

RH Petrogas (RHP SP)

Oil & Gas - Exploration & Production

Market Cap: USD382m

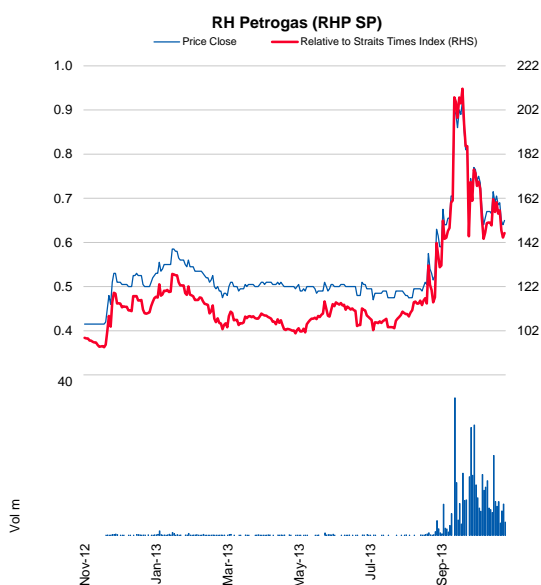
Buy (Maintained)

 Target Price: **SGD1.38**

 Price: **SGD0.65**

Strikes Oil In High Impact Zones

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



Source: Bloomberg

Avg Turnover (SGD/USD)	4.38m/3.52m
Cons. Upside (%)	126.2
Upside (%)	112
52-wk Price low/high (SGD)	0.42 - 0.92
Free float (%)	35

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

RHP's 3Q13 results were in line with expectations, with a reported USD10.9m loss after write-offs. Its core 3Q13 earnings stood at USD1.3m while 9M13 operating cash flow amounted to USD15m. RHP has struck oil in the high-impact Klagalo and Zircon areas, which have combined prospective resources of 46.4 mmboe. With oil found, our risking percentage for these areas rises while our TP increases to SGD1.38. Maintain BUY.

- ◆ **Healthy production and cash flow.** RHP announced a 3Q13 loss of USD10.9m after writeoffs, without which profits would have come in at USD1.3m. Its 3Q13 revenue of USD19.2m makes it the largest SGX-listed producer, while its 9M13 USD15.1m operating cash flow is healthy.
- ◆ **Partial success in offshore Zircon-1 well.** The Zircon-1 well reached total depth, with wireline logs and core samples showing evidence of oil in four zones. However, at the final test stage, oil failed to flow, likely due to complications in offshore drilling. This is a partial success although RHP will plug and abandon the well, as proof of the presence of oil is a concrete step forward, since we previously had zero hard evidence. We raise our risking percentage for the Zircon area to 20% from 10%. RHP will return to the Zircon prospect to drill two more wells in FY14 after the Koi-2 and Koi-3 wells are completed. As the exploration costs are recoverable under the PSC, we understand no writeoff is imminent.
- ◆ **Onshore Klagalo-1 well strikes oil.** We gather that three oil zones are being tested in the Klagalo-1 well. This prompts us to raise our risking for this prospect to 20% from 10%.
- ◆ **Targeting acquisition of brownfield assets with existing production.** We understand that RHP is looking to acquire brownfield assets with current production, and that the target field is in the Asean region. This will allay investors' concerns of the multi-year lead time to production from RHP's existing exploration assets.
- ◆ **Prospects have brightened.** E&P companies have a <33% chance of success in drilling exploration wells on average, but asymmetric payoffs make up for this risk. The newly-confirmed presence of oil has increased RHP's chance of success in future wells in these zones. The improved probability pushes up our TP to SGD1.38.

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	(10.8)	3.6	15.1
Recurring net profit (USDm)	2.9	6.1	(10.8)	3.6	15.1
Recurring net profit growth (%)	65.0	108.2	(277.6)	na	320.0
Core EPS (USD)	0.01	0.01	(0.02)	0.00	0.02
Core P/E (x)	81	44	na	106	25
Return on average equity (%)	2.7	4.2	(5.2)	1.5	6.1
P/B (x)	2.17	1.77	1.62	1.59	1.50
P/CF (x)	7.7	14.1	45.0	21.2	9.4
EV/EBITDA (x)	8.9	9.8	27.6	10.3	6.7
Net debt to equity (%)	51.3	7.6	net cash	5.4	7.4
Our vs consensus EPS (%)			8.4	(57.1)	(17.4)

Source: Company data, OSK-DMG estimates

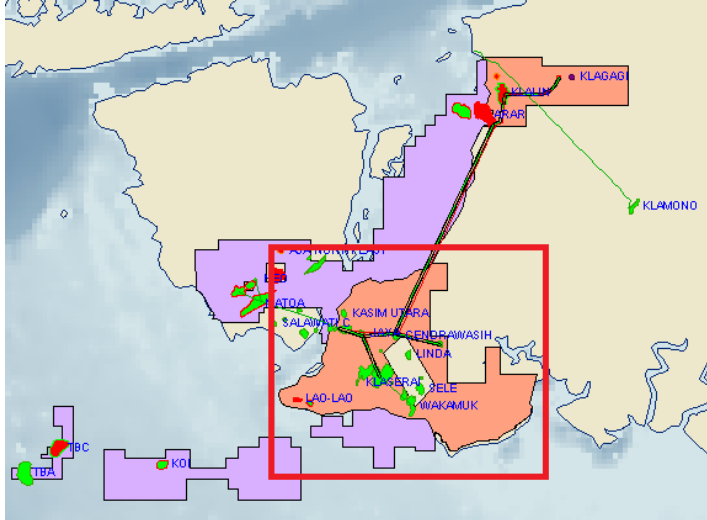
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Additional Notes

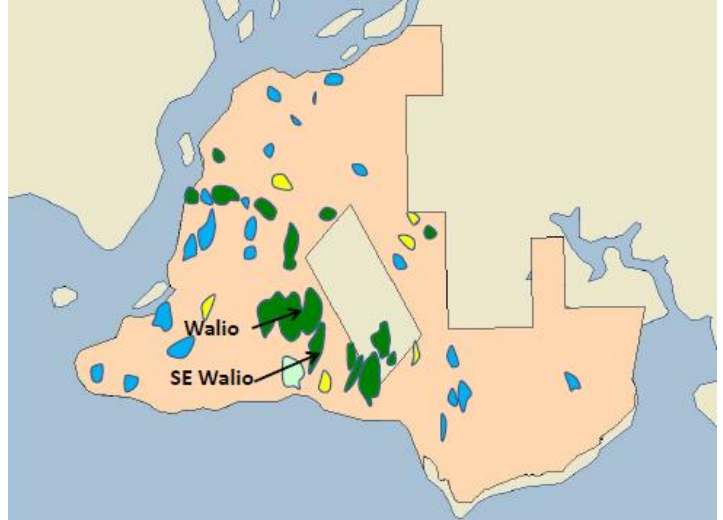
2.3mboe increase in 2C contingent resources. RHP has increased its 2C contingent resources by 2.3mboe (millions of barrels of oil equivalent) after a field in SE Walio (in the Basin PSC) became commercially-viable. This is a small oil field southeast of the main producing Walio block. A well drilled in 2008 saw a flow of >1000 barrels per day (bpd) but this declined rapidly and the formation was found to be “tight”. RHP has drilled a SE-Walio-2 sidetrack well, which tested 100bpd of light oil without water. Following a “fracture study”, RHP located the natural fracture zones within this block and plans to drill production wells at those locations, making the tight oil commercially viable. The plan of development is expected to be approved in July 2014.

Figure 1: SE Walio block lies within the Basin PSC



Source: Company

Figure 2: Green for oilfields

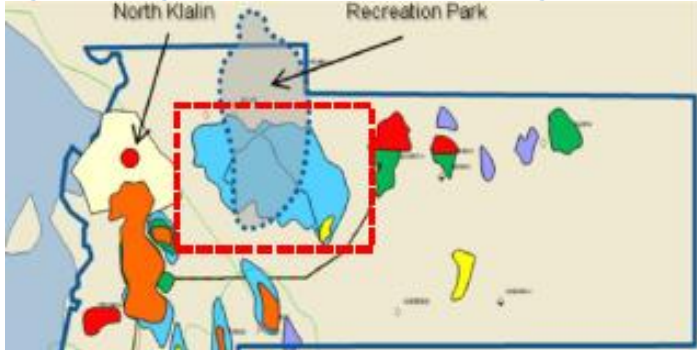


Source: Company

Surprisingly, light oil found in Fuyu-1 block. Management said to its surprise, some light oil flowed from the Fuyu-1 pilot test wells. 50 barrels of 32-degree-API light oil flowed to the surface without the assistance of pumps over the span of two weeks, where only heavy oil had been expected. While we await further clarity, this presents potential upside to the value of the Fuyu-1 field.

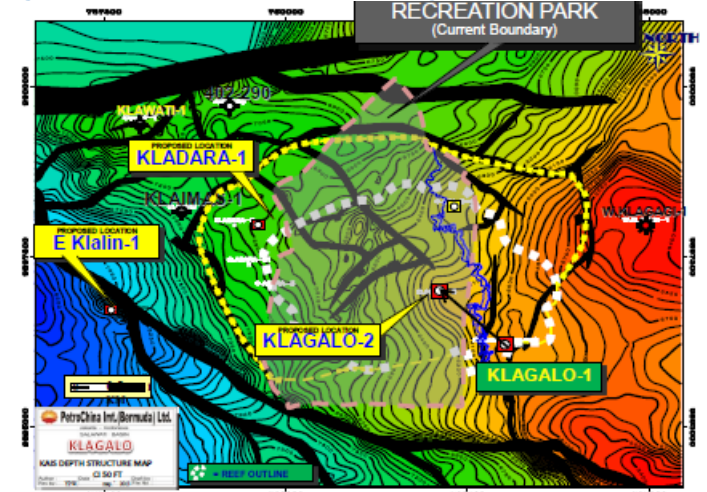
Oil finds in Klagalo opens up east-of-Klalin fairway. RHP has released new maps of the Klagalo prospect, saying that the well is being completed for testing “after encouraging results from logs and [sidewall core] run”. We read this as indicating that the wireline logs and core samples have shown evidence of oil presence.

Figure 3: Klagalo prospect is east of producing Klalin zone



Source: Company

Figure 4: 32.4mboe potential in Klagalo



Source: Company

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 exploration-stage resources. We also assume that the Fuyu-1 shallow oil field will commence production by early 2014.

Figure 6 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 5: Our NPV-and-risking model

Country	Field	Equity %	2P mmboe	2C mmboe	Prospective	Risking %	Risked mmboe	NPV USDm	NPV USD/boe
					Resources mmboe				
Production / Near-production Stage									
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
			11.0	35.0	0.0		46.0	524.5	11.4
Development / Re-activation / Appraisal Drilling Stage									
Indonesia	Basin - Klalin	60%		9.5		50%	4.8	38.2	8.0
Indonesia	Basin - SE Walio	60%		2.3		50%	1.2	9.4	8.0
Indonesia	Island - TBC	60%		7.0		50%	3.5	25.6	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
Indonesia	Island - Zircon	33%			14.0	20%	2.8	20.5	7.3
Indonesia	Basin - Klagalo	60%			32.4	20%	6.5	52.1	8.0
China	Fuyu-1 Deep Gas	49%			27.0	30%	8.1	16.2	2.0
			0.0	29.5	73.4		30.0	185.4	6.2
Exploration Stage									
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
			0.0	0.0	970.6		97.1	97.1	1.0
	Total:		11.0	64.5	1,044.0		173.1	807.0	4.7
			Value (USDm)		Per share				
	Producing / near-production		524.5		0.72				
	Development / appraisal		185.4		0.25				
	Exploration		97.1		0.13				
	Adjust for Group gross cash USDm)		78.0		0.11 Adjusted for placement				
	Adjust for Group gross debt (USDm)		-77.7		-0.11 Adjusted for expected capex till 3Q14.				
	Target equity value (USDm)		807.3		1.10				
	Shares (m)		731.3						
	Forex rate				1.25				
	Equity value per share (SGD/share)				1.38				

Source: OSK-DMG estimates

Note the addition of SE Walio and Klagalo fields and improvements to risking percentages. We have added the SE Walio field and its 2.34mmboe of 2C contingent resources, assigning a NPV/boe of USD8.0/bbl in line with other Basin production sharing contract (PSC) fields. Also, the Klagalo field has been broken out of the "Basin – Walio & Arar" line. Risking percentages for the Zircon and Klagalo have zones have been raised from 10% to 20% following the oil finds. For Zircon, had the flow test been successful, we would have raised it to the 25-30% region. The Klagalo field is now at the same stage as Zircon – oil finds without oil flow news as yet – and thus the risking percentage similarly rises.

Figure 6: 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	2C Value	PR Value
									USDm	USDm	USDm
Production / Near-production											
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	
			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			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	
Indonesia	Island - Zircon	33%			14.0			0.0			0.0
Indonesia	Basin - Klagalo	60%			32.4			0.0			0.0
China	Fuyu-1 - Deep Gas	49%			27.0			0.0			0.0
			0.0	29.5	73.4				0.0	224.6	0.0
Exploration Stage											
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
			0.0	0.0	970.6				0.0	0.0	0.0
Total			11.0	64.5	1,044.0				173.9	399.9	0.0
			Value								
			(USDm) Per Share								
			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	-49.2	-0.07	Debt as of 3Q13. No adjustment for future capex as this is liquidation valuation.					
			Equity value	602.7	0.82						
			Shares (m)	731.3							
			Forex rate		1.25						
			Equity value (SGD)	1.03	Implicit EV/(2P+2C) Valuation	8.0					

Source: OSK-DMG estimates

Higher liquidation value of SGD1.03 per share. The addition of the SE Walio field has added about USD19m of value to RHP's liquidation value. Also, we no longer adjust the debt for expected capex – this was erroneous on our part as the liquidation value of RHP today should not have been lowered by future expenditure. The revised liquidation value is now SGD1.03 per share, implying an EV/(2P+2C) valuation of USD8.00/boe, which is at a 20% discount on the Asian average of c. USD10/boe.

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)	(7)	(8)	(8)
Other operating costs	(7)	(8)	(26)	(10)	(10)
Operating profit	20	18	1	25	43
Operating EBITDA	33	29	12	38	60
Depreciation of fixed assets	(13)	(10)	(10)	(13)	(17)
Operating EBIT	20	18	1	25	43
Other recurring income	1	0	1	-	-
Interest expense	(2)	(2)	(3)	(3)	(3)
Pre-tax profit	19	16	(1)	22	40
Taxation	(16)	(10)	(10)	(19)	(25)
Profit after tax & minorities	3	6	(11)	4	15
Reported net profit	3	6	(11)	4	15
Recurring net profit	3	6	(11)	4	15

Source: Company data, OSK-DMG estimates

Cash flow (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	20	18	1	25	43
Depreciation & amortisation	13	10	10	13	17
Change in working capital	7	(6)	3	1	9
Other operating cash flow	3	5	5	-	-
Operating cash flow	43	29	20	39	69
Interest received	0	0	0	-	-
Interest paid	(1)	(2)	(3)	(3)	(3)
Tax paid	(11)	(8)	(10)	(19)	(25)
Cash flow from operations	31	19	7	18	41
Capex	(28)	(28)	(35)	(46)	(47)
Other investing cash flow	(1)	(1)	(1)	-	-
Cash flow from investing activities	(29)	(29)	(36)	(46)	(47)
Proceeds from issue of shares	-	-	58	-	-
Increase in debt	31	16	6	10	10
Other financing cash flow	(14)	(2)	-	-	-
Cash flow from financing activities	17	14	64	10	10
Cash at beginning of period	6	24	29	63	45
Total cash generated	19	4	36	(18)	4
Forex effects	(1)	0	-	-	-
Implied cash at end of period	24	28	64	45	50

Source: Company data, OSK-DMG estimates

Financial Exhibits

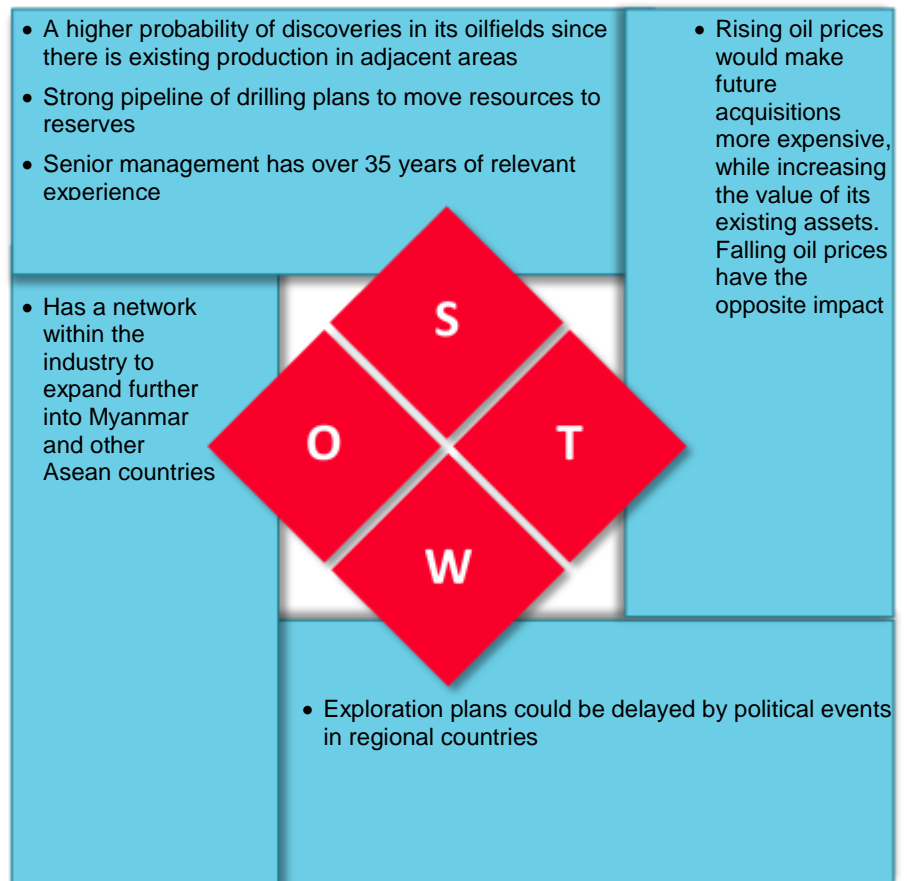
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	63	45	50
Inventories	5	6	2	2	3
Accounts receivable	6	9	12	15	23
Other current assets	1	1	1	1	1
Total current assets	35	44	78	63	77
Tangible fixed assets	65	68	92	125	155
Intangible assets	140	140	140	140	140
Total other assets	55	67	62	62	62
Total non-current assets	259	275	294	327	357
Total assets	294	319	372	391	434
Short-term debt	1	5	11	21	31
Accounts payable	49	49	51	56	74
Other current liabilities	6	3	4	4	4
Total current liabilities	56	58	65	80	108
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	143	158	186
Share capital	138	200	258	258	258
Retained earnings reserve	(28)	(19)	(22)	(19)	(4)
Other reserves	-	-	-	-	0
Shareholders' equity	110	181	236	240	255
Other equity	-	-	(7)	(7)	(7)
Total equity	110	181	229	233	248
Total liabilities & equity	294	319	372	391	434

Source: Company data, OSK-DMG estimates

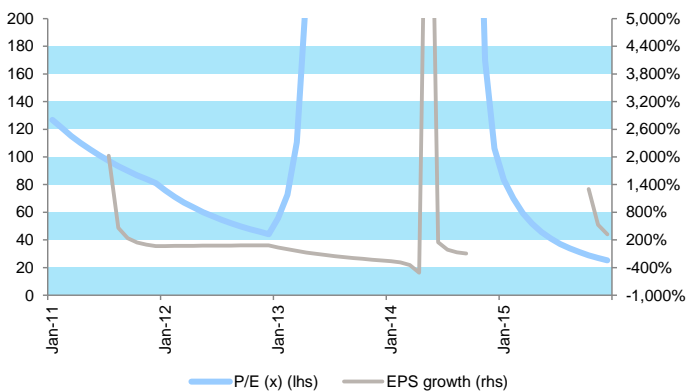
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	11.5	28.4	50.6
Operating profit growth (%)	214.2	(8.0)	(92.7)	1761.2	71.8
Net profit growth (%)	65.0	108.2	(277.6)	0.0	320.0
EPS growth (%)	64.8	83.5	(242.6)	0.0	320.0
Bv per share growth (%)	0.5	22.6	9.3	1.5	6.3
Operating margin (%)	22.4	21.3	1.4	20.1	23.0
Net profit margin (%)	3.3	7.1	(11.3)	2.9	8.1
Return on average assets (%)	1.0	2.0	(3.1)	0.9	3.7
Return on average equity (%)	2.7	4.2	(5.2)	1.5	6.1
Net debt to equity (%)	51.3	7.6	(6.8)	5.4	7.4
Recurrent cash flow per share	0.07	0.04	0.01	0.02	0.06

Source: Company data, OSK-DMG estimates

SWOT Analysis

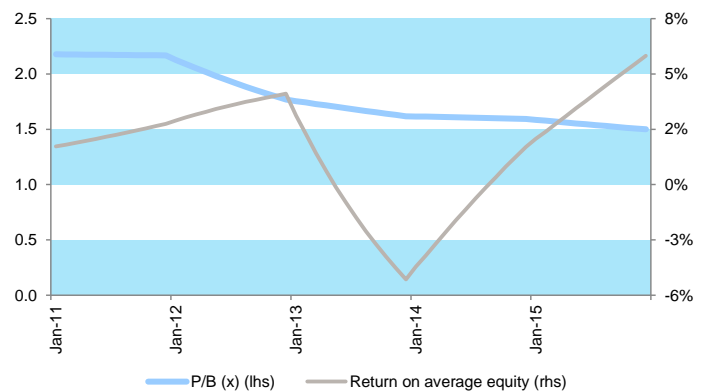


P/E (x) vs EPS growth



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.

Recommendation Chart



Source: OSK-DMG estimates, Bloomberg

Date	Recommendation	Target Price	Price
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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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
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Not Rated: Stock is not within regular research coverage

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