

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

30 May 2018

Hibiscus Petroleum Berhad (HIBI MK) : BUY

Mkt. Cap: US\$349m | 3m Avg. Daily Val: US\$8.6m

Last Traded Price (28 May 2018): RM0.88

Price Target 12-mth: RM1.46 (67% upside) (Prev RM1.48)

Shariah Compliant: Yes

Analyst

Inani ROZIDIN +60 326043905; inanirozidin@alliancedbs.com

Focus on new addition in coming quarter

- 3Q18 earnings below expectation: hiccups due to unplanned plant shutdown for Anasuria Cluster
- Cut FY18/19/20 earnings by 28%/16%/13% due to lower daily production and higher than expected opex/bbl
- Expect a bumper 4Q18 as production normalises and North Sabah EOR PSC commences contribution
- Reiterate BUY with lower TP of RM1.46

Forecasts and Valuation

FY Jun (RMm)	2017A	2018F	2019F	2020F
Revenue	261	365	837	878
EBITDA	163	197	495	544
Pre-tax Profit	146	111	356	405
Net Profit	106	90.6	245	280
Net Pft (Pre Ex.)	29.4	90.6	245	280
Net Pft Gth (Pre-ex) (%)	nm	208.3	170.4	14.1
EPS (sen)	7.51	5.47	12.9	14.7
EPS Pre Ex. (sen)	2.08	5.47	12.9	14.7
EPS Gth Pre Ex (%)	nm	163	136	14
Diluted EPS (sen)	2.08	5.47	12.9	14.7
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	52.5	70.3	74.3	89.0
PE (X)	11.7	16.0	6.8	5.9
PE Pre Ex. (X)	42.1	16.0	6.8	5.9
P/Cash Flow (X)	14.5	6.1	3.0	4.2
EV/EBITDA (X)	7.1	4.7	1.4	0.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.7	1.2	1.2	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.0	9.5	19.0	18.1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Hibiscus Petroleum (Hibiscus) reported headline revenue of RM75m (+9% y-o-y, -1% q-o-q) and earnings of RM83m (+1,182% y-o-y, +653% q-o-q). Excluding one-off items, core net profit came in at RM19m (+166% y-o-y, +132% q-o-q). This bring 9M18 revenue to RM210m and core earnings to RM37m. Although it is a vast improvement from 1H18, we deem 3Q18 results below our expectations due to lower daily production and higher opex/bbl for the Anasuria Cluster.

3Q18 exceptional items

	RM'm
Exceptional items	
One-off North Sabah acquisition expense	(22.8)
Professional fees and expenditure relating to North Sabah acquisition	(4.8)
Reversal of impairment of investment in an associate	1.9
Impairment of Britannia Rig	(6.7)
Depreciation of Britannia Rig	(3.1)
Net unrealised foreign exchange loss	(6.4)
Impairment of 3D Oil	(1.3)
Reversal of withholding tax accruals	(3.4)
Impairment of receivables	(1.9)
Negative goodwill from North Sabah acquisition	112
	63.8
Headline net profit	83.1
Exceptional items	(63.8)
Core net profit	19.3

Source: Company

Hibiscus concluded that there will be no anticipated utilisation of the North Sea Britannia Rig within the group's planned activities in the foreseeable future. The group believes that there is very limited market demand for the rig due to an oversupply of drilling rigs in the global market. Hence, the group wrote down the carrying value of the rig



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to its scrap value and recognised an impairment loss of RM6.7m.

Anasuria Cluster

The Anasuria Cluster recorded revenue of RM74m (+9% y-o-y, -1% q-o-q) and segmental profit of RM24m (-22% y-o-y, -7% q-o-q). 271,047 barrels of crude oil were sold in 3Q18 at an average realised oil price of USD65.03/bbl.

The average uptime in 3Q18 was 82%, bringing the 9M18 average to 69%. It was adversely affected by the planned shutdown of the Anasuria FPSO (Offshore Turnaround) that commenced in mid-September 2017 and was completed in mid-October 2017. In addition, Hibiscus were also affected by two unplanned events in 3Q18, namely (i) a temporary interruption in production of the Cook-P1 well which also affected gas lift operations in the Guillemot A field, and (ii) a temporary failure of its gas compression facility on board the Anasuria FPSO which again affected gas lift operations in the Guillemot A field. All such technical issues were resolved in 3Q18 and the group is now performing at the expected levels.

Anasuria Cluster's operational performance

	3Q18	2Q18	3Q17
Average daily oil production (bbl/day)	2,798	2,071	2,617
Average daily gas export rate (boe/day)	304	141	257
Average daily oil equivalent production rate (boe/day)	3,102	2,212	2,873
Total oil sold (bbl)	271,047	274,644	273,419
Average realised oil price (USD/bbl)	65.03	62.93	52.95
Average opex per barrel (USD/boe)	23.96	34.33	15.12
Average uptime (%)	82	57	76

Source: Company

North Sabah

Hibiscus has completed the acquisition of a 50% participating interest under the 2011 North Sabah EOR PSC on 31 March 2018. The provisional fair value of the identifiable assets and liabilities as at the date of acquisition when compared against the purchase consideration resulted in a negative goodwill of RM112.4m. This was partly offset by transition costs in connection with the acquisition and segment-specific administrative expenses of RM22.8m. We are sanguine of North Sabah's potential, judging from the latest operational performance. We expect North Sabah to contribute a PAT of RM32m in 4Q18.

North Sabah's operational performance

	3Q18	2Q18	3Q17
Average daily gross oil production (bbl/day)	15,335	14,865	14,992
Average daily net oil production (bbl/day)	5,674	5,500	5,547
Total oil sold (bbl)	287,019	586,658	587,228
Average realised oil price (USD/bbl)	73.51	73.51	59.41
Average opex per barrel (USD/boe)	12.47	18.5	10.81
Average uptime (%)	96	93	95

Source: Company

Earnings revision

The unplanned plant shutdowns in Anasuria Cluster in 3Q18 have resulted in: 1) higher opex per barrel of USD23.96/bbl, bringing the YTD average to USD27.3/bbl, and 2) average daily oil production dropping to 2,798bbl, bringing the YTD average to 2,482bbl. This differs from our opex per barrel assumption of USD19/bbl and average daily oil production of 3,500/bbl. As such, we slash our FY18 earnings forecast by 28%. We also cut FY19/20 earnings by 16%/13% as we lower our FY19/20 daily oil production forecast for Anasuria Cluster to 3,500bbl/4,250bbl from 4,250bbl/5,000bbl previously. This is to factor in latest management guidance on the timeline of oil production boost from ongoing and planned enhancement works. Our earnings forecast is based on Brent crude oil price assumption of USD60/bbl which is conservative compared to prevailing oil price of USD75/bbl.

Enhancement work on Anasuria Cluster

Project	Target completion	Estimated 2P Reserves (MMbbls)
GUA-P2 Sidetrack	4QFY18	1.01
Cook Water Injector	FY19	3.29
Infill Wells at Guillemot A	FY19	1.90

Source: Company

Valuation

Our TP is revised down RM1.46 following our earnings revision. Our valuation is derived using the DCF method which only accounts for its active upstream production assets, namely the Anasuria Cluster and North Sabah EOR PSC, but excludes Hibiscus' Australian assets.

Quarterly / Interim Income Statement (RMm)

FY Jun	3Q2017	2Q2018	3Q2018	% chg yoy	% chg qoq
Revenue	69.2	76.1	75.4	8.9	(0.8)
Cost of Goods Sold	(22.6)	(37.7)	(30.4)	34.5	(19.5)
Gross Profit	46.7	38.4	45.1	(3.4)	17.4
Other Oper. (Exp)/Inc	(22.8)	(24.4)	(23.7)	3.9	(3.0)
Operating Profit	23.9	14.0	21.4	(10.4)	53.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(0.3)	(0.2)	(0.1)	53.4	(25.3)
Net Interest (Exp)/Inc	(6.0)	(3.4)	(3.5)	42.1	(2.5)
Exceptional Gain/(Loss)	(0.8)	2.73	63.8	nm	2,239.8
Pre-tax Profit	16.8	13.1	81.6	385.8	522.3
Tax	(10.3)	(2.1)	1.57	(115.2)	(175.8)
Minority Interest	0.0	0.0	0.0	nm	nm
Net Profit	6.49	11.0	83.1	1,182.0	652.9
Net profit bef Except.	7.26	8.32	19.3	166.2	132.5
EBITDA	39.2	25.7	35.8	(8.6)	39.7
Margins (%)					
Gross Margins	67.4	50.5	59.8		
Opg Profit Margins	34.5	18.3	28.3		
Net Profit Margins	9.4	14.5	110.2		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Jan 18	0.98	1.48	BUY
2:	17 Jan 18	1.07	1.48	BUY
3:	22 Feb 18	0.97	1.48	BUY
4:	03 Apr 18	0.82	1.48	BUY

Source: AllianceDBS

Analyst: Inani ROZIDIN

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Wong Ming Tek, Executive Director

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AllianceDBS Research Sdn Bhd (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com