

### COMPANY UPDATE

## RH Petrogas (RHP SP)

Good Things Come To Those Who Wait

RH Petrogas announced yesterday that the company's overall development plan for the phased development of Yongping Oilfield in Fuyu 1 Block, China has been approved by the National Development and Reform Commission of China. Maintain BUY with a lower target price of S\$1.00 as we tweak our Brent oil forecast down to US\$85/bbl from US\$100/bbl. Our target price implies 98.9% upside.

### WHAT'S NEW

- End to a long wait.** RH Petrogas (RHP) announced yesterday that the company's overall development plan (ODP) for the phased development of the Yongping Oilfield in the Fuyu 1 Block, China has been approved by the National Development and Reform Commission (NDRC) of China. The approval will allow RHP to advance to the development and production phase for the oilfield and will migrate 7.2 million barrels of oil equivalent (mboe) of oil from 2C contingent resources to 2P reserves.
- RHP to own 49% of the concession.** Upon commencement of commercial production, RHP's partner, China National Petroleum Corporation (CNPC) would back in for a 51% working interest. RHP would drill up to 1,008 wells (shallow wells with average depth of less than 300 metres) over 5 years. There is also upside to the existing 34.1mboe of 2C contingent resources as there could be an additional 27mboe of gas reserves in the oilfield.
- Positive on the development.** As highlighted in our previous reports, the approval did not come in as a surprise to us as the NDRC has never rejected any ODPs historically. It was a matter of time for RHP to receive the approval. Over the last 20 months, management has started pre-development preparations as well as procurement of long lead items. Hence the company could accelerate the development programme and could monetise its long-awaited investment as early as 1Q15.
- Asset to boost RHP's production by an additional 20,000bopd at full capacity.** We understand that each well that is drilled for US\$50,000 would produce roughly 20 bbl per well. Hence RHP could boost its production by about 4,000 barrels of oil per day (bopd) every year starting from next year, and will eventually produce an additional 20,000bopd five years later.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2012	2013	2014F	2015F	2016F
Net turnover	86	86	126	176	200
EBITDA	29	28	36	59	59
Operating profit	18	17	21	41	41
Net profit (rep./act.)	6	(66)	6	13	14
Net profit (adj.)	10	11	6	13	14
EPS (US\$ cent)	1.9	1.7	0.8	1.7	1.9
PE (x)	20.9	23.0	47.4	23.0	20.4
P/B (x)	1.1	1.4	1.6	1.5	1.4
EV/EBITDA (x)	11.0	11.4	8.9	5.5	5.5
Dividend yield (%)	0.0	0.0	0.0	0.0	n.a.
Net margin (%)	7.1	(76.3)	4.9	7.2	7.1
Net debt/(cash) to equity (%)	7.6	(3.0)	17.4	27.2	43.0
Interest cover (x)	13.2	8.5	9.4	12.1	10.1
ROE (%)	4.2	(36.8)	3.4	6.6	7.0
Consensus net profit	-	-	5	13	18
UOBKH/Consensus (x)	-	-	1.14	0.97	0.79

Source: RH Petrogas, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.505
Target Price	S\$1.00
Upside	+98.9%
(Previous TP)	S\$1.35

### COMPANY DESCRIPTION

RH Petrogas is an upstream oil & gas company that has exploration, development and production assets

### STOCK DATA

GICS sector	Energy
Bloomberg ticker:	RHP SP
Shares issued (m):	734.3
Market cap (SGDm):	370.8
Market cap (US\$m):	290.5
3-mth avg daily t'over (US\$m):	4.2

### Price Performance (%)

52-week high/low	SGD0.965/SGD0.500			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(36.9)	(35.3)	(24.1)	(21.1)	(16.5)

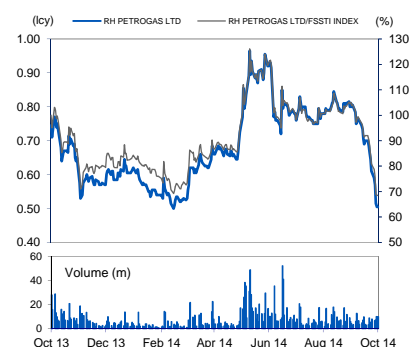
### Major Shareholders

Woodville International	28.9
Sharptone Investments	18.1

FY14 NAV/Share (USD) 0.25

FY14 Net Debt/Share (USD) 0.04

### PRICE CHART



Source: Bloomberg

### ANALYST

**Danny Chan**  
+60321471986  
dannychan@uobkayhian.com

### STOCK IMPACT

- **Still a takeover target?** Recall that in May 14, RHP's management announced that its controlling shareholders were approached by a potential investor (channel checks suggested that the investors were from China) regarding a potential takeover target. RHP's share price rallied to a high of S\$0.965, which was close to our target price, reaffirming our view that there is deep value in the stock in the long run after all. While no offer has been made until today, we do not discount the possibility of the investor revisiting the takeover deal given that the approval for Fuyu-1 has been received.
- **Still scouting for new production assets.** We gathered that management may be looking to acquire additional production assets in the near future (likely in 2015). The acquisition, coupled with other production wells put in place, would enhance its cashflow generating capabilities. While not much details were shared due to confidentiality issues, we understand that management is looking in the Southeast Asia region and is close to securing a concession very soon.

### EARNINGS REVISION/RISK

- **Tweaking our estimates downwards in view of weaker oil prices.** We lower our 2015 and 2016 earnings assumptions by 3.1% and 21.3% respectively as we lower our Brent oil forecast down from US\$85/bbl to US\$105/bbl.
- **Key risks include:** a) exploration risk, b) development risk, c) production risk, d) oil price risk, e) regulatory risk and f) acquisition risk.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of S\$1.00, implying EV/(2P+2C) of US\$9/boe** based on our NPV and risking model. Our valuation is based on the NPV of the company's current production/near-production fields, plus risked estimates of its 2C resources and prospective resources, less net debt adjusted for its committed capex. Our target price has been adjusted downwards from S\$1.35 to S\$1.00 as we adjust our average 2015 Brent oil forecast down to US\$85/bbl from US\$105/bbl to adopt a more prudent approach to better reflect the recent risks in oil prices.
- **The stock should be worth at least S\$0.80 today.** Assuming investors attach no value to RHP's prospective resources, our calculation suggests that RHP's share price should still be worth at least S\$0.80 today. We believe that this would be the minimum value that a buyer would pay RHP in an event of a takeover. The current discount to the minimum value we projected is likely due to the poor sentiment on oil prices.
- **In a blue-sky scenario, RHP could be worth S\$1.50 by end-15.** Based on our alternative valuation method for RHP by valuing RHP's assets individually, RHP could be worth S\$1.50 by end-2015 as investors begin pricing in catalysts which may materialise in 2016. Key events that would support our view include: a) development of Fuyu-1, Phase 2 onwards, and b) receiving the approval for RHP's plan of development (POD) for Southeast Walio and North Klalin (both in Basin PSC, Indonesia).

### SHARE PRICE CATALYST

- Higher-than-expected oil prices, resulting in additional revenues for RHP.
- Successful discovery of O&G in its exploration assets, as evidenced by the successful discovery at Koi-2 appraisal well.
- Making value-accretive acquisitions, which will result in higher shareholders' value in the long run.

### RHP'S VALUATION TABLE (NPV AND RISKING MODEL)

	Value (SG\$m)
<b>Production/Near-production</b>	
Basin PSC, Indonesia	119.5
Island PSC, Indonesia	29.4
Fuyu-1 Shallow Oil (Phase 1)	99.0
Fuyu-1 Shallow Oil (Other Phases)	275.9
<b>Total</b>	<b>523.8</b>
<b>Development/Pre-development</b>	
Basin PSC, Indonesia - North Klalin	38.3
Basin PSC, Indonesia - SE Walio	9.4
Basin PSC, Indonesia - Others	5.5
Island PSC, Indonesia - TBC	44.7
Island PSC, Indonesia - Koi	25.5
Island PSC, Indonesia - North Sele	36.4
Island PSC, Indonesia - Others	23.6
<b>Total</b>	<b>183.4</b>
Basin PSC, Indonesia	48.7
Island PSC, Indonesia	63.9
Fuyu-1 Deep Gas, China	4.9
West Belida PSC, Indonesia	0.9
SK331 PSC, Malaysia	32.9
<b>Total</b>	<b>151.3</b>
<b>Total equity value (\$m)</b>	<b>858.5</b>
FY15 net debt (\$m)	-66.5
Committed capex (\$m)	-54.4
<b>Total equity value (\$m)</b>	<b>737.5</b>
Existing shares outstanding	734.3
<b>NAV per share (\$)</b>	<b>1.00</b>

Source: RH Petrogas, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2013	2014F	2015F	2016F
<b>Net turnover</b>	<b>86</b>	<b>126</b>	<b>176</b>	<b>200</b>
EBITDA	28	36	59	59
Deprec. & amort.	11	15	18	18
EBIT	17	21	41	41
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(3)	(4)	(5)	(6)
<b>Pre-tax profit</b>	<b>(63)</b>	<b>17</b>	<b>36</b>	<b>35</b>
Tax	(3)	(11)	(23)	(21)
Minorities	0	0	0	0
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>(66)</b>	<b>6</b>	<b>13</b>	<b>14</b>
Net profit (adj.)	11	6	13	14

### CASH FLOW

Year to 31 Dec (US\$m)	2013	2014F	2015F	2016F
<b>Operating</b>	<b>12</b>	<b>34</b>	<b>37</b>	<b>21</b>
Pre-tax profit	(63)	17	36	35
Tax	(5)	(11)	(23)	(21)
Deprec. & amort.	11	15	18	18
Associates	0	0	0	0
Working capital changes	(14)	21	21	10
Non-cash items	0	0	0	0
Other operating cashflows	84	(9)	(15)	(21)
<b>Investing</b>	<b>(50)</b>	<b>(48)</b>	<b>(48)</b>	<b>(48)</b>
Capex (growth)	(48)	(48)	(48)	(48)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(2)	0	0	0
<b>Financing</b>	<b>63</b>	<b>20</b>	<b>20</b>	<b>20</b>
Dividend payments	0	0	0	0
Issue of shares	58	0	0	0
Proceeds from borrowings	11	20	20	20
Loan repayment	(6)	0	0	0
Others/interest paid	(1)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>25</b>	<b>6</b>	<b>9</b>	<b>(7)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>25</b>	<b>50</b>	<b>45</b>	<b>44</b>
Changes due to forex impact	3	(10)	(10)	(10)
<b>Ending cash &amp; cash equivalent</b>	<b>52</b>	<b>45</b>	<b>44</b>	<b>27</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2013	2014F	2015F	2016F
<b>Fixed assets</b>	<b>75</b>	<b>140</b>	<b>170</b>	<b>200</b>
Other LT assets	171	171	171	171
Cash/ST investment	52	45	44	27
Other current assets	36	38	54	61
<b>Total assets</b>	<b>334</b>	<b>394</b>	<b>438</b>	<b>458</b>
ST debt	14	44	64	84
Other current liabilities	67	71	99	112
LT debt	34	34	34	34
Other LT liabilities	44	62	46	20
Shareholders' equity	177	183	196	210
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>335</b>	<b>394</b>	<b>438</b>	<b>459</b>

### KEY METRICS

Year to 31 Dec (%)	2013	2014F	2015F	2016F
<b>Profitability</b>				
EBITDA margin	32.7	28.9	33.4	29.5
Pre-tax margin	(72.8)	13.9	20.4	17.7
Net margin	(76.3)	4.9	7.2	7.1
ROA	(20.1)	1.7	3.0	3.2
ROE	(36.8)	3.4	6.6	7.0
<b>Growth</b>				
Turnover	0.0	45.3	40.3	13.6
EBITDA	(3.3)	28.3	62.2	0.1
Pre-tax profit	(488.3)	n.a.	106.4	(1.6)
Net profit	(1,179.5)	n.a.	106.4	12.4
Net profit (adj.)	12.6	(44.7)	106.4	12.4
EPS	(8.9)	(51.6)	106.4	12.4
<b>Leverage</b>				
Debt to total capital	21.0	29.6	33.2	35.8
Debt to equity	26.6	42.1	49.6	55.8
Net debt/(cash) to equity	(3.0)	17.4	27.2	43.0
Interest cover (x)	8.5	9.4	12.1	10.1