



Hibiscus Petroleum Berhad (HIBI MK) : BUY

Mkt. Cap: US\$426m | **3m Avg. Daily Val:** US\$4.0m

Last Traded Price (29 Aug 2018): RM1.10

Price Target 12-mth: RM1.46 (33% upside) (Prev RM1.46)

Shariah Compliant: Yes

Analyst

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Stronger earnings next quarter

- FY18 earnings missed expectations; delay in Anasuria 4QFY18 offtake to 1QFY19
- FY19 earnings raised by 11% to account for additional offtake from Anasuria
- Further earnings boost from enhancement work in Anasuria clusters
- Reiterate BUY with TP of RM1.46

Forecasts and Valuation

FY Jun (RMm)	2018A	2019F	2020F	2021F
Revenue	394	905	879	994
EBITDA	173	540	544	642
Pre-tax Profit	244	401	405	519
Net Profit	204	272	280	310
Net Pft (Pre Ex.)	42.6	272	280	310
Net Pft Gth (Pre-ex) (%)	45.1	538.4	2.7	10.8
EPS (sen)	12.3	14.3	14.7	16.3
EPS Pre Ex. (sen)	2.58	14.3	14.7	16.3
EPS Gth Pre Ex (%)	24	457	3	11
Diluted EPS (sen)	2.58	14.3	14.7	16.3
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	60.2	66.8	81.6	97.9
PE (X)	8.9	7.7	7.5	6.7
PE Pre Ex. (X)	42.7	7.7	7.5	6.7
P/Cash Flow (X)	21.5	4.1	5.5	4.5
EV/EBITDA (X)	9.2	2.7	2.3	1.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.8	1.6	1.3	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.4	24.0	19.9	18.2

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

What's New

Hibiscus Petroleum (Hibiscus) reported headline revenue of RM394m (+51% y-o-y) and earnings of RM204m (+92% y-o-y) in FY18. Excluding one-off items, core net profit came in at RM43m (+45% y-o-y). Although it is a vast improvement from FY17, we deem FY18 results below our expectations as it only achieves 47%/46% of our/consensus estimates. The missed earnings expectations were due to delay in the offtake for Anasuria Cluster in 4QFY18 to 1QFY19.

4Q18 revenue and earnings came in at RM185m (+148% y-o-y, +145% q-o-q) and RM99m (+1,041% y-o-y, +19% q-o-q) respectively. Excluding reversal of impairment from associate (RM0.2m) and negative goodwill from North Sabah EOR PSC acquisition (RM94m), core earnings came in at RM5m (-58% y-o-y, -73% q-o-q). The sharp fall in earnings is due to no offtakes for Anasuria clusters in the quarter. The scheduled June offtake was deferred to 2 July due to P2 sidetrack enhancement operations. Historically, there would be one offtake per quarter. As at end-Aug 2018, Hibiscus has successfully completed two crude oil offtakes (524,432 bbls) that will be reported in 1QFY19 results.



FY18 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	1.6
Impairment of Britannia Rig	(6.7)
Depreciation of Britannia Rig	(3.1)
Net unrealised foreign exchange loss	(2.7)
Impairment of 3D Oil	(1.3)
Reversal of withholding tax accruals	(3.4)
Impairment of receivables	(1.9)
Negative goodwill from North Sabah acquisition	206.3
	161.1
Headline net profit	203.7
Exceptional items	(161.1)
Core net profit	42.6

Source: Company

Anasuria Cluster

The Anasuria Cluster recorded revenue of RM207m (-19% y-o-y) and segmental profit of RM63m (-41% y-o-y). There were three crude oil offtakes in the FY18, in which 791,822 bbls of crude were sold at an average realised oil price of USD60.1/bbl.

The average uptime in FY18 was 76%. 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 3QFY18, 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 and the group is now performing at the expected levels.

Despite the delay in offtake, we noted that operational statistics have improved in 4QFY18 with opex/bbl decreasing to USD16.4/bbl from USD23.9/bbl in 3QFY18. Average uptime has also improved to 94% in 4QFY18, translating to average daily production of 3,375bbl of oil.

Hibiscus had commissioned Leap Energy Partners Sdn Bhd (Leap) to undertake an independent evaluation of in-place and recoverable hydrocarbons in the Anasuria Cluster attributable to Anasuria Hibiscus UK. In a report dated 23 July 2018, Leap has stated that based on its evaluation, the

proved and probable reserves (2P Reserves) net to Anasuria Hibiscus UK have been increased by 20.8% to 24.4mmbbls.

Anasuria Cluster's operational performance

	4Q18	3Q18	2Q18
Average daily oil production (bbl/day)	3,375	2,798	2,071
Average daily gas export rate (boe/day)	360	304	141
Average daily oil equivalent production rate (boe/day)	3,736	3,102	2,212
Total oil sold (bbl)	0	271,047	274,644
Average realised oil price (USD/bbl)	0	65.03	62.93
Average opex per barrel (USD/boe)	16.39	23.96	34.33
Average uptime (%)	94	82	57

Source: Company

North Sabah

Hibiscus 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 RM206m.

North Sabah recorded revenue of RM182m and segmental profit of RM46m. 623,544 barrels of crude oil were sold in two cargoes, at an average realised price of USD73.26/bbl. The first cargo was sold in April 2018 and the second in June 2018. Management expects six offtakes p.a.

North Sabah's operational performance

	4Q18	3Q18	2Q18
Average daily gross oil production (bbl/day)	15,954	15,335	14,865
Average daily net oil production (bbl/day)	5,903	5,674	5,500
Total oil sold (bbl)	623,544	287,019	586,658
Average realised oil price (USD/bbl)	73.26	73.51	73.51
Average opex per barrel (USD/boe)	8.15	12.47	18.5
Average uptime (%)	96	96	93

Source: Company

FY19 outlook

We raised our FY19 earnings by 11% to include the delayed Anasuria clusters offtake in 4QFY18. We continue to be optimistic of Hibiscus' prospects as its average production is on an uptrend and its opex/bbl is easing on a q-o-q basis.

Enhancement work

Drilling of a side-track from the GUA-P2 oil producing well on the Guillemot-A field (P2-ST) had commenced on 4 June 2018 and is expected to be completed by the early part of September 2018. Hibiscus had incurred RM30m in 4Q18, and the total estimated cost on completion of the project is forecasted to be RM96m. It is important to note that in the UK, Anasuria Hibiscus UK is entitled to a total tax savings of RM44.4m (46.25% of capital expenditure on this project).

Hibiscus had sanctioned the Cook Water Injection (Cook WI) project in May 2018. Ithaca Energy UK Limited is the operator of the Cook field. The water injection well is targeted to be drilled in mid-CY2019 and a subsea pipeline

is expected to be installed in the 2HCY19. This subsea pipeline will link the water injection well to the Anasuria FPSO. The total capital commitment to this project is at RM11.4m in 2018 and RM50.2m in 2019 respectively.

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

Quarterly / Interim Income Statement (RMm)

FY Jun	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Revenue	74.5	75.4	185	147.9	144.8
Cost of Goods Sold	(28.7)	(30.4)	(86.2)	200.2	184.1
Gross Profit	45.7	45.1	98.4	115.1	118.4
Other Oper. (Exp)/Inc	(11.0)	(23.7)	(43.1)	290.8	82.0
Operating Profit	34.7	21.4	55.3	59.3	158.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(0.2)	(0.1)	0.04	nm	(131.0)
Net Interest (Exp)/Inc	(3.2)	(3.5)	(8.8)	(177.2)	(154.9)
Exceptional Gain/(Loss)	(3.7)	63.8	93.6	nm	46.7
Pre-tax Profit	27.7	81.6	140	405.6	71.7
Tax	(19.1)	1.57	(41.3)	116.9	(2,738.4)
Minority Interest	0.0	0.0	0.0	nm	nm
Net Profit	8.65	83.1	98.8	1,041.1	18.8
Net profit bef Except.	12.3	19.3	5.18	(57.9)	(73.2)
EBITDA	52.7	35.8	83.7	58.8	133.5
Margins (%)					
Gross Margins	61.4	59.8	53.3		
Opg Profit Margins	46.6	28.3	29.9		
Net Profit Margins	11.6	110.2	53.5		

Source of all data: Company, AllianceDBS

Flash Note

Target Price & Ratings History



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
5:	30 May 18	0.88	1.46	BUY
6:	06 Jul 18	0.90	1.46	BUY

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

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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