

### INITIATE COVERAGE

## RH Petrogas (RHP SP)

Well-managed Upstream Oil Company With Drilling Catalysts In 2023

RHP has a solid track record of operating its two mature oil fields onshore Indonesia, and with three potentially high-impact wells to be drilled in 3Q23, we initiate coverage with a BUY rating and a target price of S\$0.255. Importantly, the company grew its oil and gas reserves over the 2017-22 period without any acquisitions. Additionally, with oil making up nearly 80% of its production, RHP is very leveraged to the oil price.

### INVESTMENT HIGHLIGHTS

- An oil & gas company focused on Indonesia.** Over the past five years, RH Petrogas (RHP) has rationalised its business by selling off two assets – a high-cost oil production asset in China and an exploration asset in Malaysia. As a result, it currently has only two producing assets in Indonesia: the Kepala Burung Production Sharing Contract (PSC) and the Salawati PSC, both of which are located onshore West Papua. RHP owns 70% of these PSCs while its 30% partner is Indonesia's national oil company, Pertamina.
- Strong execution ability.** Unlike other SGX-listed oil & gas companies, RHP has shown very good execution ability in the past five years with a 4.3% production CAGR over the 2018-22 period while its cash cost per barrel of oil equivalent (boe) has risen by a mere 0.6% CAGR over the same period. Importantly, its proved and probable (2P) oil and gas reserves have grown by 6.3% and 63.8% CAGR over the same period to 28.6mmbbl and 21.6bcf respectively as at 1 Jan 23, implying a reserves-to-production ratio of over 18 years.
- Key initiatives strengthened the company in 2021.** One of the key initiatives that strengthened RHP's balance sheet occurred in 3Q21 when the company's major shareholders converted their interest-free shareholder loans amounting to US\$15.5m into equity in the company at a price of S\$0.172/share. As a result, RHP's negative equity position as at end-20 turned positive: as at end-22, the company had no debt and US\$57m in cash, equivalent to S\$0.09/share or 44% of its current share price.
- Potentially positive newsflow in 2023.** RHP plans to drill three wells in 2023: one exploration well in each of its two current PSCs, as well as one development well in the Kepala Burung PSC in 2023. According to RHP, its seismic data indicates that its exploration well at Kepala Burung will target 1.8tcf of natural gas which would be material to a company of RHP's size. We have not valued this exploration upside yet. Given its net cash position, we believe RHP may also look to acquire or farm into high-quality assets in Asia.

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### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	82	105	98	91	91
EBITDA	32	40	32	23	19
Operating profit	32	40	32	23	19
Net profit (rep./act.)	29	26	21	15	12
Net profit (adj.)	29	26	21	15	12
EPS (S\$ cent)	3.9	3.1	2.5	1.8	1.5
PE (x)	3.9	4.8	6.1	8.6	10.2
P/B (x)	5.9	3.2	3.2	3.2	3.2
EV/EBITDA (x)	2.3	1.9	2.3	3.3	3.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	34.8	25.0	21.3	16.1	13.6
Net debt/(cash) to equity (%)	(180.2)	(146.4)	(151.7)	(132.8)	(107.9)
ROE (%)	2,459.3	90.6	53.1	37.5	31.6
Consensus net profit ()	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: RH Petrogas, Bloomberg, UOB Kay Hian

## BUY

Share Price	S\$0.200
Target Price	S\$0.255
Upside	+27.5%

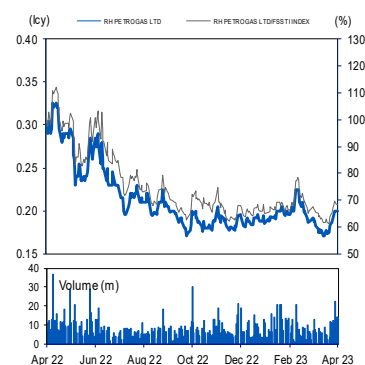
### COMPANY DESCRIPTION

RH Petrogas is an upstream oil and gas company with two producing assets in Indonesia, nearly 5,000boepd of oil and gas production and 2P reserves of 32.2mmbbl as at end-22.

### STOCK DATA

GICS sector	Energy			
Bloomberg ticker:	RHP SP			
Shares issued (m):	835.2			
Market cap (SGDm):	167.0			
Market cap (US\$m):	126.0			
3-mth avg daily t'over (US\$m):	1.2			
<b>Price Performance (%)</b>				
52-week high/low	S\$0.325/S\$0.170			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
7.0	8.1	8.1	(31.0)	6.4
<b>Major Shareholders</b>				
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
FY23 NAV/Share (USD)	0.05			
FY23 Net Cash/Share (USD)	0.07			

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Production forecasts.** Over the 2017-22 period, RHP underwent a transformation, selling off its high-cost production asset in China and one exploration asset in Malaysia. The company has seen a slow but steady growth of its oil and gas production numbers, from 3,910boepd to 4,820boepd which represents a five-year CAGR of 4.3% (see table overleaf). In 2022-25, we expect RHP to grow at a slightly slower pace of 2.5% CAGR as the company's two assets are relatively mature and benefit from capital investment for enhanced oil recovery (EOR) projects. This assumes that oil prices continue to stay above the US\$60/bbl level and thus enable the company to generate the cash flow needed to reinvest in EOR.
- Oil price estimates.** For our oil price forecasts, we use Brent oil's futures prices, and then an applicable discount to arrive at a realised oil price for RHP (see table on RHS). A US\$1/bbl oil price decline in 2023 would lower our net profit forecast by 3.6%.
- Declining earnings a function of our oil price forecasts and aggressive cost estimates.** Our Brent oil price estimates of US\$81/bbl, US\$74/bbl and US\$71/bbl for 2023, 2024 and 2025 respectively largely mirror that of the Brent forward curve. As a result, our net profit estimates will decline yoy in 2023 to US\$21m and continue to decline into 2025 while our cost estimates rise 2-3% p.a. over this same period. As a result, we believe that our profit forecasts are extremely conservative.
- Appears inexpensive on various metrics.** Based on our forecasts, RHP trades at 2023F PE and EV/EBITDA of 6.1x and 2.3x respectively. These are at 23% and 30% discounts to its regional oil and gas peers' respectively. RHP's 2023F P/B of 3.0x is a material premium to its regional peers' 1.0x, however we highlight our ROE forecast of 53% this year vs its peers' average of 12%.

### EARNINGS REVISION/RISK

- Risks to the stock and our recommendation include: a) a decline in commodity prices, b) forex-induced losses, c) government and regulatory risks, and d) oil and gas exploration and development are highly speculative activities.

### VALUATION/RECOMMENDATION

- We initiate coverage with a BUY recommendation and a target price of S\$0.255, implying a 24% upside.** We value RHP using sum-of-the-parts (see table below), based on a 10-year discounted cash flow (DCF) that utilises a 12% WACC, which we believe is reasonable given the small cap size of the company and its exposure to Indonesian sovereign risk.

Over the 10-year period in our DCF, we forecast RHP to produce 17.4mmboe of its 2P reserves, resulting in a DCF valuation of US\$50m. The amount of oil and gas produced in our DCF is well short of the company's reported 2P reserves of 32.2mmboe as at 1 Jan 23 given that the company's reserves-to-production ratio is over 18 years. The remainder of its probable and contingent resources of 63.2mmboe of oil and gas resources is valued at US\$1.00/boe. We view this as reasonable given that 65% of its 2C resources is gas and thus stranded and unlikely to be developed in the near term.

### NET PRESENT VALUE

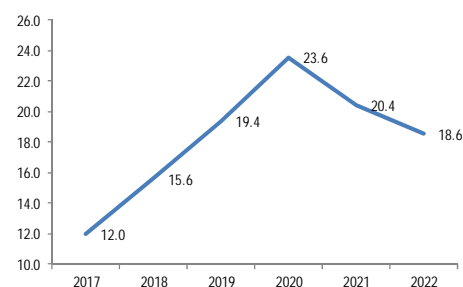
	Mmboe	US\$/boe	US\$m	S\$m	S\$/share
Production & development assets	17.4	2.12	36.9	49.8	0.06
2C oil and gas resources	63.2	1.00	63.2	85.4	0.10
<b>Total reserves &amp; resources</b>	<b>80.6</b>	<b>1.24</b>	<b>100.1</b>	<b>135.2</b>	<b>0.16</b>
Exploration			0.0	0.0	0.00
Investments			0.0	0.0	0.00
Net Cash/(Debt)			57.3	77.3	0.09
<b>Grand Total</b>			<b>157.4</b>	<b>212.5</b>	<b>0.25</b>

Source: UOB Kay Hian

### SHARE PRICE CATALYST

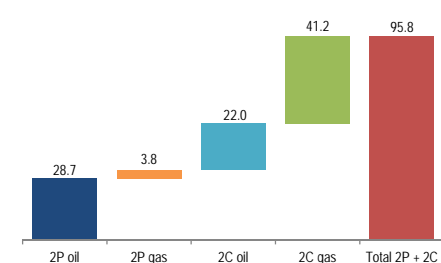
- Oil prices and three well drilling programmes in 3Q23.

### RESERVES-TO-PRODUCTION RATIO (YEARS)



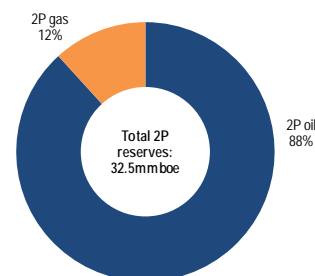
Source: RHP

### COMPOSITION OF RESERVES AND RESOURCES



Source: RHP

### SPLIT OF 2P OIL AND GAS RESERVES



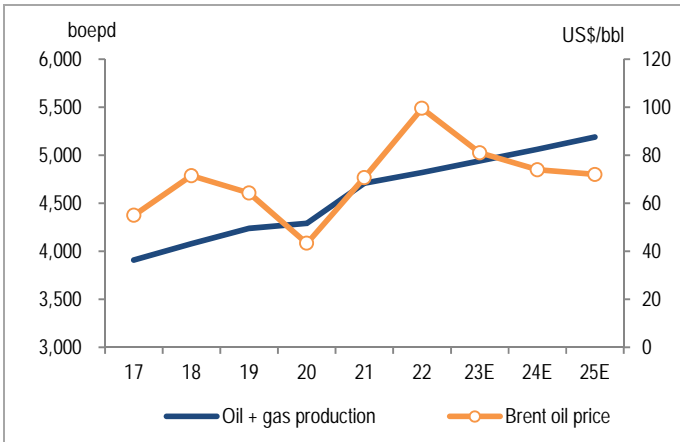
Source: RHP

### OIL PRICE ESTIMATES (US\$/BBL)

	22	23E	24E	25E
Brent oil price - futures	99.49	81.00	74.00	72.00
Realised oil price	95.00	76.95	70.30	68.40
- Discount to futures	-4.49	-4.05	-3.70	-3.60

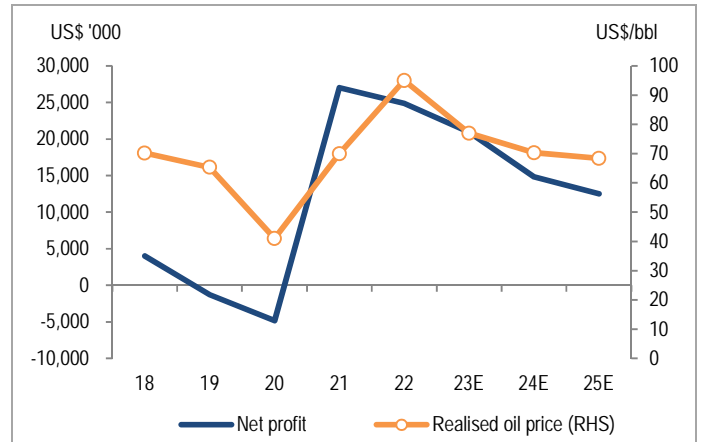
Source: UOB Kay Hian

### OIL AND GAS PRODUCTION VS BRENT OIL PRICE



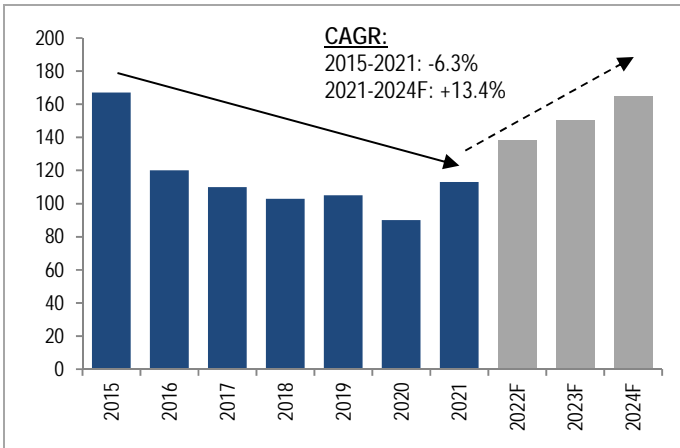
Source: RH Petrogas, UOB Kay Hian

### NET PROFIT VS REALISED OIL PRICE



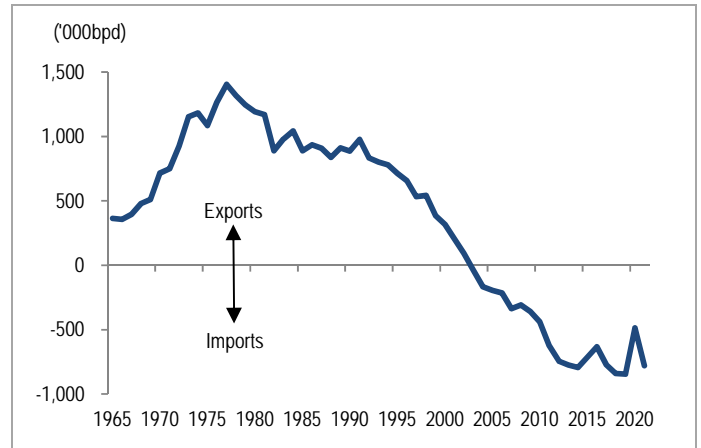
Source: RH Petrogas, UOB Kay Hian

### CAPEX FOR GLOBAL OFFSHORE UPSTREAM INDUSTRY



Source: US Energy Information Administration (Mar 23)

### TREND IN INDONESIA'S NET EXPORTS/(IMPORTS)



Source: BP Statistical Review - 2022

### COMPARABLE COMPANIES

Company	Ticker	Curr (lcy)	31 Mar 23 (lcy)	Mkt Cap (US\$m)	PE		P/B		EV/EBITDA		ROE		P/FCF	
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (%)	2024 (%)	2023 (x)	2024 (x)
Santos	STO AU	AUD	6.90	15,242	7.7	8.3	0.9	0.9	3.9	4.2	12.4	9.8	14.4	31.3
Woodside Energy	WDS AU	AUD	33.34	42,357	9.7	9.9	1.2	1.1	3.9	3.8	10.4	9.5	11.4	7.9
PTTEP	PTTEP TB	THB	150.5	17,480	8.6	9.6	1.2	1.1	2.8	2.9	14.5	11.9	13.6	19.2
Inpex	1605 JP	JPY	1,397	14,539	5.2	5.4	0.5	0.4	2.6	2.6	9.7	8.6	6.9	7.1
<b>Average</b>					<b>7.8</b>	<b>8.3</b>	<b>1.0</b>	<b>0.9</b>	<b>3.3</b>	<b>3.4</b>	<b>11.8</b>	<b>10.0</b>	<b>11.6</b>	<b>16.4</b>

Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	105	98	91	91
EBITDA	40	32	23	19
Deprec. & amort.	0	0	0	0
EBIT	40	32	23	19
Total other non-operating income	2	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>41</b>	<b>32</b>	<b>23</b>	<b>19</b>
Tax	(15)	(11)	(8)	(7)
Minorities	0	0	0	0
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>26</b>	<b>21</b>	<b>15</b>	<b>12</b>
Net profit (adj.)	26	21	15	12

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	13	12	11	10
Other LT assets	7	7	17	29
Cash/ST investment	57	59	52	42
Other current assets	15	14	14	14
<b>Total assets</b>	<b>92</b>	<b>92</b>	<b>93</b>	<b>95</b>
ST debt	0	0	0	0
Other current liabilities	39	39	41	42
LT debt	0	0	0	0
Other LT liabilities	5	5	5	5
Shareholders' equity	39	39	39	39
Minority interest	8	8	8	8
<b>Total liabilities &amp; equity</b>	<b>92</b>	<b>92</b>	<b>93</b>	<b>95</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>31</b>	<b>28</b>	<b>22</b>	<b>20</b>
Pre-tax profit	40	32	23	19
Tax	(19)	(9)	(6)	(5)
Deprec. & amort.	7	7	7	8
Associates	0	0	0	0
Working capital changes	1	(4)	(4)	(4)
Non-cash items	1	0	0	0
Other operating cashflows	2	2	2	2
<b>Investing</b>	<b>0</b>	<b>(23)</b>	<b>(26)</b>	<b>(26)</b>
Capex (growth)	0	(22)	(20)	(20)
Capex (maintenance)	0	(1)	(6)	(6)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
<b>Financing</b>	<b>(7)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(7)	(4)	(4)	(4)
<b>Net cash inflow (outflow)</b>	<b>23</b>	<b>2</b>	<b>(7)</b>	<b>(10)</b>
Beginning cash & cash equivalent	34	57	59	52
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>57</b>	<b>59</b>	<b>52</b>	<b>42</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	37.7	32.6	24.6	20.8
Pre-tax margin	39.4	32.8	24.8	21.0
Net margin	25.0	21.3	16.1	13.6
ROA	33.2	22.5	15.8	13.2
ROE	90.6	53.1	37.5	31.6
<b>Growth</b>				
Turnover	27.3	(6.9)	(6.4)	(0.3)
EBITDA	23.2	(19.5)	(29.3)	(15.7)
Pre-tax profit	(5.0)	(22.6)	(29.2)	(15.7)
Net profit	(8.5)	(20.8)	(29.3)	(15.7)
Net profit (adj.)	(8.5)	(20.8)	(29.3)	(15.7)
EPS	(18.7)	(20.8)	(29.3)	(15.7)
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(146.4)	(151.7)	(132.8)	(107.9)

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