

RH Petrogas (RHP SP)

9M13: Top-line Weighed Down By Lower Average Oil Price And Oil Production

RHP recorded a 9M13 net loss of US\$15.2m. Revenue dropped by 4.3% yoy due to the decrease in average oil price for the period and decline in production. Nonetheless, we remain encouraged by near-term events, which will boost shareholders value, ie a) receiving final approval for its oilfield in China and b) successful oil discovery at Klagalo-1 in Indonesia. Maintain BUY. Target price: S\$1.60.

9M13 Results

Year to 31 Dec (US\$m)	3Q13	qoq %chg	yoy %chg	9M13	yoy %chg
Revenue	19.2	-4.3	-4.2	57.8	-4.3
EBITDAX	4.2	-46.0	-30.0	18.4	-14.5
EBIT	(12.5)	>100	>100	(10.2)	>100
Finance Cost	(0.9)	5.7	41.0	(2.5)	43.9
PBT	(13.4)	>100	>100	(12.8)	>100
Tax	2.5	>100	>100	(2.4)	-75.1
MI	0.0	-	-	0.0	-
PATMI	(10.9)	124.2	>100	(15.2)	>100

Source: RH Petrogas, UOB Kay Hian

Results

- Top-line hampered by decline in production.** RHP's 9M13 revenue of US\$57.8m was lower by 4.3% qoq and 4.3% yoy due to the decrease in average oil price for the period and decline in production due to its field's operational issues and oilfield's natural production decline. Given that oil prices have been on a short-term downtrend, we believe that RHP's revenue in 4Q13 would likely remain weak unless it is able to increase production.

Key Financials

Year to 31 Dec (US\$m)	2011	2012	2013F	2014F	2015F
Net turnover	89	86	87	135	176
EBITDA	34	29	21	38	62
Operating profit	21	18	11	23	45
Net profit (rep./act.)	3	6	(12)	7	15
Net profit (adj.)	3	6	(12)	7	15
EPS (US\$ cent)	0.6	1.2	(2.0)	0.9	2.0
PE (x)	81.0	44.2	n.m.	55.6	26.1
P/B (x)	2.2	1.5	1.9	2.2	2.0
EV/EBITDA (x)	11.9	13.8	19.0	10.6	6.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	3.3	7.1	(13.9)	5.1	8.3
Net debt/(cash) to equity (%)	51.3	7.6	12.9	23.7	37.5
Interest cover (x)	19.1	13.2	10.1	10.6	12.2
ROE (%)	2.7	4.2	(6.9)	4.0	8.0
Consensus net profit	-	-	(4)	8	18
UOBKH/Consensus (x)	-	-	3.01	0.82	0.80

Source: RH Petrogas, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Company Results

Share Price **S\$0.65**
Target Price **S\$1.60**
Upside **+145.5%**

Company Description

RH Petrogas is an upstream oil & gas company that has exploration, development and production assets.

Stock Data

GICS sector Energy
Bloomberg ticker: RHP SP
Shares issued (m): 733.3
Market cap (SGDm): 476.6
Market cap (US\$m): 381.6
3-mth avg daily t'over (US\$m): 3.4

Price Performance (%)

52-week high/low SGD0.920/SGD0.415
1mth (24.0) 3mth 36.8 6mth 30.0 1yr 47.7 YTD 23.8

Major Shareholders

Woodsville International 29.0
Smartphone Investments 18.2
RH Capital 17.5

FY13 NAV/Share (USD) 0.27
FY13 Net Debt/Share (USD) 0.04

Price Chart



Source: Bloomberg

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- **Bottom line hampered by write-offs.** RHP's 9M13 net loss of US\$15.2m could have been worse if not for its lower cost of production this quarter. The losses were mainly due to one-off write-offs for three unsuccessful exploration wells drilled in the Basin production sharing contract (PSC) worth US\$14m and obsolete inventories worth US\$3.8m. Without these one-offs, RHP would have made a stronger profit yoy (US\$1m in 3Q13 compared to US\$70,000 in 3Q12).

Stock Impact

- **Hoping for final approval in China.** Recall that RHP received an approval from the National Development and Reform Commission (NDRC) for its additional supporting study, which was a new requirement forming part of the overall development (ODP) plan submission. While this is not the final approval, it is a positive step towards obtaining full approval for its ODP, which would likely be given very soon.
- **Upside of S\$0.20 in the near term.** Recall that the Klagalo-1 exploration well onshore Basin PSC was drilled and reached a total depth of 7,077 feet recently. 150 feet of oil columns was discovered during its drilling campaign translating into potential contingent resources of 50m (30m net to RHP based on its 60% stake). Assuming a 50% risking factor and US\$8.4/boe, this would translate into a value of S\$0.20 per share in addition to our target price as it has not been factored into our valuation model.
- **Developments in other PSCs.** RHP also disclosed that the geological and geophysical (G&G) works in the West Belida PSC in Indonesia are ongoing, with a re-mapping and further analysis of the Gitar-1 well. In the SK331 PSC in East Malaysia, RHP has completed 12,414 line kilometres of Full Tensor Gradiometry (FTG) survey. The data acquired will facilitate the design and layout of the seismic programme scheduled in 2014.

Earnings Revision/Risk

- **Lowering our 2013 forecast marginally.** Due to the lower-than-expected revenue this quarter, we lower our 2013 revenue forecast by 10.3% and net profit forecast by 33.3% while retaining our 2014 and 2015 forecasts.

Valuation/Recommendation

- **Maintain BUY with target price of S\$1.60 based on NPV and risking model.** Our valuation is based on the NPV of the company's current production/near-production fields, plus risked estimates of its 2C resources and prospective resources, less net debt adjusted for its committed capex and new funds raised from its recent private placement exercise.
- **Downside to our target price at S\$1.00.** Assuming investors attach no value to its near-production asset in China, Fuyu 1, we think the downside for RHP's share price to our target price is capped at S\$1.00.
- **In a blue-sky scenario, RHP could be worth S\$2.02 in 2014 and S\$3.21 in 2015.** Based on our alternative valuation method for RHP in 2014 and 2015, by valuing RHP's assets individually, RHP could be worth S\$2.02 in 2014 and S\$3.21 in 2015. This is because its share price would likely re-rate if its exploration and development initiatives are successful.

Share Price Catalyst

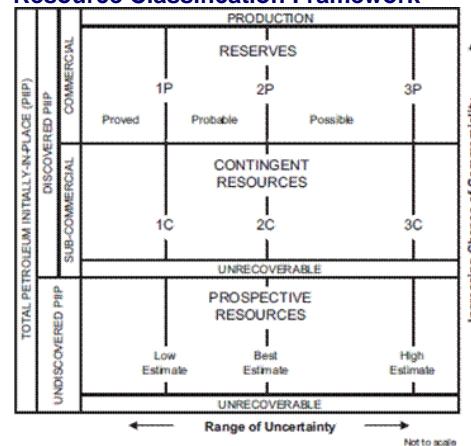
- Successful discovery of O&G in its exploration assets.
- Final approval obtained for its overall development plan for its oilfield in China, Fuyu 1.
- Higher-than-expected oil prices, resulting in additional revenues for RHP.

RHP's Valuation Table (NPV and risking model)

	Value (\$m)
Production/Near-production	
Basin PSC, Indonesia	198.4
Island PSC, Indonesia	38.9
Fuyu-1 Shallow Oil	467.9
Sub-total	705.2
Development/Pre-Development	
Basin PSC, Indonesia - North Klalin	49.9
Island PSC, Indonesia - TBC	34.1
Island PSC, Indonesia - Koi	24.4
Island PSC, Indonesia - North Sele	27.8
Island PSC, Indonesia - Zircon	20.5
Sub-total	156.6
Exploration	
Basin PSC, Indonesia	137.7
Island PSC, Indonesia	120.0
Fuyu-1 Deep Gas	10.1
West Belida PSC, Indonesia	1.5
SK331 PSC, Malaysia	33.8
Sub-total	303.1
Total Value (\$m)	1,165.0
Net Debt (\$m)	(39.8)
Minus Committed Capex (\$m)	(28.4)
Plus Net Proceeds from Placement (\$m)	70.2
Total Equity Value (\$m)	1,167.0
Existing Shares Outstanding (m)	731.3
NAV per Share (\$)	1.60

Source: UOB Kay Hian

Resource Classification Framework



Source: Society of Petroleum Engineers

Thursday, November 14, 2013

Profit & Loss

Year to 31 Dec (US\$m)	2012	2013F	2014F	2015F
Net turnover	86	87	135	176
EBITDA	29	21	38	62
Deprec. & amort.	11	10	15	18
EBIT	18	11	23	45
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(2)	(2)	(4)	(5)
Pre-tax profit	16	(3)	20	39
Tax	(10)	(9)	(13)	(25)
Minorities	0	0	0	0
Preferred dividends	0	0	0	0
Net profit	6	(12)	7	15
Net profit (adj.)	6	(12)	7	15

Balance Sheet

Year to 31 Dec (US\$m)	2012	2013F	2014F	2015F
Fixed assets	69	126	160	191
Other LT assets	206	206	206	206
Cash/ST investment	29	20	31	31
Other current assets	16	18	24	31
Total assets	319	371	421	460
ST debt	5	5	35	65
Other current liabilities	53	51	77	100
LT debt	37	37	37	37
Other LT liabilities	43	109	96	68
Shareholders' equity	181	169	176	190
Minority interest	0	0	0	0
Total liabilities & equity	319	371	421	460

Cash Flow

Year to 31 Dec (US\$m)	2012	2013F	2014F	2015F
Operating	19	(5)	39	39
Pre-tax profit	16	(3)	20	39
Tax	(8)	(9)	(13)	(25)
Deprec. & amort.	11	10	15	18
Associates	0	0	0	0
Working capital changes	(6)	(1)	26	22
Non-cash items	0	0	0	0
Other operating cashflows	5	(2)	(9)	(15)
Investing	(29)	(68)	(49)	(49)
Capex (growth)	(28)	(68)	(49)	(49)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(1)	0	0	0
Financing	14	73	30	20
Dividend payments	0	0	0	0
Issue of shares	0	73	0	0
Proceeds from borrowings	44	0	30	20
Loan repayment	(29)	0	0	0
Others/interest paid	(2)	0	0	0
Net cash inflow (outflow)	4	1	20	10
Beginning cash & cash equivalent	21	25	20	31
Changes due to forex impact	4	(5)	(10)	(10)
Ending cash & cash equivalent	29	20	31	31

Key Metrics

Year to 31 Dec (%)	2012	2013F	2014F	2015F
Profitability				
EBITDA margin	33.9	24.6	28.3	35.3
Pre-tax margin	18.8	(3.5)	14.5	22.4
Net margin	7.1	(13.9)	5.1	8.3
ROA	2.0	(3.5)	1.7	3.3
ROE	4.2	(6.9)	4.0	8.0
Growth				
Turnover	(3.4)	0.1	56.1	30.4
EBITDA	(14.0)	(27.3)	79.4	63.0
Pre-tax profit	(13.9)	(118.7)	n.a.	101.8
Net profit	108.2	(297.1)	n.a.	113.4
Net profit (adj.)	108.2	(297.1)	n.a.	113.4
EPS	83.5	(265.8)	n.a.	113.4
Leverage				
Debt to total capital	18.9	20.0	29.1	34.9
Debt to equity	23.4	25.0	41.1	53.7
Net debt/(cash) to equity	7.6	12.9	23.7	37.5
Interest cover (x)	13.2	10.1	10.6	12.2

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