

## RH Petrogas (RHP SP)

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

Market Cap: USD440m

**Buy** (Maintained)

 Target Price: **SGD1.21**

 Price: **SGD0.75**

### Making a Comeback To Our Top Alpha List

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



Source: Bloomberg

Avg Turnover (SGD/USD)	10.5m/8.39m
Cons. Upside (%)	96.0
Upside (%)	61.8
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	24.0	(6.8)	14.5	35.1	57.9
Relative	19.4	(7.7)	12.5	25.1	55.3

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RH Petrogas' 2Q14 results were healthy with c.4,300boepd of production and EBITDAX of USD8.2m (+43% q-o-q, +6% y-o-y). We believe the Fuyu-1 approval has been delayed by the corruption trials in China, and expect the final stamp after its conclusion. Meanwhile, the stock looks undervalued relative to its peers based on EV/(2P+2C) and considering its 71% oil assets. Add to our top alpha list. Maintain BUY, with a revised SGD1.21 TP (from SGD1.23).

- ◆ **Steady operational performance.** RH Petrogas' 4,300boepd (barrels of oil equivalent per day) quarterly production was 4.1% higher than FY13's average of 4,130boepd, with gains from the Basin production sharing contract (PSC) outweighing a natural decline in the Island PSC. EBITDAX (EBITDA excluding exploration expenses) was USD8.2m in 2Q14, up 6% y-o-y, in line with the increase in production.
- ◆ **No progress on Fuyu-1; takeover talks still ongoing.** The Fuyu-1 approval appears to have been delayed by the ongoing corruption trials in China, and we only see the final stamp coming after the dust settles. However, we understand that the takeover talks are still ongoing and we may see a final decision soon.
- ◆ **Oil is worth far more than gas. PSCs likely to be renewed.** RH Petrogas trades at an EV/(2P+2C) of USD5.39/boe. Of its 81.6mmboe (million barrels of oil equivalent) in reserves and resources, 71% are in oil. This compares favourably against peers like KrisEnergy (KRIS SP, NR) whose ratio is 17%. Our discussions with management of other exploration and production companies indicate that Pertamina tends to renew PSCs into co-operation contracts (KSOs) (service agreements) right before the PSC expires – this should allay investor concerns on the 2020 expiry of RH Petrogas' two PSCs.
- ◆ **Making a return to our top alpha list.** As RH Petrogas' share price has retraced 21% from its recent high and now offers 61% upside, we add the stock (again) to our top alpha list. Our TP values the company at an EV/(2P+2C) of USD8.74/boe. Potential catalysts include: i) M&As of brownfield assets, ii) the upgrade of 2C resources to 2P reserves, and iii) the approval of Fuyu-1. Key risks include unsuccessful exploration expenses and unexpected maintenance requirements. Maintain BUY, with a revised SGD1.21 TP (from SGD1.23), after adjusting for quarterly net debt.

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)	3.5	10.9
Recurring net profit (USDm)	2.9	6.1	7.1	3.5	10.9
Recurring net profit growth (%)	65.0	108.2	16.1	(51.2)	216.0
Recurring EPS (USD)	0.01	0.01	0.01	0.00	0.01
Recurring P/E (x)	93	51	55	127	40
P/B (x)	2.49	2.03	2.48	2.43	2.29
P/CF (x)	8.9	16.2	51.0	35.4	11.4
EV/EBITDA (x)	10.0	11.2	17.0	16.2	11.3
Return on average equity (%)	2.7	4.2	(36.8)	1.9	5.9
Net debt to equity (%)	51.3	7.6	net cash	40.6	45.1
Our vs consensus EPS (adjusted) (%)				0.0	0.0

Source: Company data, OSK-DMG estimates

## Additional Notes

Figure 1: Results in review

USD ('000)	1Q13	1Q14	2Q14	y-o-y	q-o-q	Reasons
<b>Revenue</b>	<b>20,083</b>	<b>19,778</b>	<b>19,166</b>	<b>-5%</b>	<b>-3%</b>	<b>Lower cost-recovery component of revenue in 2Q14 and lower production in the Island PSC, made up by increased production at the Basin PSC. 2Q14 production was 4,300boepd, up slightly from the 4,230boepd in 1Q14 and the 4,130boepd FY13 average. RH Petrogas has not drilled any new wells these two quarters - the increase came from successful well workovers and maintenance.</b>
Cost of sales	(13,488)	(15,689)	(12,945)	-4%	-17%	Higher field maintenance in 1Q14 which management expensed off in the quarter.
<b>Gross profit</b>	<b>6,595</b>	<b>4,089</b>	<b>6,221</b>	<b>-6%</b>	<b>52%</b>	
Other income	377	30	5	-99%	-83%	No forex gain in 2Q14.
Administrative expenses	(1,879)	(1,258)	(1,119)	-40%	-11%	Decrease in share-option expenses in 2Q14.
Other operating expenses	(6,617)	(387)	(1,555)	-76%	nm	2Q14 saw additional write-off of USD1.27m related to the unsuccessful well drilled in the Island PSC in 4Q13. The comparable 2Q13 quarter experienced USD6.58m of unsuccessful drilling expenses.
Finance costs	(830)	(816)	(829)	0%	2%	
Share of profit / (loss) from JV	0	0	0			
<b>Profit before tax</b>	<b>(2,354)</b>	<b>1,658</b>	<b>2,723</b>	<b>nm</b>	<b>64%</b>	
Income tax expense	(2,514)	(1,585)	(1,730)	-31%	9%	Tax is a function of profit oil (i.e. most closely linked to gross profits).
Minority interest	0	0	0	nm	nm	
<b>PATMI</b>	<b>(4,868)</b>	<b>73</b>	<b>993</b>	<b>nm</b>	<b>nm</b>	<b>RH Petrogas maintained breakeven / slight profitability, ahead of most other exploration &amp; production companies in Singapore.</b>
<b>Adjusted EBITDAX Workings</b>						
<b>USD ('000)</b>	<b>1Q13</b>	<b>1Q14</b>	<b>2Q14</b>	<b>y-o-y</b>	<b>q-o-q</b>	<b>Comments</b>
Profit before tax	(2,354)	1,658	2,723	nm	64%	
Interest expense	636	560	555	-13%	-1%	
Depreciation	99	108	111	12%	3%	
Depletion of O&G properties	2,630	3,169	3,300	25%	4%	
Unwinding of discounts	194	256	274	41%	7%	
Write-offs	6,580	0	1,266	-81%	nm	
Impairments	0	0	0	nm	nm	
Forex translations	0	0	0	nm	nm	
Inventory obsolescence	0	0	0	nm	nm	
<b>EBITDAX</b>	<b>7,785</b>	<b>5,751</b>	<b>8,229</b>	<b>6%</b>	<b>43%</b>	1Q14 production was a little below potential due to maintenance work for which production in some wells had to be stopped.

Source: Company, OSK-DMG

Figure 2: Our NPV-and-Risking model

Country	Field	Equity %	2P mmboe	2C mmboe	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		100%	34.1	320.3	9.4
			<b>11.9</b>	<b>34.1</b>	<b>0.0</b>		<b>46.0</b>	<b>443.7</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>0.0</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	8.1	1.0
Indonesia	West Belida	94%			5.0	10%	0.5	0.5	1.0
Malaysia	SK331	80%			90.0	10%	9.0	9.0	1.0
Indonesia	Basin - Wario & Arar	60%			267.0	10%	26.7	26.7	1.0
Indonesia	Island - Koi & Sele Strait	33%			350.0	10%	35.0	35.0	1.0
			<b>0.0</b>	<b>0.0</b>	<b>739.0</b>		<b>79.3</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>151.2</b>	<b>739.6</b>	<b>4.9</b>

	Value (USDm)	Per share	
Producing / near-production	443.7	0.60	
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>712.7</b>	<b>0.97</b>	
Shares (m)	734.3		
Forex rate (USDSGD)		1.25	USD/boe
<b>Equity value per share (SGD/share)</b>		<b>1.21</b>	<b>Implicit EV/(2P+2C) Valuation</b>
			<b>8.74</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)	(4)	(5)
Exceptional income - net	-	-	(73)	-	-
<b>Pre-tax profit</b>	<b>19</b>	<b>16</b>	<b>(63)</b>	<b>17</b>	<b>29</b>
Taxation	(16)	(10)	(3)	(14)	(18)
<b>Profit after tax &amp; minorities</b>	<b>3</b>	<b>6</b>	<b>(66)</b>	<b>3</b>	<b>11</b>
<b>Reported net profit</b>	<b>3</b>	<b>6</b>	<b>(66)</b>	<b>3</b>	<b>11</b>
<b>Recurring net profit</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>3</b>	<b>11</b>

Source: Company data, OSK-DMG estimates

<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)	(4)	(5)
Tax paid	(11)	(8)	(5)	(14)	(18)
<b>Cash flow from operations</b>	<b>31</b>	<b>19</b>	<b>8</b>	<b>12</b>	<b>38</b>
Capex	(28)	(28)	(48)	(91)	(52)
Other investing cash flow	(1)	(1)	(2)	-	-
<b>Cash flow from investing activities</b>	<b>(29)</b>	<b>(29)</b>	<b>(50)</b>	<b>(91)</b>	<b>(52)</b>
Shares repurchased	-	-	(2)	-	-
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	5	50	10
Other financing cash flow	(14)	(2)	2	-	-
<b>Cash flow from financing activities</b>	<b>17</b>	<b>14</b>	<b>63</b>	<b>50</b>	<b>10</b>
Cash at beginning of period	6	24	29	52	24
<b>Total cash generated</b>	<b>19</b>	<b>4</b>	<b>20</b>	<b>(29)</b>	<b>(3)</b>
Forex effects	(1)	0	0	-	-
<b>Implied cash at end of period</b>	<b>24</b>	<b>28</b>	<b>49</b>	<b>24</b>	<b>21</b>

Source: Company data, OSK-DMG estimates

## Financial Exhibits

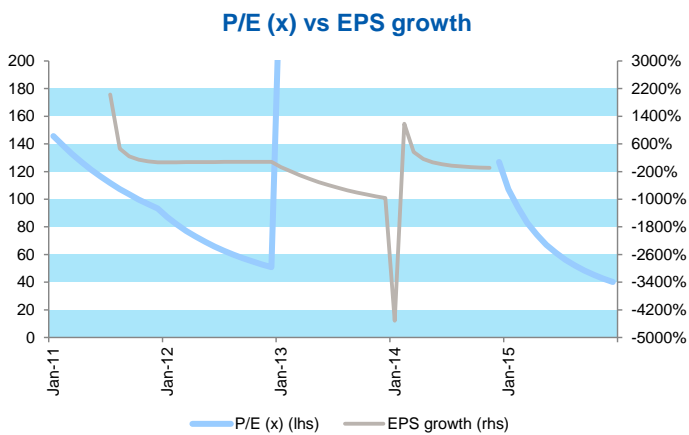
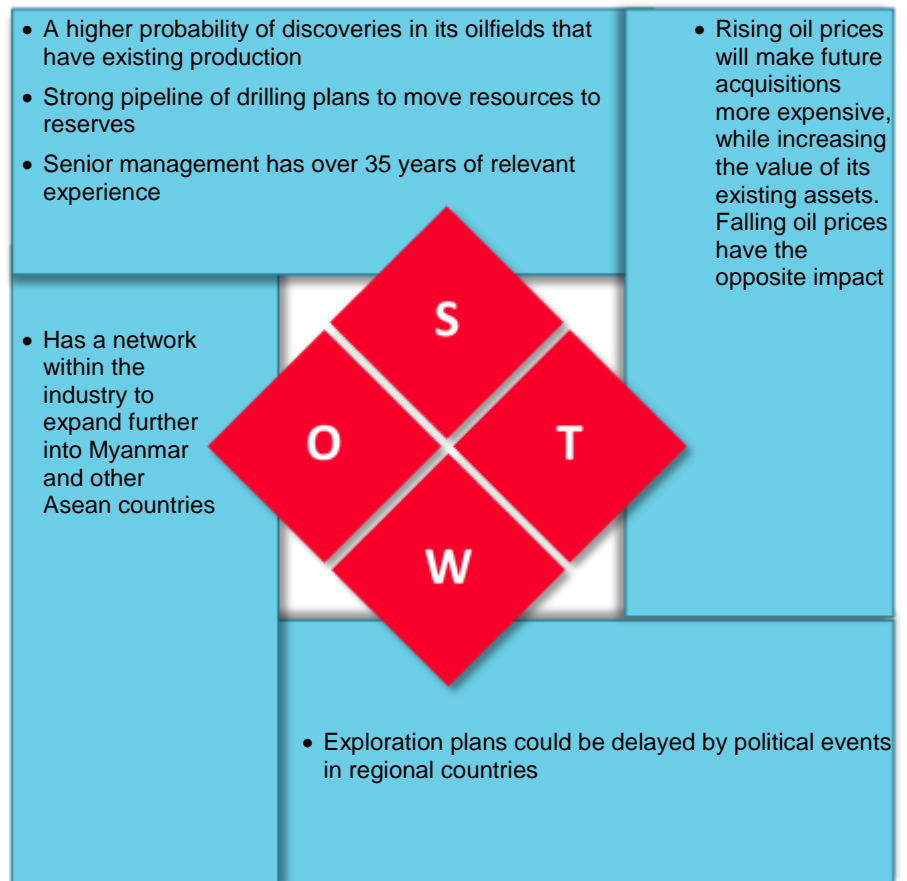
<b>Balance Sheet (USDm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
Total cash and equivalents	24	29	52	24	21
Inventories	5	6	1	1	1
Accounts receivable	6	9	35	26	39
Other current assets	1	1	1	1	1
<b>Total current assets</b>	<b>35</b>	<b>44</b>	<b>89</b>	<b>51</b>	<b>61</b>
Tangible fixed assets	65	68	73	154	192
Intangible assets	140	140	111	111	111
Total other assets	55	67	61	61	61
Total non-current assets	259	275	246	326	365
<b>Total assets</b>	<b>294</b>	<b>319</b>	<b>335</b>	<b>377</b>	<b>426</b>
Short-term debt	1	5	14	64	74
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>119</b>	<b>157</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>196</b>	<b>235</b>
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(80)	(77)	(66)
<b>Shareholders' equity</b>	<b>110</b>	<b>181</b>	<b>177</b>	<b>181</b>	<b>192</b>
<b>Total equity</b>	<b>110</b>	<b>181</b>	<b>177</b>	<b>181</b>	<b>192</b>
<b>Total liabilities &amp; equity</b>	<b>294</b>	<b>319</b>	<b>335</b>	<b>377</b>	<b>426</b>

Source: Company data, OSK-DMG estimates

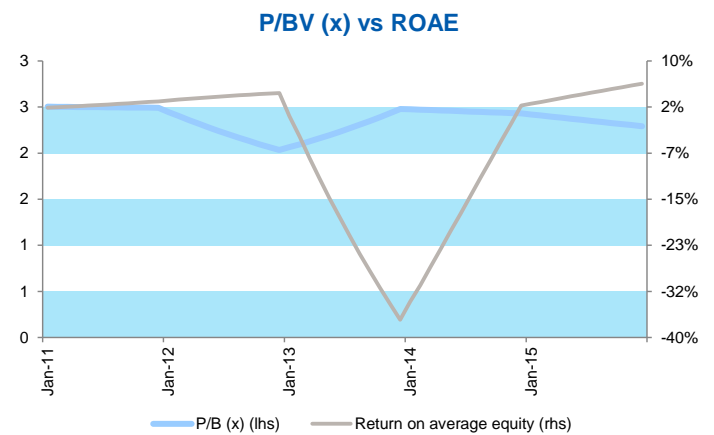
<b>Key Ratios (USD)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
Revenue growth (%)	76.2	(3.4)	0.0	8.4	51.4
Operating profit growth (%)	214.2	(8.0)	(35.1)	74.9	61.9
Net profit growth (%)	65.0	108.2	(1179.5)	0.0	216.0
EPS growth (%)	64.8	83.5	(967.0)	0.0	216.0
Bv per share growth (%)	0.5	22.6	(18.0)	2.0	6.1
Operating margin (%)	22.4	21.3	13.8	22.3	23.8
Net profit margin (%)	3.3	7.1	(76.3)	3.7	7.7
Return on average assets (%)	1.0	2.0	(20.1)	1.0	2.7
Return on average equity (%)	2.7	4.2	(36.8)	1.9	5.9
Net debt to equity (%)	51.3	7.6	(3.0)	40.6	45.1
Recurrent cash flow per share	0.07	0.04	0.01	0.02	0.05

Source: Company data, OSK-DMG estimates

## SWOT Analysis



Source: Company data, OSK-DMG estimates



Source: Company data, OSK-DMG estimates

## 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 estimates, Bloomberg

Date	Recommendation	Target Price	Price
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
2013-10-31	Buy	1.33	0.67

Source: OSK-DMG estimates, Bloomberg

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**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

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