

## RH Petrogas (RHP SP)

Energy - Upstream Oil & Gas

Market Cap: USD333m

**Buy** (Maintained)

Target Price: **SGD1.38**

Price: **SGD0.57**

### Exploration VP Steps Up To CEO Role

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



Source: Bloomberg

Avg Turnover (SGD/USD)	5.56m/4.46m
Cons. Upside (%)	157.9
Upside (%)	142
52-wk Price low/high (SGD)	0.47 - 0.92
Free float (%)	35

Shareholders (%)	
Tan Sri Datuk Sir Tiong Hiew	64.6

RHP announced that current CEO Dr Tony Tan is retiring on 31 Dec, but will continue to serve as an advisor to the board. Francis Chang, currently VP exploration & production (E&P), will step into the CEO role. Chang has a strong background in E&P and we expect a smooth transition, as he has been with RHP since June 2010. Maintain BUY with SGD1.38 TP. The stock trades at 37% discount to its production assets.

- ◆ **Incoming CEO not a new face, we expect a smooth transition.** For over 35 years, Francis Chang, a geologist by training, has worked in major and independent US-based oil companies such as Amoco, Burlington Resources, Anadarko Petroleum and Texas American Resources. Chang joined RHP in June 2010 and we understand that he has been instrumental in planning and executing its drilling programme. We expect a smooth leadership transition and expect RHP to continue executing its strategy of increasing production and investing in low-to-medium risk Asian assets.
- ◆ **No share placement to fund acquisition.** We understand that RHP is not considering any share issuance in the near term to fund its upcoming acquisitions. Project financing will be available, as RHP has healthy cash flow and its net cash position offers sufficient debt headroom. We believe that RHP's bite-size is around USD40m for a production-stage field of a size in between its Basin and Island production sharing contracts (PSCs)'s 2P reserves sizes. "2P" denotes proven and probable reserves.
- ◆ **Low expectations priced into stock.** At a 37% discount to its production assets alone, market expectations are low. Our calculation shows that the implied Brent price in the share price is USD70/barrel (bbl). The price also implies a 36% DCF-value discount rate, which is too pessimistic. RHP's EV/(2P+2C) ratio stands at USD4.35/barrel of oil equivalent (boe) vs USD11.50/boe for KrisEnergy (KRIS SP, NR). "2C" denotes best estimates of contingent resources.
- ◆ **Maintain BUY with SGD1.38 TP.** We believe RHP's fundamental value will become more apparent with greater investor education on valuing E&P companies. Our TP is set at parity to our net present value (NPV)-and-risking model.

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	(10.9)	3.3	14.8
Recurring net profit (USDm)	2.9	6.1	(10.9)	3.3	14.8
Recurring net profit growth (%)	65.0	108.2	(279.2)	na	348.6
Recurring EPS (USD)	0.01	0.01	(0.02)	0.00	0.02
Recurring P/E (x)	71	39	na	101	22
P/B (x)	1.89	1.54	1.45	1.43	1.35
P/CF (x)	6.8	12.3	10.8	18.8	9.4
EV/EBITDA (x)	8.0	8.6	44.8	8.9	6.0
Return on average equity (%)	2.7	4.2	(5.3)	1.4	6.2
Net debt to equity (%)	51.3	7.6	net cash	2.3	9.3
Our vs consensus EPS (%)			9.4	(60.7)	(19.1)

Source: Company data, OSK-DMG estimates

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## Additional Notes

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

**Our model does not assume Basin and Island PSC contract extension.** Our NPV model for the Basin and Island production fields (the first two lines totalling 11mmboe – million boe – of 2P reserves) has production cut off in 2020, when the PSC is set to expire. RHP is applying for an extension of the contract to 2030, although the duration of the approval process is uncertain. Should approval be granted, there will be potential significant upside to the 2P reserves and the NPVs of these fields, with positive knock-on effects on the size and valuation of the 2C resources.

Figure 1: 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	60%	9.0			100%	9.0	144.7	16.1
Indonesia	Island	33%	2.0			100%	2.0	29.3	14.6
China	Fuyu-1 Shallow Oil	49%		35.0		100%	35.0	350.6	10.0
			<b>11.0</b>	<b>35.0</b>	<b>0.0</b>		<b>46.0</b>	<b>524.5</b>	<b>11.4</b>
<b>Development / Re-activation / Appraisal Drilling Stage</b>									
Indonesia	Basin - North Klalin	60%		9.5		90%	8.6	68.7	8.0
Indonesia	Basin - SE Walio	60%		2.3		90%	2.1	16.9	8.0
Indonesia	Island - TBC	60%		7.0		60%	4.2	30.7	7.3
Indonesia	Island - Koi	33%		5.0		30%	1.5	11.0	7.3
Indonesia	Island - North Sele	33%		5.7		30%	1.7	12.5	7.3
			<b>0.0</b>	<b>29.5</b>	<b>0.0</b>		<b>18.1</b>	<b>139.8</b>	<b>7.7</b>
<b>Exploration Stage</b>									
Indonesia	Basin - Klagalo	60%			32.4	20%	6.5	6.5	1.0
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%			180.0	10%	18.0	18.0	1.0
Indonesia	Basin - Wario & Arar	60%			399.6	10%	40.0	40.0	1.0
Indonesia	Island - Koi & Sele Strait	33%			386.0	10%	38.6	38.6	1.0
			<b>0.0</b>	<b>0.0</b>	<b>1,030.0</b>		<b>111.6</b>	<b>111.6</b>	<b>1.0</b>
<b>Total:</b>			<b>11.0</b>	<b>64.5</b>	<b>1,030.0</b>		<b>175.7</b>	<b>776.0</b>	<b>4.4</b>
		<b>Value (USDm)</b>	<b>Per share</b>						
Producing / near-production		524.5	0.72						
Development/ appraisal		139.8	0.19						
Exploration		111.6	0.15						
Adjust for Group gross cash (USDm)		78.0	0.11		Adjusted for placement				
Adjust for Group gross debt (USDm)		-48.1	-0.07						
<b>Target equity value (USDm)</b>		<b>805.9</b>	<b>1.10</b>						
Shares (m)		731.3							
Forex rate			1.25						
<b>Equity value per share (SGD/share)</b>			<b>1.38</b>						

Source: OSK-DMG estimates

**Liquidation value of SGD1.03 per share.** The table below 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 SGD1.03 today on the back of these marketable assets.

Figure 2: Market valuation of reserves and resources as of 28 Nov 2013

Country	Field	Equity %	2P mmboe	2C mmboe	Prospective Resources			2P Value USD/ boe	2C Value USD/ boe	PR Value USD/ boe	2P Value USDm	2C Value USDm	PR Value USDm
					mmboe	mmboe	mmboe						
<b>Production / Near-production</b>													
Indonesia	Basin	60%	9.0				16.1				144.7		
Indonesia	Island	33%	2.0				14.6				29.3		
China	Fuyu-1 - Shallow Oil	49%		35.0				5.0				175.3	
			<b>11.0</b>	<b>35.0</b>	<b>0.0</b>						<b>173.9</b>	<b>175.3</b>	<b>0.0</b>
<b>Development / Re-activation / Appraisal Drilling Stage</b>													
Indonesia	Basin - North Klalin	60%		9.5				8.0				76.4	
Indonesia	Basin - SE Walio	60%		2.3				8.0				18.8	
Indonesia	Island - TBC	33%		7.0				7.3				51.2	
Indonesia	Island - Koi	33%		5.0				7.3				36.6	
Indonesia	Island - North Sele	33%		5.7				7.3				41.7	
			<b>0.0</b>	<b>29.5</b>	<b>0.0</b>						<b>0.0</b>	<b>224.6</b>	<b>0.0</b>
<b>Exploration Stage</b>													
Indonesia	Basin - Klagalo	60%					32.4		0.0				0.0
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%					399.6		0.0				0.0
Indonesia	Island - Koi & Sele Strait	33%					386.0		0.0				0.0
			<b>0.0</b>	<b>0.0</b>	<b>1,030.0</b>						<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>			<b>11.0</b>	<b>64.5</b>	<b>1,030.0</b>						<b>173.9</b>	<b>399.9</b>	<b>0.0</b>
<b>Value (USDm) Per Share</b>													
2P			173.9	0.24									
2C			399.9	0.55									
Resources			0.0	0.00									
Add cash			78.0	0.11	Adjusted for placement.								
Less debt			-48.1	-0.07	Debt as of 3Q13.								
<b>Equity value</b>			<b>603.8</b>	<b>0.83</b>									
<b>Shares (m)</b>			<b>731.3</b>										
Forex rate				1.25									
<b>Equity value (SGD)</b>				<b>1.03</b>	<b>Implicit EV/(2P+2C) Valuation</b>		<b>8.0</b>						

Source: OSK-DMG estimates

**Most important valuation ratios are EV/2P and EV/(2P+2C).** The key valuation ratios of exploration & production companies are the enterprise value to 2P reserves, and to 2P+2C resources. Unless the company is in the mature, high-production stage, typical P/E and EV/EBITDA ratios will fail to capture the true value of the recoverable oil.

On these ratios, RHP's 2014 figures look appealing. Its EV/2P ratio will be only USD11.00/boe compared with USD27.60/boe for KrisEnergy, the Asian average of USD21/boe, and the global average of USD18/boe.

The EV/(2P+2C) figure for RHP indicates similar undervaluation. It currently stands at USD4.40/boe, compared with USD11.50/boe for KrisEnergy, the Asian average of USD9.30/boe, and the global average of USD7.30/boe. Assuming the Klagalo resources in Indonesia and the Fuyu deep gas resources get upgraded to 2C, RHP's ratio falls further to USD2.50/boe.

## Financial Exhibits

<b>Profit &amp; Loss (USDm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
Total turnover	89	86	96	124	186
Cost of sales	(57)	(54)	(62)	(81)	(125)
<b>Gross profit</b>	<b>33</b>	<b>32</b>	<b>35</b>	<b>42</b>	<b>61</b>
Gen & admin expenses	(5)	(5)	(7)	(8)	(8)
Other operating costs	(7)	(8)	(32)	(10)	(11)
<b>Operating profit</b>	<b>20</b>	<b>18</b>	<b>(5)</b>	<b>25</b>	<b>42</b>
Operating EBITDA	33	29	6	38	59
Depreciation of fixed assets	(13)	(10)	(11)	(13)	(17)
<b>Operating EBIT</b>	<b>20</b>	<b>18</b>	<b>(5)</b>	<b>25</b>	<b>42</b>
Other recurring income	1	0	7	-	-
Interest expense	(2)	(2)	(3)	(3)	(3)
<b>Pre-tax profit</b>	<b>19</b>	<b>16</b>	<b>(1)</b>	<b>22</b>	<b>39</b>
Taxation	(16)	(10)	(10)	(19)	(25)
<b>Profit after tax &amp; minorities</b>	<b>3</b>	<b>6</b>	<b>(11)</b>	<b>3</b>	<b>15</b>
<b>Reported net profit</b>	<b>3</b>	<b>6</b>	<b>(11)</b>	<b>3</b>	<b>15</b>
<b>Recurring net profit</b>	<b>3</b>	<b>6</b>	<b>(11)</b>	<b>3</b>	<b>15</b>

Source: Company data, OSK-DMG estimates

<b>Cash flow (USDm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
<b>Operating profit</b>	<b>20</b>	<b>18</b>	<b>(5)</b>	<b>25</b>	<b>42</b>
<b>Depreciation &amp; amortisation</b>	<b>13</b>	<b>10</b>	<b>11</b>	<b>13</b>	<b>17</b>
<b>Change in working capital</b>	<b>7</b>	<b>(6)</b>	<b>3</b>	<b>1</b>	<b>4</b>
Other operating cash flow	3	5	31	-	-
<b>Operating cash flow</b>	<b>43</b>	<b>29</b>	<b>40</b>	<b>39</b>	<b>63</b>
Interest received	0	0	0	-	-
Interest paid	(1)	(2)	(3)	(3)	(3)
Tax paid	(11)	(8)	(10)	(19)	(25)
<b>Cash flow from operations</b>	<b>31</b>	<b>19</b>	<b>27</b>	<b>18</b>	<b>35</b>
Capex	(28)	(28)	(41)	(52)	(53)
Other investing cash flow	(1)	(1)	(1)	-	-
<b>Cash flow from investing activities</b>	<b>(29)</b>	<b>(29)</b>	<b>(42)</b>	<b>(52)</b>	<b>(53)</b>
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	6	10	10
Other financing cash flow	(14)	(2)	-	-	-
<b>Cash flow from financing activities</b>	<b>17</b>	<b>14</b>	<b>64</b>	<b>10</b>	<b>10</b>
Cash at beginning of period	6	24	29	77	52
<b>Total cash generated</b>	<b>19</b>	<b>4</b>	<b>49</b>	<b>(25)</b>	<b>(8)</b>
Forex effects	(1)	0	-	-	-
<b>Implied cash at end of period</b>	<b>24</b>	<b>28</b>	<b>78</b>	<b>52</b>	<b>45</b>

Source: Company data, OSK-DMG estimates

## Financial Exhibits

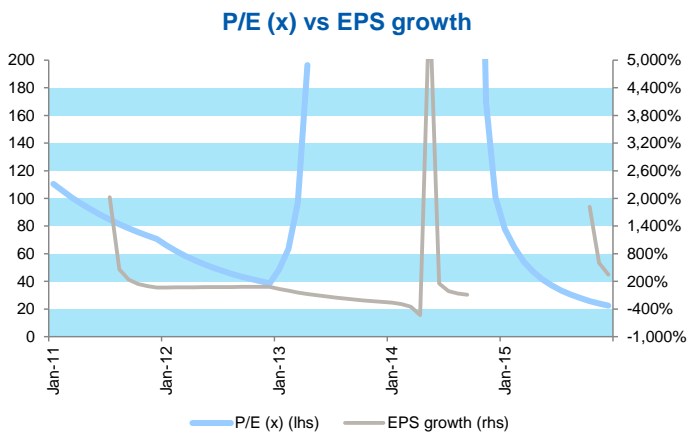
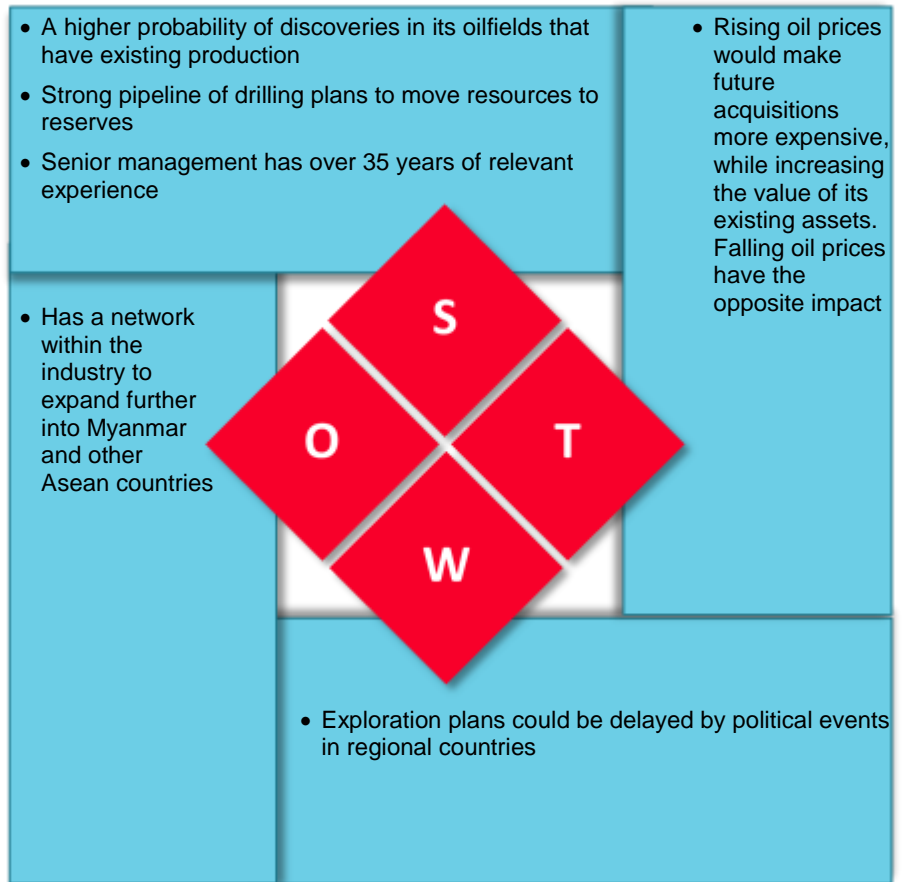
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	77	52	45
Inventories	5	6	2	2	3
Accounts receivable	6	9	12	15	23
Other current assets	1	1	1	1	1
<b>Total current assets</b>	<b>35</b>	<b>44</b>	<b>91</b>	<b>71</b>	<b>72</b>
Tangible fixed assets	65	68	79	118	154
Intangible assets	140	140	140	140	140
Total other assets	55	67	62	62	62
Total non-current assets	259	275	281	320	356
<b>Total assets</b>	<b>294</b>	<b>319</b>	<b>372</b>	<b>390</b>	<b>428</b>
Short-term debt	1	5	11	21	31
Accounts payable	49	49	51	56	68
Other current liabilities	6	3	4	4	4
<b>Total current liabilities</b>	<b>56</b>	<b>58</b>	<b>65</b>	<b>80</b>	<b>103</b>
Total long-term debt	79	37	37	37	37
Other liabilities	50	43	41	41	41
<b>Total non-current liabilities</b>	<b>128</b>	<b>80</b>	<b>78</b>	<b>78</b>	<b>78</b>
<b>Total liabilities</b>	<b>184</b>	<b>138</b>	<b>143</b>	<b>158</b>	<b>181</b>
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(30)	(26)	(11)
<b>Shareholders' equity</b>	<b>110</b>	<b>181</b>	<b>229</b>	<b>232</b>	<b>247</b>
<b>Total equity</b>	<b>110</b>	<b>181</b>	<b>229</b>	<b>232</b>	<b>247</b>
<b>Total liabilities &amp; equity</b>	<b>294</b>	<b>319</b>	<b>372</b>	<b>390</b>	<b>428</b>

Source: Company data, OSK-DMG estimates

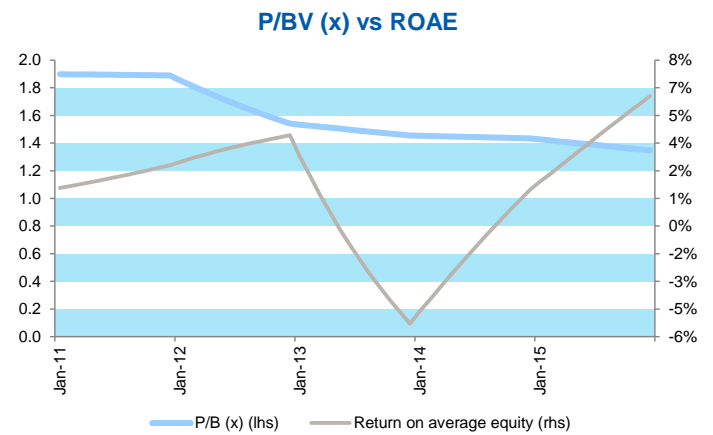
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	11.5	28.4	50.6
Operating profit growth (%)	214.2	(8.0)	(125.3)	0.0	72.6
Net profit growth (%)	65.0	108.2	(279.2)	0.0	348.6
EPS growth (%)	64.8	83.5	(243.9)	0.0	348.6
Bv per share growth (%)	0.5	22.6	5.9	1.4	6.4
Operating margin (%)	22.4	21.3	(4.8)	19.9	22.8
Net profit margin (%)	3.3	7.1	(11.4)	2.7	8.0
Return on average assets (%)	1.0	2.0	(3.2)	0.9	3.6
Return on average equity (%)	2.7	4.2	(5.3)	1.4	6.2
Net debt to equity (%)	51.3	7.6	(12.7)	2.3	9.3
Recurrent cash flow per share	0.07	0.04	0.04	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 & 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
2013-11-28	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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- 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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