

RH Petrogas (RHP SP)

Energy & Petrochemicals - Upstream Oil & Gas

Market Cap: USD342m

Buy (Maintained)

Target Price: SGD1.23

Price: SGD0.59

Finally, a Successful Well

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



Source: Bloomberg

Avg Turnover (SGD/USD)	2.28m/1.81m
Cons. Upside (%)	149.2
Upside (%)	108
52-wk Price low/high (SGD)	0.47 - 0.92
Free float (%)	35

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

RH Petrogas' announced the success of its Koi-2 appraisal well, having delineated the field with 4mmbob net resources. It will move ahead to the next stage, with the end goal of bringing Koi-2 to production. We continue to like this stock for its deep under-valuation vs its strong asset backing, and note a series of NPV-positive 2P-upgrade catalysts that are likely to materialise in FY14. Maintain BUY, with SGD1.23 TP.

- ◆ **Successful well demonstrates commercial viability of Koi prospect.** The success of the Koi-2 appraisal well has shown the Koi prospect is commercially viable and preliminary front end engineering and design (pre-FEED) is now being conducted. We expect the plan of development (POD) to be approved in FY15 with first oil in 2H16. As Koi is offshore, peak oil should be achieved in 1H17, which we estimate at about 3,500 barrels per day (bpd) net to RH Petrogas from this field.
- ◆ **Upgrades to 2P reserves will drive valuations.** Meanwhile, we note that there are other fields well ahead of Koi in the production timeline. The 9.5m barrels of oil equivalent (mmbob) field size North Klalin POD has already been submitted and the 2.34mmbob Southeast Walio POD should be submitted and approved in 2014 as well. Adding the 7.1mmbob to be upgraded to 2P reserves after the Fuyu-1 approval, RH Petrogas is on track to upgrade 19mmbob to 2P reserves, bringing its total to a forecast 27mmbob at end-2014, which comprises mostly of higher-value oil.
- ◆ **Making conservative adjustments to model.** We are reducing our oil price assumption to USD105/barrel (bbl) from USD110/bbl. Also, we now incorporate some operational slippage assumptions in production increases for the Basin and Island production sharing contract (PSC) areas. Partially mitigating these, we raise the risking on the Koi prospect to 75% as it moves into the "development pending" stage, and apply this risking to the net present value (NPV) of future production based on a DCF-model.
- ◆ **TP adjusted to SGD1.23 (from SGD1.37), remains top alpha pick.** With these more conservative assumptions, our TP is adjusted to SGD1.23. RH Petrogas remains the top alpha pick in the oil & gas sector, and we expect this valuation gap to close on better investor education on pricing companies in the exploration & production space.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (USDm)	89	86	86	104	152
Reported net profit (USDm)	2.9	6.1	(13.7)	6.2	14.6
Recurring net profit (USDm)	2.9	6.1	(13.7)	6.2	14.6
Recurring net profit growth (%)	65.0	108.2	(324.8)	na	134.4
Recurring EPS (USD)	0.01	0.01	(0.02)	0.01	0.02
Recurring P/E (x)	72.6	39.6	na	54.8	23.4
P/B (x)	1.94	1.58	1.51	1.47	1.38
P/CF (x)	6.9	12.6	14.4	20.9	11.5
EV/EBITDA (x)	8	9	213	11	8
Return on average equity (%)	2.7	4.2	(6.7)	2.7	6.1
Net debt to equity (%)	51.3	7.6	net cash	22.8	30.9
Our vs consensus EPS (%)			37.2	(25.8)	(20.1)

Source: Company data, OSK-DMG estimates

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Additional Notes

Figure 1: Our NPV-and-Risking model

Country	Field	Equity %	2P mmboe	2C Prospective Resources mmboe	Risking %	Riskd mmboe	NPV USDm	NPV USD/boe
Production / Near-production Stage								
Indonesia	Basin	60%	7.8		100%	7.8	90.9	11.7
Indonesia	Island	33%	1.7		100%	1.7	18.9	11.2
China	Fuyu-1 Shallow Oil	49%		35.0	100%	35.0	331.3	9.5
			9.5	35.0	0.0	44.5	441.1	9.9
Development / Re-activation / Appraisal Drilling Stage								
Indonesia	Basin - North Klalin	60%		9.5	90%	8.6	50.0	5.8
Indonesia	Basin - SE Walio	60%		2.3	90%	2.1	12.3	5.8
Indonesia	Island - TBC	33%		7.0	60%	4.2	23.5	5.6
Indonesia	Island - Koi	33%		4.0	75%	3.0	39.8	10.0
Indonesia	Island - North Sele	33%		5.7	30%	1.7	9.6	5.6
			0.0	28.5	0.0	19.6	135.2	6.9
Exploration Stage								
China	Fuyu-1 Deep Gas	49%			30%	8.1	8.1	1.0
Indonesia	West Belida	94%			10%	0.5	0.5	1.0
Malaysia	SK331	80%			10%	18.0	18.0	1.0
Indonesia	Basin - Wario & Arar	60%			10%	40.0	40.0	1.0
Indonesia	Island - Koi & Sele Strait	33%			10%	38.6	38.6	1.0
			0.0	0.0	997.6	105.2	105.2	1.0
Total:			9.5	63.5	997.6	169.2	681.5	4.0

	Value (USDm)	Per share
Producing / near-production	441.1	0.60
Development / appraisal	135.2	0.18
Exploration	105.2	0.14
Adjust for Group gross cash (USDm)	77.4	0.11 Adjusted for placement.
Adjust for Group gross debt (USDm)	-48.1	-0.07
Target equity value (USDm)	710.7	0.97
Shares (m)	733.3	
Forex rate (USDSGD)		1.26
Equity value per share (SGD/share)		1.23

Source: OSK-DMG

Note: We have taken the pre-emptive step of reducing 2P reserves in the Basin and Island producing areas to take into account forecast production in FY13. Actual figure may differ upon results release.

Financial Exhibits

Profit & Loss (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover	89	86	86	104	152
Cost of sales	(57)	(54)	(56)	(69)	(103)
Gross profit	33	32	30	35	50
Gen & admin expenses	(5)	(5)	(7)	(8)	(8)
Other operating costs	(7)	(8)	(33)	(2)	(2)
Operating profit	20	18	(9)	25	39
Operating EBITDA	33	29	1	36	53
Depreciation of fixed assets	(13)	(10)	(11)	(11)	(13)
Operating EBIT	20	18	(9)	25	39
Other recurring income	1	0	7	-	-
Interest expense	(2)	(2)	(3)	(4)	(5)
Pre-tax profit	19	16	(6)	22	34
Taxation	(16)	(10)	(8)	(15)	(20)
Profit after tax & minorities	3	6	(14)	6	15
Reported net profit	3	6	(14)	6	15
Recurring net profit	3	6	(14)	6	15

Source: Company data, OSK-DMG estimates

Cash flow (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	20	18	(9)	25	39
Depreciation & amortisation	13	10	11	11	13
Change in working capital	7	(6)	0	(1)	2
Other operating cash flow	3	5	31	-	-
Operating cash flow	43	29	32	35	54
Interest received	0	0	0	-	-
Interest paid	(1)	(2)	(3)	(4)	(5)
Tax paid	(11)	(8)	(8)	(15)	(20)
Cash flow from operations	31	19	21	16	30
Capex	(28)	(28)	(41)	(92)	(53)
Other investing cash flow	(1)	(1)	(1)	-	-
Cash flow from investing activities	(29)	(29)	(42)	(92)	(53)
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	6	50	10
Other financing cash flow	(14)	(2)	-	-	-
Cash flow from financing activities	17	14	64	50	10
Cash at beginning of period	6	24	29	71	45
Total cash generated	19	4	43	(26)	(13)
Forex effects	(1)	0	-	-	-
Implied cash at end of period	24	28	72	45	32

Source: Company data, OSK-DMG estimates

Financial Exhibits

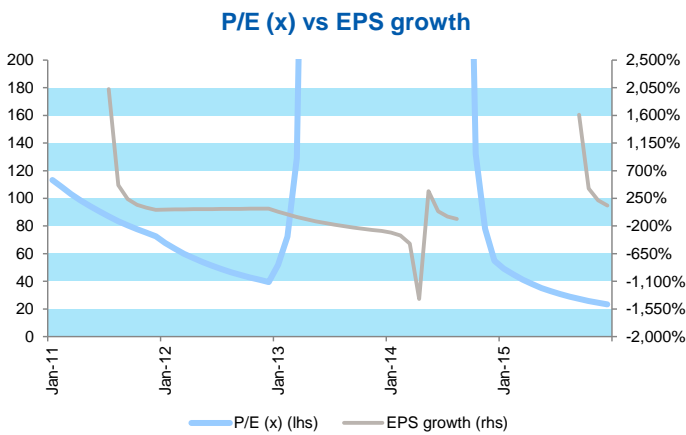
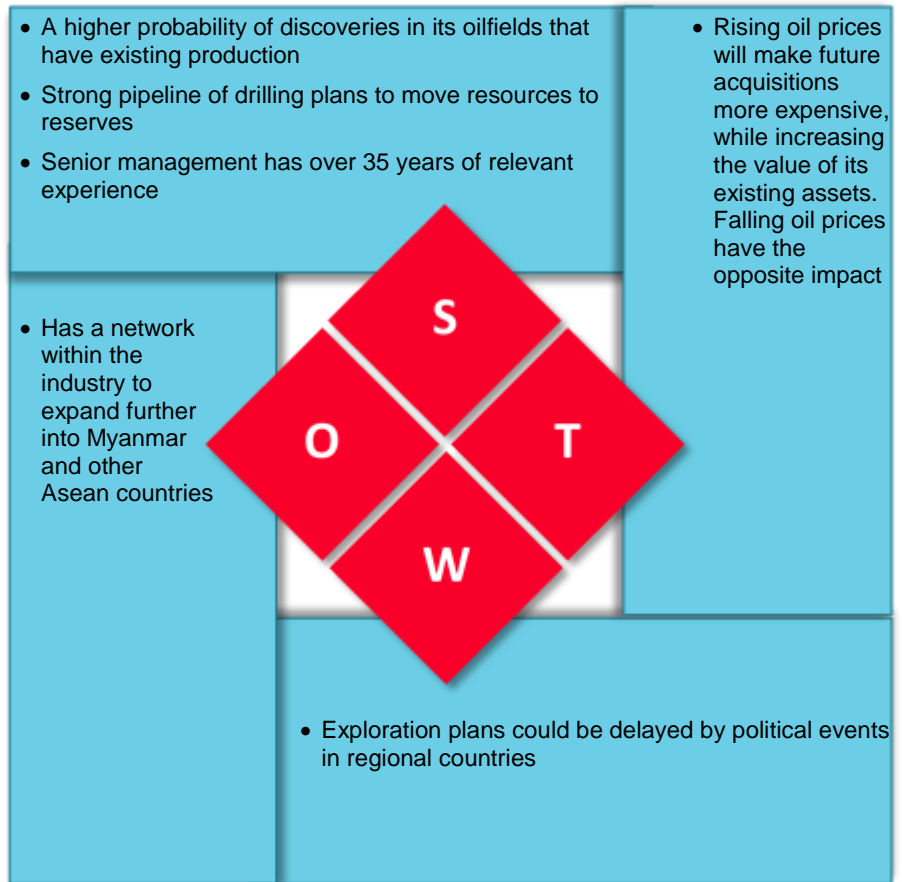
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	71	45	32
Inventories	5	6	2	2	3
Accounts receivable	6	9	11	13	19
Other current assets	1	1	1	1	1
Total current assets	35	44	84	60	54
Tangible fixed assets	65	68	79	160	200
Intangible assets	140	140	140	140	140
Total other assets	55	67	62	62	62
Total non-current assets	259	275	281	362	402
Total assets	294	319	364	422	456
Short-term debt	1	5	11	61	71
Accounts payable	49	49	46	48	56
Other current liabilities	6	3	4	4	4
Total current liabilities	56	58	61	112	131
Total long-term debt	79	37	37	37	37
Other liabilities	50	43	41	41	41
Total non-current liabilities	128	80	78	78	78
Total liabilities	184	138	138	190	209
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(32)	(26)	(11)
Shareholders' equity	110	181	226	232	247
Total equity	110	181	226	232	247
Total liabilities & equity	294	319	364	422	456

Source: Company data, OSK-DMG estimates

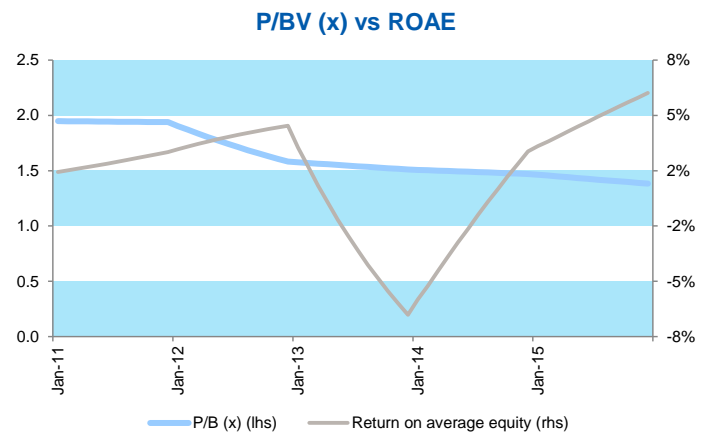
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	0.0	20.6	46.3
Operating profit growth (%)	214.2	(8.0)	(150.7)	0.0	56.4
Net profit growth (%)	65.0	108.2	(324.8)	0.0	134.4
EPS growth (%)	64.8	83.5	(280.6)	0.0	134.4
Bv per share growth (%)	0.5	22.6	4.7	2.8	6.3
Operating margin (%)	22.4	21.3	(10.8)	24.2	25.8
Net profit margin (%)	3.3	7.1	(15.9)	6.0	9.6
Return on average assets (%)	1.0	2.0	(4.0)	1.6	3.3
Return on average equity (%)	2.7	4.2	(6.7)	2.7	6.1
Net debt to equity (%)	51.3	7.6	(10.2)	22.8	30.9
Recurrent cash flow per share	0.07	0.04	0.03	0.02	0.04

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 & 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
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

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

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