



Results Review: 2QFY18

Below

HOLD ◀▶

Price: **RM0.965**
Target Price: **(+0.5%) RM0.970**

- Hibiscus's 2QFY18 core earnings was flat as unit production costs offset gains from higher crude oil prices.
- 2QFY18 oil production rate fell to 2,071 bpd level (1QFY18: 2,575 bpd) due to production hiccup at Guillemot A.
- We cut FY18 earnings by 45% due to the production shortfall and take a more conservative stance on FY19/FY20 with a 5%/4% reduction respectively.
- Maintain HOLD with lower DCF-derived TP of RM0.97 (from RM1.05). We still see Hibiscus as the best proxy to the sector direct exposure to production while we look forward to the structural earnings growth from the NS acquisition.

Disappointing operational performance

Hibiscus' 2QFY18 came in below our expectation as production was interrupted by a temporary hiccup, exacerbating production decline due to a planned total shutdown of the Anasuria FPSO. As such, 2QFY18 core EBITDA fell 23% yoy to RM31.2m, negated by higher ASP and inventory drawdown. Revenue rose 21% yoy as it sold 275k bbl (comprise of estimated net production of 186k bbl and 90k bbls from inventories) of crude oil at US\$62.9/bbl (1Q17: 299k bbl @ \$41.7/bbl). Overall, 1H18 core profit was only 29%/16% of ours/consensus FY18 estimate respectively.

Lower production volume at Guillemot A (GUA) field

Recall that Hibiscus undertook a planned FPSO total shutdown from mid-Sep for 31 days. Production was further affected by disrupted GUA field production due to: (i) interruption at Cook-P1 field which reduced gas availability used for gas-lift at GUA, and (ii) mechanical problem on gas compression facility aboard the Anasuria FPSO. As such, this reduced facilities uptime to just 57% (1QFY18: 70%) and the average crude oil production volume fell to 2,071 bpd in 2QFY18 (1QFY18: 2,576 bpd).

Cut our forecast

Due to lower-than-expected average production in 1HFY18, we cut our FY18 earnings forecast by 45%. In light of the unexpected production setback, we take a more conservative approach to our production assumptions for FY19 and FY20 which led to a 7% and 5% cut respectively. The lower reduction for these years (vs FY18) is lower as we factored in contribution from the NS field.

Maintain HOLD call with lower TP at RM0.97

Consequently, our DCF-derived TP is lowered to RM0.97 (from RM1.05) which is based on 9% WACC. While we see limited upside to current crude oil price due to potential supply boost from US shale players, we remain excited on the potential structural earnings from the North Sabah (NS) field acquisition which is expected to complete by end Mar 2018.

Hibiscus Petroleum

Production hiccup

Stock Data

Bloomberg Ticker	HIBI MK Equit	Altman Z-score	2.6
Market Cap	1,532.6	YTD price chg	7.8%
Issued shares	1,588.2	YTD KLCI chg	3.4%
52-week range (H/L)	1.17 / 0.38	Beta	1.3
3-mth avg daily volume	50,052,660	Major Shareholders	
Free Float	74.7%	Hibiscus Upstream	10.6%
Shariah Compliant	Y	Polo Inv	8.8%
		Mohd Zulkifli	5.9%

Share Price Chart (RM)



Share Performance (%)

	1mth	3mth	12mth
Absolute	(9.0)	27.8	89.2
vs. KLCI	(10.4)	18.4	73.8

Consensus

	2018	2019
Net Profit	169.9	323.7
EPS (sen)	11.4	20.0

Financial Highlights (RM m)

FYE 31 Jun	FY16	FY17	2018E	2019E	2020E
Turnover	81.7	261.3	400.4	987.0	1,155.3
EBITDA	-13.0	132.3	206.8	643.3	807.5
Pretax profit	-56.3	62.0	133.2	559.8	711.2
Core Profit	-116.5	25.5	51.8	336.0	380.4
EPS (sen)	-11.0	1.8	3.3	21.2	24.0
PER (x)	-8.8	54.5	29.6	4.6	4.0
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
P/B Value	1.7	1.9	1.7	1.3	1.0

Margins

EBITDA margin (%)	-16.0	50.6	51.6	65.2	69.9
Pretax margin (%)	-68.9	23.7	33.3	56.7	61.6
Core margin (%)	-142.6	9.8	12.9	34.0	32.9
ROE (%)	-21.3	3.9	6.4	31.9	27.0
ROA (%)	-12.8	2.0	3.7	20.3	18.7
Net Gearing (x)	Net cash				

Source: Bloomberg, BIMB Securities Research

Hibiscus Petroleum quarterly earnings summary

FYE 31 June (RM m)	2Q17	3Q17	4Q17	1Q18	2Q18	QoQ Chg	YoY Chg	1H17	2H17	YTD Chg
Revenue	62.8	69.2	74.5	58.2	76.1	30.6%	21.1%	117.6	134.3	14%
EBITDA	41.3	39.8	42.6	31.2	31.7	1.5%	-23.3%	72.6	62.9	-13%
EBIT	19.9	24.1	24.4	17.4	19.8	13.6%	-0.4%	33.9	37.3	10%
Pretax profit	10.0	16.8	27.7	9.7	13.1	34.8%	30.7%	17.5	22.8	30%
Core pretax profit	13.5	17.8	21.1	11.7	16.2	38.4%	20.0%	21.0	28.0	33%
Taxation	0.6	(10.3)	(19.0)	1.1	(2.1)	n.m.	n.m.	(5.0)	(1.0)	n.m.
PATAMI	10.7	6.5	8.7	10.8	11.0	2.4%	3.4%	91.0	21.8	-76%
Core Profit	14.2	7.5	2.0	12.8	14.2	10.8%	0.0%	16.1	27.0	68%
EPS (sen)	1.0	0.5	0.1	0.9	0.9			1.2	1.8	
EBITDA margin (%)	65.8	57.4	57.1	53.6	41.7			61.7	46.9	
PBT margin (%)	16.0	24.2	37.2	16.7	17.2			14.9	17.0	
Core profit margin (%)	22.6	10.8	2.7	22.0	18.6			13.7	20.1	
Effective tax rate (%)	6.4	(61.4)	(68.8)	10.9	(15.8)			(28.3)	(4.4)	
Net gearing (x)	net cash			net cash	net cash					

Source: BIMB Securities, Company

Anasuria operational performance

Items	2QFY16	3QFY16	4QFY17	1QFY18	2QFY18	Remarks
Average facilities uptime (%)	98	76	84	70	57	Declined QoQ on unplanned prod. hiccup
Average daily oil production (bbl/day)	3,934	2,617	3,204	2,576	2,071	Declined in tandem with facilities uptime
Total oil sold ('000 bbl)	298.9	273.4	285.0	246.1	274.6	
Average realized oil price (USD/bbl)	41.7	52.9	50.5	51.5	62.9	Higher crude oil prices
Average opex (USD/boe)	13.0	15.1	14.0	23.6	34.3	Higher unit cost due to lower production level

Source: BIMB Securities, Company

Changes in base case assumptions

FYE Jun	Before				After			
	FY18F	FY19F	FY20F	FY21 thereafter	FY18F	FY19F	FY20F	FY21 thereafter
Average crude oil price (USD/bbl)	60.0	67.5	72.5	75.0	-	-	-	-
GBP/MYR	5.45	5.50	5.55	5.60	-	-	-	-
USD/MYR	4.10	3.90	3.70	3.50	-	-	-	-
Production rate in Anasuria (bpd)	3,800	4,400	5,100	Decline 5% annually	3,000	4,000	4,800	Decline 5% annually
Production rate in North Sabah (bpd)	8,000	9,000	10,000	Decline 8% annually	-	-	-	-

Source: BIMB Securities, Company

DCF breakdown

Items	RM m	RM/share	Remarks
NPV of Anasuria	801.3	0.50	
NPV of North Sabah	1,002.0	0.63	
NPV Group opex	(334,2)	(0.21)	WACC 9% base on risk-free rate of 4% and market risk premium of 5%
Total Enterprise value	1,469.6	0.93	
Less: net (debt) / cash	80.0		Including trade receivables due on timing difference
Total Equity value	1,550.0		
No. of shares (m)	1,588.2		Inclusive shares dilution from private placement
Equity value per share (RM)	0.98		
Warrant conversion	298.6		Assume full conversion @ RM0.94
Total equity value	1,848.2		
Enlarged share base	1905.9		
Fully diluted value per share (RM)	0.97		

Source: BIMB Securities

