



Hibiscus Petroleum (HIBI MK)

Growth and rejuvenation

- Hibiscus completed its first infill drilling project at Anasuria involving the GUA-P2 well. We expect this to raise Anasuria FY19 production to 4,000 bpd.
- We reaffirm our belief on NSPSC potential earnings contribution as Hibiscus focuses on enhancing facilities uptime in the interim until it achieves FID for infill drilling program at the field.
- We raise our FY19/20/21F earnings forecast by 3%/21%/25% on higher crude oil, stronger USD and lower tax rate assumption following more extensive capex project at Anasuria.
- Upgrade to BUY (from HOLD) with a new RM1.35 (from RM0.97) DCF-derived TP. We believe the recent share price weakness is a good opportunity to buy into the stock.

Completed first milestone at Anasuria

Hibiscus completed its first infill drilling project at Anasuria with side-tracking the P2 well at Guilemot A field (GUA-P2) in early Sep 2018. We expect the well to contribute no less than 500 bpd of additional barrels, bringing Anasuria average oil production to 4,000 bpd (net to Hibiscus) in FY19.

Reaffirm North Sabah (NSPSC) potential

In short span of time, Hibiscus managed to arrest the natural decline of production rate at NSPSC on the back of high facilities uptime of above 90%. The production rate recovered to 16,000 bpd in 4QFY18 from 14,000 bpd in 1QFY18. We believe production level at the field will be sustainable as the company put much emphasis to maintain the uptime including the short 1-week maintenance in Oct 2018.

Earnings revision

We raised our FY19/20/21F earnings forecast by 3%/21%/25% as we revisit our key assumptions. Our forecasts imply earnings growing by a massive 12-fold over FY19-21F from FY18. The growth is underpinned by structural production boost from NSPSC, higher crude oil price and favourable forex exchange.

Upgrade to BUY; TP raised to RM1.35

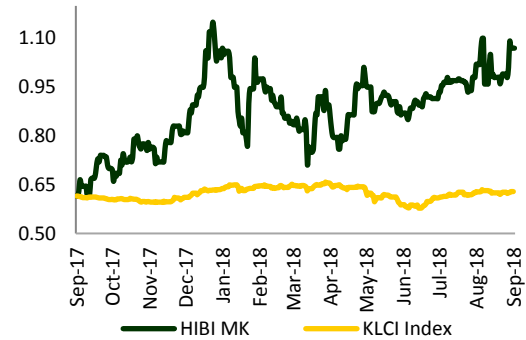
We upgrade Hibiscus to BUY (from HOLD) with a higher TP of RM1.35 (from RM0.97) as we roll-over our valuation to FY19. Our valuation is derived using finite DCF methodology based on WACC of 9%. We continue to favour Hibiscus as (i) beneficiary of higher crude oil price and (ii) beneficiary of stronger USD and (iii) net cash position which provides the opportunity to gear up for future acquisition of new field and/or increase 2P reserves.

BUY ▲

Share Price RM1.07

Target Price ▲ RM1.35 +26%

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	4.9	23.0	74.0
vs FBM KLCI	23.0	15.1	70.2

Stock Data

Mkt Cap (RM)	1,699.4
Free float (%)	75.6
Issued shares (m)	1,588.23
52w H/L (RM)	1.17 / 0.605
3m avg daily volume (m)	24,329,720

Major Shareholders (%)

Hibiscus Upstream	10.6
Polo Investment Ltd	8.8
Mohd Zulkefli	5.1

FYE Jun (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Turnover	261	394	1,009	1,202	1,384
EBITDA	155	168	660	881	1,056
Pretax Profit	60	79	493	688	850
Core Profit	26	38	344	461	443
Consensus NP			305	322	302
EPS (sen)	2	2	22	29	28
PER (x)	63.4	42.9	4.7	3.5	3.7
DPS (sen)	0.0	0.0	0.0	0.0	0.0
D. Yield (%)	0.0	0.0	0.0	0.0	0.0
P/B (x)	2.0	1.7	1.2	0.9	0.7

Key Ratios (%)

ROE	3.9	4.3	29.5	29.4	21.9
EBITDA margin	59.3	42.7	65.4	73.2	76.3
Pretax margin	22.9	19.9	48.9	57.2	61.4
Net margin	9.8	9.6	34.1	38.4	32.0

Source: Bloomberg, BIMB Securities

Azim Faris Ab Rahim, CFA

azimfaris@bimbsec.com.my

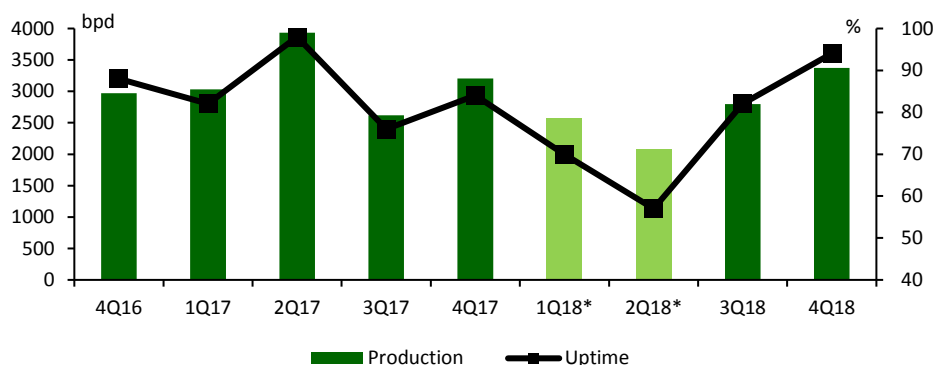
(603) 2613 1734

Completed first milestone at Anasuria

Anasuria performed relatively weaker in FY18. To recap, its oil production declined c.15% to 973k bbls of oils in FY18 (FY17: 1,150k bbls of oils) on reduced facilities uptime amidst the planned FPSO maintenance and production disruption in 1HFY18. Accordingly, its average daily production fell to 2,700 bpd in FY18 from 3,200 bpd in FY17.

Notwithstanding, we see a silver lining at Anasuria as 4QFY18 production level recovered to pre-maintenance level (Chart 1). This was on the back of better facilities uptime which hit 94% during the quarter following the recent planned FPSO maintenance in 1HFY18.

Chart 1: Historical Anasuria average production and facilities uptime



*maintenance period

Source: Company, BIMB Securities

Besides that, it also intensified capex spend to further boost production level and add more 2P reserves. The first drilling program at Anasuria (i.e. the Guilemot A-P2 sidetrack well) completed in early Sep 2018 while installation of water injection at Cook field is on track for completion by end CY2018. We believe Hibiscus is on track to achieve its 5,000 bpd production target by end FY20 (Jun 2020) as more projects are in the pipeline (Table 1) with a total budgeted capex of US\$112m (GBP 79m).

Table 1: Upcoming projects scheduled for 2019/2020

Production enhancement projects	Project description	Target completion	Expected capex (net to AHUK)
GUA-P2 Sidetrack	Re-enter producing well and drain additional volumes by side-tracking existing well	Completed in Sep 2018	GBP 17m
Cook Water Injector	To increase reservoir pressure and extract additional reserves from Cook field	End of 1HFY19	GBP 11m
Infill Wells	To drill 2-3 infill wells in Guilemot, Teal South and/or Teal either as sidetrack or new-drill wells	One well each in 2HFY19, 1HFY20 and 2HFY20	GBP 34m
Subsea debottlenecking	To install a new pipeline from Guilemot field to increase liquid production capacity	FY20	GBP 11m
HP Gas compressor upgrade	To install new gas compressor to improve reliability and increase gas lift capacity	FY20	GBP 6m
Total			GBP 79m

Source: Company, BIMB Securities

The GUA-P2 side-track drilling boosted initial flow rate of the FPSO during the 20-hour flow period to 4,750 bpd (or 2,375 bpd net to Hibiscus). This was achieved through a 32% choke and with application of gas lift at a rate of 1.7mmscfd.

We understand that the GUA field contribute c.50% to Anasuria's total production. For simplicity, we estimate the GUA field production level was at c.1,700 bpd (net to Hibiscus) prior to the side-tracking (i.e. when Anasuria average oil production was at 3,375 bpd in 4QFY18). This implies that the GUA-P2 side-track well potentially adds another 675 bpd to Anasuria's production and boost Anasuria production rate to 4,000 bpd in 2QFY19.

We also expect additional barrel from the new water injection project at Cook field which would contribute from 2HFY19, raising Anasuria's average production to 4,000 bpd in FY19.

Reaffirm North Sabah potential

The North Sabah Production Sharing Contract (NSPSC) started contributing to Hibiscus' bottomline in 4QFY18 with the acquisition from Shell Sabah completing on 31 Mar 2018. Under the PSC fiscal terms, all rights of the assets belong to Petronas while Hibiscus and its partner, Petronas Carigali S/B, are contractors entitled to a percentage of the production for cost recovery.

The share of profit is calculated based on a certain formula (i.e. Revenue-over-costs ratio or R/C ratio). Currently, Hibiscus is entitled to c.37-38% of the field gross production (Table 2) and it expects this would remain for the foreseeable future.

Table 2: North Sabah operational performance

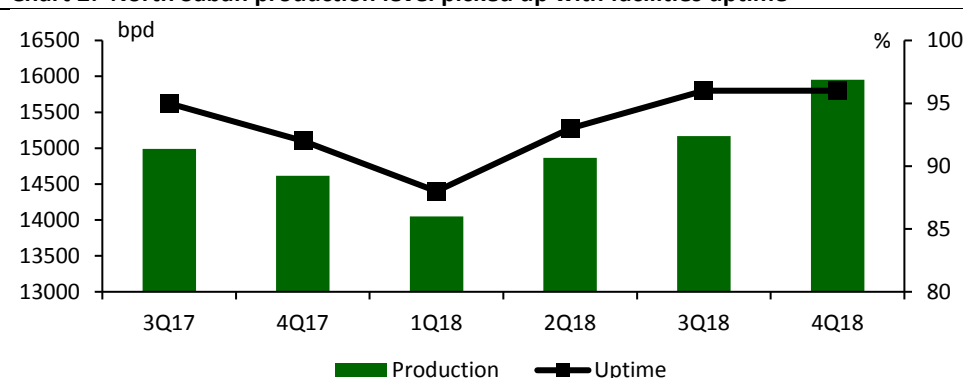
Items	Units	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Facilities uptime	%	95	92	88	93	96	96
Average gross production	bbl/day	14,992	14,614	14,049	14,865	15,167	15,954
Average net oil production	boe/day	5,547	5,407	5,198	5,500	5,710	5,903
Entitlement ratio	USD/bbl	37%	37%	37%	37%	38%	37%
Total oil sold	bbl	587,228	593,086	287,850	586,658	287,019	623,544
Number of liftings		2.0	2.0	1.0	2.0	1.0	2.0
Average realised oil price	mmscf	59.4	56.9	55.8	67.2	71.4	73.3
Field average OPEX	USD/boe	10.8	11.8	15.3	18.5	12.9	8.2
Hibiscus' average OPEX	USD/boe	14.6	15.9	20.6	25.0	17.2	11.0

Source: Company, BIMB Securities

The field production has been on a rising trend with gross production level recovered to 16,000 bpd in 4QFY18 from 14,000 bpd in 1QFY18 (Chart 2). This was due to maintenance undertaken during the transitional phase in 1HFY18 which led to the facilities' high average uptime. We believe Dr Pascal Hos (CEO of SEA Hibiscus) played a pivotal role in sustaining the high facilities uptime; he was formerly with Sarawak Shell and was among the pioneer engineers of the North Sabah PSC field.

As production level rises, the field average opex per barrel naturally declines and fell below \$10/bbl in 4QFY18. Adjusting for its oil entitlement, Hibiscus' effective opex per barrel was at \$11/bbl in 4QFY18 (Table 2).

Chart 2: North Sabah production level picked up with facilities uptime



Source: Company, BIMB Securities

Hibiscus plans to halt production at one of the fields for 7-8 days in FY19 (ie. in Oct 2018) to facilitate maintenance works. Due to higher maintenance cost, we estimate NSPSC's production cost to average higher in FY19 at c.\$16/bbl while production averages at 16,000 bpd.

Going forward, we expect Hibiscus to boost production levels at NSPSC as it embarks on a US\$50m capex project over the next 3 years. This may raise production level to 21,000 bpd by end FY21 (Jun 2021). None of the planned capex has achieved FID while it is also subject to Petronas' approval.

The NSPSC multiplier

We raised our FY19/20/21F earnings forecast by 3%/21%/25% upon revising our key assumptions (Table 3). Our forecasts imply massive earnings growth by 12-fold over FY19-21F from FY18 levels. This is attributed to structural production boost from NSPSC, higher crude oil price and favourable exchange rate. We also refined our model to account for the timing of crude oil offtakes.

Table 3: Earnings outlook

FYE Jun (RM m)	Actual	Previous			After			Change (%)		
	FY18	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F
Revenue	394.3	987	1,155	1,170	1,009	1,202	1,384	2.3%	4.1%	18.3%
EBITDA	168.2	643	808	820	660	881	1,056	2.6%	9.0%	28.8%
Dep. and amort.	(68.6)	(84)	(96)	(102)	(139)	(167)	(185)	66.8%	73.5%	80.3%
EBIT	99.6	560	711	718	521	713	872	-7.0%	0.3%	21.5%
Pretax profit	244.5	560	711	718	493	688	850	-11.9%	-3.3%	18.4%
Tax Expense	(40.8)	(224)	(331)	(363)	(149)	(227)	(407)	-33.5%	-31.4%	12.1%
Net profit	203.7	336	380	355	344	461	443	2.5%	21.2%	24.8%
Core profit	37.8	336	380	355	344	461	443	2.5%	21.2%	24.8%

Source: BIMB Securities, Company

Our key assumptions are discussed as follow and summarised in (Table 4 and 5):

- Higher crude oil price assumption for FY19 and impute \$2 premium for Tapis crude.**
 We raised crude oil price assumptions by US\$2.5/bbl to US\$70/bbl for FY19. However, we kept FY20/FY21 assumptions unchanged as we see the risk of crude oil demand slowing amidst the trade war between China-US. Our terminal crude oil assumption is also kept unchanged at US\$75/bbl. For NSPSC, we also add a conservative US\$2/bbl premium to the realized oil price. This mainly reflects the premium for the Tapis blend over the Brent benchmark.
- Stronger US\$ dollar to benefit Hibiscus.** We revise our FY19 currency assumption to reflect the strengthening dollar. Nonetheless, long-term exchange rate assumptions are kept conservative at RM3.90/USD and USD1.40/GBP respectively.
- Higher Anasuria capex lowers tax expense.** We raised our initial capex estimate for Anasuria for FY19/FY20 following the latest capex plans. Accordingly, this lowers the tax expenses. The additional capex is for facilities debottlenecking and upgrading which we expect to significantly raise production level from new wells at Guillemot field or new well development at the prospective Kite field possibly from FY21 onwards.
- Monthly crude oil offtake is possible.** At current production level, management has guided for the delivery of 4-5 and 6-7 crude oil offtakes for Anasuria and North Sabah respectively in a year. For FY19, we estimate it could deliver up to 12 offtakes; it has carried out 3 offtakes in 1QFY19.

Table 4: Anasuria key assumptions revision

FYE Jun (RM m)	Previous			After			Comment
	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	
GBP/MYR	5.50	5.55	5.60	5.67	5.60	5.46	
USD/MYR	3.90	3.70	3.50	4.05	4.00	3.90	Stronger USD against MYR
GBP/USD	1.41	1.50	1.60	1.40	1.40	1.40	
Anasuria sales vol (m bbls)	1.460	1.757	1.679	1.400	1.680	1.960	Tweaked according to number of lifting
Anasuria no of liftings	5.2	6.3	6.0	5.0	6.0	7.0	
Anasuria realised price	67.5	72.5	75.0	70.0	72.5	75.0	
Anasuria production	4,000	4,800	4,600	4,000	4,800	5,000	Increase FY21F as a result of drilling programs
Anasuria opex (GBP m)	15	15	15	17	17	17	Adjusted higher for annual scale squeeze project
Anasuria opex/bbl	14.9	13.2	14.7	17.7	15.0	14.7	
Anasuria capex (GBP m)	26	10	-	39	42	-	Exclude decom cost US\$6.5-12/bbl

Source: BIMB Securities, Company

Table 5: North Sabah key assumptions revision

FYE Jun (RM m)	Previous			After			Comment
	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	
NS sales vol (m bbls)	2.289	2.739	3.089	2.100	2.400	2.700	Tweaked according to number of lifting
NS no of liftings	7.6	9.1	10.3	7.0	8.0	9.0	
NS realised price	67.5	67.5	67.5	72	75	77	Added \$2/bbl premium
NS gross production	17,000	19,000	21,000	16,000	19,000	21,000	Scaled down FY19 due to maintenance program
NS net production to Hibis.	6,272	7,504	8,463	6,120	6,885	7,650	Reduced FY20 and FY21 to better reflect entitlement ratio
NS oil entitlement ratio	37%	39%	40%	38%	38%	38%	
NS opex (USD m)	39.8	41.0	42.2	46.7	41.0	42.2	Higher maintenance cost in FY19
NS field opex/bbl	12.8	11.8	11.0	16.0	12.5	11.6	
NS opex/bbl to Hibis.	17.4	15.0	13.7	20.9	16.3	15.1	
NS capex	20	30	30	10.0	20.0	20.0	Exclude decom cost US\$5/bbl

Source: BIMB Securities, Company

Upgrade to BUY; TP raised to RM1.35

We upgrade Hibiscus to BUY (from HOLD) with a higher TP of RM1.35 (from RM0.97) as we roll-over our valuation to FY19 and following the earnings upgrade. Our valuation is derived using DCF with a finite timeline as per the concession for the respective assets and is based on a WACC of 9% (Table 6). We continue to favour Hibiscus as it is (i) beneficiary of higher crude oil price and (ii) beneficiary of stronger USD and (iii) it remains in net cash position, implying ample gearing up opportunities to fund possible acquisitions of new field and/or project capex to increase 2P reserves.

Table 6: DCF breakdown

Items	RM m	RM/share	Remarks
NPV of Anasuria	969.25	0.610	
NPV of North Sabah	1,447.95	0.912	
NPV Group opex	(301.60)	(0.190)	WACC 9% base on risk-free rate of 4% and market risk premium of 5%
Total Enterprise value	2,116	1.332	
Less: net (debt) / cash	135.0		
Total Equity value	2,251		
No. of shares (m)	1,588		
Equity value per share (RM)	1.417		
Warrant conversion	317.6		Assume full conversion @ RM1.00
Total equity value	2,568.26		
Enlarged share base	1,905.87		
Fully diluted value per share (RM)	1.348		

Source: BIMB Securities

Key catalysts to our target price and recommendations are:

- Higher than expected production level as a result of infill drilling of new well
- Higher realized crude oil price
- West Seahorse field development or acquisition of new producing field

Key risks to our target price and recommendations are:

- Rise in operating costs should crude oil market upcycle extended
- Unfavorable result from drilling activities
- Unplanned shutdown in the production of its assets
- Sharp drop in crude oil price which could be due to various reasons including geopolitical and natural disasters may affect its earnings

Income Statement					
FYE 30 Jun (RM m)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	261.3	394.3	1,009.3	1,202.4	1,384.1
EBITDA	154.8	168.2	660.3	880.6	1,056.3
Depreciation & amortisation	(72.5)	(68.6)	(139.5)	(167.3)	(184.5)
EBIT	82.4	99.6	520.8	713.3	871.8
Associates/JV	-	-	-	-	-
Pretax profit	62.0	244.5	493.2	688.0	849.6
Core PBT	59.9	78.5	493.2	688.0	849.6
Income tax	(34.3)	(40.8)	(148.7)	(226.9)	(406.6)
PAT/PAT	27.7	203.7	344.5	461.2	443.0
Exceptional item	2.2	165.9	-	-	-
Core PAT	25.5	37.8	344.5	461.2	443.0
Balance Sheet					
FYE 30 Jun (RM m)	FY17	FY18	FY19E	FY20E	FY21E
Non-Current Asset	1,236.0	1,571.5	1,690.8	1,835.9	1,729.4
Current Asset	83.6	402.5	644.1	978.6	1,549.3
Total Asset	1,319.6	1,974.0	2,334.8	2,814.5	3,278.7
Non-Current Liabilities	452.2	742.4	759.2	778.0	799.0
Current Liabilities	125.1	235.7	235.4	235.1	235.2
Total Liabilities	577.2	978.2	994.6	1,013.1	1,034.2
Total Equity	742.4	995.8	1,340.3	1,801.5	2,244.5
Total liabilities & equity	1,319.6	1,974.0	2,334.8	2,814.5	3,278.7
Cash Flow					
FYE 30 Jun (RM m)	FY17	FY18	FY19E	FY20E	FY21E
Cash flow from operating activities (CFO)	101.9	84.5	484.3	617.1	608.9
Cash flow from investing activities (CFI)	(83.2)	(87.6)	(255.1)	(304.4)	(64.6)
Cash flow from financing activities (CFF)	25.2	89.9	(97.6)	(133.9)	(160.1)
Net change in cash & cash equivalent	43.8	86.8	131.6	178.8	384.2

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst’s coverage universe, is expected to outperform the relevant primary market index over the next 12 months
	The Industry as defined by the analyst’s coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst’s coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

The investments discussed or recommended in this report may not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of BIMB Securities Sdn Bhd may from time to time have a position in or either the securities mentioned herein. Members of the BIMB Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgements as of this date and are subject to change without notice. BIMB Securities Sdn Bhd accepts no liability for any direct, indirect or consequential loss arising from use of this report.

Printed and published by



بای آئی سیورٹی سیکوریتیس سنڊیرین براد

BIMB SECURITIES SB (290163-X)
A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,
No. 8 Jalan Munshi Abdullah,
50100 Kuala Lumpur
Tel: 03-2613 1600 Fax: 03-2613 1799
<http://www.bimbsec.com.my>

Azharuddin Nordin
Head of Research