SGX Securities

15 Aug 2023

10 in 10 – RH Petrogas (SGX Code: T13)

10 Questions in 10 Minutes with SGX-listed companies

10 Questions for RH Petrogas Limited

Company Overview

RH Petrogas (RHP) is an independent upstream oil and gas company headquartered in Singapore. RHP is the operator of 2 production sharing contracts (PSCs) – the Kepala Burung PSC and the Salawati PSC and operates across the full range of upstream activities covering the exploration, development and production of oil and gas resources. The 2 contiguous blocks are located in the 'Bird's Head' area in the Salawati basin, a prolific petroleum basin in West Papua, Indonesia.

Link to Stock Screener company page.

SGX Code: T13	**BBG**: RHP SP	**RIC**: RHPG.SI
Market cap on 14 Aug (S$m)		159.5
Price on 14 Aug (S$)		0.191
52 wk high/low (S$)		0.235 - 0.163
12m ADTV (S$)		1,370,063
Shares Outstanding (m)		835.2
Float		31.8%
P/E (LTM)		11.6
P/B (LTM)		2.8
Dividend Yield		N.A.

Source: Bloomberg (14 Aug 2023)

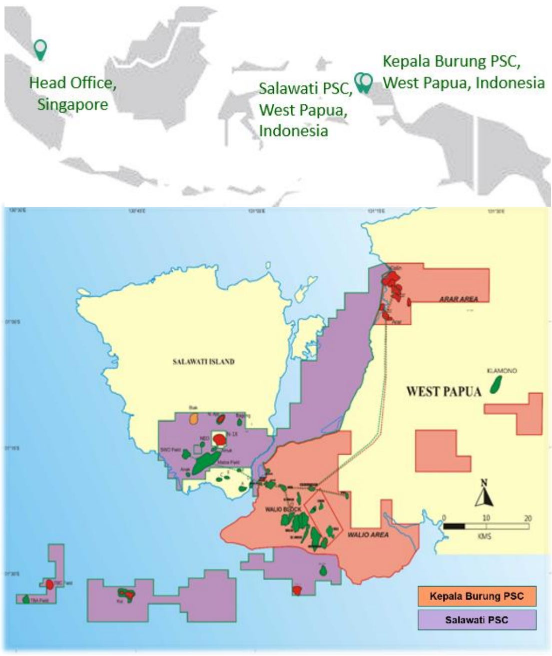
1. RH Petrogas is an upstream oil and gas company, could you elaborate on the key aspects of your business?

- RH Petrogas (RHP) is an independent upstream oil and gas company and is the operator of 2 production sharing contracts (PSCs) – the Kepala Burung PSC and the Salawati PSC. The Group holds a 70%[1] participating interest in both PSCs, with Indonesia's state-owned oil company, Pertamina, holding the remaining 30%. The new 20-year terms for both PSCs commenced in 2020 and will expire in 2040.

- The Kepala Burung PSC covers an onshore area of 1,030 km^2. The block has been producing oil since the 1970s with total cumulative oil production to date exceeding 360 million barrels. This block has consistently contributed around 80% of the Group's annual oil and gas production in recent years.

- The Salawati PSC covers both onshore and offshore areas totaling 1,137 km^2. Both the Kepala Burung and Salawati blocks hold a large inventory of exploration prospects and leads, and the Group is working to identify areas with potential resource upside that could be matured and developed in the near future.

- Crude oil produced from the Group's 2 PSCs can be sold to the domestic or international markets and the gas produced is sold by pipeline to the surrounding areas. The neighbouring Sorong city relies on gas supplied by the Group for the city's power generation. Gas produced is also used as fuel for the Group's own power plants for field operations.



Kepala Burung PSC & Salawati PSC in Indonesia

[1] The Group's effective working interest (after accounting for the share of non-controlling interest) in both PSCs is 57.8578%.

2. What is the Group's competitive edge over your industry peers?

- ***Cost and operational synergies*** – As the operator of the 2 contiguous blocks, the Group leads, manages and executes strategies for the blocks. The Group is also able to optimise operations and pursue cost synergies across both PSCs, such as through the sharing of infrastructure, facilities, equipment and resources.

- ***Operational expertise*** – With an experienced operations team, the Group has been able to counter the natural production decline of mature oil fields and has maintained relatively stable production over the years, through a continuous programme of optimisation strategies, including well workovers and well services, enhanced oil recovery (EOR) techniques as well as innovative approaches developed in-house.

- ***Impactful exploration upside*** – In addition to existing production, the 2 blocks remain highly prospective, and the Group will seek to unlock their upside potential through a series of development and exploration programmes, working closely with the Indonesian Government and its partner to develop and deliver on its plans.

- ***Long reserves life*** – Based on the most recent independent third-party audit, the combined proved plus probable reserves (2P reserves) for the Kepala Burung PSC and the Salawati PSC was around 32.2 million barrels of oil equivalent (MMBOE) as of 1 January 2023 net to the Group's effective working interests, implying a reserves to production ratio of over 18 years. These reserve numbers include the Indonesian Government's share of production under the terms of the respective PSCs.

3. Are there any plans to enhance the Group's geographical reach to generate greater revenue?

- The Group always considers diversifying its asset portfolio geographically in the mid to long term. At present, the Group is focused on organic growth from its inventory of prospects and leads through an intensive exploration programme, which also serves to fulfill its work commitments for the 2 PSCs.

- The Group continues to evaluate farm-in and merger & acquisition opportunities when they come to its attention and is open to opportunities that are a good fit, especially within the ASEAN region. The development of new assets is capital intensive and is challenging in the current environment where banks are reluctant to lend to companies involved in fossil fuel production.

4. Could you elaborate on the future direction for the Group's various business segments?

- Currently, crude oil sales make-up over 80% of the Group's revenue. In the longer term, the Group expects that gas will make-up an increasingly larger share if its exploration efforts pay off. Looking forward, the Group is focused on increasing gas exploration and production. This is in line with expectations that natural gas will be a transition fuel as the world moves towards cleaner energy, consistent with scenarios modelled by organisations such as the IEA (International Energy Agency). Natural gas is expected to still make up a significant portion of the global energy mix under all its scenarios, including the most aggressive assumptions of a rapid take-up of renewable energy.

- In early 2023, RH Petrogas' subsidiaries signed memorandums of understanding for the utilisation of natural gas from the Group's assets to meet the energy needs of an upcoming project, the IGNITE (Indonesia Green Nickel Technology) Ecopark. This project is a proposed integrated class 1 nickel processing park which is to be constructed in the locale of the Group's Kepala Burung PSC. The Group's 2023 exploration plan includes the drilling of 1 high impact deep gas prospect. If successful, the Group would have enough gas production capacity to supply the needs of IGNITE Ecopark. In the meantime, the Group continues to maintain steady production through the management of its existing fields, while working to identify and mature exploration prospects within the 2 PSCs.

5. What are some notable developments that shareholders can anticipate in the near to medium term?

- In July 2023, the Group embarked on its plans to unlock the upside potential of its 2 PSCs and announced:
  - The commencement of 100 km^2 of 3D marine seismic survey in the South Walio Offshore area of the Salawati PSC, which provides the most comprehensive method for imaging the Earth's subsurface to identify prospective hydrocarbon bearing targets for drilling.

- The spudding of the Riam-1 exploration well, which lies 3 km west of the analogous Walio field. The Walio field is the largest oil field in the Group's adjoining Kepala Burung PSC, which accounts for more than 50% of the block's oil production. It is the first exploration well drilled in the Kepala Burung PSC in almost a decade and aims to extend the highly prolific Walio field to the west.

- For the remainder of 2023, the Group intends to drill 2 more exploration wells and 1 development well. The Group's exploration commitments under the 2 PSCs include 7 exploration wells, with the current plans targeting the drilling of 5 oil prospects and 2 high impact deep gas plays. Any commercial oil discovery would provide incremental oil production gains for the Group, while a deep gas discovery could provide the required capacity to supply the IGNITE Ecopark with transformative potential for the Group.

- Exploration prospects undergo various surveys, studies and analysis to be identified and matured. Oil and gas exploration is inherently risky and there is no guarantee of discovery or commercial success.


RH Petrogas' Riam-1 drilling site

6. Describe RH Petrogas' recent financial performance.

- The Group's revenue is derived from the sale of oil and gas produced from its 2 PSCs. With the strong recovery in crude oil benchmark prices that began in 2021, the Group recorded significant increases in revenue from FY2020 to FY2022. With an average realised oil price of US$95 per barrel in FY2022, the Group achieved a record revenue of US$104.9 million and EBITDAX (earnings before interest, tax, depreciation, amortisation, exploration expenses, impairment and other non-recurring items) of US$95.0 million that year.

- The Group recorded revenue of US$43.0 million for the half year period ended 30 June 2023 (1H 2023), a decrease of 24.1% year-on-year. This was mainly attributable to a 25.5% decrease in the average realised oil price per barrel over the same period. The Group's cost of sales increased by 17.1% year-on-year, due to higher field operating expenses. The Group recorded a net profit of US$3.1 million and EBITDAX of US$7.6 million for 1H 2023. Additionally, the Group recorded positive operating cash flows of US$11.6 million for 1H 2023 and had cash and cash balances of US$64.4 million as at 30 June 2023.

- The Group expects oil demand and prices to remain supported by the expected easing of interest rate hikes and improving global economic prospects.

7. Can shareholders expect any dividends to be paid in future?

- The decision regarding dividend payments is dependent upon external and internal factors, such as the Group's capital expenditure requirements and financial flexibility, as well as economic conditions. The upstream oil and gas business is capital-intensive in nature and under the current market climate, there are challenges for the Group to obtain external financing due to sustainability considerations. Therefore, the Group needs to ensure that it has sufficient internal resources to fund its near-term work commitments, as this programme is in the best interests of its shareholders and stakeholders.

- Nonetheless, the Group stands committed to delivering sustainable value to its shareholders, and the Board and management continue to discuss the possibility of a future dividend payment. Any decision to pay dividends in the future will have to take into consideration the prevailing market conditions for oil and gas and the Group's financial considerations as outlined above.

8. What are some key drivers or trends for the oil and gas market?

- The oil and gas market is cyclical in nature. While the Group has offtakers in close proximity for its produced oil and gas, selling prices are ultimately correlated to global benchmark prices.

- All of the Group's oil and gas production is currently sold within Indonesia, which has set a target of increasing domestic oil lifting to 1 million[2] barrels per day by 2030. Against this backdrop, the Group expects resilient demand for energy to power the nation's growing economy.

[2] In 2021, according to the Ministry of Energy and Mineral Resources of the Republic of Indonesia, average national oil production was 669,504 barrels of oil per day.

- Selling prices for oil may experience periods of volatility due to short term supply-demand imbalances, geopolitical tensions and economic uncertainties. However, due to the prolonged underinvestment in exploration and production since 2015, excess global production capacity remains limited. OPEC's most recent forecast is for oil demand to continue to grow for the rest of 2023 and into 2024, despite economic headwinds. The Group believes these factors will help to underpin global oil prices.

9. With the oil and gas industry being associated with high carbon emissions, will RH Petrogas be affected by the ongoing energy transition and related ESG considerations?

- Notwithstanding climate accords and targets, many developed nations have recently affirmed their intentions to continue exploring for and producing fossil fuels in the near term, as energy security and affordability has become a more pressing concern in the wake of the Russia-Ukraine conflict and chronic underinvestment in the sector over the last decade.

- In Indonesia, where the Group operates, the government has set a target of reaching net zero emissions by 2060, or by 2055 if it receives financial and technology support. The country has also passed carbon tax legislation, although it has yet to be implemented. Overall, the Group expects that energy security and affordability will continue to take priority in Indonesia's policy approach in the near term.

- As a small independent oil and gas company, the Group believes that its operations are not a significant contributor to global carbon emissions. Nonetheless, the Group has taken steps to measure its Scope 1 and Scope 2 emissions and to identify ways to address emissions while balancing them against generating shareholder returns.

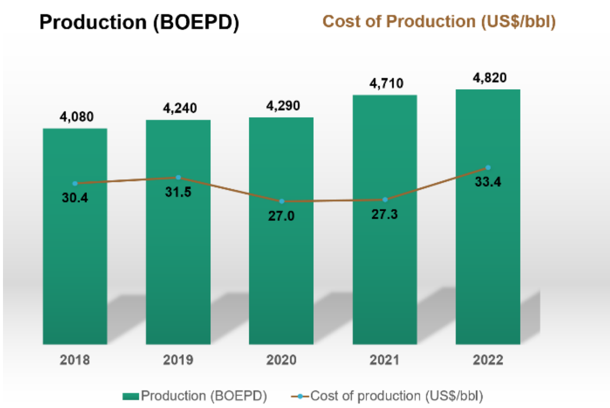
- In the mid to long term, the Group also aims to focus on exploring for and developing natural gas resources, which is a cleaner alternative to other fossil fuels and has a key role in the global energy mix, as a key transition fuel as the world continues to ramp up its clean energy capacity. The Group has been using natural gas to generate power at its own power generation facilities for field operations, which results in lower emissions compared to coal-fired power.

10. What is RH Petrogas's value proposition to potential investors and what do you think investors might have overlooked?

- The Group has a track record of maintaining steady production from its 2 assets despite the natural decline of mature fields. The Group currently has no debt, with cash holdings of US$64.4 million as at 30 June 2023.

- At the same time, the Group has recently embarked on exploration activities to unlock the upside potential of the 2 PSCs. Any discoveries from these exploration wells will add to the Group's level of production and reserves.

- Developments in areas close to where the Group operates, particularly the IGNITE Ecopark, would require significant amounts of energy. In line with this, the Group has plans to drill 2 deep exploration wells which, if successful, has transformative potential for the Group as it would be the closest and natural choice for supply of piped gas to the Ecopark.



10 in 10 – 10 Questions in 10 Minutes with SGX-listed companies

Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For more company information, visit www.rhpetrogas.com
Click here for RH Petrogas' latest 1H2023 Financial Results.

Contact Us

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