

RH Petrogas (RHP SP)

Energy & Petrochemicals - Upstream Oil & Gas

Market Cap: USD298m

Buy (Maintained)

 Target Price: **SGD1.21**

 Price: **SGD0.52**

With The Worst Over, a Better FY14 Awaits

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



Source: Bloomberg

Avg Turnover (SGD/USD)	2.03m/1.60m
Cons. Upside (%)	182.7
Upside (%)	135
52-wk Price low/high (SGD)	0.47 - 0.92
Free float (%)	35

Shareholders (%)	
Tan Sri Datuk Sir Tiong Hiew King	64.6

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With its balance sheet cleaned up, RHP is starting FY14 on a clean slate. Its current ~4,300boepd production is up from FY13's 4,130boepd average, with three more wells starting production in March. Adjusted FY13 EBITDAX is USD33.2m (+7% y-o-y). With this cash flow and USD52m cash in hand, RHP has enough funds up to late-FY15. Its assets remain deeply undervalued. Maintain BUY and SGD1.23 TP.

- ◆ **FY13 core earnings of USD7.1m.** Adjusting for USD44m of write-offs for seven wells drilled in 2011-2013 and USD29m impairment on goodwill, RH Petrogas (RHP)'s FY13 core profit was USD7.1m. With its balance sheet now clean, we believe the worst is over and we expect a return to profitability and higher cash flows in FY14.
- ◆ **Adjusted EBITDAX rises 7%.** More crucially for an exploration & production company, EBITDA before exploration (EBITDAX) was up 7% to USD33.3m. We raise its EBITDAX by the USD4.4m in inventory obsolescence charges, which is non-cash and should be part of normal EBITDAX in our view.
- ◆ **FY14 production likely ~4,700 barrels of oil equivalent/day (boepd).** RHP's February production is back to 4,300boepd and three more wells are coming online in March. The half-year contributions from Fuyu and those estimated in a potential 1H14 acquisition will make up the difference to 4,700boepd in FY14. Dec 2014's exit production rate should be c.5,000boepd, as the floating, production, storage and offloading vessel for the offshore TBA field arrives and begins producing.
- ◆ **Enough cash to last till late FY15.** RHP's cash in hand totals USD52m. Adding the normalised USD20m/year operating cash flow and assuming zero production growth, the effective cash balance through FY15 is USD92m. As its FY14 work programme only costs USD45m, RHP has sufficient cash through at least late-FY15.
- ◆ **Assets remain deeply undervalued.** Its valuations suffered from the Oct 2013 small-cap saga fallout and investors' over-reaction to its dry holes. We see at least SGD0.77/share in liquidation value and, based on our NPV-and-risking model, our TP remains at SGD1.23. RHP is the alpha Top Pick in our oil & gas universe and remains on track to upgrade 19m barrels of oil equivalent (mboe) of 2C to 2P reserves, trebling the 2P figure.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (USDm)	89	86	86	104	152
Reported net profit (USDm)	2.9	6.1	(65.9)	7.5	15.9
Recurring net profit (USDm)	2.9	6.1	(65.9)	7.5	15.9
Recurring net profit growth (%)	65.0	108.2	(1179.5)	na	113.6
Recurring EPS (USD)	0.01	0.01	(0.10)	0.01	0.02
Recurring P/E (x)	63.3	34.5	na	40.0	18.7
P/B (x)	1.69	1.38	1.68	1.61	1.49
P/CF (x)	6.0	11.0	34.6	16.7	7.0
EV/EBITDA (x)	7.34	7.72	na	9.76	6.97
Return on average equity (%)	2.7	4.2	(36.8)	4.1	8.3
Net debt to equity (%)	51.3	7.6	net cash	36.8	38.2
Our vs consensus EPS (%)				(11.3)	(13.0)

Source: Company data, OSK-DMG estimates

Additional Notes

Figure 1: RHP's annual results in review

USD ('000)	FY12	FY13	y-o-y	Reasons
Revenue	86,376	86,393	0%	Maintained revenue though production was 4% lower due to higher cost recovery component. FY13 production affected by 5 months of power outage for some wells, where an estimated 150boepd of production was lost for the full year. Current production as of Feb 2014 is back to 4,300 boepd with three wells coming online in March.
Cost of sales	(54,179)	(58,720)	8%	Increased cost of production.
Gross profit	32,197	27,673	-14%	
Other income	39	1,442	nm	USD1.4m of unrealised forex gains in FY13.
Administrative expenses	(5,319)	(6,114)	15%	Change mainly due to share option expense increase of USD0.4m and higher staff costs.
Other operating expenses	(8,487)	(82,595)	nm	FY13: USD44m write-off for seven dry wells drilled between 2011 and 2013; USD29m impairment of goodwill; USD4.4m inventory obsolescence charge.
Finance costs	(2,222)	(3,340)	50%	Higher bank borrowings and unwinding of discount on decommissioning provisions.
Share of profit / (loss) from JV	0	0		
Profit before tax	16,208	(62,934)	-488%	Core PBT of USD13.9m in FY13 after adjustments.
Income tax expense	(10,105)	(2,949)	-71%	Decrease in income taxes is due to lower charges for both deferred and current income taxes for Basin PSC and Island PSC in FY13.
Minority interest				
PATMI	6,103	(65,883)	nm	Core earnings of USD7.1m in FY13, adjusting for USD73m of write-offs and impairments.

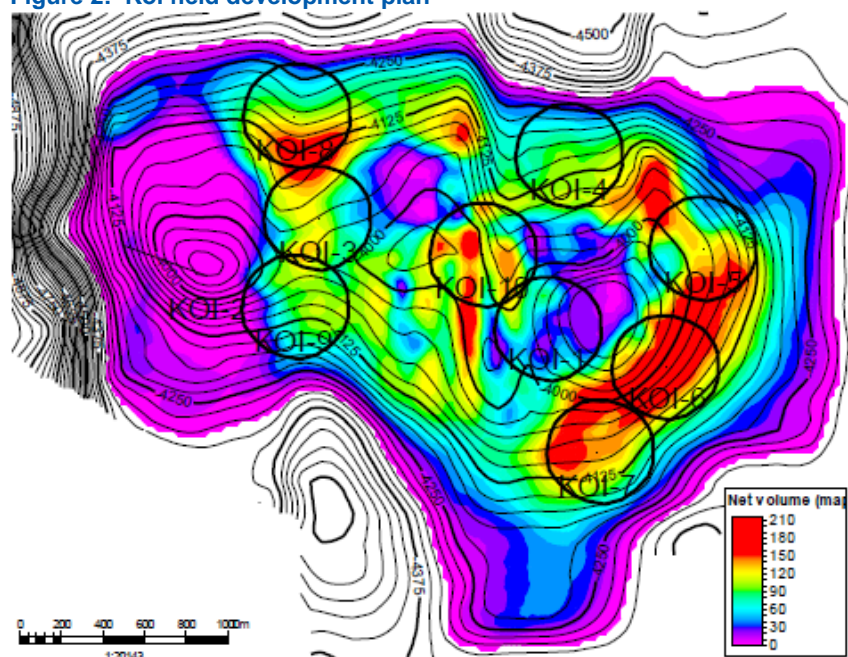
Adjusted EBITDAX Workings

USD ('000)	FY12	FY13	y-o-y
Profit before tax	16,208	(62,934)	
Interest expense	1,811	2,563	
Depreciation	437	422	
Depletion of O&G properties	10,389	10,531	
Unwinding of discounts	411	777	
Write-offs	1,502	44,213	
Impairments	0	28,758	
Forex translations	0	4,557	
Inventory obsolescence	456	4,356	
EBITDAX	31,214	33,243	7%

Source: OSK-DMG

A peek at Koi development plan. The presentation materials included a very interesting contour map of the Koi field that shows the net volumes of oil in ground and the planned locations of a total of 10 development wells. We understand that the production infrastructure will involve two fixed platforms as well as one floating, production, storage and offloading (FPSO) vessel. This FPSO will in fact be the same one that will be servicing the nearby TBA field from Dec 2014. After the TBA field reaches end-of-life in 2016, the vessel will then be moved to Koi to begin production.

Figure 2: Koi field development plan



Source: Company data

Figure 4: RHP's liquidation value estimate

Country	Field	Equity %	Prospective Resources								
			2P	2C	2P Value	2C Value	PR Value	2P Value	2C Value	PR Value	
			mmboe	mmboe	mmboe	USD/ boe	USD/ boe	USD/ boe	USDm	USDm	USDm
Production / Near-production											
Indonesia	Basin	60%	7.8			11.7			90.9		
Indonesia	Island	33%	1.7			11.1			18.9		
China	Fuyu-1 - Shallow Oil	49%		35.0				4.7		165.6	
			9.5	35.0	0.0				109.9	165.6	0.0
Development / Re-activation / Appraisal Drilling Stage											
Indonesia	Basin - North Klalin	60%		9.5				5.8		55.4	
Indonesia	Basin - SE Walio	60%		2.3				5.8		13.6	
Indonesia	Island - TBC	33%		7.0				5.6		39.0	
Indonesia	Island - Koi	33%		4.0				5.6		22.7	
Indonesia	Island - North Sele	33%		5.7				5.6		31.7	
			0.0	28.5	0.0				0.0	162.4	0.0
Exploration Stage											
China	Fuyu-1 - Deep Gas	49%			27.0			0.0			0.0
Indonesia	West Belida	94%			5.0			0.0			0.0
Malaysia	SK331	80%			180.0			0.0			0.0
Indonesia	Basin - Walio / Arar	60%			267.0			0.0			0.0
Indonesia	Island - Koi & Sele Strait	33%			350.0			0.0			0.0
			0.0	0.0	829.0				0.0	0.0	0.0
Total			9.5	63.5	829.0				109.9	328.1	0.0






	Value (USDm)	Per Share	
2P	109.9	0.15	
2C	328.1	0.45	
Resources	0.0	0.00	
Add cash	62.4	0.09	Adjusted for estimated 1Q14 receivables collected less payables paid.
Less debt	-51.7	-0.07	
Equity value	448.6	0.61	
Shares (m)	733.3		
Forex rate (USD/SGD)		1.26	
Equity value (SGD)	0.77	Implicit EV/(2P+2C) Valuation	6.1

Source: OSK-DMG

Note: This estimate is highly conservative – with only one more approval required for the Fuyu-1 field. Its liquidation value should be higher than the value we impute, which applies a 50% discount to the field's NPV. Taking 100% of this NPV into consideration, RHP's liquidation value will jump to SGD1.06/share. Hence, we see the receipt of this final approval as a key re-rating catalyst in FY14.

USD45m work programme for 2014. RHP has announced a USD45m capex plan for 2014, which includes eight development wells in Indonesia, 40 in China, and one exploration well in China that is targeting the deep gas in the Fuyu field. Early-stage exploration continues in West Belida and SK331 in Indonesia and Malaysia respectively.

Figure 5: RHP's 2014 work programme

PSC	Q1 2014	Q2 2014	Q3 2014	Q4 2014
 Basin	Well work over and maintenance	2 development wells	3 development wells	3 development wells
 Island	Well work over and maintenance			
 West Belida	G&G			
 Fuyu-1		40 development wells		
			1 deep exploration well	
 SK331		700 km seismic acquisition and processing		

Source: Company

Financial Exhibits

Profit & Loss (USDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	89	86	86	104	152
Cost of sales	(57)	(54)	(59)	(69)	(103)
Gross profit	33	32	28	35	50
Gen & admin expenses	(5)	(5)	(6)	(6)	(7)
Other operating costs	(7)	(8)	(83)	(2)	(2)
Operating profit	20	18	(61)	26	41
Operating EBITDA	33	29	(51)	37	54
Depreciation of fixed assets	(13)	(10)	(11)	(11)	(13)
Operating EBIT	20	18	(61)	26	41
Other recurring income	1	0	1	-	-
Interest expense	(2)	(2)	(3)	(4)	(5)
Pre-tax profit	19	16	(63)	23	36
Taxation	(16)	(10)	(3)	(15)	(20)
Profit after tax & minorities	3	6	(66)	7	16
Reported net profit	3	6	(66)	7	16
Recurring net profit	3	6	(66)	7	16

Source: Company data, OSK-DMG estimates

Cash flow (USDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	20	18	(61)	26	41
Depreciation & amortisation	13	10	11	11	13
Change in working capital	7	(6)	(14)	(1)	14
Other operating cash flow	3	5	80	-	-
Operating cash flow	43	29	15	37	68
Interest received	0	0	0	-	-
Interest paid	(1)	(2)	(3)	(4)	(5)
Tax paid	(11)	(8)	(5)	(15)	(20)
Cash flow from operations	31	19	8	18	43
Capex	(28)	(28)	(48)	(91)	(52)
Other investing cash flow	(1)	(1)	(2)	-	-
Cash flow from investing activities	(29)	(29)	(50)	(91)	(52)
Shares repurchased	-	-	(2)	-	-
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	5	50	10
Other financing cash flow	(14)	(2)	2	-	-
Cash flow from financing activities	17	14	63	50	10
Cash at beginning of period	6	24	29	52	29
Total cash generated	19	4	20	(23)	1
Forex effects	(1)	0	0	-	-
Implied cash at end of period	24	28	49	29	31

Source: Company data, OSK-DMG estimates

Financial Exhibits

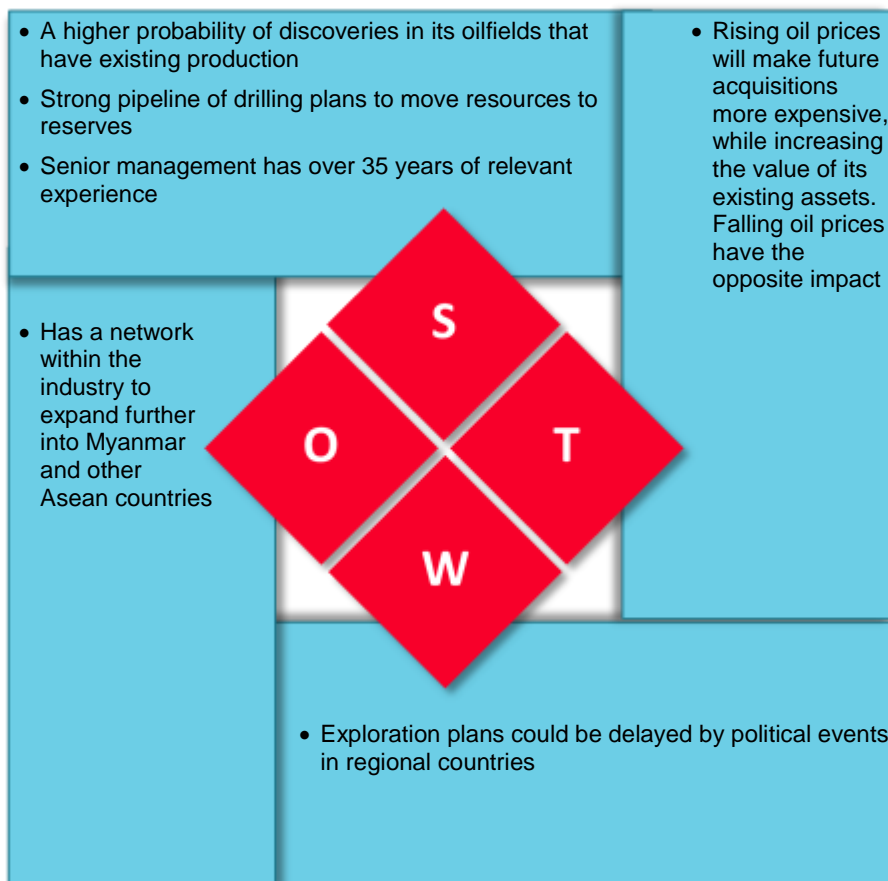
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	24	29	52	29	31
Inventories	5	6	1	1	1
Accounts receivable	6	9	35	29	42
Other current assets	1	1	1	1	1
Total current assets	35	44	89	59	74
Tangible fixed assets	65	68	73	153	192
Intangible assets	140	140	111	111	111
Total other assets	55	67	61	61	61
Total non-current assets	259	275	246	326	364
Total assets	294	319	335	385	438
Short-term debt	1	5	14	64	74
Accounts payable	49	49	64	57	84
Other current liabilities	6	3	2	2	2
Total current liabilities	56	58	80	123	161
Total long-term debt	79	37	34	34	34
Other liabilities	50	43	44	44	44
Total non-current liabilities	128	80	77	77	77
Total liabilities	184	138	157	200	238
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(80)	(73)	(57)
Shareholders' equity	110	181	177	185	201
Total equity	110	181	177	185	201
Total liabilities & equity	294	319	335	385	438

Source: Company data, OSK-DMG estimates

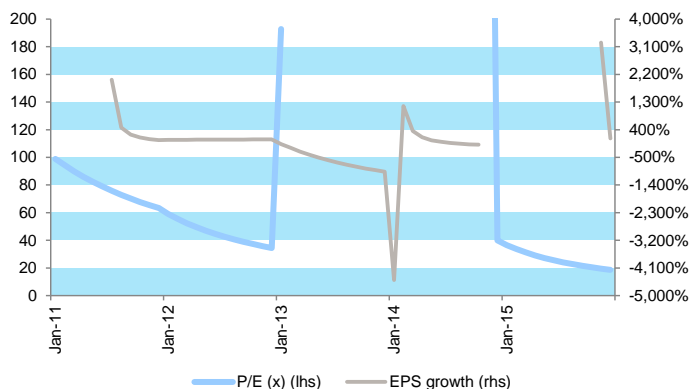
Key Ratios (USD)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	0.0	20.6	46.3
Operating profit growth (%)	214.2	(8.0)	(431.9)	0.0	54.1
Net profit growth (%)	65.0	108.2	(1179.5)	0.0	113.6
EPS growth (%)	64.8	83.5	(967.0)	0.0	113.6
Bv per share growth (%)	0.5	22.6	(18.0)	4.2	8.6
Operating margin (%)	22.4	21.3	(70.6)	25.3	26.7
Net profit margin (%)	3.3	7.1	(76.3)	7.2	10.4
Return on average assets (%)	1.0	2.0	(20.1)	2.1	3.9
Return on average equity (%)	2.7	4.2	(36.8)	4.1	8.3
Net debt to equity (%)	51.3	7.6	(3.0)	36.8	38.2
Recurrent cash flow per share	0.07	0.04	0.01	0.02	0.06

Source: Company data, OSK-DMG estimates

SWOT Analysis

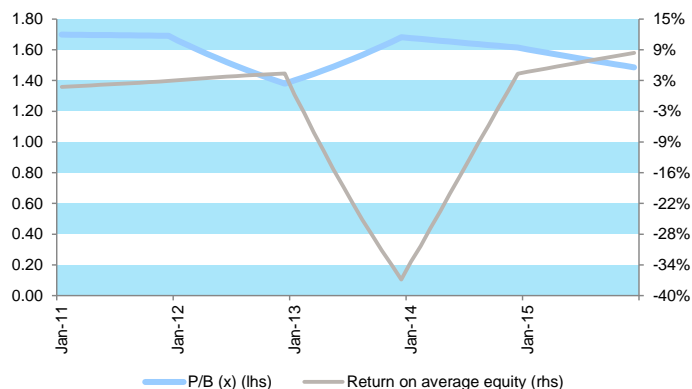


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

Company Profile

RH Petrogas is an exploration & production company with oil & 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 too.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
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
2013-10-03	Buy	1.33	0.90
2013-10-01	Buy	1.47	0.71

Source: OSK-DMG estimates, Bloomberg

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