash at YE20				104.2		100%	104.2	130.2	6.1	6.1
Debt at YE20				-54.2		100%	-54.2	-67.8	-3.2	-3.2
WC adjustment YE20				-30.0		100%	-30.0	-37.4	-1.8	-1.8
Q1 21 SIB				-32.0		100%	-32.0	-40.0	-1.9	-1.9
TanESCO receivable				27.6		80%	22.1	27.6	1.3	1.6
In-the money options				5.0		100%	5.0	6.3	0.3	0.3
G&A				-5.0		100%	-5.0	-6.3	-0.3	-0.3
<b>Total Financial adjustment</b>				<b>15.6</b>			<b>10.1</b>	<b>12.6</b>	<b>0.6</b>	<b>0.9</b>
<b>Total Producing Value</b>				<b>178.6</b>			<b>173.1</b>	<b>216.3</b>	<b>10.1</b>	<b>10.5</b>
<b>Total Production &amp; Development value</b>				<b>178.6</b>			<b>173.1</b>	<b>216.3</b>	<b>10.1</b>	<b>10.5</b>
<b>Total Central value</b>				<b>178.6</b>			<b>173.1</b>	<b>216.3</b>	<b>10.1</b>	<b>10.5</b>
<b>B Shares Target Price</b>				<b>178.6</b>		<b>80%</b>	<b>138.4</b>	<b>173.1</b>	<b>8.1</b>	<b>10.1</b>

Source: Company report, Canaccord Genuity estimates

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Date and time of first dissemination: April 27, 2021, 02:01 ET

Date and time of production: April 27, 2021, 02:01 ET

### Target Price / Valuation Methodology:

Orca Energy Group Inc. - ORC.B

Our target price is based on projected future cashflows for the life of Songo Songo licence (October 2026), at a 12.5% discount rate. In addition we apply a further discount of 20% to reflect the A and B shareholder structure.

### Risks to achieving Target Price / Valuation:

Orca Energy Group Inc. - ORC.B

The company's cashflow generation capacity is currently entirely based on one gasfield, Songo Songo, in Tanzania. There are risks associated with subsurface and surface facilities performance. Demand is projected to grow in the coming years, but that growth may not be realised or achieved slower than we project. Gas deliveries are to a limited set of off-takers and there is a risk that revenue payments may not be made in a timely manner leading.

### Distribution of Ratings:

#### Global Stock Ratings (as of 04/27/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	605	64.50%	40.66%
Hold	163	17.38%	20.86%
Sell	14	1.49%	28.57%
Speculative Buy	143	15.25%	67.83%
	938*	100.0%	

\*Total includes stocks that are Under Review

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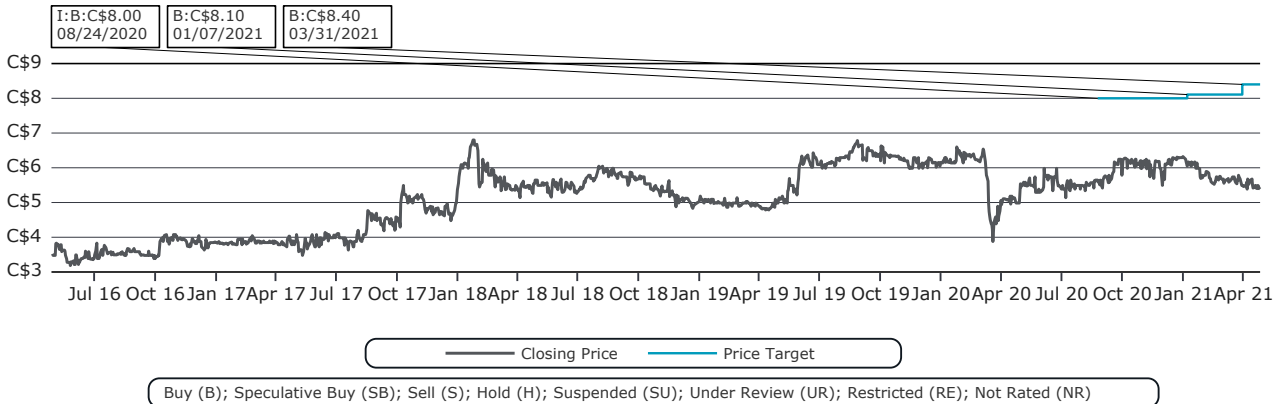
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**Orca Energy Group Inc. Rating History as of 04/26/2021**



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