

## RH Petrogas (RHP SP)

Oil & Gas - Exploration & Production

Market Cap: USD317m

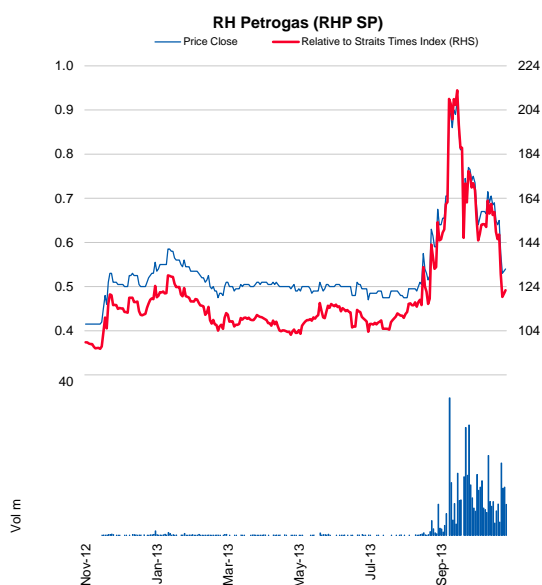
**Buy** (Maintained)

Target Price: **SGD1.38**

Price: **SGD0.54**

### Market Loses Sight Of Fundamental Value

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



Source: Bloomberg

Avg Turnover (SGD/USD)	4.81m/3.86m
Cons. Upside (%)	172.2
Upside (%)	156
52-wk Price low/high (SGD)	0.42 - 0.92
Free float (%)	35

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

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RHP's share price fell by almost 20% on news that the Zircon-1 well did not flow. This is equivalent to a SGD99m loss in market value due to a well costing SGD8m, and whose cost is recoverable. Meanwhile, the stock is trading at a 44% discount to its production assets alone, ascribing zero value to 1,074mmboe of 2C and prospective resources in appraisal, development and exploration assets. Reiterate BUY, with SGD1.38 TP.

- ◆ **Loses SGD99m in market value in relation to recoverable SGD8m well.** Fundamentally, apart from having spent SGD8m (recoverable from existing oil & gas production under the PSC terms), little has changed in RH Petrogas (RHP). The entire Zircon prospect is worth only 2.5% of the company's intrinsic value. The rapid loss of market value has given rise to a clear divergence between price and value, with irrational fear overriding reasonable valuation.
- ◆ **44% discount to RHP's production assets' value.** RHP's enterprise value now stands at USD295m, which is a sharp 44% discount to the USD525m value of its production assets (the producing areas in Basin, Island and near-production Fuyu). Investors are getting the 64.5mmboe of 2C resources and 1.04bn bbls of prospective resources for free.
- ◆ **Devon Energy just bought 400mmboe of Eagle Ford oilfields for USD6bn.** Yesterday, Devon Energy (DVN US, NR) purchased GeoSouthern Energy's 400mmboe of reserves in Eagle Ford for USD6bn in cash, equivalent to USD15 per barrel. Note that Eagle Ford is an unconventional shale field producing light oil, which should have a lower NPV/bbl value compared to RHP's conventional fields. This supports our USD14.6-16.1/bbl NPV valuation for RHP's conventional light-oil assets and our USD10/bbl NPV for the unconventional heavy Fuyu oil. RHP's production assets are worth SGD0.90 per share, based on our conservative assumptions.
- ◆ **Panic selling gone too far.** The panic selling in the last month has been excessive, and predicated on miscomprehension of the technical terms and operational procedures described in RHP's announcements. We believe that the fundamental value of RHP will be reflected in the share price given wider investor education. Smart money should average down and await the eventual revaluation. Reiterate BUY, with SGD1.38 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	(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)	67.3	36.7	na	88.0	21.0
Return on average equity (%)	2.7	4.2	(5.3)	1.6	6.3
P/B (x)	1.80	1.47	1.38	1.36	1.28
P/CF (x)	6.4	11.7	10.3	17.6	8.9
EV/EBITDA (x)	7.7	8.2	21.1	8.4	5.7
Net debt to equity (%)	51.3	7.6	net cash	2.2	9.0
Our vs consensus EPS (%)			8.4	(57.1)	(17.4)

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, 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 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 SGD1.03 today on the back of these marketable assets.

Figure 1: Our NPV-and-risking model

Country	Field	Equity %	2P mmboe	2C mmboe	Prospective Resources mmboe	Risking %	Risked 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 - 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
			<b>0.0</b>	<b>29.5</b>	<b>73.4</b>		<b>30.0</b>	<b>185.4</b>	<b>6.2</b>
<b>Exploration Stage</b>									
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>970.6</b>		<b>97.1</b>	<b>97.1</b>	<b>1.0</b>
<b>Total:</b>			<b>11.0</b>	<b>64.5</b>	<b>1,044.0</b>		<b>173.1</b>	<b>807.0</b>	<b>4.7</b>
		<b>Value (USDm)</b>	<b>Per share</b>						
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.				
<b>Target equity value (USDm)</b>		<b>807.3</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

Figure 2: Market valuation of reserves and resources as of 21 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
<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 - 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
			<b>0.0</b>	<b>29.5</b>	<b>73.4</b>				<b>0.0</b>	<b>224.6</b>	<b>0.0</b>
<b>Exploration Stage</b>											
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>970.6</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>1,044.0</b>				<b>173.9</b>	<b>399.9</b>	<b>0.0</b>
<b>Value</b>											
<b>(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			-49.2	-0.07	Debt as of 3Q13. No adjustment for future capex as this is liquidation valuation.						
<b>Equity value</b>			<b>602.7</b>	<b>0.82</b>							
Shares (m)			731.3								
Forex rate				1.25					<b>USD/boe</b>		
<b>Equity value (SGD)</b>				<b>1.03</b>	<b>Implicit EV/(2P+2C) Valuation</b>				<b>8.0</b>		

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)
<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)	(26)	(10)	(10)
<b>Operating profit</b>	<b>20</b>	<b>18</b>	<b>1</b>	<b>25</b>	<b>43</b>
Operating EBITDA	33	29	12	38	60
Depreciation of fixed assets	(13)	(10)	(11)	(13)	(17)
<b>Operating EBIT</b>	<b>20</b>	<b>18</b>	<b>1</b>	<b>25</b>	<b>43</b>
Other recurring income	1	0	1	-	-
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>40</b>
Taxation	(16)	(10)	(10)	(19)	(25)
<b>Profit after tax &amp; minorities</b>	<b>3</b>	<b>6</b>	<b>(11)</b>	<b>4</b>	<b>15</b>
<b>Reported net profit</b>	<b>3</b>	<b>6</b>	<b>(11)</b>	<b>4</b>	<b>15</b>
<b>Recurring net profit</b>	<b>3</b>	<b>6</b>	<b>(11)</b>	<b>4</b>	<b>15</b>

Source: Company data, OSK-DMG estimates

Cash flow (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
<b>Operating profit</b>	<b>20</b>	<b>18</b>	<b>1</b>	<b>25</b>	<b>43</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	25	-	-
<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>36</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	53
<b>Total cash generated</b>	<b>19</b>	<b>4</b>	<b>49</b>	<b>(24)</b>	<b>(7)</b>
Forex effects	(1)	0	-	-	-
<b>Implied cash at end of period</b>	<b>24</b>	<b>28</b>	<b>78</b>	<b>53</b>	<b>46</b>

Source: Company data, OSK-DMG estimates

## Financial Exhibits

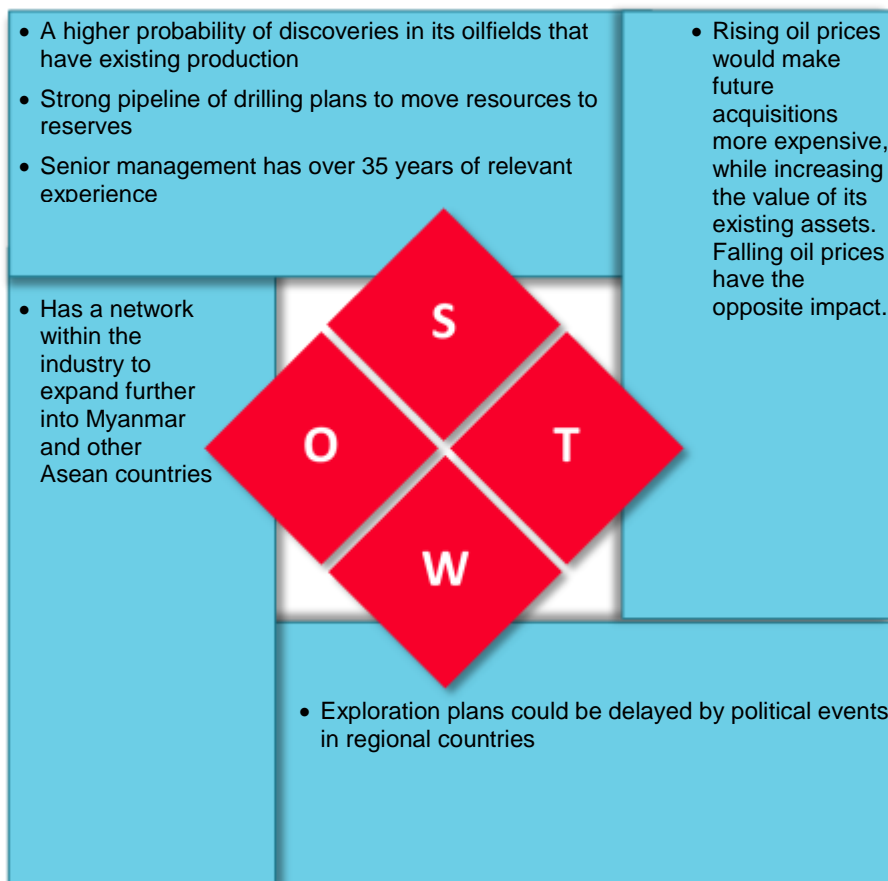
Balance Sheet (USDm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	24	29	77	53	46
Inventories	5	6	2	2	3
Accounts receivable	6	9	12	15	23
Other current assets	1	1	1	1	1
<b>Total current assets</b>	<b>35</b>	<b>44</b>	<b>91</b>	<b>71</b>	<b>73</b>
Tangible fixed assets	65	68	79	118	154
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>391</b>	<b>429</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)	(29)	(26)	(11)
<b>Shareholders' equity</b>	<b>110</b>	<b>181</b>	<b>229</b>	<b>233</b>	<b>248</b>
<b>Total equity</b>	<b>110</b>	<b>181</b>	<b>229</b>	<b>233</b>	<b>248</b>
<b>Total liabilities &amp; equity</b>	<b>294</b>	<b>319</b>	<b>372</b>	<b>391</b>	<b>429</b>

Source: Company data, OSK-DMG estimates

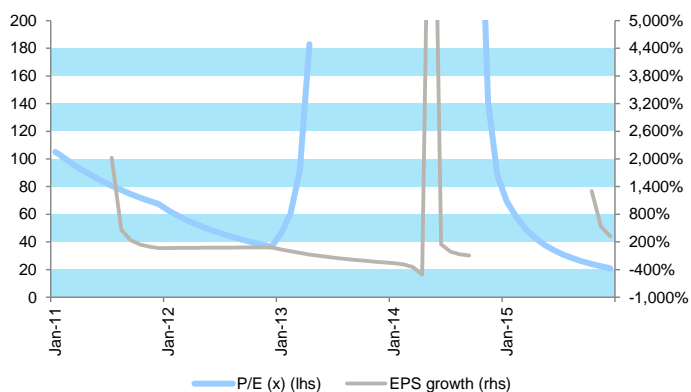
Key Ratios (USD)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	76.2	(3.4)	11.5	28.4	50.6
Operating profit growth (%)	214.2	(8.0)	(92.7)	1761.2	71.8
Net profit growth (%)	65.0	108.2	(277.6)	0.0	320.0
EPS growth (%)	64.8	83.5	(242.6)	0.0	320.0
Bv per share growth (%)	0.5	22.6	6.0	1.6	6.5
Operating 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	(5.3)	1.6	6.3
Net debt to equity (%)	51.3	7.6	(12.8)	2.2	9.0
Recurrent cash flow per share	0.07	0.04	0.04	0.02	0.05

Source: Company data, OSK-DMG estimates

## SWOT Analysis

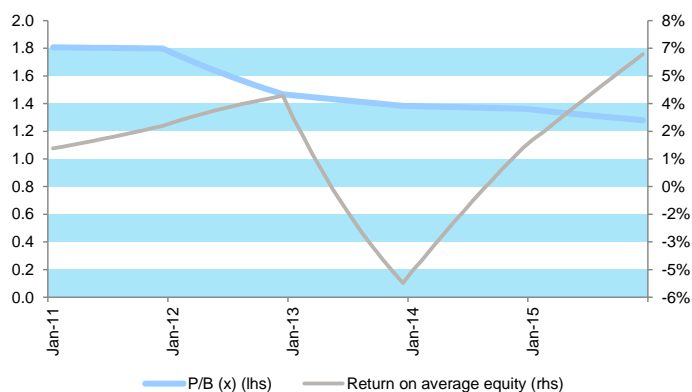


P/E (x) vs EPS growth



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
2013-11-18	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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