

### COMPANY UPDATE

## RH Petrogas (RHP SP)

An In-Line Outcome For Its Drilling Programme – More To Come In 2H24

Although RHP's 2023/24 drilling programme yielded only one successful well out of four, this was in line with historical global exploration success rates. Excluding exploration write-offs, the company's 2023 net profit would have beaten our forecast. RHP remains an exploration play with two wells targeting nearly 10mmbbl of reserves to be drilled in 2H24. Maintain BUY. Target price: S\$0.242.

### WHAT'S NEW

- One successful well out of four - an in-line result.** In mid-Mar 24, RH Petrogas (RHP) announced that the Piarawi-1 well, located in its Salawati Production Sharing Contract (PSC) and the fourth and final well of its 2023/24 drilling programme, found good quality 42° API oil within a tight carbonate reservoir. At present, the well has been temporarily suspended, and with the Indonesian oil & gas regulator having given approval to test and frack the well, it would appear that Piarawi can be brought into production as soon as 4Q24. RHP estimates around 2mmbbl in recoverable reserves at Piarawi which is in line with our pre-drill estimate and potential production rates of 300-500bpd (+6% from 2023 levels). We highlight that global exploration success rates range at 10-20% thus we deem RHP's exploration programme as being an in-line result.
- 2023 results - above expectations.** While RHP reported a net profit of US\$3.2m for 2023, this included nearly US\$18m in exploration write-offs due to the three non-commercial wells that the company drilled in 2H23. Excluding these write-offs, the company would have registered a net profit of US\$13.8m (which includes a deferred tax impact) and thus above our US\$11m profit estimate for the year. We highlight that RHP's operations continue to perform well with 2023 production rising by 3.5% yoy to 4,990bpd or 1.44mmbbl while production costs were largely in line with our estimates at over US\$37/bbl.
- Drilling plans for 2H24.** RHP has planned for a two-well drilling programme in the Basin PSC (RHP stake 70%), one well targeting a shallow reservoir at around 3,000ft well with potential unrisked recoverable reserves of 8-10mmbbl, and the second one targeting a deeper reservoir of 8-10bcf of gas at around 10,000ft. The gross cost of the wells will be US\$4m and US\$8m-10m respectively. It is important to note that Pertamina drilled two successful oil and gas wells that were only 2-4km away near RHP's first planned shallow well and thus it would appear that the likelihood of a positive result is high in our view.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	105	94	104	101	91
EBITDA	40	3	24	17	9
Operating profit	40	3	24	17	9
Net profit (rep./act.)	26	4	16	11	6
Net profit (adj.)	26	4	16	11	6
EPS (S\$ cent)	3.1	0.5	1.9	1.3	0.7
PE (x)	3.8	25.2	6.2	9.1	17.1
P/B (x)	2.5	2.4	2.4	2.4	2.4
EV/EBITDA (x)	1.5	22.9	2.4	3.6	6.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	25.0	4.2	15.4	10.8	6.4
Net debt/(cash) to equity (%)	(146.4)	(122.8)	(111.4)	(85.8)	(89.0)
ROE (%)	90.6	9.7	38.0	26.0	13.9
Consensus net profit	-	-	13	9	-
UOBKH/Consensus (x)	-	-	1.26	1.24	-

Source: RH Petrogas, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.165
Target Price	S\$0.242
Upside	+51.3%
(Previous TP	S\$0.238)

### COMPANY DESCRIPTION

RH Petrogas is an upstream oil and gas company with two producing assets in Indonesia.

### STOCK DATA

GICS sector	Energy
Bloomberg ticker:	RHP SP
Shares issued (m):	835.2
Market cap (SGDm):	133.6
Market cap (US\$m):	99.1
3-mth avg daily t'over (US\$m):	0.5

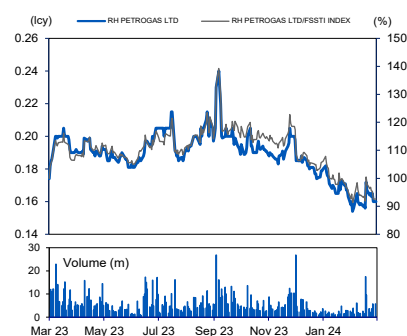
### Price Performance (%)

52-week high/low	SGD0.240/SGD0.154			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(4.2)	(20.0)	(23.8)	(8.0)	(13.5)

### Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (USD)	0.05
FY24 Net Cash/Share (USD)	0.06

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **Positive production outlook in the longer term.** Although its Karuka exploration well failed to find any commercial gas to supply the nearby nickel smelting plant, it appears that RHP has enough contingent gas resources nearby to supply the plant with minimal capex outlay. While negotiations with the smelting plant should commence in the near term with production rates and gas prices yet to be determined, we believe that any positive outcome should bode well for RHP's medium- to long-term production outlook.

### EARNINGS REVISION/RISK

- **Raising earnings.** We have raised our earnings estimates for 2024-25 by 22-23% due to our higher oil price estimates (see table on RHS) as well as slightly higher oil production forecasts. We highlight that the company had zero debt at the end of 2023 and US\$54.6m in cash which equates to over half of its current market capitalisation.

### VALUATION/RECOMMENDATION

- **We reiterate our BUY rating on RHP with a slightly higher SOTP-based target price of S\$0.242 (S\$0.238 previously).** Based on our forecasts, RHP trades at very inexpensive multiples with its 2024F PE and EV/EBITDA of 6.2x and 4.4x respectively at 23-36% discounts to its regional oil and gas peers. While this can partially be explained by RHP's small market capitalisation and low daily trading liquidity, we point out that management has a good track record of delivering on production growth and cost control.

### NET PRESENT VALUE

	Mmboe	US\$/boe	US\$m	S\$m	S\$/share
Production & development assets	17.0	2.18	37.0	49.9	0.06
2C oil and gas resources	61.6	1.00	61.6	83.2	0.10
<b>Total reserves &amp; resources</b>	<b>78.6</b>	<b>1.25</b>	<b>98.6</b>	<b>133.1</b>	<b>0.16</b>
Exploration			0.0	0.0	0.00
Investments			0.0	0.0	0.00
Net Cash/(Debt)			51.4	69.4	0.08
<b>Grand Total</b>			<b>150.1</b>	<b>202.6</b>	<b>0.24</b>

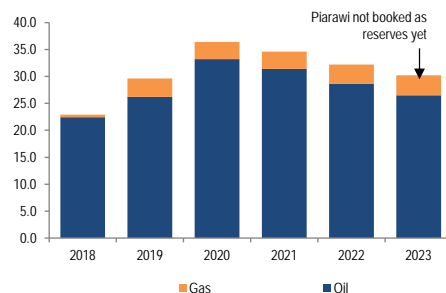
Source: UOB Kay Hian

- **We prefer RHP to Rex International (REXI SP/SELL/Target: S\$0.08)** 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. In our view, the next few months may see RHP's share price trading in line with oil price movements until at least 2H24 when its drilling programme commences.
- **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

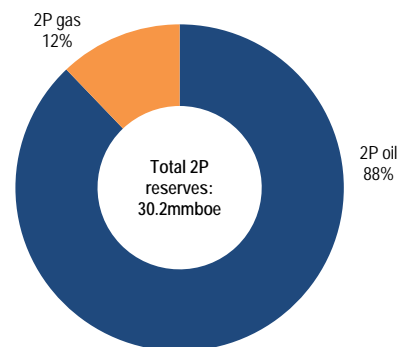
- Drilling results at its two wells in 2H24 which could add to the company's valuation in the near term, and profits and cashflow in the medium to long term.

### 2P OIL & GAS RESERVES AS AT 1 JAN 23 (MMBOE)



Source: RHP

### SPLIT OF 2P OIL AND GAS RESERVES AS AT 1 JAN 24



Source: RHP

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

	23A	24E	25E	26E
Brent oil price – futures	82.18	83.00	78.81	74.94
Realised oil price	80.00	78.85	74.87	71.19
- Discount to futures	-2.18	-4.15	-3.94	-3.75

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	94.1	103.6	100.8	91.1
EBITDA	2.6	24.4	16.7	8.9
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	2.6	24.4	16.7	8.9
Total other non-operating income	3.4	0.2	0.2	0.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>6.0</b>	<b>24.6</b>	<b>16.8</b>	<b>9.0</b>
Tax	(2.1)	(8.7)	(5.9)	(3.2)
Minorities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>3.9</b>	<b>15.9</b>	<b>10.9</b>	<b>5.8</b>
Net profit (adj.)	3.9	15.9	10.9	5.8

### CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>16.8</b>	<b>18.0</b>	<b>12.0</b>	<b>6.6</b>
Pre-tax profit	5.2	24.8	17.0	9.2
Tax	(5.1)	(6.9)	(4.8)	(2.6)
Deprec. & amort.	10.1	10.7	11.4	11.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(11.7)	(11.6)	(12.6)	(12.1)
Non-cash items	17.3	0.0	0.0	0.0
Other operating cashflows	1.0	1.0	1.0	1.0
<b>Investing</b>	<b>(11.8)</b>	<b>(20.6)</b>	<b>(20.6)</b>	<b>(2.4)</b>
Capex (growth)	(9.9)	(15.0)	(15.0)	(0.1)
Capex (maintenance)	(1.7)	(5.5)	(5.5)	(2.2)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(0.2)	(0.1)	(0.1)	(0.1)
<b>Financing</b>	<b>(10.9)</b>	<b>(2.1)</b>	<b>(2.1)</b>	<b>(2.1)</b>
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	(1.5)	0.0	0.0	0.0
Others/interest paid	(9.4)	(2.1)	(2.1)	(2.1)
<b>Net cash inflow (outflow)</b>	<b>(5.8)</b>	<b>(4.8)</b>	<b>(10.7)</b>	<b>2.1</b>
Beginning cash & cash equivalent	57.3	51.4	46.7	35.9
Changes due to forex impact	0.0	0.0	0.0	(0.7)
<b>Ending cash &amp; cash equivalent</b>	<b>51.4</b>	<b>46.7</b>	<b>35.9</b>	<b>37.3</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	17.6	18.3	19.0	19.0
Other LT assets	7.7	6.8	4.8	4.8
Cash/ST investment	51.4	46.7	35.9	37.3
Other current assets	27.8	28.8	29.0	27.1
<b>Total assets</b>	<b>104.5</b>	<b>100.5</b>	<b>88.8</b>	<b>88.2</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	48.9	44.9	31.6	30.9
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3.1	3.1	4.7	4.7
Shareholders' equity	41.9	41.9	41.9	41.9
Minority interest	6.9	6.9	6.9	6.9
<b>Total liabilities &amp; equity</b>	<b>104.5</b>	<b>100.5</b>	<b>88.8</b>	<b>88.2</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	2.8	23.6	16.5	9.7
Pre-tax margin	6.4	23.7	16.7	9.9
Net margin	4.2	15.4	10.8	6.4
ROA	4.0	15.5	11.5	6.6
ROE	9.7	38.0	26.0	13.9
<b>Growth</b>				
Turnover	(10.3)	10.1	(2.7)	(9.7)
EBITDA	(93.5)	843.9	(31.8)	(46.8)
Pre-tax profit	(85.5)	310.5	(31.6)	(46.4)
Net profit	(85.0)	304.8	(31.7)	(46.6)
Net profit (adj.)	(85.0)	304.8	(31.7)	(46.6)
EPS	(85.0)	304.8	(31.7)	(46.6)
<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	(122.8)	(111.4)	(85.8)	(89.0)

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