

RH Petrogas (RHP SP)

Oil & Gas - Exploration & Production

Market Cap: USD378m

Buy (Maintained)

Target Price: **SGD1.33**

Price: **SGD0.64**

Be Greedy When Others Are Fearful

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



Source: Bloomberg

Avg Turnover (SGD/USD)	3.24m/2.60m
Cons. Upside (%)	107.8
Upside (%)	107
52-wk Price low/high (SGD)	0.42 - 0.92
Free float (%)	36

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

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During last week's sell-down on small-cap stocks, RHP pulled back sharply to what we see as clearly takeover levels. The stock is now trading at a 35% discount to its liquidation value, pricing all its exploration assets at zero and discounting part of its 2C resources. We believe RHP's latest wells have struck oil, while its share placement to long-term investors and management buy-in are signs of confidence. **Maintain BUY, with a SGD1.33 TP.**

- ◆ **Placement to long-term value investors.** We understand that a Malaysian fund took up 25m of the 56m new shares, followed by a large U.K. fund with around 10-20m shares, while other smaller funds bought a few million shares each.
- ◆ **CEO's exercise of options a hint of long-term positives.** We view the CEO's recent exercise of 2m options at SGD0.59 each as a clear sign of his confidence in the company for the long term.
- ◆ **RHP likely to have struck oil.** We understand that RHP is currently conducting flow tests in its latest wells. As no E&P company would move to the flow-test stage unless there is clear evidence of oil and gas, we believe that RHP's recent wells have been successful.
- ◆ **35% below liquidation value.** If the company is broken up and sold piecemeal today, RHP's oilfield assets would fetch about SGD0.98 per share, assuming that all 1bn barrels of prospective resources are given away *gratis*. Yesterday's closing price implies that RHP's 2C resources (market-saleable) are discounted at 50%, with zero value ascribed to all its exploration assets. In a nutshell, the panic selling has gone too far.
- ◆ **Be greedy when others are fearful.** The stock is back to its placement price level, with >100% upside to our TP, while its risk-reward ratio also looks highly favourable today. As there are no changes to the fundamental value of this traditional exploration and production company, the sell-down is purely market noise. Investors with holding power tend to outperform during such times of market dislocation. Reiterate BUY recommendation, with a SGD1.33 TP.

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	9.8	21.6
Recurring net profit (USDm)	2.9	6.1	0.6	9.8	21.6
Recurring net profit growth (%)	65.0	108.2	(90.0)	1503.5	120.7
Core EPS (USD)	0.01	0.01	0.00	0.01	0.03
Core P/E (x)	80	44	544	39	17
Return on average equity (%)	2.7	4.2	0.3	3.8	8.0
P/B (x)	2.15	1.75	1.51	1.45	1.34
P/CF (x)	7.7	13.9	46.2	16.9	8.8
EV/EBITDA (x)	8.9	9.7	11.2	9.2	6.3
Net debt to equity (%)	51.3	7.6	1.5	11.9	13.5
Our vs consensus EPS (%)			0.0	0.0	0.0

Source: Company data, OSK-DMG estimates

Additional Notes

Valuation models. Our NPV-and-risking model incorporates a longer term view of the company's valuation, as well as attach 10% risk 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 30 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)	(3)	(3)
Pre-tax profit	19	16	16	28	46
Taxation	(16)	(10)	(16)	(19)	(25)
Profit after tax & minorities	3	6	1	10	22
Reported net profit	3	6	1	10	22
Recurring net profit	3	6	1	10	22

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)	(3)	(3)
Tax paid	(11)	(8)	(16)	(19)	(25)
Cash flow from operations	31	19	7	22	43
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	-	-	73	-	-
Increase in debt	31	16	8	10	10
Other financing cash flow	(14)	(2)	0	-	-
Cash flow from financing activities	17	14	81	10	10
Cash at beginning of period	6	24	29	47	29
Total cash generated	19	4	18	(17)	3
Forex effects	(1)	0	-	-	-
Implied cash at end of period	24	28	47	29	32

Source: Company data, OSK-DMG estimates

Financial Exhibits

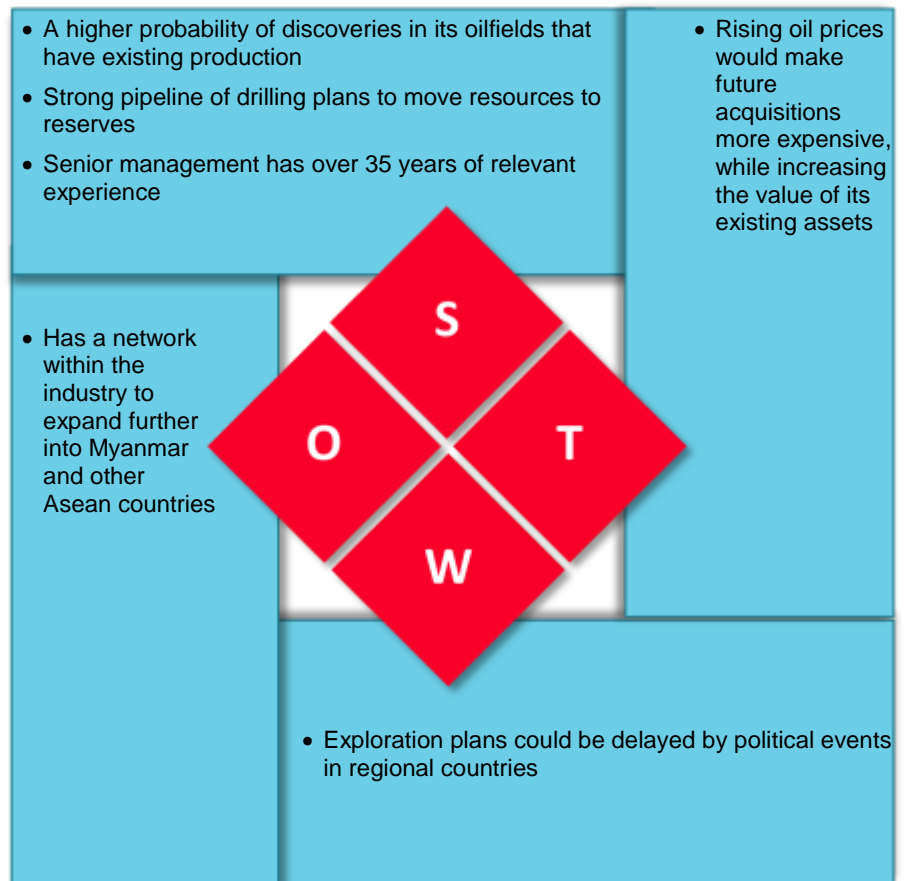
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	47	29	32
Inventories	5	6	8	10	15
Accounts receivable	6	9	12	15	23
Other current assets	1	1	1	1	1
Total current assets	35	44	67	55	71
Tangible fixed assets	65	68	127	164	197
Intangible assets	140	140	140	140	140
Total other assets	55	67	70	70	70
Total non-current assets	259	275	337	374	407
Total assets	294	319	404	429	478
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	273	273	273
Retained earnings reserve	(28)	(19)	(22)	(13)	9
Other reserves	-	-	-	0	-
Shareholders' equity	110	181	251	261	282
Other equity	-	-	4	4	4
Total equity	110	181	255	265	287
Total liabilities & equity	294	319	404	429	478

Source: Company data, OSK-DMG estimates

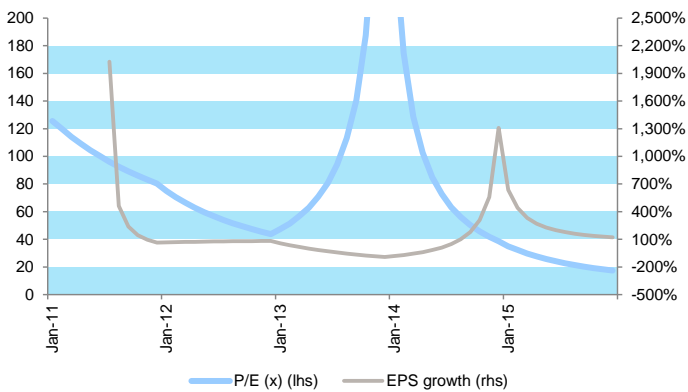
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	11.5	28.4	50.6
Operating profit growth (%)	214.2	(8.0)	2.2	66.2	58.3
Net profit growth (%)	65.0	108.2	(90.0)	1503.5	120.7
EPS growth (%)	64.8	83.5	(92.0)	1308.9	120.7
Bv per share growth (%)	0.5	22.6	16.0	3.9	8.3
Operating margin (%)	22.4	21.3	19.5	25.3	26.5
Net profit margin (%)	3.3	7.1	0.6	7.9	11.6
Return on average assets (%)	1.0	2.0	0.2	2.4	4.8
Return on average equity (%)	2.7	4.2	0.3	3.8	8.0
Net debt to equity (%)	51.3	7.6	1.5	11.9	13.5
Recurrent cash flow per share	0.07	0.04	0.01	0.03	0.06

Source: Company data, OSK-DMG estimates

SWOT Analysis

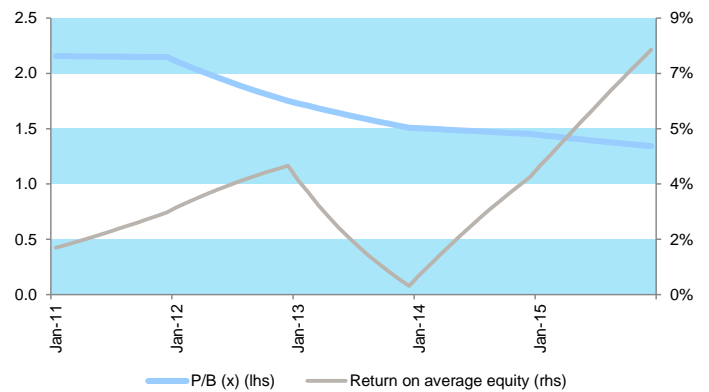


P/E (x) vs EPS growth



Source: Company data, OSK-DMG estimates

P/BV (x) vs ROAE



Source: Company data, OSK-DMG estimates

Company Profile

RH Petrogas is 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
2013-10-03	Buy	1.33	0.90
2013-10-01	Buy	1.47	0.71

Source: OSK-DMG estimates, Bloomberg

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