

RH Petrogas (RHP SP)

Oil & Gas - Exploration & Production

Market Cap: USD347m

Buy (Maintained)

Target Price: **SGD1.33**

Price: **SGD0.71**

A Shot Of Adrenaline

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



Source: Bloomberg

Avg Turnover (SGD/USD)	0.30m/0.24m
Cons. Upside (%)	87.3
Upside (%)	88.2
52-wk Price low/high (SGD)	0.42 - 0.71
Free float (%)	36

Shareholders (%)	
Tan Sri Datuk Sir Tiong Hiew King	64.1

RH Petrogas (RHP) will issue 116m new shares, at SGD0.63/share, to a group of institutional investors, raising USD56m to fund drilling activities in the Basin and Island PSCs, which we expect to accelerate in FY14. The stock remains deeply undervalued, with current assets worth SGD0.98/share. Multiple catalysts are expected over October and 4Q13. Maintain BUY with its TP adjusted to SGD1.33 post-placement.

- ◆ **Institutional support for drilling activity.** 90% of the proceeds will be used in exploration, development or production activities in the Basin and Island production-sharing contracts (PSCs) in Indonesia. We believe that the large cash inflow will allow RHP to expand its drilling programme in FY14. Also, this increases RHP's free float from 23% to 36%, which may improve its trading liquidity - thereby lowering the "illiquidity discount".
- ◆ **RHP should trade at SGD0.98 for today's assets.** Based on our assessment of RHP's 2P reserves and 2C contingent resources, RHP should trade at SGD0.98 today (post-placement) to reflect the market value of its reserves and resources.
- ◆ **Multiple catalysts expected over October and 4Q13.** We expect RHP to announce the results of the Zircon-1 well next week as well as the spudding of the exploration well Klagalo-1 in 4Q13. Subject to oil finds, additional appraisal wells may be drilled in the Zircon and Koi prospects this quarter. Additional catalysts would be: i) the signing of new PSCs in Myanmar/Asean region, ii) approval to commence production in Fuyu-1 in China, and potentially iii) news of exploration and production (E&P) players like Sona Petroleum (SONA MK, NR) or Rex International (REXI SP, NR) acquiring a stake in RHP.
- ◆ **Tweaking TP to SGD1.33 for placement; no change to fundamental view.** We adjust our TP to SGD1.33 to reflect the new shares placement. As the cash inflow to RHP adds to its value today, this implies a dilution of less than 20%. The cash will be used productively in drilling new wells and raising the market value of resources by proving and then transferring them to 2P reserves. Maintain BUY with its TP adjusted to SGD1.33 based on parity to our 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	0.6	7.3	18.5
Recurring net profit (USDm)	2.9	6.1	0.6	7.3	18.5
Recurring net profit growth (%)	65.0	108.2	(90.0)	1094.4	153.5
Core EPS (USD)	0.01	0.01	0.00	0.01	0.03
Core P/E (x)	88	48	567	47	19
Return on average equity (%)	2.7	4.2	0.3	4.0	9.5
P/B (x)	2.34	1.91	1.95	1.87	1.70
P/CF (x)	8.4	15.2	48.1	17.4	8.6
EV/EBITDA (x)	9.5	10.5	14.1	10.2	7.0
Net debt to equity (%)	51.3	7.6	42.3	56.5	56.5
Our vs consensus EPS (%)			0.0	0.0	0.0

Source: Company data, OSK-DMG estimates

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Additional Notes

Valuation models. Our NPV-and-risking model provides a longer-term view of company's valuation, assigning a 10% risking to prospective resources. We also assume that the Fuyu-1 shallow oil field will be brought to production in early-2014.

Figure 2 provides the current valuation of the company's assets, ie the conservative estimate 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, and zero value is attributed to the prospective resources. RHP should still trade at a minimum of SGD0.98 today for 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: Valuation of reserves and resources as of 3 Oct 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)	(8)	(3)	(3)
Operating profit	20	18	19	31	49
Operating EBITDA	33	29	30	45	66
Depreciation of fixed assets	(13)	(10)	(11)	(13)	(17)
Operating EBIT	20	18	19	31	49
Other recurring income	1	0	1	-	-
Interest expense	(2)	(2)	(3)	(5)	(6)
Pre-tax profit	19	16	16	26	43
Taxation	(16)	(10)	(16)	(19)	(25)
Profit after tax & minorities	3	6	1	7	19
Reported net profit	3	6	1	7	19
Recurring net profit	3	6	1	7	19

Source: Company data, OSK-DMG estimates

Cash flow (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	20	18	19	31	49
Depreciation & amortisation	13	10	11	13	17
Change in working capital	7	(6)	(3)	(1)	5
Other operating cash flow	3	5	(1)	0	0
Operating cash flow	43	29	26	44	71
Interest received	0	0	-	-	-
Interest paid	(1)	(2)	(3)	(5)	(6)
Tax paid	(11)	(8)	(16)	(19)	(25)
Cash flow from operations	31	19	7	20	40
Capex	(28)	(28)	(71)	(50)	(50)
Other investing cash flow	(1)	(1)	-	-	-
Cash flow from investing activities	(29)	(29)	(71)	(50)	(50)
Increase in debt	31	16	48	30	15
Other financing cash flow	(14)	(2)	-	-	-
Cash flow from financing activities	17	14	48	30	15
Cash at beginning of period	6	24	29	14	14
Total cash generated	19	4	(15)	0	5
Forex effects	(1)	0	-	-	-
Implied cash at end of period	24	28	14	14	18

Source: Company data, OSK-DMG estimates

Financial Exhibits

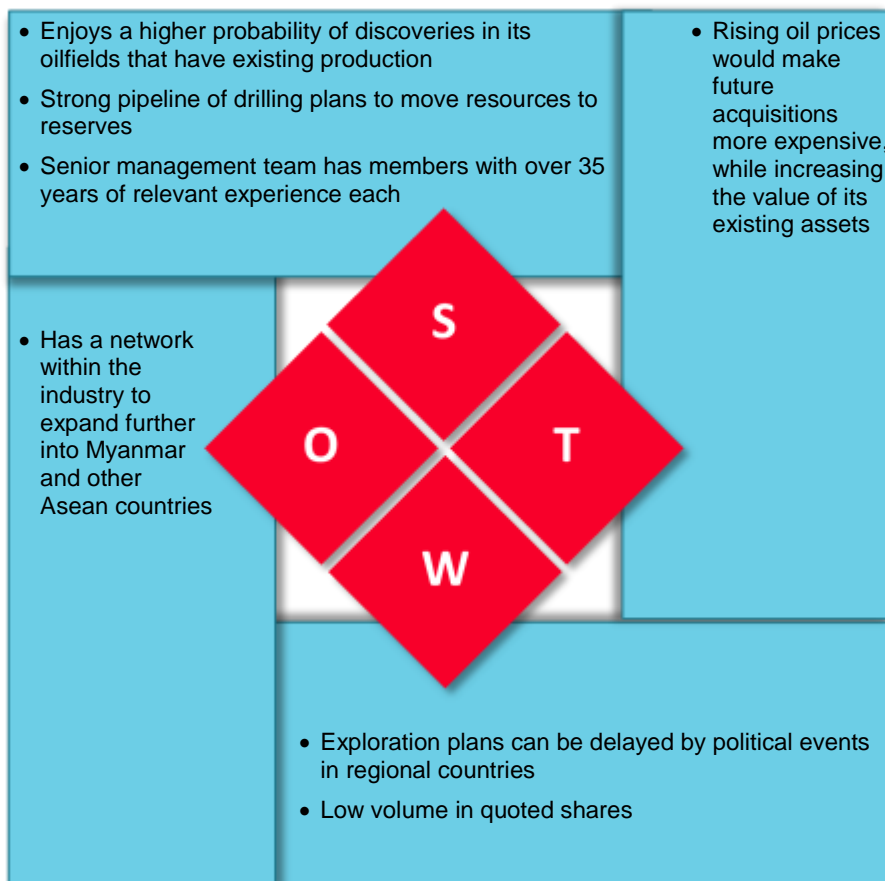
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	14	14	18
Inventories	5	6	8	10	15
Accounts receivable	6	9	12	15	23
Other current assets	1	1	1	1	1
Total current assets	35	44	34	40	57
Tangible fixed assets	65	68	127	164	197
Intangible assets	140	140	140	140	140
Total other assets	55	67	70	70	70
Total non-current assets	259	275	337	374	407
Total assets	294	319	371	413	465
Short-term debt	1	5	54	84	99
Accounts payable	49	49	51	56	74
Other current liabilities	6	3	3	3	3
Total current liabilities	56	58	107	142	175
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	189	224	257
Share capital	138	200	200	200	200
Retained earnings reserve	(28)	(19)	(22)	(15)	3
Other reserves	-	-	-	-	(0)
Shareholders' equity	110	181	178	185	203
Other equity	-	-	4	4	4
Total equity	110	181	182	189	208
Total liabilities & equity	294	319	371	413	465

Source: Company data, OSK-DMG estimates

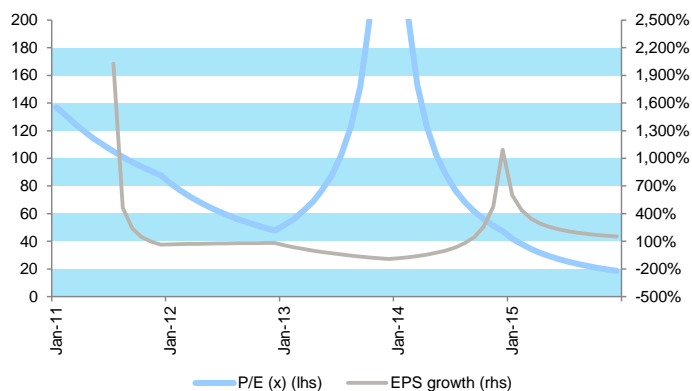
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	11.5	28.4	50.6
Operating profit growth (%)	214.2	(8.0)	2.2	66.2	58.3
Net profit growth (%)	65.0	108.2	(90.0)	1094.4	153.5
EPS growth (%)	64.8	83.5	(91.6)	1094.4	153.5
Bv per share growth (%)	0.5	22.6	(1.9)	4.1	10.0
Operating margin (%)	22.4	21.3	19.5	25.3	26.5
Net profit margin (%)	3.3	7.1	0.6	5.9	9.9
Return on average assets (%)	1.0	2.0	0.2	1.9	4.2
Return on average equity (%)	2.7	4.2	0.3	4.0	9.5
Net debt to equity (%)	51.3	7.6	42.3	56.5	56.5
Recurrent cash flow per share	0.07	0.04	0.01	0.03	0.07

Source: Company data, OSK-DMG estimates

SWOT Analysis

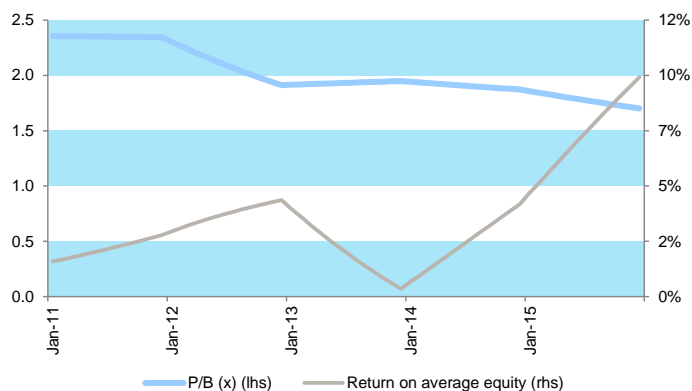


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

Company Profile

RH Petrogas is 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
2013-10-01	Buy	1.47	0.71

Source : OSK-DMG estimates, Bloomberg

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