

RH Petrogas (RHP SP)

Oil & Gas - Exploration & Production

Market Cap: USD416m

Buy (Maintained)

 Target Price: **SGD1.33**

 Price: **SGD0.71**

Oil Finds Far Outweigh Non-Cash Writeoffs

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


Source: Bloomberg

Avg Turnover (SGD/USD)	4.09m/3.29m
Cons. Upside (%)	107.0
Upside (%)	88.2
52-wk Price low/high (SGD)	0.42 - 0.92
Free float (%)	36

Shareholders (%)	
Tan Sri Datuk Sir Tiong Hiew	64.1

RHP announced that it will be writing off three older exploration wells and some obsolete inventory, leading to a loss this quarter. These are sunk costs and have no cash impact. More importantly, the high-impact Zircon well has found hydrocarbons, the well in the large Klagalo prospect has reached total depth, and the Fuyu-1 development plan has received the next-to-last approval. Maintain BUY and SGD1.33 TP.

- ◆ **Writeoffs have no cash impact.** RHP will be writing off three non-commercial wells in the Basin production sharing contract (PSC). The writeoffs, net of deferred tax liabilities writebacks, amount to USD8m. These exploration costs are recoverable from oil & gas production under the PSC terms. An inventory obsolescence charge of USD3.8m will also be taken. We understand that there are no further assets on the books to be impaired. These are sunk costs and will not affect RHP's vital future cash flows. We expect RHP to remain EBITDA-positive.
- ◆ **Increasing production in Basin PSC.** The Klalin-14 development well flowed 9.8mmscfd and 220bcpd during tests and has been put on production. Drilling has been completed for the Klalin-15 and Klalin-17 development wells and RHP is moving on to flow-testing the wells. These will increase FY14 production and cash flow in the Basin PSC.
- ◆ **Oil found in high-impact Zircon-1 well; positive signs in large Klagalo-1 prospect.** Drill-stem testing is currently underway in the Zircon-1 well, which will measure flow rates and pressures in the well. This is a confirmation that hydrocarbons have been found in this new, high-impact zone. The Klagalo-1 well has reached total depth and will be wire-logged soon. RHP is targeting some 38mmboe of resources from this prospect, which is >50% of RHP's current 2P+2C resources figure.
- ◆ **Another concrete step in Fuyu-1 to production.** RHP has received approval for the "Energy Conservation Report" for the development plan of the Fuyu-1 field. With this hurdle cleared, the group requires only the final approval by 4Q13 to bring this field into the production stage.
- ◆ **Maintain BUY, with SGD1.33 TP.** The non-cash charges have no impact on RHP's valuation, whereas the operational news is positive for future cash flows. Our investment thesis remains intact – maintain BUY.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (USDm)	89	86	96	124	186
Reported net profit (USDm)	2.9	6.1	(11.0)	9.6	21.4
Recurring net profit (USDm)	2.9	6.1	(11.0)	9.6	21.4
Recurring net profit growth (%)	65.0	108.2	(280.5)	na	123.3
Core EPS (USD)	0.01	0.01	(0.02)	0.01	0.03
Core P/E (x)	88.4	48.2	na	43.4	19.4
Return on average equity (%)	2.7	4.2	(5.3)	4.0	8.3
P/B (x)	2.36	1.93	1.76	1.69	1.56
P/CF (x)	8.4	15.3	42.3	17.5	8.9
EV/EBITDA (x)	9.6	10.6	14.4	10.4	7.0
Net debt to equity (%)	51.3	7.6	7.5	18.1	18.1
Our vs consensus EPS (%)			10.2	14.1	17.0

Source: Company data, OSK-DMG estimates

Lee Yue Jer +65 6232 3898
yuejer.lee@sg.oskgroup.com

Jason Saw +65 6232 3871
jason.saw@sg.oskgroup.com

Additional Notes

mmscfd: millions standard cubic feet of natural gas per day

bcpd: barrels of condensate per day

PSC: production sharing contract

Developments in other PSCs. In its operational highlights announcement, 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 FY14.

Valuation models. Our NPV-and-risking model incorporates a longer-term view of the company's valuation, which attaches a conservative 10% risking to the company's prospective resources. We also assume that the Fuyu-1 shallow oil field will commence production by early 2014.

Figure 2 provides the current valuation of RHP's assets, ie the conservative estimates of the market value of its assets as of today. Note that Fuyu-1's value is halved as its oil is still classified as 2C contingent resources, while zero value is attributed to the prospective resources. RHP should still trade at a minimum of SGD0.98 today on the back of these marketable assets.

Figure 1: Our NPV-and-risking model

Country	Field	Equity %	2P mboe	2C mboe	Prospective Resources mboe	Risking %	Risked mboe	NPV USDm	NPV USD/boe
Production / Near-production Stage									
Indonesia	Basin	60%	9.0			100%	9	144.7	16.1
Indonesia	Island	33%	2.0			100%	2	29.3	14.6
China	Fuyu-1 Shallow Oil	49%		35.0		100%	35	350.6	10.0
			11.0	35.0	0.0		46	524.5	11.4
Development / Re-activation / Appraisal Drilling Stage									
Indonesia	Basin - Klalin	60%		9.5		50%	5	38.2	8.0
Indonesia	Island - TBC	60%		7.0		50%	4	25.6	7.3
Indonesia	Island - Koi	33%		5.0		30%	2	11.0	7.3
Indonesia	Island - North Sele	33%		5.7		30%	2	12.5	7.3
Indonesia	Island - Zircon	33%			14.0	30%	4	30.7	7.3
China	Fuyu-1 Deep Gas	49%			27.0	30%	8	16.2	2.0
			0.0	27.2	41.0		23.8	134.2	5.6
Exploration Stage									
Indonesia	West Belida	94%			5.0	10%	1	0.5	1.0
Malaysia	SK331	80%			180.0	10%	18	18.0	1.0
Indonesia	Basin - Wario & Arar	60%			432.0	10%	43	43.2	1.0
Indonesia	Island - Koi & Sele Strait	33%			386.0	10%	39	38.6	1.0
			0.0	0.0	1,003.0		100	100.3	1.0
Total:			11.0	62.2	1,044.0		170	759.0	4.5
			Value (USDm)		Per share				
Producing / near-production			524.5		0.72				
Development / appraisal			134.2		0.18				
Exploration			100.3		0.14				
Adjust for Group gross cash (USDm)			82.3		0.11				
Adjust for Group gross debt (USDm)			-65.3		-0.09				
Target equity value (USDm)			776.0		1.06				
Shares (m)			731.3						
Forex rate					1.25				
Equity value per share (SGD/share)					1.33				

Source: OSK-DMG estimates

Figure 2: Market valuation of reserves and resources as of 10 Nov 2013

Country	Field	Equity %	2P mmboe	2C mmboe	Prospective Resources mmboe	2P Value USDm/mmboe	2C Value USDm/mmboe	PR Value USDm/mmboe	2P Value USDm	2C Value USDm	PR Value USDm
Production / Near-production											
Indonesia	Basin	60%	9.0			16.1			144.7	0.0	0.0
Indonesia	Island	33%	2.0			14.6			29.3	0.0	0.0
China	Fuyu-1 - Shallow Oil	49%		35.0			5.0		0.0	175.3	0.0
			11.0	35.0	0.0				173.9	175.3	0.0
Development / Re-activation / Appraisal Drilling Stage											
Indonesia	Basin - Klalin	60%		9.5			8.0		0.0	76.4	0.0
Indonesia	Island - TBC	33%		7.0			7.3		0.0	51.2	0.0
Indonesia	Island - Koi	33%		5.0			7.3		0.0	36.6	0.0
Indonesia	Island - North Sele	33%		5.7			7.3		0.0	41.7	0.0
Indonesia	Island - Zircon	33%			14.0			0.0	0.0	0.0	0.0
China	Fuyu-1 - Deep Gas	49%			27.0			0.0	0.0	0.0	0.0
			0.0	27.2	41.0				0.0	205.8	0.0
Exploration Stage											
Indonesia	West Belida	94%			5.0			0.0	0.0	0.0	0.0
Malaysia	SK331	80%			180.0			0.0	0.0	0.0	0.0
Indonesia	Basin - Walio / Arar	60%			432.0			0.0	0.0	0.0	0.0
Indonesia	Island - Koi & Sele Strait	33%			386.0			0.0	0.0	0.0	0.0
			0.0	0.0	1,003.0				0.0	0.0	0.0
Total			11.0	62.2	1,044.0				173.9	381.1	0.0
Value (USDm) Per Share											
	2P		173.9								0.24
	2C		381.1								0.52
	Resources		0.0								0.00
	Add cash		82.3								0.11
	Less debt		-65.3								-0.09
	Equity value		572.1								0.78
	Shares (m)		731.3								
	Forex rate			1.25							
	Equity value (SGD)		0.98								
								Implicit EV/2P Valuation	52.0		
								Implicit EV/(2P+2C) Valuation	7.8		

Source: OSK-DMG estimates

Financial Exhibits

Profit & Loss (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover	89	86	96	124	186
Cost of sales	(57)	(54)	(62)	(81)	(125)
Gross profit	33	32	35	42	61
Gen & admin expenses	(5)	(5)	(8)	(8)	(9)
Other operating costs	(7)	(8)	(20)	(3)	(3)
Operating profit	20	18	7	31	49
Operating EBITDA	33	29	26	44	66
Depreciation of fixed assets	(13)	(10)	(19)	(13)	(17)
Operating EBIT	20	18	7	31	49
Other recurring income	1	0	1	-	-
Interest expense	(2)	(2)	(3)	(3)	(3)
Pre-tax profit	19	16	5	28	46
Taxation	(16)	(10)	(16)	(19)	(25)
Profit after tax & minorities	3	6	(11)	10	21
Reported net profit	3	6	(11)	10	21
Recurring net profit	3	6	(11)	10	21

Source: Company data, OSK-DMG estimates

Cash flow (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	20	18	7	31	49
Depreciation & amortisation	13	10	19	13	17
Change in working capital	7	(6)	2	1	8
Other operating cash flow	3	5	(1)	0	0
Operating cash flow	43	29	28	45	74
Interest received	0	0	-	-	-
Interest paid	(1)	(2)	(3)	(3)	(3)
Tax paid	(11)	(8)	(16)	(19)	(25)
Cash flow from operations	31	19	9	24	47
Capex	(28)	(28)	(71)	(50)	(50)
Other investing cash flow	(1)	(1)	-	-	-
Cash flow from investing activities	(29)	(29)	(71)	(50)	(50)
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	8	10	10
Other financing cash flow	(14)	(2)	-	-	-
Cash flow from financing activities	17	14	67	10	10
Cash at beginning of period	6	24	29	33	17
Total cash generated	19	4	5	(16)	6
Forex effects	(1)	0	-	-	-
Implied cash at end of period	24	28	33	17	24

Source: Company data, OSK-DMG estimates

Financial Exhibits

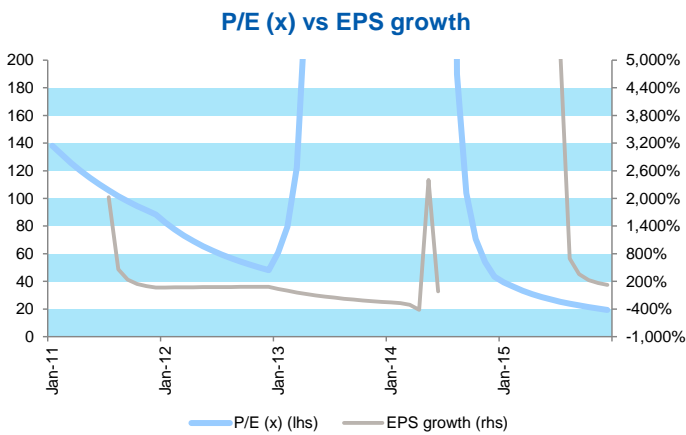
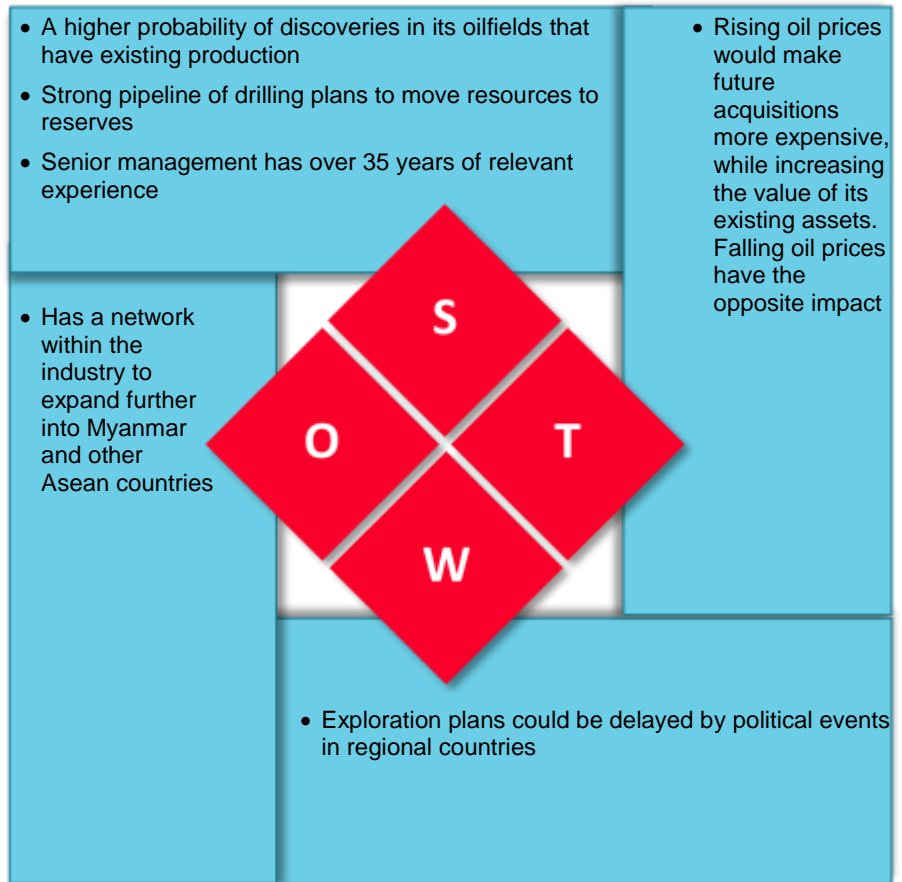
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	33	17	24
Inventories	5	6	3	3	5
Accounts receivable	6	9	12	15	23
Other current assets	1	1	1	1	1
Total current assets	35	44	49	37	52
Tangible fixed assets	65	68	119	156	189
Intangible assets	140	140	140	140	140
Total other assets	55	67	70	70	70
Total non-current assets	259	275	329	366	399
Total assets	294	319	378	402	452
Short-term debt	1	5	14	24	34
Accounts payable	49	49	51	56	74
Other current liabilities	6	3	3	3	3
Total current liabilities	56	58	67	82	110
Total long-term debt	79	37	37	37	37
Other liabilities	50	43	45	45	45
Total non-current liabilities	128	80	82	82	82
Total liabilities	184	138	149	164	192
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(22)	(13)	9
Shareholders' equity	110	181	236	246	267
Other equity	-	-	(7)	(7)	(7)
Total equity	110	181	229	238	260
Total liabilities & equity	294	319	378	402	452

Source: Company data, OSK-DMG estimates

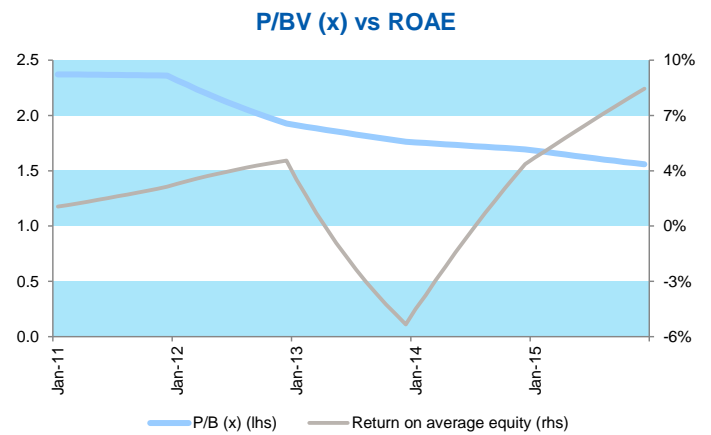
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	11.5	28.4	50.6
Operating profit growth (%)	214.2	(8.0)	(61.0)	333.1	58.6
Net profit growth (%)	65.0	108.2	(280.5)	0.0	123.3
EPS growth (%)	64.8	83.5	(245.1)	0.0	123.3
Bv per share growth (%)	0.5	22.6	9.3	4.1	8.7
Operating margin (%)	22.4	21.3	7.4	25.1	26.4
Net profit margin (%)	3.3	7.1	(11.4)	7.8	11.5
Return on average assets (%)	1.0	2.0	(3.2)	2.5	5.0
Return on average equity (%)	2.7	4.2	(5.3)	4.0	8.3
Net debt to equity (%)	51.3	7.6	7.5	18.1	18.1
Recurrent cash flow per share	0.07	0.04	0.01	0.03	0.06

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 a small 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.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
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

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

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Not Rated: Stock is not within regular research coverage

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Kuala Lumpur	Hong Kong	Singapore
<p>Malaysia Research Office 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>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.) 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p>DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia) Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.) Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited) 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>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL) 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999</p>		