Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

FY24 Earnings Update and Allocation Increase

Alvopetro Energy Ltd.

(TSXV:ALV.V; OTC:ALVOF)

http://alvopetro.com/

Report Date: 03/20/25

12- 24 month Price Target: USD $7.25

Allocation: *8

Closing Stock Price at Initiation (Closing Px: 11/07/18): USD $1.14 (Post Split)

Closing Stock Price at Allocation Upgrade (Closing Px: 05/17/19): USD $1.26 (Post Split)

Closing Stock Price at Target Upgrade (Closing Px: 05/26/20): USD $1.56 (Post Split)

Closing Stock Price at Price Target and Allocation Upgrade (Closing Px: 02/11/21): USD $1.87 (Post Split)

Closing Stock Price at Target Upgrade (Closing Px: 09/29/21): USD $3.57

Closing Stock Price at This Allocation Upgrade (Closing Px: 03/15/22): USD $3.75

Closing Stock Price at Price Target Increase (Closing Px: 03/27/23): USD $5.30

Closing Stock Price at Target Increase & Allocation Decrease (Closing Px: 08/15/23): USD $7.90

Closing Stock Price at Allocation Upgrade (Closing Px: 02/01/24): USD $4.33

Closing Stock Price at Target Decrease (Closing Px: 03/22/24): USD $2.97

Closing Stock Price at Target Increase (Intraday Px: 04/05/24): USD $3.77

Closing Stock Price at This Allocation Increase (Closing Px: 03/19/25): USD $3.39

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Disclosure: Portions of this report are excerpted from Alvopetro's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

For Q4F24, Alvopetro reported revenue of $10.3 million and eps of $.06. Those compared to our estimates of $10.8 million and $.13. For Fiscal 2024, Alvopetro reported revenue of $45.9 million and eps of $.43. Those compared to our most recent estimates of $46.4 million and $.59. Aside from a few year-end adjustments, which always make Q4 estimates a bit more difficult, the bulk of the eps miss (5.5¢) was driven by a Q4 foreign exchange adjustment. Recall, we do not try to model foreign exchange adjustments, so they often include some surprises. Further, in prior updates we discussed some of the correlation between the Brazilian Real (vs. $USD), and the price of Alvopetro shares. That may or may not be causal, but through much of 2024, the Real v. $USD was under pressure, and it created some marked forex adjustments to Alvopetro's numbers. As the Company noted on the F24 earnings call, many of those adjustments are actually intercompany, so their actual impact is less acute than the numbers appear:

The above noted, as the YoY comps indicate, (F23 vs. F24 revenues of $59.7 million $45.5 million respectively and EPS of $.76 vs. $.43 respectively), fiscal 2024 was down considerably from fiscal 2023. As we documented along the way, much of the decline in the business was related to lower demand from the Company's customer Bahia Gas. The narrative around that was that Bahia Gas' demand forecasts were apparently aggressive. Here again, we have covered that issue and our senses around it in prior research so we will not rehash it here, but in our view, the more important bit of information around *future demand* from Bahia is their new pricing and delivery arrangement. In short, Bahia has agreed to raise the minimum amounts of gas they are obligated to buy, and the price they pay will no longer include maximum and minimum pricing collars. Further the established price they will pay is now determined by a narrower set of energy proxies and it will be reset every quarter as opposed to bi-annually. Again, as we have discussed in the past, we think this approach is more "market based", and frankly more favorable from a variety of perspectives.

Beyond demand, F24 was also compromised by production. In short, it took a bit longer to get Murucututu producing to levels that we think most anticipated. From a broader perspective, we also think that delays/challenges at Murucututu created some visibility concerns around the potential of the project in general. That is, Murucututu has largely been viewed as the next leg of production (beyond and/or ultimately in place of, Cabure) so negative assessments around that prospect could certainly lead to lower valuation assessments of Alvopetro in general. That said, robust results since the completion of the 183-A3 in September (2024) as well as subsequent updates to Murucututu reserves, have in our view quelled much of those concerns, although given the share price, it does not appear that the street feels the same way we do about that. In short, we expect the combination of the Company's newly structured sales agreement and continued additive production from Murucututu to result in higher sales volumes going forward, which (albeit with perhaps more muted pricing) should result in favorable revenue and earnings comps through F'25 and beyond. That trend is reflected in the production numbers through the first couple months of F25. We submit, two months do not constitute a trend, but again, we expect F25 to compare quite favorably to F24, which *should* support better valuations of the underlying shares.

Beyond Brazil, on the call the Company also provided some information around their new endeavors in western Canada. In short, while we are not attempting to model that just yet, we expect those endeavors to be additive beyond our current model. For reference, (and **on the "back of the napkin"**) as we understand the arrangement and the **expectations** around these first two wells, we could see the Company to generating Internal Rates of Return for these first two wells in excess of 20% and initially add $.03 earnings per share per well (and declining thereafter in conjunction with production declines). To clarify, the Company is paying for 100% of the first two wells and receiving 50% of the production. Thereafter, the split will be 50/50 for both well costs and production. As further color, the Company noted on the call that while western Canada continues to uncover favorable prospective oil/gas projects, it continues to be constrained by capital, which would explain (assuming the **expectations** prove accurate) the robust numbers that Alvopetro may be able to participate in. Again, we are not modeling this just yet but given that they intend to drill these first two wells over "*the next 100 to 120 days*", we should have some near-term visibility around these endeavors.

Additionally, in our last update we noted that our math suggested Alvopetro would likely be raising the dividend in the second half of F25. They got a bit ahead of that, raising the dividend by $.01 with the F24 earnings release. Based on the closing price of $3.39 (03/19/25), and annualizing the new dividend level it reflects a yield of 11.8%. We think that yield is especially compelling given that the shares are currently trading at 47% of our price target, and an enterprise value of just 38% of the *after tax 2P NPV10 reserves*. We would add, we think it is likely that the new Canadian project will be additive to future reserves as well.

To summarize, F24 presented some challenges for Alvopetro, and the shares responded in kind (lower). On the face, some of that compression may have been warranted, but all things considered, our view along that path has been and remains that the shares are undervalued despite the setbacks. Moreover, as we consider some of the constructive emerging portions of the business; the new sales agreement, accelerating production and prospects at Murucututu, the favorable redetermination at Cabure, as well as additional wells at Cabure, and the likely addition of production from Canada, we think Alvopetro's risk/reward may be more favorable today than it has perhaps ever been. As a result, while with respect to Alvopetro we are running out of allocations to give, we are raising our allocation from 7 to *8 based on our aforementioned risk/reward scenario we see here. We also reiterate our price target of $7.25 although frankly given our view of the future here, we see that as likely understated as well. We will revisit that following some visibility around the Canada operations.

Projected Operating Model

Alvopetro Energy Ltd.						
Projected Operating Model (in USD - '000s)						
By Trickle Research LLC						
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	3/31/25	**6/30/25**	**9/30/25**	**12/31/25**	**Fiscal 2025**	**Fiscal 2026**
Oil & Gas Sales	$ 13,170	$ 14,223	$ 15,378	$ 16,082	$ 58,853	$ 71,449
Royalties and Production Taxes	$ (356)	$ (384)	$ (415)	$ (434)	$ (1,589)	$ (1,929)
					$ -	$ -
Net Oil & Gas Revenue	$ 12,814	$ 13,839	$ 14,963	$ 15,648	$ 57,264	$ 69,520
Other Income	$ 400	$ 400	$ 400	$ 400	$ 1,600	$ 1,600
Total Revenue and Other Income	$ 13,214	$ 14,239	$ 15,363	$ 16,048	$ 58,864	$ 71,120
					$ -	$ -
Production	$ 1,251	$ 1,239	$ 1,259	$ 1,233	$ 4,981	$ 4,196
General & Administrative	$ 1,587	$ 1,606	$ 1,627	$ 1,739	$ 6,559	$ 6,786
Depletion and Depreciation	$ 2,024	$ 2,081	$ 2,135	$ 2,204	$ 8,444	$ 9,295
Impairment	$ -	$ -	$ -	$ -	$ -	$ -
Exploration and Evaluation	$ -	$ -	$ -	$ -	$ -	$ -
Finance Expenses and Interest	$ 375	$ 375	$ 375	$ 375	$ 1,500	$ 1,500
Accretion of Decommissioning Liabilities	$ -	$ -	$ -	$ -	$ -	$ -
Share Based Compensation	$ 250	$ 250	$ 250	$ 250	$ 1,000	$ 1,000
Foreign Exchange Loss	$ -	$ -	$ -	$ -	$ -	$ -
Loss on Disposition of Assets	$ -	$ -	$ -	$ -	$ -	$ -
Risk Management Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 5,487	$ 5,552	$ 5,645	$ 5,801	$ 22,484	$ 22,777
Interest Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Other Non-Operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Total non-operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -
Gain (Loss) Before Taxes	$ 7,727	$ 8,687	$ 9,718	$ 10,247	$ 36,380	$ 48,343
Income Tax Charge (Recovery)	$ 1,178	$ 1,325	$ 1,482	$ 1,563	$ 5,548	$ 7,372
Net Income	$ 6,549	$ 7,363	$ 8,236	$ 8,685	$ 30,832	$ 40,971
Exchange (loss) gain on translation of foreign operations	$ -	$ -	$ -	$ -	$ -	$ -
Comprehensive (loss) gain	$ 6,549	$ 7,363	$ 8,236	$ 8,685	$ 30,832	$ 40,971
Net Gain (Loss) per share						
Basic	$ 0.18	$ 0.21	$ 0.23	$ 0.25	$ 0.87	$ 1.21
Diluted	$ 0.18	$ 0.21	$ 0.23	$ 0.25	$ 0.87	$ 1.21
Shares O/S - Basic	36,229,321	35,797,076	35,357,338	34,911,263	35,573,750	33,811,213
Shares O/S - Diluted	36,229,321	35,797,076	35,357,338	34,911,263	35,573,750	33,811,213

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Alvopetro has paid fees to present at investor conferences that Trickle Research Co-sponsored.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.