

COMPANY RESULTS

RH Petrogas (RHP SP)

1H23: Poor Results; But Exploration Upside Is Key And Not Earnings

Although RHP's 1H23 results fell short of our expectations due to higher production costs, it is drillbit news from the company's four wells over the course of the next few months that could add S\$0.13/share to our valuation. Operationally, the highlight for 1H23 was RHP's ability to grow its production by 4% yoy. Maintain BUY. Target price lowered slightly to S\$0.238.

1H23 RESULTS

12m to 31 Dec (US\$m)	1H22	1H23	% yoy	Comments
Brent oil price	104.94	79.96	-23.8%	
Revenue	56.65	43.00	-24.1%	- Due to lower realized oil price
Gross profit	28.20	9.69	-65.6%	- Impacted by higher production costs
EBITDA	29.36	12.26	-58.2%	- D&A doubled on a yoy basis
Pre-tax profit	26.18	6.16	-76.5%	- Tax rate rose over 8ppt
PATMI	12.38	2.34	-81.1%	
Free cashflow	2.35	10.60	NM	
Gross margin	49.8%	22.5%	-27.2ppt	
EBITDA margin	51.8%	28.5%	-23.3ppt	
Pre-tax margin	46.2%	14.3%	-31.9ppt	

Source: RH Petrogas, UOB Kay Hian

RESULTS

- **Lower-than-expected results due to higher costs.** RH Petrogas (RHP) reported a 24% yoy decline in revenue which mirrored the yoy decline in oil price. However, the company reported an 81% yoy decline in PATMI to US\$2.3m which was impacted by higher operating costs, depreciation and tax rate. It was pleasing to note that its production rose 4% yoy to 4,960boe/day which was slightly ahead of our estimates, while its free cashflow jumped over 4.5x. RHP remains on track to drill four wells over the next 3-4 months (one of which spudded in early-August) and it is the drillbit exposure that investors should look forward to, not financial results.
- **Costs increased after the paucity of spending during COVID-19.** Management stated that post COVID-19, it has had to increase maintenance and operating capex to ensure that production levels are maintained and in some instances increased. In addition, the company had to increase well workover and well-services activities via the leasing of an additional rig which ultimately led to a 12% production increase at one of its Kepala Burung wells. While RHP's lifting costs rose 19% yoy to nearly US\$40/bbl, management has guided that this will trend down in the next 12-18 months.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	82	105	100	101	99
EBITDA	32	40	19	19	13
Operating profit	32	40	19	19	13
Net profit (rep./act.)	29	26	11	13	9
Net profit (adj.)	29	26	11	13	9
EPS (S\$ cent)	3.9	3.1	1.3	1.5	1.1
PE (x)	3.5	4.3	10.1	9.0	12.9
P/B (x)	5.4	2.9	2.9	2.9	2.9
EV/EBITDA (x)	2.4	2.0	4.2	4.0	5.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	34.8	25.0	11.2	12.6	8.9
Net debt/(cash) to equity (%)	(180.2)	(146.4)	(111.0)	(92.7)	(64.5)
ROE (%)	2,459.3	90.6	28.6	32.3	22.5
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: RH Petrogas, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.185
Target Price	S\$0.238
Upside	+28.6%
(Previous TP	S\$0.255)

COMPANY DESCRIPTION

RH Petrogas is an upstream oil and gas company with two producing assets in Indonesia. It has 32.2mboe of 2P oil and gas reserves of which 89% is oil. In 2022, it produced 4,820boe/day of oil and gas.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	RHP SP
Shares issued (m):	835.2
Market cap (SGDm):	154.5
Market cap (US\$m):	113.8
3-mth avg daily t'over (US\$m):	0.8

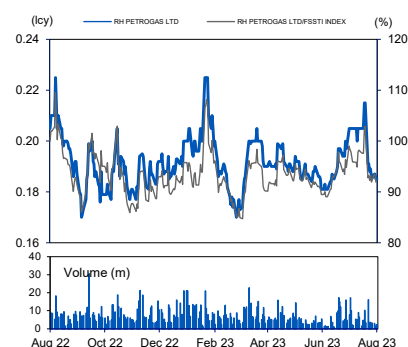
Price Performance (%)

52-week high/low	SGD0.225/SGD0.170			
1mth	3mth	6mth	1yr	YTD
(6.1)	(1.6)	(6.6)	(7.5)	(1.6)

Major Shareholders

Woodsville International Ltd	36.2
Sharptone Investments Ltd	15.9
RH Capital Ltd	13.2
FY23 NAV/Share (USD)	0.05
FY23 Net Cash/Share (USD)	0.05

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Valuing the exploration upside for RHP.** Using recovery factors of between 10-25% and risking the four wells at between 50-80% for both geological and commercial risk, we arrive at a total valuation of S\$0.13/share for RHP's drilling programme. This represents potential upside of nearly 60% based on yesterday's closing price of S\$0.186. Note that while we have factored in much higher risking factors for both Piarawi-1 and Karuka-1 given that they are both deeper wells, we note that the latter gas well is not targeting a new geological play type given that there are similar and larger wells drilled along the geological fairway. These include Abadi (recoverable reserves of 16tcf), Bayu-Undan (3tcf), Greater Sunrise (>8.5tcf) and Tangguh (>20tcf).
- Exploration in 2024.** During the results briefing, management also highlighted another three exploration wells (two oil and one gas) that it will look to undertake in 2024 as part of its drilling commitment when its Production Sharing Contracts are renewed. We highlight that the gas well could target a similar 1.8tcf-sized resource such as Karuka-1.

EARNINGS REVISION/RISK

- Lowering earnings.** We have downgraded our earnings estimates for 2023-25E by 13-46%, with the largest downgrades coming through for 2023E due to the higher-than-expected costs and depreciation.

VALUATION/RECOMMENDATION

- We maintain our BUY rating on RHP with a slightly lower SOTP-based target price of S\$0.238 (S\$0.255 previously).** Based on our forecasts, RHP's 2023F PE and EV/EBITDA of 10.1x and 4.2x are respectively at 15-20% discounts to its regional oil and gas peers.

NET PRESENT VALUE FOR RH PETROGAS

	Mmboe	US\$/boe	US\$m	S\$m	S\$/share
Production & development assets	17.4	1.29	22.5	30.4	0.04
2C oil and gas resources	63.2	1.00	63.2	85.4	0.10
Total reserves & resources	80.6	1.06	85.8	115.8	0.14
Exploration			0.0	0.0	0.00
Investments			0.0	0.0	0.00
Net Cash/(Debt)			61.2	82.6	0.10
Grand Total			147.0	198.4	0.24

Source: UOB Kay Hian

- We prefer RHP to Rex International (REXI SP, SELL, target price S\$0.10)** given the former's better oil and gas production management, better quality assets, lack of corporate governance issues, inexpensive valuation and most importantly exploration upside.
- Risks to our investment thesis** on RHP include oil prices which could negatively impact profits and cashflow in the event of a prolonged downturn, operational risk, regulatory risk and sovereign risk, among others.

SHARE PRICE CATALYST

- Drilling results at its four wells** (see table on RHS) which could add materially to the company's valuation in the near term, and profits and cashflow in the medium to long term.

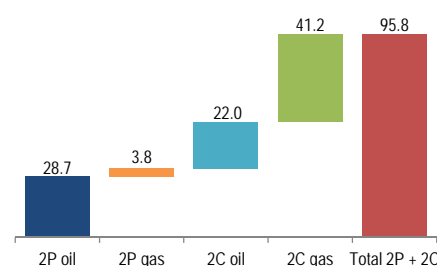
DRILLING TO WATCH FOR

Name	Potential recoverable reserves*	Timeline	Value per share (S\$)
Oil			
Riam-1	5.0mmbbl	Drilling now	0.03
W-322	3.0mmbbl	Aug/Sep 23	0.05
Piarawi-1	6.6mmbbl	Dec 23	0.02
Gas			
Karuka-1	1.8tcf	Sep 23	0.04
Total			0.13

Note: Gross unrisksed resources

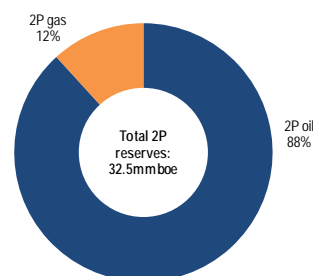
Source: RHP, UOB Kay Hian estimates

COMPOSITION OF RESERVES AND RESOURCES AS AT 1 JAN 23 (MMBOE)



Source: RHP

SPLIT OF 2P OIL AND GAS RESERVES AS AT 1 JAN 23



Source: RHP

OIL PRICE ESTIMATES (US\$/BBL)

	22A	23E	24E	25E
Brent oil price - futures	99.49	82.98	81.34	77.80
Realised oil price	95.00	78.83	77.27	73.91
- Discount to futures	-4.49	-4.15	-4.07	-3.89

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	104.9	100.1	100.5	98.6
EBITDA	39.6	18.6	19.4	13.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	39.6	18.6	19.4	13.5
Total other non-operating income	1.8	0.2	0.2	0.1
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	41.4	18.8	19.5	13.6
Tax	(15.2)	(7.6)	(6.9)	(4.8)
Minorities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	26.2	11.2	12.6	8.8
Net profit (adj.)	26.2	11.2	12.6	8.8

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	13.4	14.7	16.1	17.7
Other LT assets	7.0	20.9	27.1	38.1
Cash/ST investment	57.3	43.4	36.3	25.2
Other current assets	14.6	14.9	15.0	14.9
Total assets	92.2	93.9	94.5	95.8
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	39.2	41.0	41.5	42.9
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	5.2	5.2	5.2	5.2
Shareholders' equity	39.1	39.1	39.1	39.1
Minority interest	7.9	7.9	7.9	7.9
Total liabilities & equity	92.2	93.9	94.5	95.8

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	31.0	20.4	22.1	18.2
Pre-tax profit	40.0	19.0	19.7	13.8
Tax	(19.1)	(6.1)	(5.5)	(3.9)
Deprec. & amort.	7.1	9.8	10.3	10.8
Associates	0.0	0.0	0.0	0.0
Working capital changes	0.7	(3.8)	(3.9)	(4.0)
Non-cash items	0.8	0.0	0.0	0.0
Other operating cashflows	1.5	1.6	1.6	1.6
Investing	(0.3)	(30.6)	(25.6)	(25.6)
Capex (growth)	(0.1)	(30.0)	(20.0)	(20.0)
Capex (maintenance)	(0.2)	(0.5)	(5.5)	(5.5)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(0.1)	(0.1)	(0.1)	(0.1)
Financing	(7.2)	(3.7)	(3.7)	(3.7)
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(7.2)	(3.7)	(3.7)	(3.7)
Net cash inflow (outflow)	23.5	(13.9)	(7.2)	(11.0)
Beginning cash & cash equivalent	33.8	57.3	43.4	36.3
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	57.3	43.4	36.3	25.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	37.7	18.6	19.3	13.7
Pre-tax margin	39.4	18.8	19.4	13.8
Net margin	25.0	11.2	12.6	8.9
ROA	33.2	12.0	13.4	9.3
ROE	90.6	28.6	32.3	22.5
Growth				
Turnover	27.3	(4.6)	0.5	(2.0)
EBITDA	23.2	(52.9)	4.0	(30.4)
Pre-tax profit	(5.0)	(54.6)	3.9	(30.3)
Net profit	(8.5)	(57.3)	12.7	(30.3)
Net profit (adj.)	(8.5)	(57.3)	12.7	(30.3)
EPS	(18.7)	(57.3)	12.7	(30.3)
Leverage				
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)	(111.0)	(92.7)	(64.5)

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