

COMPANY UPDATE

RH Petrogas (RHP SP)

Formalises Oil Discovery In Indonesia; We Anticipate More Newsflow

RHP announced yesterday that its wire-line logging at its Klagalo-1 exploration well indicated that there were potential hydrocarbon zones from the Kais limestone and final tests are being done now. While it did not mention if the hydrocarbons were recoverable, we are upbeat about the oil discovery. We remain encouraged with potential upcoming newsflow which may boost shareholders' value. Maintain BUY. Target price: S\$1.60.

WHAT'S NEW

- **Oil discovery made in Basin PSC, Indonesia.** RH Petrogas (RHP) announced that there were potential hydrocarbon zones while conducting its wire-line logging at its Klagalo-1 exploration well in Basin PSC, Indonesia. Recall that the Klagalo-1 exploration well onshore Basin PSC was drilled recently and reached a total depth of 7,077 feet. We understand that there could be potential contingent resources of 50m (30m net to RHP based on its 60% stake) at the oilfield.
- **Developing Klalin 15 and 17.** Management guided in yesterday's announcement that the test results for Klalin-15 and Klalin-17 will be announced in Dec 13. If the results are positive, a finalised POD will be submitted to the government, which may result in higher oil production in 2H14.
- **Hoping for final approval in China by Dec 13.** 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 is likely to be given very soon.
- **Spudding in Koi-2 by end-Nov 13, drilling results by Jan 14.** Recall that the Bohai-8 drilling rig, which was used to drill the Zircon-1 exploration well, has been moved to a new drill site. The drill site would be an earlier discovery (Koi-1) which tested 980 barrels of oil per day (bopd) and 2.7 million cubic feet per day (mmscfd) of gas per day in year 2000 (resulting in 5mmbob of contingent resources recorded).

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)	72.7	39.6	n.m.	49.9	23.4
P/B (x)	1.9	1.3	1.7	1.9	1.8
EV/EBITDA (x)	10.7	12.4	17.1	9.5	5.9
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	-	-	(11)	5	15
UOBKH/Consensus (x)	-	-	1.05	1.29	0.97

Source: RH Petrogas, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$0.59
Target Price	S\$1.60
Upside	+171.2%

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):	429.0
Market cap (US\$m):	342.3
3-mth avg daily t'over (US\$m):	4.1

Price Performance (%)

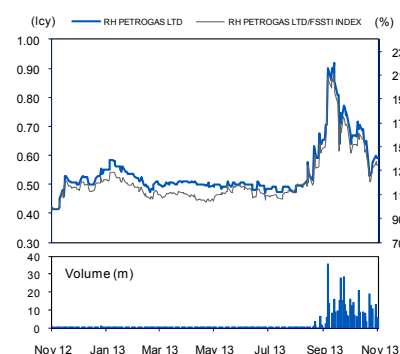
52-week high/low	SGD0.920/SGD0.420				
1mth	3mth	6mth	1yr	YTD	
(20.4)	23.2	18.2	41.0	11.4	

Major Shareholders

Woodsville Int	28.9
Sharptone Investments	18.1
RH Capital	17.5

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

PRICE CHART



Source: Bloomberg

ANALYST

Danny Chan Tzu Zhung
 +60321471986
 dannychan@uobkayhian.com

STOCK IMPACT

- **Upside of S\$0.20 in the near term for Klagalo-1 prospect.** 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.
- **Strong re-rating for the stock if ODP for China is approved.** We believe that RHP's share price could re-rate significantly if the ODP for Fuyu-1, China is approved. We currently value the oilfield at S\$467.9m or S\$0.64/share based on our DCF valuation. This forms 40.2% of our target price.
- **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.
- **Investors could also look forward to M&A activities in 2014.** We gathered that management may be looking to acquire two additional production assets next year (one in 1H14 and one in 2H14). The acquisition, coupled with other production wells put in place, would enhance its cash-flow generating capabilities.

EARNINGS REVISION/RISK

- **We are making no changes** to our earnings estimates following yesterday's announcement.
- **Key risks include:** a) exploration risk, b) development risk, c) production risk, d) oil price risk, and e) regulatory risk.

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 TP at S\$1.00.** Assuming if 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 (S\$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 (S\$m)	1,165.0
Net Debt (S\$m)	(39.8)
Minus Committed Capex (S\$m)	(28.4)
Plus Net Proceeds from Placement (S\$m)	70.2
Total Equity Value (S\$m)	1,167.0
Existing Shares Outstanding (m)	731.3
NAV per Share (S\$)	1.60

Source: UOB Kay Hian

EXPECTED NEWSFLOW

Events	Timeframe
Announcement on test results of Klagalo-1 exploration well	Dec 2013
Announcement on test results of Klalin-15 and Klalin-17 development wells	Dec 2013
Overall Development Plan approval targeted	Dec 2013
Announcement on progress on exploration drilling of Koi-2 appraisal well	Jan 2014
North Klalin Field Plan of Development approval targeted	Mar 2014

Source: UOB Kay Hian

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

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

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

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

Disclosures

As of 28 November 2013, the analyst and his/her immediate family do not hold positions in the respective securities recommended in this report.

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of UOB Kay Hian Research Pte Ltd only and are subject to change without notice. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of the addressee only and is not to be taken as substitution for the exercise of judgement by the addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. UOB Kay Hian and its affiliates, their Directors, officers and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add to or dispose of any such securities. UOB Kay Hian and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

UOB Kay Hian (U.K.) Limited, a UOB Kay Hian subsidiary which distributes UOB Kay Hian research for only institutional clients, is an authorised person in the meaning of the Financial Services and Markets Act 2000 and is regulated by Financial Services Authority (FSA).

In the United States of America, this research report is being distributed by UOB Kay Hian (U.S.) Inc (“UOBKHUS”) which accepts responsibility for the contents. UOBKHUS is a broker-dealer registered with the U.S. Securities and Exchange Commission and is an affiliate company of UOBKH. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact UOBKHUS, not its affiliate. The information herein has been obtained from, and any opinions herein are based upon sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions and estimates herein reflect our judgement on the date of this report and are subject to change without notice. This report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, the firm preparing this report or its affiliates or the principals or employees of such firm or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such non-U.S. persons may have purchased securities referred to herein for their own account in advance of release of this report. Further information on the securities referred to herein may be obtained from UOBKHUS upon request.

<http://research.uobkayhian.com>

MCI (P) 122/03/2013
RCB Regn. No. 198700235E