

## RH Petrogas (RHP SP)

Energy &amp; Petrochemicals - Upstream Oil &amp; Gas

Market Cap: USD464m

**Buy** (Maintained)

 Target Price: **SGD1.19**

 Price: **SGD0.79**

## China's Fosun Buys Roc Oil At USD7.32/boe

 Macro ◆◆  
 Risks ◆◆◆◆  
 Growth ◆◆◆◆  
 Value ◆◆◆◆

Chinese conglomerate Fosun International has just bought Roc Oil for AUD474m, at an EV/(2P+2C) or about USD7.315/boe, which is a 25% premium over RH Petrogas' current valuation of USD5.83/boe. Similar to RH Petrogas, Roc Oil's asset portfolio is heavily tilted towards oil. We find RH Petrogas to be attractively valued in terms of EV/(undiscounted working interest value). Maintain BUY and SGD1.19 TP (from SGD1.21).

◆ **If the latest transaction is any guide...** On 4 Aug 2014, Fosun International Ltd (656 HK, NR) made an AUD474m all-cash offer for Roc Oil (ROC AU, NR), which was accepted by management. Roc Oil's asset portfolio includes producing areas in China, Australia and Malaysia, with 2P reserves of 17.4 million barrels of oil equivalent (mboe) and 2C contingent resources of 33.7mboe. The oil/gas split is approximately 92%/8%. Stripping out net cash of USD67.2m, the acquisition EV/(2P+2C) multiple is c.USD7.315/barrel of oil equivalent (boe).

◆ **RH Petrogas trades at USD5.83/boe.** RH Petrogas' 81.6mboe of assets are also heavily-weighted towards oil, with a 71%/29% oil/gas split. The market currently only values these assets at an EV/(2P+2C) of USD5.84/boe. We note that 47.5mboe of RH Petrogas' assets relate to its two production sharing contracts in Indonesia which will expire in 2020. We expect 30-year extensions into service agreements (KSOs) before the expiry, which will then allow the company to recognise more reserves and resources. Our TP values RH Petrogas at USD8.54/boe.

◆ **Also attractive from an alternative viewpoint.** RH Petrogas also appears undervalued relative to its SGX-listed peers, based on an EV-to-undiscounted-working-interest-value measure (see Figure 1) of 7.0%, compared with 10.2% for KrisEnergy (KRIS SP, NR) and 21.0% for Rex International (REXI SP, NR).

◆ **National Development and Reform Commission (NDRC) corruption case delays Fuyi-1 approval.** The corruption trials in China appear to have held up the approval of the Fuyu-1 Overall Development Plan. We factor in a 6-month delay by lowering our risking percentage by 5ppts to 95%, resulting in a marginal adjustment of our TP to SGD1.19 (from SGD1.21). Maintain BUY. We continue to see the eventual approval of Fuyu-1 plan, potential M&As, as well as increasing production from its new development wells as near-term catalysts.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (USDm)	89	86	86	94	142
Reported net profit (USDm)	2.9	6.1	(65.9)	4.7	12.9
Recurring net profit (USDm)	2.9	6.1	7.1	4.7	12.9
Recurring net profit growth (%)	65.0	108.2	16.1	(33.5)	174.6
Recurring EPS (USD)	0.01	0.01	0.01	0.01	0.02
Recurring P/E (x)	98.4	53.6	57.5	98.3	35.8
P/B (x)	2.63	2.14	2.61	2.55	2.38
P/CF (x)	9.4	17.1	53.8	33.9	11.4
EV/EBITDA (x)	10.5	11.8	17.9	15.3	11.1
Return on average equity (%)	2.7	4.2	(36.8)	2.6	6.9
Net debt to equity (%)	51.3	7.6	net cash	12.1	27.3
Our vs consensus EPS (adjusted) (%)				0.0	0.0

Source: Company data, OSK-DMG



Source: Bloomberg

Avg Turnover (SGD/USD)	9.97m/8.06m
Cons. Upside (%)	86.1
Upside (%)	50.1
52-wk Price low/high (SGD)	0.48 - 0.97
Free float (%)	35
Share outstanding (m)	734
<b>Shareholders (%)</b>	
Tan Sri Datuk Sir Tiong Hiew King	64.6

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	30.6	(4.8)	(2.5)	41.1	64.6
Relative	25.7	(5.0)	(4.3)	33.9	57.0

Lee Yue Jer, CFA +65 6232 3898

[yuejer.lee@sg.oskgroup.com](mailto:yuejer.lee@sg.oskgroup.com)

## Additional Notes

Figure 1: Peer comparison of 2P reserves & 2C resources

Name	Enterprise Value	2P Oil	2P Gas	2C Oil	2C Gas	2P + 2C	Selling Price (Oil)	Selling Price (Gas)	2P+2C Oil W.I. Value	2P+2C Gas W.I. Value	EV/(2P+2C) W.I. Value	Comments
	(USDm)	(mmboe)	(mmboe)	(mmboe)	(mmboe)	(mmboe)	(USD/bbl)	(USD/boe)	(USDm)	(USDm)		
<b>RH PetroGas</b>	<b>475.6</b>	<b>9.3</b>	<b>2.6</b>	<b>49.0</b>	<b>21.0</b>	<b>81.9</b>	<b>100.0</b>	<b>40.0</b>	<b>5,828</b>	<b>944</b>	<b>7.0%</b>	Gas valued at assumed purchase price of USD7.2/MCF. RHP currently using produced gas for lifting oil.
Kris Energy	518.0	9.9	22.4	7.6	164.6	204.5	100.0	17.7	1,746	3,308	10.2%	Gas valued at USD3.05/MCF as per 2013 pro forma realized average gas price.
Linc Energy	1,132.7	166.0	-	-	-	166.0	100.0	-	16,600	-	6.8%	Oil undeveloped north of Arctic circle, development costs per well likely 2-4x peers'.
Rex Int'l	440.3	5.7	-	15.3	-	21.0	100.0	-	2,100	-	21.0%	Full 2P and 2C information unavailable as company does not disclose data.
Interra Resources	110.7	2.5	-	6.5	-	9.1	100.0	-	904	-	12.2%	Myanmar concession expiring in Mar 2017.
<b>Average</b>	<b>535.5</b>	<b>38.7</b>	<b>5.0</b>	<b>15.7</b>	<b>37.1</b>	<b>96.5</b>	<b>100.0</b>	<b>11.5</b>	<b>5,436</b>	<b>850</b>	<b>11.5%</b>	

Source: Various company data, Bloomberg, OSK-DMG estimates

### Methodology and notes:

- i) Oil prices were standardised at USD100/bbl.
- ii) Gas prices were based on market values or realised sale values. "MCF" refers to "thousand cubic feet".
- iii) 2P reserves and 2C contingent resources were divided into their respective oil and gas components regardless of their respective grades.
- iv) No risking was performed on 2C contingent resources.
- v) Total oil and total gas reserves and resources were multiplied by their respective market values to arrive at the working interest value.
- vi) No consideration was given to development costs, existing cost pools, operating costs, royalties payable, taxes, and other fiscal terms.
- vii) The EV/(2P+2C)-working interest value is meant to be a first-cut analysis tool which values inter-company comparability above other considerations.

Figure 2: Our NPV-and-Risking model

Country	Field	Equity %	2P mmboe	2C Prospective Resources mmboe	Risking %	Riskd mmboe	NPV USDm	NPV USD/boe
<b>Production / Near-production Stage</b>								
Indonesia	Basin current production	60%	10.3		100%	10.3	105.9	10.3
Indonesia	Island current production	33%	1.6		100%	1.6	17.5	11.0
China	Fuyu-1 Shallow Oil	49%		34.1	95%	32.4	304.3	9.4
			<b>11.9</b>	<b>34.1</b>		<b>44.2</b>	<b>427.7</b>	<b>9.7</b>
<b>Development / Re-activation / Appraisal Drilling Stage</b>								
Indonesia	Basin - North Klalin	60%		9.5	90%	8.6	79.5	9.3
Indonesia	Basin - SE Walio	60%		2.3	90%	2.1	19.6	9.3
Indonesia	Island - TBC	33%		7.0	60%	4.2	27.6	6.6
Indonesia	Island - Koi	33%		3.8	75%	2.9	23.4	8.2
Indonesia	Island - North Sele	33%		5.7	30%	1.7	5.6	3.3
Indonesia	Basin unallocated	60%		7.3	90%	6.5	60.8	9.3
			<b>0.0</b>	<b>35.6</b>		<b>26.0</b>	<b>216.5</b>	<b>8.3</b>
<b>Exploration Stage</b>								
China	Fuyu-1 Deep Gas	49%			27.0	30%	8.1	1.0
Indonesia	West Belida	94%			5.0	10%	0.5	1.0
Malaysia	SK331	80%			90.0	10%	9.0	1.0
Indonesia	Basin - Wario & Arar	60%			267.0	10%	26.7	1.0
Indonesia	Island - Koi & Sele Strait	33%			350.0	10%	35.0	1.0
			<b>0.0</b>	<b>0.0</b>	<b>739.0</b>		<b>79.3</b>	<b>1.0</b>
<b>Total:</b>			<b>11.9</b>	<b>69.7</b>	<b>739.0</b>		<b>149.5</b>	<b>4.8</b>

	Value (USDm)	Per share	
Producing / near-production	427.7	0.58	
Development / appraisal	216.5	0.29	
Exploration	79.3	0.11	
Adjust for Group gross cash (USDm)	25.2	0.03	
Adjust for Group gross debt (USDm)	-52.1	-0.07	
<b>Target equity value (USDm)</b>	<b>696.7</b>	<b>0.95</b>	
Shares (m)	734.3		
Forex rate (USDSGD)		1.25	USD/boe
<b>Equity value per share (SGD/share)</b>		<b>1.19</b>	<b>Implicit EV/(2P+2C) Valuation</b>
			<b>8.54</b>

Source: OSK-DMG

## Financial Exhibits

<b>Profit &amp; Loss (USDm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
Total turnover	89	86	86	94	142
Cost of sales	(57)	(54)	(59)	(64)	(99)
<b>Gross profit</b>	<b>33</b>	<b>32</b>	<b>28</b>	<b>29</b>	<b>43</b>
Gen & admin expenses	(5)	(5)	(6)	(6)	(7)
Other operating costs	(7)	(8)	(10)	(2)	(2)
<b>Operating profit</b>	<b>20</b>	<b>18</b>	<b>12</b>	<b>21</b>	<b>34</b>
Operating EBITDA	33	29	22	32	47
Depreciation of fixed assets	(13)	(10)	(11)	(11)	(13)
<b>Operating EBIT</b>	<b>20</b>	<b>18</b>	<b>12</b>	<b>21</b>	<b>34</b>
Other recurring income	1	0	1	-	-
Interest expense	(2)	(2)	(3)	(2)	(3)
Exceptional income - net	-	-	(73)	-	-
<b>Pre-tax profit</b>	<b>19</b>	<b>16</b>	<b>(63)</b>	<b>19</b>	<b>31</b>
Taxation	(16)	(10)	(3)	(14)	(18)
<b>Profit after tax &amp; minorities</b>	<b>3</b>	<b>6</b>	<b>(66)</b>	<b>5</b>	<b>13</b>
<b>Reported net profit</b>	<b>3</b>	<b>6</b>	<b>(66)</b>	<b>5</b>	<b>13</b>
<b>Recurring net profit</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>5</b>	<b>13</b>

Source: Company data, OSK-DMG

<b>Cash flow (USDm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
<b>Operating profit</b>	<b>20</b>	<b>18</b>	<b>12</b>	<b>21</b>	<b>34</b>
<b>Depreciation &amp; amortisation</b>	<b>13</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>13</b>
<b>Change in working capital</b>	<b>7</b>	<b>(6)</b>	<b>(14)</b>	<b>(2)</b>	<b>15</b>
Other operating cash flow	3	5	7	-	-
<b>Operating cash flow</b>	<b>43</b>	<b>29</b>	<b>15</b>	<b>30</b>	<b>61</b>
Interest received	0	0	0	-	-
Interest paid	(1)	(2)	(3)	(2)	(3)
Tax paid	(11)	(8)	(5)	(14)	(18)
<b>Cash flow from operations</b>	<b>31</b>	<b>19</b>	<b>8</b>	<b>14</b>	<b>40</b>
Capex	(28)	(28)	(48)	(41)	(72)
Other investing cash flow	(1)	(1)	(2)	-	-
<b>Cash flow from investing activities</b>	<b>(29)</b>	<b>(29)</b>	<b>(50)</b>	<b>(41)</b>	<b>(72)</b>
Shares repurchased	-	-	(2)	-	-
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	5	-	30
Other financing cash flow	(14)	(2)	2	-	-
<b>Cash flow from financing activities</b>	<b>17</b>	<b>14</b>	<b>63</b>	<b>-</b>	<b>30</b>
Cash at beginning of period	6	24	29	52	25
<b>Total cash generated</b>	<b>19</b>	<b>4</b>	<b>20</b>	<b>(27)</b>	<b>(1)</b>
Forex effects	(1)	0	0	-	-
<b>Implied cash at end of period</b>	<b>24</b>	<b>28</b>	<b>49</b>	<b>25</b>	<b>24</b>

Source: Company data, OSK-DMG

## Financial Exhibits

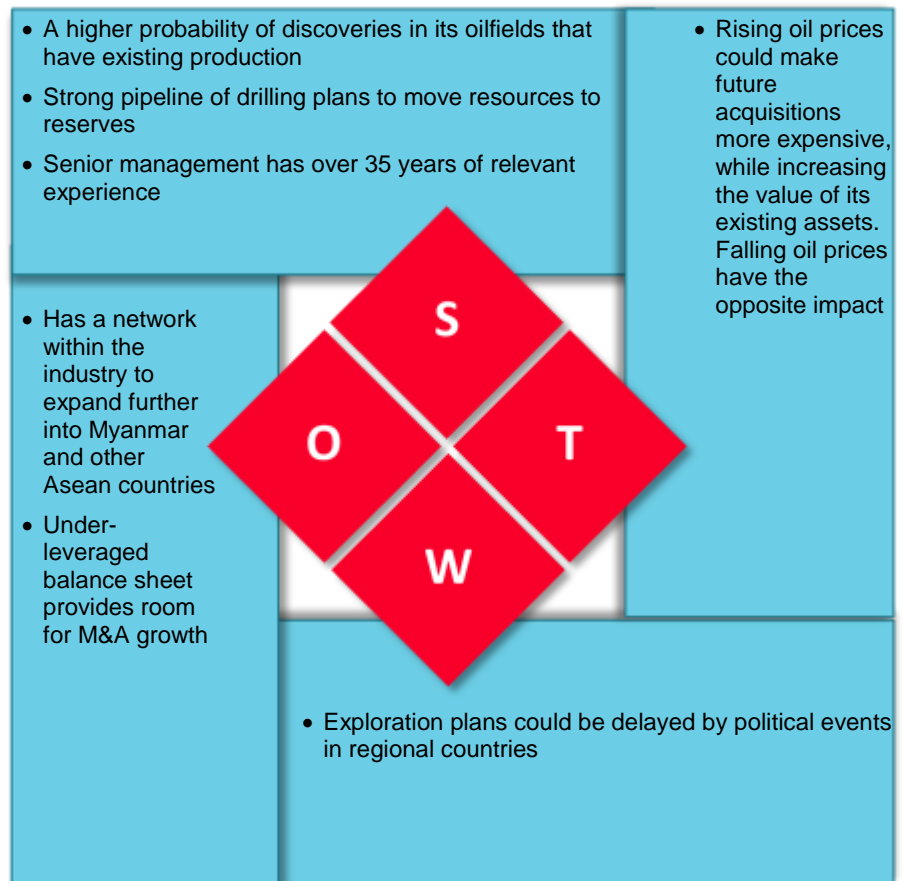
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	24	29	52	25	24
Inventories	5	6	1	1	1
Accounts receivable	6	9	35	26	39
Other current assets	1	1	1	1	1
<b>Total current assets</b>	<b>35</b>	<b>44</b>	<b>89</b>	<b>52</b>	<b>65</b>
Tangible fixed assets	65	68	73	104	162
Intangible assets	140	140	111	111	111
Total other assets	55	67	61	61	61
Total non-current assets	259	275	246	276	335
<b>Total assets</b>	<b>294</b>	<b>319</b>	<b>335</b>	<b>328</b>	<b>399</b>
Short-term debt	1	5	14	14	44
Accounts payable	49	49	64	53	81
Other current liabilities	6	3	2	2	2
<b>Total current liabilities</b>	<b>56</b>	<b>58</b>	<b>80</b>	<b>69</b>	<b>127</b>
Total long-term debt	79	37	34	34	34
Other liabilities	50	43	44	44	44
<b>Total non-current liabilities</b>	<b>128</b>	<b>80</b>	<b>77</b>	<b>77</b>	<b>77</b>
<b>Total liabilities</b>	<b>184</b>	<b>138</b>	<b>157</b>	<b>146</b>	<b>205</b>
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(80)	(76)	(63)
<b>Shareholders' equity</b>	<b>110</b>	<b>181</b>	<b>177</b>	<b>182</b>	<b>195</b>
<b>Total equity</b>	<b>110</b>	<b>181</b>	<b>177</b>	<b>182</b>	<b>195</b>
<b>Total liabilities &amp; equity</b>	<b>294</b>	<b>319</b>	<b>335</b>	<b>328</b>	<b>399</b>

Source: Company data, OSK-DMG

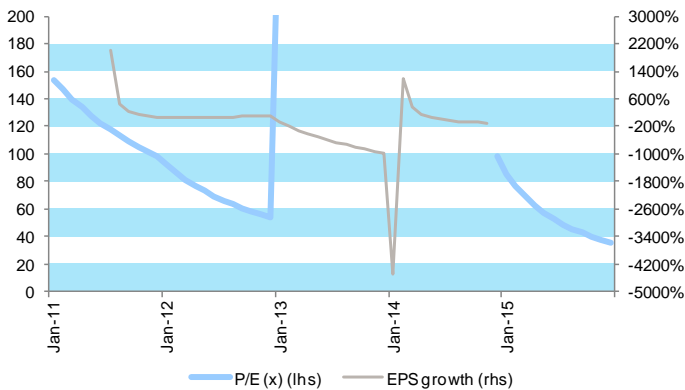
Key Ratios (USD)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	0.0	8.4	51.4
Operating profit growth (%)	214.2	(8.0)	(35.1)	74.9	61.9
Net profit growth (%)	65.0	108.2	(1179.5)	0.0	174.6
EPS growth (%)	64.8	83.5	(967.0)	0.0	174.6
Bv per share growth (%)	0.5	22.6	(18.0)	2.7	7.1
Operating margin (%)	22.4	21.3	13.8	22.3	23.8
Net profit margin (%)	3.3	7.1	(76.3)	5.0	9.1
Return on average assets (%)	1.0	2.0	(20.1)	1.4	3.6
Return on average equity (%)	2.7	4.2	(36.8)	2.6	6.9
Net debt to equity (%)	51.3	7.6	(3.0)	12.1	27.3
Recurrent cash flow per share	0.07	0.04	0.01	0.02	0.06

Source: Company data, OSK-DMG

## SWOT Analysis

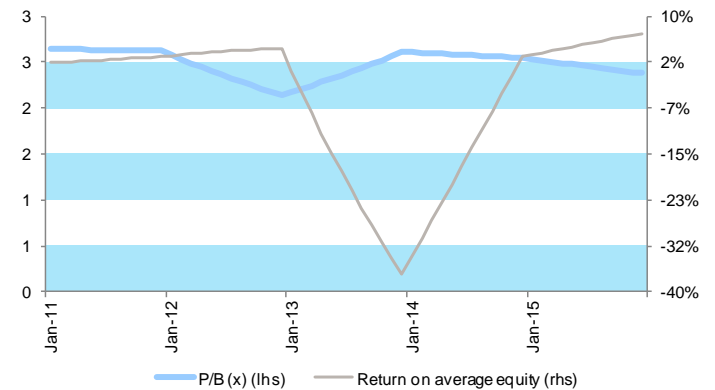


P/E (x) vs EPS growth



Source: Company data, OSK-DMG

P/BV (x) vs ROAE



Source: Company data, OSK-DMG

## Company Profile

RH Petrogas is an exploration and production company with oil and gas concessions in Indonesia, Malaysia and China. It has two producing fields in Indonesia and is currently developing the Chinese concession for production. Exploration and appraisal wells are planned for concessions in Malaysia and Indonesia.

## Recommendation Chart



Source: OSK-DMG, Bloomberg

Date	Recommendation	Target Price	Price
2014-08-10	Buy	1.21	0.75
2014-05-12	Buy	1.23	0.65
2014-03-04	Buy	1.21	0.51
2014-02-25	Buy	1.23	0.55
2014-02-21	Buy	1.23	0.56
2014-02-02	Buy	1.37	0.57
2013-11-28	Buy	1.38	0.58
2013-11-22	Buy	1.38	0.58
2013-11-18	Buy	1.38	0.58
2013-11-11	Buy	1.33	0.69

Source: OSK-DMG, Bloomberg

## DMG & Partners Research Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

## DISCLAIMERS

This research is issued by DMG & Partners Research Pte Ltd and it is for general distribution only. It does not have any regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information contained herein has been obtained from sources we believed 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. Opinions and views expressed in this report are subject to change without notice.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

DMG & Partners Research Pte Ltd is a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB" which in turn is a wholly-owned subsidiary of RHB Capital Berhad) and Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited.

DMG & Partners Securities Pte Ltd and their associates, directors, and/or employees may have positions in, and may effect transactions in the securities covered in the report, and may also perform or seek to perform broking and other corporate finance related services for the corporations whose securities are covered in the report. This report is therefore classified as a non-independent report.

As of 21 August 2014, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the subject companies, except for:

a) -

As of 21 August 2014, none of the analysts who covered the stock in this report has an interest in the subject companies covered in this report, except for:

a) -

## DMG & Partners Research Pte. Ltd. (Reg. No. 200808705N)

Kuala Lumpur	Hong Kong	Singapore
<p><b>Malaysia Research Office</b> RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693</p>	<p><b>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.)</b> 12<sup>th</sup> Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p><b>DMG &amp; Partners Securities Pte. Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p><b>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusantara Securities Indonesia)</b> Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p><b>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.)</b> Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p><b>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited)</b> No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171</p>
Bangkok		
<p><b>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL)</b> 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax: +(66) 2 108 0999</p>		