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Oil and Gas

Beneficiaries of Market Downcycle

- **We initiate coverage on the small cap upstream producers namely Hibiscus Petroleum (BUY, TP: RM0.65) and DNeX (HOLD, TP: RM0.60). These companies have common exposures to the Anasuria oilfield cluster in the North Sea.**
- **We prefer Hibiscus Petroleum over DNeX as the former is a full-fledged exploration and production (E&P) company with cash-generating assets. While most oil and gas services companies struggle to retain and secure new jobs Hibiscus Petroleum has opted to grow within the upstream segment which is less dependent on the capex spending of oil majors.**
- **The headwinds in oil and gas market had opened the doors for Hibiscus to acquire assets at bargain prices. Hibiscus has capitalised the low oil price environment well to acquire two late-life oilfields namely the Anasuria cluster and the North Sabah Enhance Oil Recovery (EOR) Production Sharing Contracts (PSC) while DNeX has acquired a 15% stake in Anasuria cluster via Ping Petroleum.**

Benefitting from market down cycle

In May 2017, we attended Asia Oil & Gas Conference (AOGC) to gain insights from the industry players. We gathered from the conference that capital expenditure for global conventional exploration and production (E&P) and oil development projects dropped tremendously since 2014. In light of the weak crude prices, many major oil producers have re-evaluated their business model and rationalised assets, especially late-life fields, which are no longer economically-viable at its current cost structure. In a recent report issued by Wood Mackenzie, a renowned research outfit specialising in the O&G sector, capex spending in the upstream segment amongst oil majors have started to improve in FY17 although capex intensity (measured by capex per barrel) remains low at only US$7/bbl vs US$17/bbl in FY14 prior to the crash in crude oil prices. Since then, we note that establish small upstream producers such as EnQuest has benefited from the divestment of late-life oilfields by oil majors. These companies are able to contend with the existing output of these oilfields due to its leaner cost structure and strong balance sheet.

The Anasuria cluster

In need of raising funds to pare down the debt, Royal Dutch Shell and Exxon Mobil has divested the Anasuria cluster. For Shell, this is part of its divestment program initiated in 2014 worth some USD30bn following the acquisition of BG Group. The Anasuria cluster, a geographically focused package of four producing fields in the Central North Sea was jointly sold to Hibiscus and Ping Petroleum (DNeX holds 30% stake in Ping) for US$105m. With the current average production of 6,500 bpd at low opex of c.USD20/bbl, Anasuria has provided free cash flow boost to both Hibiscus and DNeX.

Hibiscus is our top pick; DNeX has more to be done

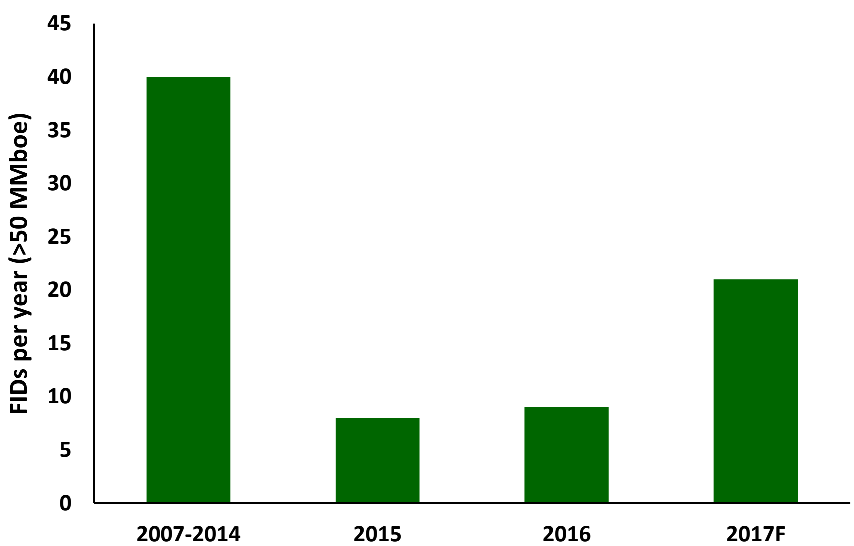
Our subsector top pick is Hibiscus (BUY, TP: RM0.65) as we like the company for its focussed business model as an E&P player. It also provides potential structural earnings growth following the recent announcement to acquire Shell's North Sabah EOR PSC for US$25m. While we are positive on DNeX's earnings outlook, our call (HOLD, TP: RM0.60) is due to its strong share price performance which we believe has well reflected its earnings potential. Furthermore, DNeX's diversified business may limit its potential benefit from the Anasuria cluster due to potential earnings drag from its oil services units. We also note that its NSW business (under the IT unit) is expected to see reduced income should the setting up of uCustoms system comes online post Sep-2018.

Unearthing opportunities during down cycle

The global oil and gas services industry is under pressure as major oil companies cut capex heavily following the plummet in crude oil price. During the 19th Asian Oil and Gas Conference (AOGC2017) that we attended last May, we learned that only 4.7bn barrels of oil development projects were sanctioned in 2016 – a 30% drop compared to 2015 and by far the lowest figure recorded in 40 years. The amount of exploration and production (E&P) CAPEX scaled back was estimated to be over US$1tr.

While these two developments paint a gloomy outlook for the oil and gas industry, we believe there are increasing signs that the industry is in a recovery mode especially with crude oil prices stabilising at US$40-55/bbl since the start of the year. Wood Mackenzie, a renowned research and consultancy group specialising in the O&G sector, noted (reported by Petroleum Economist) that 2017 could be the inflexion point in the investment cycle. It expects projects achieving final investment decision (FID) in 2017 to increase to 20-25 from 9 in 2016 although this is still below the average of 40 projects achieving FIDs annually over 2007-2014 (Chart 1).

Chart 1: Number of FIDs per year (More than 50 MMboe)



Source: BIMB Securities, Wood Mackenzie

In 1H17, there are already 15 projects sanctioned in 1H17, worth 8 billion boe of reserves; of these, 11 are reported to be brownfield projects due to less risk and lower CAPEX intensity. It also pointed out that project costs for deep-water oil have on average shrunk by a fifth since the collapse in crude oil prices in 2014.

Despite the advent of rising CAPEX spending, we understand that cost rationalisation and capital reallocation continues to underpin FIDs made by national (NOCs) and international oil companies (IOCs). During the AOGC2017, NOCs like Petronas indicated that it has successfully reduced production unit cost to US$7.3/bbl from US$10/bbl and expects to achieve US$5/bbl by end 2017. Meanwhile Total, one of France’s IOCs, have lowered production unit cost to US$5/bbl and aims to achieve below US$5/bbl in 5 years’ time. Essentially, we believe the “fit at US$50/bbl” theme amongst the oil majors remains in the near to medium term.

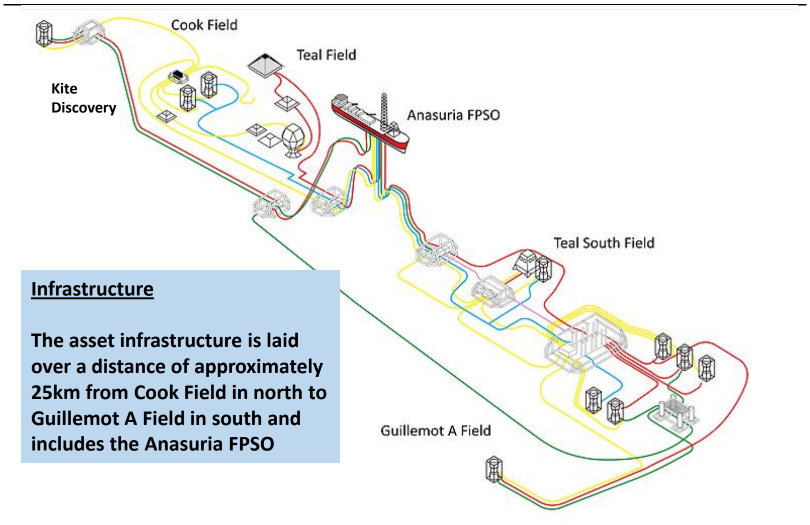
One of the key assets that major oil companies have been divesting are late-life oilfields as outputs of these fields are no longer economically-feasible vis-à-vis their legacy cost structures. These fields are typically sold to small upstream companies – some of the prominent players highlighted during the AOGC 2017 was UK-based EnQuest which currently operates the Tanjong Baram oilfield together with a local player, Uzma Energy Bhd under the Risk Service Contract (RSC) structure.

In the case of Anasuria, the field was formerly owned by Royal Dutch Shell (Shell) and Esso Exploration (Esso) and was jointly-acquired by Ping Petroleum and Hibiscus Petroleum for US$105m which then formed Anasuria Operating Company UK Ltd (AOC) to be the operator of Anasuria cluster. For Shell, the divestment of Anasuria is part of its US$30bn asset divestment initiative as the oil major looked to pare down debt and boost asset quality after the mega acquisition of the BG Group for US$53bn. Since setting out its divestment initiative in 2014, Shell have sold some US$20bn worth of assets.

The Anasuria Cluster

The Anasuria Cluster is located in the North Sea, approximately 175km east of Aberdeen, Scotland. The Anasuria cluster commenced production in 1996 starting with Guillemot A Field, Teal Field and Teal South Field (P013 production licence) followed by Cook Field (P185 production licence) in 2000. These four producing wells have all been developed with subsea infrastructure tie-backs to a purpose-built Anasuria FPSO (Floating Production Storage and Offloading) (Chart 2).

Chart 2: Anasuria's Schematic of Field Layout and Infrastructure



Source: BIMB Securities, Company

RPS Energy, an independent research outfit that evaluated the field during the acquisition noted (as at 1 Mar 2016) that the 2P proven reserves (2 – base case; 1 – conservative and 3 – aggressive/blue sky scenario) in Anasuria amounts to 40.5 million stock barrel (MMstb). The bulk of the reserves are located in Guillemot A and Cook fields (Table 1).

Table 1: Anasuria cluster proven reserves

	Full field reserves			Net reserves*		
Reserves (MMstb)	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**
Guillemot A	18.9	26.6	35.7	18.9	26.6	35.7
Cook	13.1	16.8	20.9	5.1	6.5	8.1
Teal	2.7	3.9	5.5	2.7	3.9	5.5
Teal South	1.8	3.4	5.3	1.8	3.4	5.3
Total	**36.5**	**50.8**	**67.4**	**28.4**	**40.5**	**54.6**

**AOC holds 38.65% interest in Cook Field*
Source: BIMB Securities, RPS Energy, Company

A quality asset under oil major

Prior to the joint acquisition, the cluster was equally owned by a consortium of Shell and Esso which invested over GBP120m over 2012-2014 to boost production to 4,700 bpd in 2014 from an average of 2,300 bpd in 2012 (Table 2). Capitalising on in-house expertise, various projects have been outlined to raise production further and we understand that this would be resumed by new owners.

Table 2: Historical Anasuria cluster production data

	2012	2013	2014
Total oil production (bbl)	849,986	1,568,331	1,723,264
Implied average daily production (bpd)	2,322	4,285	4,708
Capex (GBP '000)	35,069	44,181	58,051
Opex (GBP '000)	47,450	48,429	58,256
Opex (USD/bbl)	88.5	48.3	55.8
Assumed USD/GBP	1.585	1.564	1.652

Source: BIMB Securities, Company

Recap on payment structure

We believe the acquisition of the Anasuria cluster was done at the right timing. The initial valuation of the field, based on the 2P Developed reserve, was at US$51m (based on RPS Energy report dated 1 Jan 2015) before it was revised to US$199m based on the prevailing crude oil price at 1 Mar 2016 ahead of the SPA completion on 10 Mar 2016 (Table 3).

Table 3: Anasuria reserves valuation; 'premium' was based on Jan 2015 report

Valuation (US$ m)	1P		2P		3P	
	@ Jan 2015	@ Mar 2016	@ Jan 2015	@ Mar 2016	@ Jan 2015	@ Mar 2016
Developed	-98.4	72.0	51.0	199.0	198.4	370.0
Developed + Undeveloped	35.5	163.0	226.5	416.0	488.0	752.0

Source: BIMB Securities, Company

The consideration to be settled by the purchaser was divided into two: (i) the initial consideration worth US$60m (US$8m paid during SPA signing and a further US$52m upon SPA completion) and (ii) deferred consideration worth US$45m satisfied in three equal tranches within 18 months from SPA signing date (ie. by 10 Sep 2017). We also understand that there is a contingent consideration to be paid should average selling price exceeds US$75/bbl (only 15% of excess value) over 2018 to 2021.

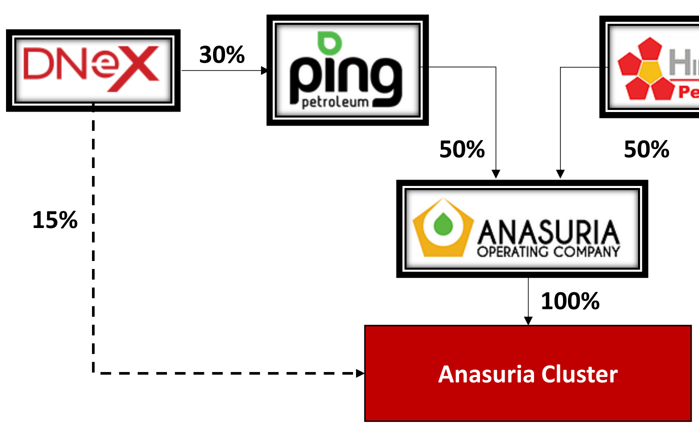
Table 4: Anasuria payment structure

Companies	Initial Consideration (US$ m)			Deferred Consideration (US$ m)	Total (US$ m)
	SPA signing	SPA completion	Sub-total		
Hibiscus UK	4.0	26.0	30.0	22.5	52.5
Ping UK	4.0	26.0	30.0	22.5	52.5
Total	**8.0**	**52.0**	**60.0**	**45.0**	**105.0**

Source: BIMB Securities, Company

Given its limited source of funding, Ping secured DNeX which subscribed to 30% of its enlarged shares worth US$10m. This financed Ping's portion of the Anasuria purchase and effectively gave DNeX an indirect 15% stake in the oilfield (Chart 3).

Chart 3: DNeX 15% effective interest in Anasuria



Source: BIMB Securities, Company

Despite the SPA completion date was on 10 Mar 2016, the economic benefits accruing to the buyer was effective from 1 Jan 2015. This allowed Hibiscus and Ping to use cash flow generated from the asset to partially finance the payment and thus lowering the capital outlay to only US$1.2m each.

More hydrocarbon potentially to be exploited

Hibiscus' management views the RPS Energy valuation was conservative as it does not consider the potential 2C contingent reserves which could be recovered. The 2C contingent reserves includes discovered oil reserves in the Kite field and hydrocarbon in existing fields which could be extracted with additional investments (Table 5). The 2C reserves would be classified as 2P reserves as soon as further developments on the field are undertaken.

Table 5: Anasuria cluster contingent reserves

Reserves	Contingent oil resources			Contingent gas resources		
(MMstb/Bscf)	1C	2C	3C	1C	2C	3C
Kite Discovery	0.4	1.4	3.0	0.3	1.2	2.5
Cook Field infill*	0.1	0.5	2.9	0.1	0.5	2.9
Teal South Field infill	0.8	1.5	3.0	0.4	0.7	1.4
Guillemot A Field South infill	2.0	4.0	6.0	0.4	0.8	1.2
Guillemot A Field North (Sk) infill	0.8	1.5	3.0	0.4	0.8	1.6
Guillemot A Field Central (Sk) infill	0.8	1.5	3.0	0.4	0.8	1.6
Total	**4.8**	**10.4**	**20.9**	**2.0**	**4.8**	**11.2**

**AOC holds 38.65% interest in Cook Field*

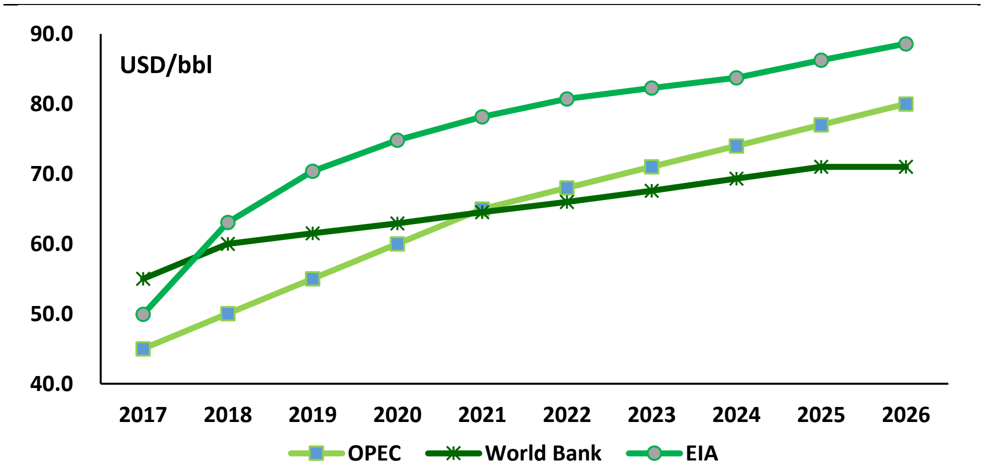
Source: BIMB Securities, RPS Energy, Company

Our take on the uncertain crude oil prices

For crude oil price outlook, we have noted that consensus view is for a price recovery to happen in the medium term to long term, despite at different magnitude of change (Chart 4). For instance, OPEC has assumed a price recovery of US$5/bbl annual increment as the reference case in its World Oil Outlook published in October 2016. With that, they are expecting crude oil price to be averaged at US$65/bbl by 2021 and more gradual increment henceforth to reach $92 (in real terms) by 2040.

On other hand, EIA has more aggressive views on the price outlook under its reference case as it assumed the price to reach US$78.10/bbl by 2021. Thus, our crude oil projection follows OPEC's projection for 2017-2021 and World Bank's projection for 2021 onwards, as we take a conservative stance in our assumptions.

Chart 4: Crude oil prices assumptions by World Bank, OPEC and EIA



Source: BIMB Securities, OPEC, World Bank, EIA

Comparing small upstream producers

We prefer Hibiscus (BUY, TP: RM0.65) over DNeX (HOLD, TP: RM0.60) for the best proxy to upstream production. As mentioned, its direct exposure to the E&P business enables the company to provide direct exposure to play the recovery crude oil price theme. Furthermore, its lean cost structure also positions the company to benefit from further divestment of late-life oilfields by the oil majors. This was evident with the company benefiting from the recent exit by Shell in the North Sabah field.

In valuation terms, we also note that expectations on Hibiscus is still low compared to DNeX despite, what we believe, is its stronger earnings prospect following the structural earnings growth that would be derived from the ongoing Anasuria field as well as the soon-to-be-acquired North Sabah field.

While we are Neutral on DNeX, we still view the stock as a quality asset given its diversified business model which provides investors with the earnings stability of its IT business. Nevertheless, we note that its strong share price run up, 170% in the past 12 months, has reflected most of its earnings growth potential. We recommend revisiting the stock on dips.

Table 6: Peer Comparisons

Company	Market Cap	PER (x)		PEG (x)	PB (x)		ROE (%)		ROE-PB (x)		EBITDA margin (%)	
	(US$ m)	FY17	FY18	FY16-18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
Hibiscus	136.7	20.7	17.0	nm	1.0	0.8	4.6	4.8	4.8	5.9	49.1	46.2
DNeX	229.3	14.2	12.0	0.2	2.1	1.8	14.6	14.7	7.0	8.3	32.6	32.8
Sector	**183.0**	**17.5**	**14.5**	**0.1**	**1.5**	**1.3**	**9.6**	**9.8**	**5.9**	**7.1**	**40.8**	**40.0**

Source: BIMB Securities, Bloomberg

COMPANY SECTION

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Coverage Initiation

BUY | **Price:** RM0.41 | **Target Price:** (+54%) RM0.65

Hibiscus Petroleum

Set for turnaround

- **We are positive on Hibiscus's earnings prospect due to the stable cash flow expected from the Anasuria cluster and the potential structural earnings growth from its maiden PSC role in Malaysia following the 50% stake secured in the North Sabah EOR PSC.**
- **We expect earnings to grow by multi-fold over FY18-20F and hit a new records in coming years. This is backed by the new PSC role in North Sabah which granted production rights until year 2040.**
- **Initiate with a BUY call and DCF-derived TP of RM0.65 which assumes a WACC of 9.0% and 0% terminal growth rate. Our strong conviction on Hibiscus is due to its upstream business model which has low reliance on capex spending by oil majors.**

E&P business model

While outlook for the oil and gas sector remains bleak, Hibiscus has grabbed our attention after it successfully took over producing oilfields such as the Anasuria cluster and potentially the North Sabah EOR PSC. Leveraging on its lean cost structure, we believe Hibiscus is poise to benefit from the capital reallocation and rationalisation of oil majors in light of the low crude price environment. Being in the upstream segment, Hibiscus also has low reliance on capex spending of oil majors, and provides a direct proxy for investors to benefit from the potential recovery in crude oil prices.

On road to take over North Sabah EOR PSC

With Petronas Carigali S/B waiving its pre-emptive right to acquire Shell's stake in the North Sabah EOR PSC, this has paved the way for Hibiscus to acquire its first home asset. The field's 2P and 2C reserves amounts to 62 MMstb and 72 MMstb respectively (as of 1st March 2016), with production rights spanning upto year 2040. This provides structural growth for Hibiscus once it assumes ownership of the asset.

Set for turnaround

Hibiscus is poised to return to the black in FY17 with contribution from the Anasuria field. We expect earnings to grow by multi-fold over FY18-20F underpinned by higher production from Anasuria cluster as and structural earnings growth from the North Sabah EOR PSC which is expected to contribute from 2HFY18 onwards.

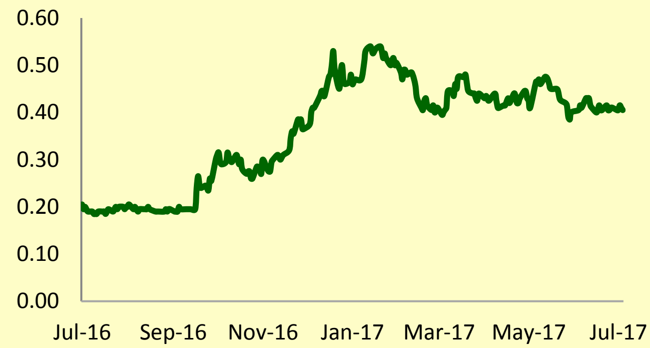
Initiate with a BUY call, TP: RM0.65

We initiate with a BUY call with a DCF-derived TP of RM0.65 which implies 29.5x FY18F PER. Our DCF assumes a WACC of 9.0% and 0% terminal growth rate.

Stock Data

Bloomberg Ticker	HIBI MK	Altman Z-score	6.2
Market Cap	584.8	YTD price chg	36.6%
Issued shares	1,443.8	YTD KLCI chg	7.4%
52-week range (H/L)	0.56 / 0.18	Beta	0.9
3-mth avg daily volume	16,549,690	**Major Shareholders**	
Free Float	72.2%	Hibiscus Upstream	11.7%
Shariah Compliant	Y	Polo Inv	9.6%
Financial Derivatives	N	Mohd Zulkifli	6.5%

Share Price Chart



Share Performance (%)	**1mth**	**3mth**	**12mth**
Absolute	3.8	15.1	93.4
vs. KLCI	3.2	12.5	76.8

Consensus	**FY17E**	**FY18E**
Net Profit (RM m)	-	-
EPS (sen)	-	-

Financial Highlights

FYE 30 Jun (RM m)	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Turnover	15.6	81.7	238.5	509.0	855.6
EBITDA	-40.0	-13.0	117.1	235.3	460.8
Pretax profit	-75.8	-56.3	45.7	162.6	384.9
Net profit	**-74.2**	**-116.5**	**28.3**	**34.4**	**187.3**
EPS (sen)	-9.7	-11.0	2.0	2.2	11.8
PER (x)	-4.3	-3.8	21.2	19.2	3.5
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
PBV (x)	0.6	0.8	1.0	0.9	0.7
ROE (%)	-16.8	-21.3	4.7	5.2	23.2
ROA (%)	-15.8	-12.8	2.2	2.5	12.2
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Margins (%)					
EBIT margin	-256.6	-16.0	49.1	46.2	53.9
Pretax margin	-486.5	-68.9	19.2	31.9	45.0
Net margin	-476.2	-142.6	11.9	6.8	21.9

Source: Bloomberg, BIMB Securities Research

A full-fledged E&P company

Hibiscus Petroleum Bhd (Hibiscus) was first listed as a Special Purpose Acquisition Company (SPAC) on 25 Jul 2011. Upon acquiring 35% stake in Lime Petroleum Plc (Lime) in Apr 2012, it became the first independent oil and gas E&P to be listed on Bursa Malaysia. Lime provided Hibiscus with exploration acreage concessions in Oman, the UAE and Norway but the venture ended in early 2016 after it went into liquidation. Nevertheless, thanks to the 50%-stake acquired in the Anasuria cluster by mid-2016, earnings recovered swiftly.

Hibiscus strike another deal with Shell for a 50% stake in the 2011 North Sabah Enhanced Oil Recovery (EOR) Production Sharing Contract (PSC) for US$25mil. The acquisition is expected to be completed by end 2017 with Petronas Carigali waiving its pre-emption rights under the joint operating agreement entered with Shell. Hibiscus also has exploration and production licence in the Bass of Strait of Australia, however operation is temporarily ceased due to unfavourable prices. The company will look to restart the operation once crude price stabilise above US$60/bbl.

Shariah compliance

We reviewed Hibiscus's Shariah Status in accordance with the screening methodology and processes adopted by the Shariah Advisory Council of Securities Commissions Malaysia (SACSC) (Table 1).

Table 1: Hibiscus's Shariah Status review as of FY16

Business Activity Benchmark	**Hibiscus**	**SACSC Benchmark**	
NPI/TO (%)	0.2%	5%	Below the allowable limit set by SACSC
Financial Ratios Benchmark	**Hibiscus**	**SACSC Benchmark**	
C/TA (%)	2.3%	33%	Below the allowable limit set by SACSC
D/TA (%)	0.0%	33%	Below the allowable limit set by SACSC

Source: BIMB Securities

Focusing on cash-generating asset

We like Hibiscus as it offers direct exposure to crude oil price movements. This contrasts against the bulk of the oil services companies listed in Bursa Malaysia which are dependent on the capex spending of oil majors. Our positive view on Hibiscus is further affirmed as follow:

- **More fields to come.** We believe Hibiscus' string of acquisitions in recent years lend much to its lean cost structure which enables the company to capitalise on the divestments of late-life fields by oil majors. Despite signs of CAPEX spending by oil majors picking up, intensity remains low to average at only US$7/bbl compared to US$17/bbl in 2014, according to an industry outlook report by Wood Mackenzie. As such, we believe there are more late-life fields to be divested, providing a potential structural earnings growth for Hibiscus.
- **Free cash flow boost from Anasuria.** Management has guided that AOC's current opex is kept low at c.USD20/bbl (Table 2). With average crude oil price realised at over USD40/bbl, this asset is currently cash flow positive and the company expects to utilise these CFs to further develop the fields and to increase its 2P reserves.

Table 2: Anasuria operational performance

Items	Units	Q2CY16	Q3CY16	Q4CY16	Q1CY17
Average daily oil production	bbl/day	5,942	6,064	7,868	5,234
Total oil sold	bbl	460,000^	271,576	298,909	273,419
Average realised oil price	USD/bbl	40.1	45.2	41.7	52.9
Average OPEX	USD/boe	23.1	18.4	13.0	15.1

Source: BIMB Securities, Company

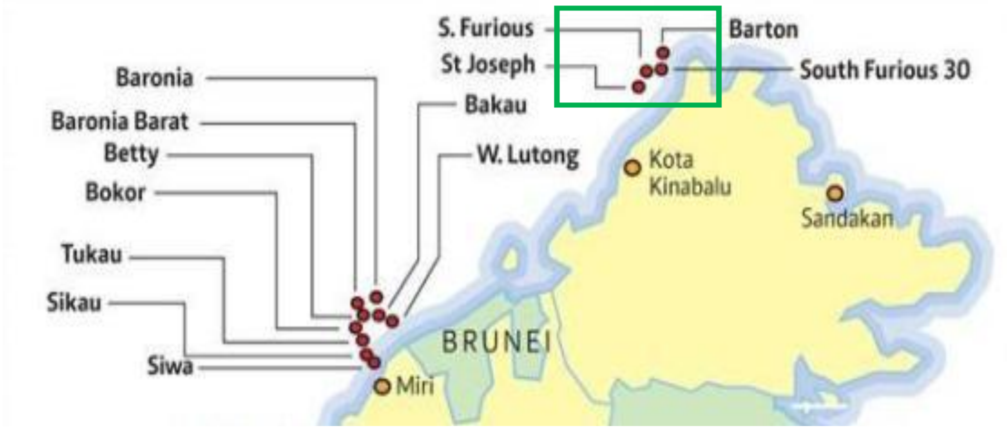
- **Development opportunities in Bass Strait, Australia.** Hibiscus currently owns VIC/P57 exploration licence and VIC/L31 production licence through its wholly-owned subsidiary Carnarvon Hibiscus Pty Ltd (Carnarvon). At the West Seahorse Field, there is 8 MMbbls of 2P/2C reserves potentially to be recovered. The company has deferred this development project until crude prices stabilise above $60/bbl.

- **Structural growth from North Sabah.** As a production sharing contractor (PSC), Hibiscus will lead another partner, Petronas Carigali S/B to manage oil production from the cluster. With daily average production of 15,000 bpd and huge proven reserves, this field would provide structural earnings growth for Hibiscus.

The 2011 North Sabah EOR PSC

Hibiscus is in the process of acquiring a 50% interest in the 2011 North Sabah EOR PSC from Shell. The PSC comprises of four producing fields located in the South China Sea, namely South Furious, South Furious 30, St. Joseph, and Barton. Additionally, Hibiscus will assume the role of operatorship of PSC which also include the pipeline structure, the Labuan Crude Oil Terminal (LCOT) and all equipment and assets relating to the PSC.

Chart 1: North Sabah oil fields [take out border]



Source: BIMB Securities, Google

According to data from RISC Operation Pty Ltd as of 1 Jan 2016 (Table 3), Hibiscus will get immediate access to 2P reserves contained in the fields amounting to 62 MMstb with production rights up to 2040. Not only that, its 2C reserve is slightly larger at 79 MMstb. As PCSB have declined to exercise its exclusive right to buy Shell's stake, Hibiscus' management expect the acquisition could be completed by end of 2017.

Table 3: North Sabah PSC

	Units	2015
Average daily production	bpd	18,000
Remaining reserves (2P)	MMstb	62
Contingent reserves (2C)	MMstb	79
Platforms/Structures		19
Wells		135
Opex	RM/bbl	55.1

Source: BIMB Securities, Company, RISC, Shell

Latest financial quarter: Turnaround on track

Hibiscus has done well to return to the black since 1QFY17 and we expect profitability to remain intact for the full year. Its 9MFY17 core net profit rebounded to RM23.5m from a core loss of RM101m a year ago (Table 4).

Table 4: Hibiscus's 9MFY17 performance

FYE Jun (RM m)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	QoQ Chg	YoY Chg	9MFY16	9MFY17	YTD Chg
Revenue	31.7	50.9	54.7	62.8	69.2	10.2%	117.9%	83.6	186.8	124%
EBITDA	-17.3	7.5	24.6	35.1	33.8	-3.7%	>100%	-12.0	93.5	nm
EBIT	-23.1	-10.5	7.5	13.6	18.1	33.0%	>100%	-42.9	39.1	nm
Pretax Profit	79.8	23.2	7.5	10.0	16.8	67.4%	>100%	-56.3	34.3	nm
Taxation	0.7	-4.3	72.8	0.6	-10.3	>100%	nm	-3.6	63.1	nm
Net profit	80.5	19.0	80.3	10.7	6.5	-39.3%	-91.9%	-60.0	97.4	nm
Core Net Profit	**-26.1**	**-15.4**	**1.9**	**14.2**	**7.5**	**-47.3%**	**nm**	**-116.5**	**23.5**	**nm**
EPS (sen)	-2.4	-1.3	0.1	1.0	0.5	-47.3%	nm	-11.4	1.7	nm
EBITDA margin (%)	-54.4	14.9	45.0	55.8	48.8			-14.3	50.0	
PBT margin (%)	251.2	45.9	13.7	16..0	24.2			-67.4	18.4	
Core profit mrgn (%)	-82.3	-30.5	3.4	22.6	10.8			-139.4	12.6	
Effective tax rate (%)	-0.8	18.4	-973.2	6.4	61.4			6.5	-184.1	

Source: BIMB Securities, Company

The 9-month core profit was driven by Anasuria's contribution following a smooth transition of field operatorship to AOC. On Qoq basis, its core net profit fell 47% to RM7.5m due to an unplanned facility shutdown. Management clarified that the shutdown was a precautionary measure. With gas-oil ratio readings at one of the main producing wells increased, it could result in unnecessary loss of reservoir pressure and possibly lower oil recovery in the long run. Full production was restored towards the end of the quarter.

Higher production level to drive earnings

We expect Hibiscus's earnings to grow by multi-fold over FY18-20F underpinned by higher production level from Anasuria cluster and structural earnings growth from the North Sabah PSC (Table 5).

Table 5: Earnings outlook

FYE Jun (RM m)	FY16	FY17F	FY18F	FY19F	FY20F
Revenue	81.7	238.5	509.0	855.6	990.6
EBITDA	(13.0)	117.1	235.3	460.8	561.5
EBITDA margin (%)	-16.0	49.1	46.2	53.9	56.7
EBIT	(43.9)	45.5	162.4	384.8	482.1
Pretax profit	(56.3)	45.7	162.6	384.9	482.4
Net profit	(60.0)	28.3	34.4	187.3	230.0
Core profit	(116.5)	28.3	34.4	187.3	230.0
Core profit growth (%)	**56.9%**	**>100%**	**21.5%**	**>100%**	**22.8%**
Average crude oil price (USD/bbl)		45	50	55	60
GBP/MYR		5.5	5.4	5.3	5.2
USD/MYR		4.4	4.2	4.0	3.8

Source: BIMB Securities, Company

At Anasuria, several well workover projects are in the pipeline to raise production level to 10,000 bpd in the next 3-4 years (Table 6).

Table 6: Anasuria Cluster Key Assumptions

FYE June	FY17F	FY18F	FY19F	FY20F	Comments
Average crude oil production* (kbpd)	3,300	3,795	4,364	5,019	Driven by capex projects
Annual opex (GBP m/year)	15	15.8	16.5	17.4	
Annual capex (GBP m/year)	1.8	1.8	10.0	5.0	Well workover and infill drilling

**Figures are net to Hibiscus*

Source: BIMB Securities, Company

Meanwhile at North Sabah, Hibiscus aims to raise output to c.21,000 bpd from the current 15,000 bpd in the next 4-5 years. This requires Hibiscus to spend another c.USD100m throughout the period, financed by FCF from existing production.

Table 7: North Sabah EOR PSC Key Assumptions

FYE June	FY17F	FY18F	FY19F	FY20F	Comments
Average crude oil production* (kbpd)		8,000	9,000	10,000	Driven by capex projects
Average crude oil price (USD/bbl)		50	55	60	
Annual opex (USD m/year)		40.9	49.3	58.4	
Annual capex (USD m/year)		7.5	10.0	12.5	

**Figures are net to Hibiscus*
Source: BIMB Securities, Company

A pure E&P oil and gas play

We initiate coverage on Hibiscus with a BUY recommendation and a DCF-derived TP of RM0.65. This implies 29.5x FY18F EPS. Our DCF assumes a WACC of 9.0% and 0% terminal growth rate (Table 8).

Table 8: DCF breakdown

Items	RM m	Remarks
WACC (%)	9.0%	Risk-free 4%, risk premium 5%
Terminal growth rate (%)	0%	
NPV of forecast	379.3	
NPV of terminal value	513.8	
Total Enterprise value	**893.1**	
Less: net (debt) / cash	28.7	
Total Equity value	**921.8**	
No. of shares (m)	1,443.8	
Equity value per share (RM)	**0.64**	Implies FY18F PE of 29.5x

Source: BIMBSecurities

Key catalyst

- **Better average selling price.** We assumed crude oil price scenario of USD45-USD60/bbl over FY17-20F. A higher crude oil price scenario would provide earnings surprise to the company as Hibiscus may restart its operation in the Australian basin.
- **More new wells acquired.** We believe more acquisitions of earnings accretive late-life fields bodes well for Hibiscus' earnings going forward.

Key risk

- **Lower for longer crude oil price scenario.** We might undermine the potential production from US shale plays. A better-than expected US shale production might suppress crude oil prices as well as Hibiscus's earnings.
- **Longer-than-expected facilities uptime.** Unexpected accident and problem arises during well workover program as well infill drillings could reduce facilities uptime during production phases.

Income Statement

FYE 30 Jun (RM m)		2015	2016	2017F	2018F	2019F
Revenue		15.6	81.7	238.5	509.0	855.6
EBITDA		(40.0)	(13.0)	117.1	235.3	460.8
Depreciation & Amortisation		(8.8)	(30.9)	(71.6)	(72.9)	(75.9)
EBIT		(48.8)	(43.9)	45.5	162.4	384.8
PBT		(75.8)	(56.3)	45.7	162.6	384.9
Taxation		1.6	(3.6)	(17.4)	(128.2)	(197.7)
Net Profit		(74.2)	(60.0)	28.3	34.4	187.3
Core Net Profit		(74.2)	(116.5)	28.3	34.4	187.3
Core EPS	(sen)	(9.7)	(11.0)	2.0	2.2	11.8
Dividend / Share	(sen)	0.0	0.0	0.0	0.0	0.0

Source: Company, BIMB Securities

Balance Sheet

FYE 30 Jun (RM m)	2015	2016	2017F	2018F	2019F
Non-Current Assets					
PPE	55.5	211.5	215.7	238.9	309.5
Investment in associate	5.0	1.9	1.9	1.9	1.9
Investment in JV	259.3	-	-	-	-
Intangible asset	144.8	997.1	1,012.9	994.2	945.7
Current Assets					
Trade and other receivables	-	2.0	3.3	7.0	11.7
Other receivables	67.5	21.5	21.5	21.5	21.5
Tax recoverable	-	-	-	-	-
Inventories	-	5.5	5.7	11.7	19.5
Amount owing by JV	12.1	0.1	0.1	0.1	0.1
Amount owing by assoc	1.0	0.7	0.7	0.7	0.7
Cash and cash equivalents	5.9	28.7	49.6	19.3	47.5
Escrow account	-	-	-	131.1	273.3
Total Assets	**551.0**	**1,269.2**	**1,311.5**	**1,426.6**	**1,631.5**
Equity					
Share capital	9.3	13.1	13.1	13.1	13.1
Other reserve	574.4	703.0	703.0	768.0	768.0
Accumulated (loss)/gain	(71.9)	(131.9)	(103.6)	(69.2)	118.0
Non-Current Liabilities					
Deferred consideration	-	26.5	26.5	26.5	26.5
Contingent consideration	-	1.5	1.5	1.5	1.5
Deferred tax liabilities	-	390.9	390.9	390.9	390.9
Provision for decommissioning costs	-	115.4	129.2	144.7	162.1
Current Liabilities					
Trade payables	-	0.1	0.2	0.5	0.8
Other payables	27.0	88.8	88.8	88.8	88.8
Deferred consideration	-	55.8	55.8	55.8	55.8
Amount owing to JV	0.2	0.3	0.3	0.3	0.3
Amount owing to association	11.8	5.4	5.4	5.4	5.4
Redeemable Convertible Preference Shares	0.2	0.2	0.2	0.2	0.2
Total Equity and Liabilities	**551.0**	**1,269.2**	**1,311.5**	**1,426.6**	**1,631.5**

Source: Company, BIMB Securities

Cash Flow

FYE 30 Jun (RM m)	2015	2016	2017F	2018F	2019F
Operating Cash flow					
PBT	(75.8)	(56.3)	45.7	162.6	384.9
D&A	8.8	30.9	71.6	72.9	75.9
Unwinding of decommission cost	-	-	13.8	15.5	17.4
Interest income	(1.1)	(0.1)	(0.1)	(0.2)	(0.1)
Unrealised (gain)/loss on FX	(6.7)	(0.9)	-	-	-
Finance cost	0.0	8.2	-	-	-
(Reversal)/Impairment of associate	6.1	(0.7)	-	-	-
(Reversal)/Impairment of JV	-	229.0	-	-	-
(Reversal)/Impairment of intangible asset	-	17.5	-	-	-
(Reversal)/Impairment of receivables	0.2	2.2	-	-	-
Result of associate	1.4	4.1	-	-	-
Result of JV	26.7	63.4	-	-	-
Negative goodwill	-	(364.1)	-	-	-
Write-off business development	-	30.9	-	-	-
Changes in WC					
Receivables	-	(2.0)	(1.3)	(3.7)	(4.7)
Payable	-	0.1	0.2	0.2	0.3
Inventories	-	(5.5)	(0.1)	(6.1)	(7.8)
Total working capital	-	(7.5)	(1.2)	(9.5)	(12.2)
Income tax paid	2.8	(0.0)	(17.4)	(128.2)	(197.7)
CFO	**(32.2)**	**62.5**	**112.4**	**113.0**	**268.2**
Investing Cash Flow					
Capex	(33.4)	(0.0)	(25.6)	(46.0)	(98.0)
Acquisition of intangible asset	(84.0)	(104.4)	(66.0)	(31.5)	-
Interest received	1.1	0.1	0.1	0.2	0.1
CFI	**(209.6)**	**(131.8)**	**(91.5)**	**(77.2)**	**(97.9)**
Financing Cash Flow					
Proceeds of issuance of new shares	186.1	92.6	-	65.0	-
Cash advance from directors	-	3.2	-	-	-
Repayment of cash advances from directors	-	(0.5)	-	-	-
Deposit (refunded to)/received from RCPS placee	(5.5)	-	-	-	-
Escrow account	-	-	-	(131.1)	(142.2)
CFF	**180.6**	**95.2**	**-**	**(66.2)**	**(142.2)**
Net change	(61.2)	25.9	20.9	(30.3)	28.1
Beginning cash	62.4	5.9	28.7	55.6	33.9
Net forex difference	4.7	(3.1)	-	-	-
Ending cash	**5.9**	**28.7**	**49.6**	**19.3**	**47.5**

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
NEUTRAL	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.

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