



MERCURY SECURITIES SDN BHD

(A Participating Organisation of Bursa Malaysia
Securities Berhad)

HIBISCUS PETROLEUM BHD [5199]

“Counting on Anasuria”

BACKGROUND

Hibiscus Petroleum Berhad (“Hibiscus”) is Malaysia’s first listed independent oil and gas (O&G) exploration and production (E&P) company. Hibiscus Petroleum was listed on the Main Market of Bursa Malaysia Securities Berhad in July 2011 as the first Special Purpose Acquisition Company (SPAC). Since then, Hibiscus is also the only SPAC in Malaysia successful in acquiring a Qualifying Asset (QA).

CORPORATE UPDATE

On 24th August 2016, Hibiscus had announced its results for its 4Q/FY15 ended 30th June 2016. The group recorded NPAT of RM18.95 million compared to a NLAT of RM34.27 million recorded in the corresponding quarter ended 30th June 2015. Additionally, this is the second consecutive quarter that the Company has delivered a profitable quarter, with RM80 million recorded in the 3rd quarter.

The quarter benefited from significant contributions from the group’s Anasuria Cluster located in the North Sea, off UK. Subsequently to the acquisition of a 50% interest in the Anasuria Cluster on 10th March 2016, the group had engaged RPS Energy to update its valuation report on the group’s assets. The revised valuation resulted in a fair value gain of RM228.8 million during the quarter and total fair value gain of RM364.1 million for its FY15 ended 30th June 2016.

INVESTMENT HIGHLIGHTS

Hibiscus has a number of strengths, which we highlight here:

- >Clear management strategy built around clear targets and realistic timelines.
- >Balanced portfolio of O&G assets in geologically prolific basins located in geopolitically stable regions.
- >A total of 33.4 MMbbls 2P reserves/2C resources.
- >Anasuria acquisition has given Hibiscus significant rapport and credibility with oil majors.
- >Strong board and management team with vast industry background and proven track record, both domestically and internationally.
- >Attractive valuation, given that crude oil prices are on an upward trend and Hibiscus has production backed by proven reserves and resources.

RECOMMENDATION

We recommend a **Buy/Outperform** with target price of RM0.44, with the current market price only reflecting a P/Core NAV of 0.41 times and a P/Tangible NAV of 0.3 times.

Company Update

05 September, 2016

MAIN MARKET
INDUSTRIAL PRODUCTS

Buy/Out Perform

Market Price	:	RM0.20
Target Price	:	RM0.44

KEY DATA

52w High	:	RM0.76
52w Low	:	RM0.13
Average Vol (1 yr)	:	11.6mil
Issued Shares (mil)	:	1361.5
Market Cap (mil)	:	272.3
P/Core NAV(x)	:	0.41
P/Tangible NAV(x)	:	0.3

MAJOR SHAREHOLDER(S)

Hibiscus Upstream Sdn Bhd	:	12.4%
Polo Investments Ltd	:	10.2%

Prepared by:

~Research Team



COMPANY BACKGROUND

Hibiscus Petroleum Berhad is Malaysia’s first listed **independent oil and gas (O&G) exploration and production (E&P)** company. Hibiscus Petroleum was listed on the Main Market of Bursa Malaysia Securities Berhad around 5 years ago, on 25th July 2011 as the first Special Purpose Acquisition Company (SPAC) in South-East Asia. Following the completion of the acquisition of a 35% stake in Lime Petroleum Plc in April 2012, Hibiscus Petroleum became a full-fledged oil and gas exploration and production company.

The group’s strategy since listing has been to invest in a balanced portfolio of assets across the spectrum of upstream oil and gas exploration and production sector. Its portfolio includes exploration, development and production assets, with a current focus on two main regions, i.e. the United Kingdom (UK) and Australia.

Hibiscus’ management team is committed to maintaining high standards of corporate governance and building its business based on a strong technical and commercial foundation. Its strategy in the current oil and gas market is to leverage on the relatively low crude oil prices to develop a robust and balanced portfolio that can generate future revenue, thereby delivering sustainable returns to its shareholders.

BUSINESS FOCUS

Hibiscus hopes to achieve oil production of 10,000 bbls/day and a “2P” (proven and probable) reserves base of 50 mmbbls (million barrels) of oil via current production, and another 50 mmbbls of reserves (“2P + 2C”) via future acquisitions by 2018. It aims to be a growing E&P company with a focus on **developing a balanced portfolio of O&G assets** consisting of:

- > Producing assets which generate sufficient cash to fund its future exploration and development activities while creating a sustainable and growing business that does not have to keep seeking additional funding from shareholders. Interests in the Anasuria Cluster are the first of its material producing assets.
- > Development assets where discovered oil and gas reserves are monetised through field development and where they can execute their projects in a timely and cost effective manner. Subject to a Final Investment Decision, the West Seahorse field in Australia will be the first development project for Hibiscus; and
- > Promising exploration opportunities within development and producing licences.

The group’s core assets will be those with early development potential or those already in production.

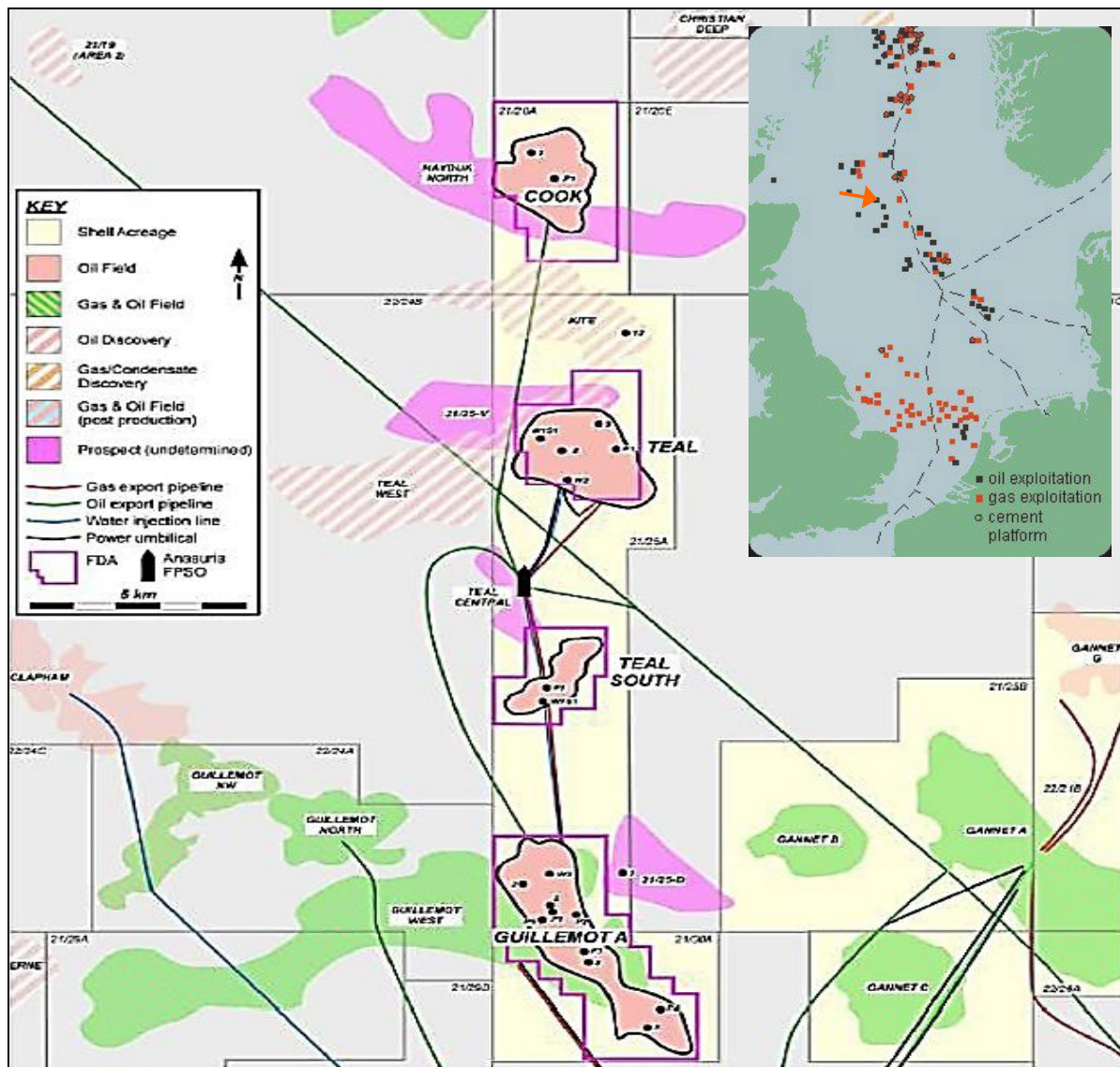
<u>Organic Growth Strategy</u>
> Reprocessing and interpretation of data for assets already owned
> Enhancing the producible volume and/or extending the producing life of current assets
> Acquiring further assets either through acquisitive or licensing processes
> Embarking on infill drilling programs to capture stranded pools of hydrocarbons
> Debottlenecking plant and facilities to enable enhanced production
> Introducing new technologies and exploring low cost enhanced recovery processes for existing assets
<u>Inorganic Growth Strategy</u>
> Shortlist low risk profile prospects with proven undeveloped reserves
> Shortlist moderate risk profile prospects with proven basin, good data availability, good fiscal terms, political stability and stable partners
> Main investment considerations include: Fiscal terms in the jurisdiction of the target asset, financial returns on the capital employed, political and security risks, technical, operational and sub-surface risks, environmental considerations and overall potential for upside.



O&G ASSET PORTFOLIO

UNITED KINGDOM (UK) – Anasuria Cluster

The Anasuria Cluster comprises of the following: Cook (38.6%) Producing Field, Teal (100%) Producing Field, Teal South (100%) Producing Field, Guillemot A (100%) Producing Field, and Anasuria FPSO (100%) FPSO. The cluster involves a number of producing assets with development and exploration potential based around the Anasuria FPSO. It is located about 175 km off the East of Aberdeen, in the UK North Sea, with a water depth of around 94 metres. The operator of the cluster is Anasuria Operating Company Limited (JOC), with Hibiscus (under Anasuria Hibiscus UK Ltd) being **Joint Operator** with its partner **Ping Petroleum Limited, on a 50:50 basis**. The Anasuria Cluster comes with stable positive cash flow from current production with in-field future development opportunities and exploration upside. It represents an attractive, geographically focused package of operated interests in producing fields and associated infrastructure. The assets have a proven and producing resource base which provides a platform for further development. A number of incremental development and exploration opportunities exist within the licence areas which are expected to generate significant incremental value in the medium term.



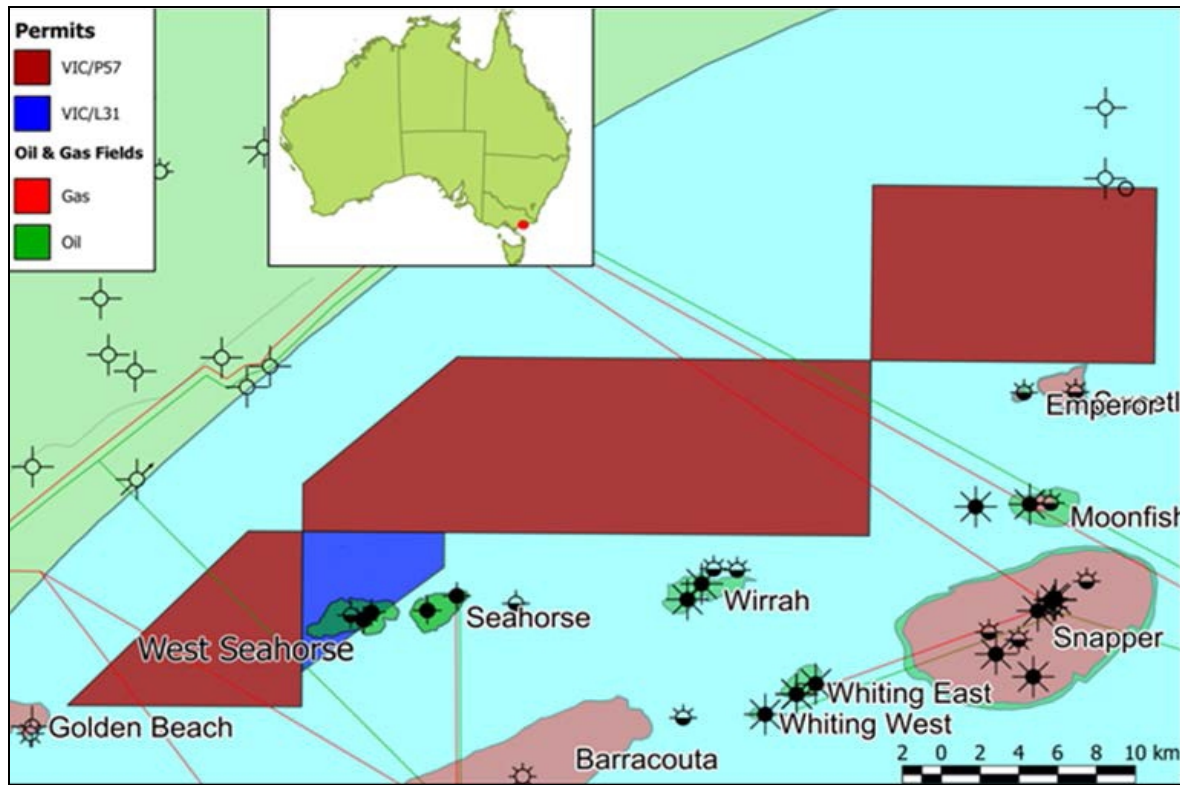
Source: Company



AUSTRALIA – Gippsland Basin area

Hibiscus holds substantial equity interest and is the Operator of 2 licences – “VIC/L31” and “VIC/P57” – in Australia via its wholly-owned subsidiary, Carnarvon Hibiscus Pty Ltd (CHPL). Both licences are located offshore, in shallow water, in the **Gippsland Basin** (off the Southern state of Victoria, Australia) and are core assets to the company. As the Operator, Hibiscus has a high level of operational and financial control and is therefore responsible for the entire planning and execution of all activities under these licences. The VIC/L31 production licence includes the **West Seahorse** discovered field, whilst the VIC/P57 exploration licence comprises several geologically exciting prospects. The development of the West Seahorse field has been a key objective of Hibiscus due to the near term visibility on the development and subsequently, production of this field. Due to the current low and volatile oil price environment, the Company has deferred the Final Investment Decision for the West Seahorse development project. As for the VIC/P57 permit, in accordance with its obligations under the terms of the permit, CHPL has recently drilled an exploration well in the **Sea Lion** prospect in the second quarter of 2015, demonstrating its ability to execute drilling operations offshore Australia whilst maintaining a good HSE track record.

The Gippsland Basin, Australia



Source: Company

Licences held:

Asset/Licence:	VIC/L31 (West Seahorse Field)	VIC/P57
Effective Interest:	100% (Hibiscus is concession operator)	78.3% (Hibiscus is Concession Operator)
Acquisition date:	January 2013	January 2013
Licence/permit type:	Production	Exploration
Description:	8.0 MMbbls of 2P + 2C Oil Reserves	Water depth up to 150m / area of 460km ²



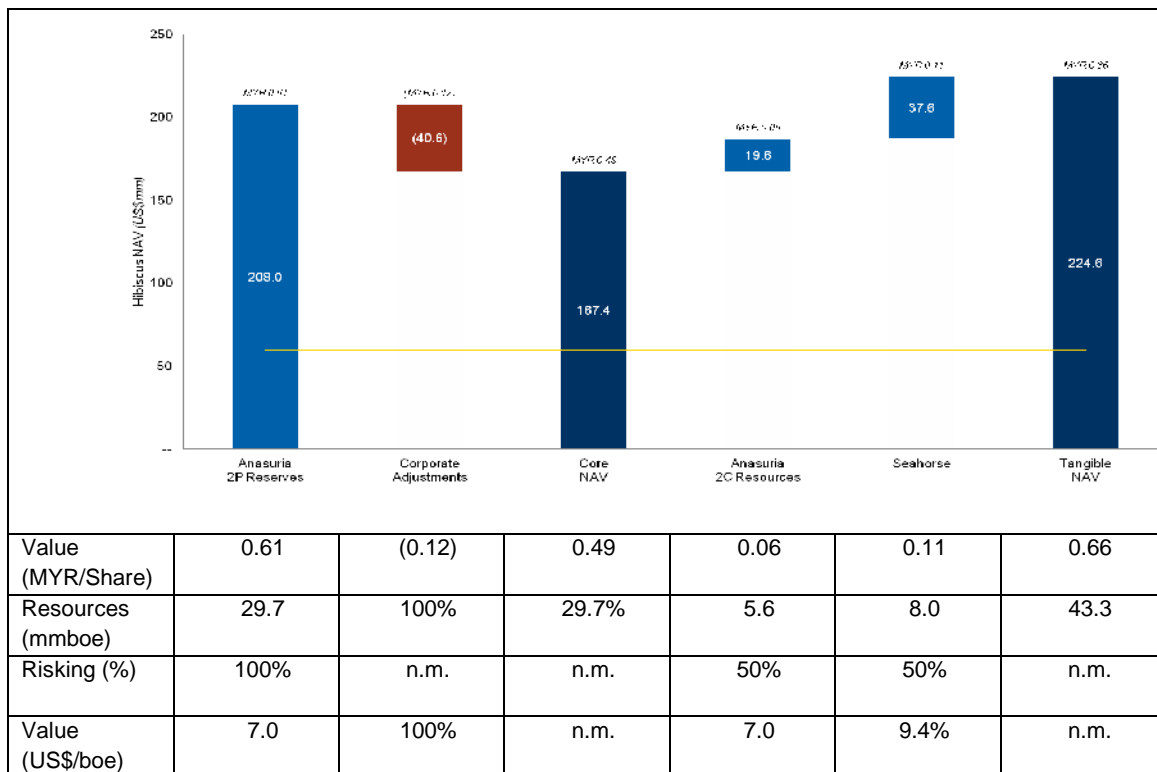
OPTIMIZING OPERATIONS

From the time of the completion of the Anasuria acquisition on 10th March 2016 until the end of the 4th quarter on 30th June 2016, operating expenditure (OPEX) averaged approximately US\$23/boe. Meanwhile, oil sold by the Company during the same period averaged about US\$40/boe. During a time of challenging O&G operations, Hibiscus has focused on the optimization of its offshore O&G operations. Even whilst a time of volatile oil prices, Hibiscus has developed a profitable and revenue generating asset within its portfolio, with economic production from Anasuria currently expected to last for about 20 more years.

In its latest quarterly results issued on 24th August 2016, Hibiscus announced that it has completely impaired its investment in **Lime Petroleum** amounting to RM212.5 million. This was decided upon the fair value gain attributed to its Anasuria assets, upon revaluation by RPS Energy. This clearly shows that the Company is moving away from pursuing ventures with an exploration bias, and instead focus its efforts primarily on oil-producing assets and licenses with oilfield development potential.

VALUATION ANALYSIS

In our analysis, we have considered only the 2P reserves and 2C resources attributable to the Company and have accorded no value to any exploration potential within the Company's portfolio of licenses. We also place reliance on the disclosure by the Company on 30th June 2016 in which the Company had announced that RPS Energy had revised the valuation of the Company's interest in the Anasuria Cluster to RM851 million.



Source: Company; Yellow line indicates Hibiscus' market cap.

Based on our analysis, on a NAV derived using the 30th June 2016 RPS valuation, Hibiscus is currently trading at approximately 0.4x Core Value and 0.3x Tangible NAV. Furthermore, when the valuation of Hibiscus is benchmarked against a peer group of companies with a UK North Sea focus, we note that Hibiscus is trading at the lower end of the peer group across all metrics.



KEY MANAGEMENT/OPERATIONAL TEAM

Hibiscus has a solid, experienced management team, with proven track record.

<u>Position</u>	<u>Name</u>	<u>General background</u>
Managing Director	Dr Kenneth Gerard Pereira	Oil & Gas, engineering
VP - New Ventures	Dr Pascal Hos	Oil & Gas, engineering
VP – Exploration & Development	Stephen Craig Dechant	Oil & Gas, engineering
CFO/VP – Finance	Vincent Jacob Lee	Accounting, audit
VP – Petroleum Engineering	Devarajan Indran	Oil & Gas, engineering
VP – Production	Mark John Paton	Oil & Gas, engineering
VP – Geoscience	David Jayakumar Richards	Oil & Gas, geology
VP – Corporate Planning & Investor relations	Uday Jayaram	Capital markets, audit, management consultancy
General Counsel	Lim Kock Hooi	Geology, legal

Source: Company

POSSIBLE RISK FACTORS

As an independent Oil & Gas exploration and production company, Hibiscus might face:

- >Weak global demand for oil and gas.
- >Oversupply of crude oil situation, with OPEC unwilling to limit production.
- >Weak crude oil prices/long timeline for full recovery.
- >Uncertain costs, duration, outcomes of O&G exploration.
- >Changes in international regulatory/legal framework.
- >Difficulty in securing future investments/financing, if needed.
- >Variations in estimated O&G reserves.

INVESTMENT HIGHLIGHTS

Hibiscus has a number of strengths, which we highlight here:

- >Clear management strategy built around clear targets and realistic timelines.
- >Balanced portfolio of O&G assets in geologically prolific basins located in geopolitically stable regions.
- >A total of 33.4 MMbbls 2P reserves/2C resources.
- >Anasuria acquisition has given Hibiscus significant rapport and credibility with oil majors.
- >Strong board and management team with vast industry background and proven track record, both domestically and internationally.
- >Attractive valuation, given that crude oil prices are on an upward trend and Hibiscus has production backed by proven reserves and resources.



SHARE PRICE



FINANCIAL STATEMENTS (Quarterly Results ending 30th June 2016)

Income Statement	*6/2016 (RM'mil)	Growth	6/2016E (%)
Revenue	83.6	Revenue	1177.2
EBITDA	(17.2)	EBITDA	70.0
Depreciation	(30.9)	PBT	14.5
Interest Expense	(8.2)	PAT	8.1
Profit before Tax (PBT)	(56.3)		
Taxation (Tax Credit)	(3.6)	Ratios (%)	
Profit after Tax (PAT)	(60.0)	EBITDA Margin	-20.6
EPS (sen)	(5.65)	PBT Margin	-67.3
		PAT Margin	-71.8
		Effective Tax Rate(%)	4.3
		ROE (%)	-10.3
		BV/Share (RM)	0.55
		P/BV (times)	0.36
Key numbers			
Shareholders' equity (RM'mil)	584.3		
Weighted average number of shares (mil)	1060.8		
Market Price/Share (RM)	0.20		

Source: Company/Our estimates

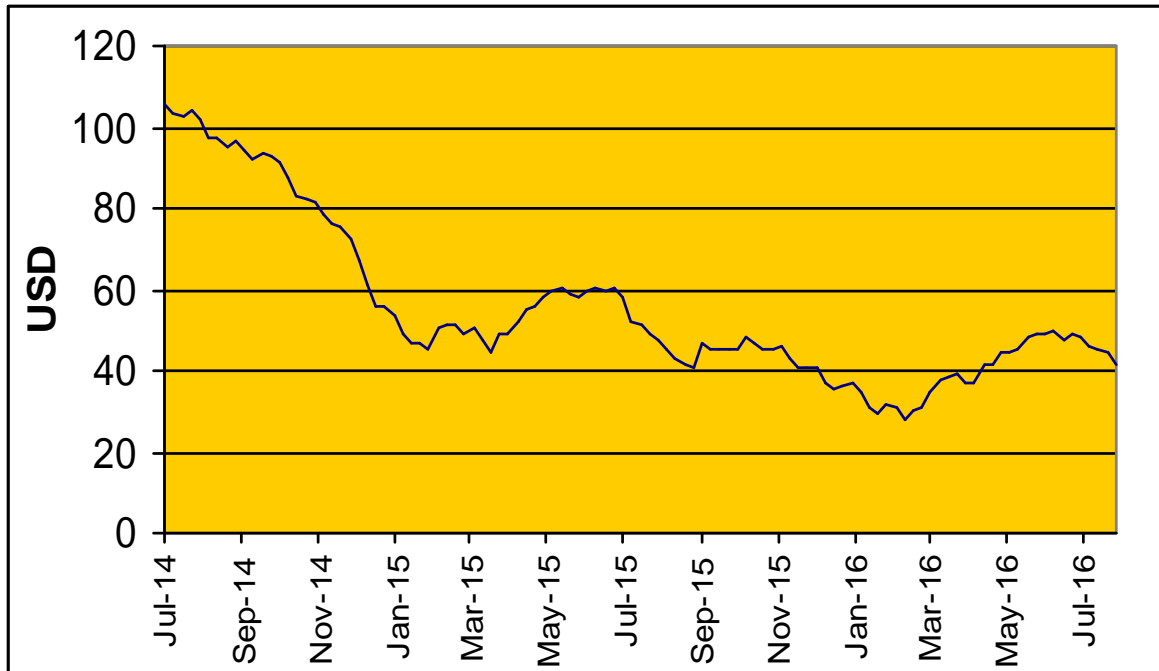
*12-month numbers



CONCLUSION/RECOMMENDATION

World crude oil prices had been weak since late 2014. Since then there have been bouts of price recovery, and we believe that based on world crude oil futures, and given the supply versus demand situation, that prices have since bottomed, and the tendency now is for oil prices to trend upwards, going into years 2017 and 2018.

WTI Crude Oil Prices



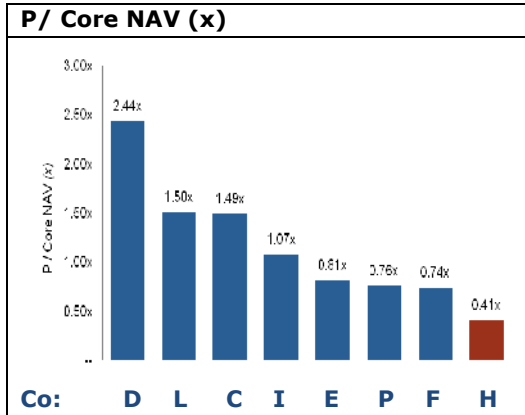
Source: IEA

Given this oil price trend, and Hibiscus' investment highlights as mentioned above, we thus recommend a **Buy/Outperform Call** on Hibiscus, with a target price (TP) of RM0.44. The TP or indicative fair value is derived based on a P/Core NAV of 0.9 times and P/Tangible NAV of 0.67 times, suggesting a 24 sen potential upside in stock price.

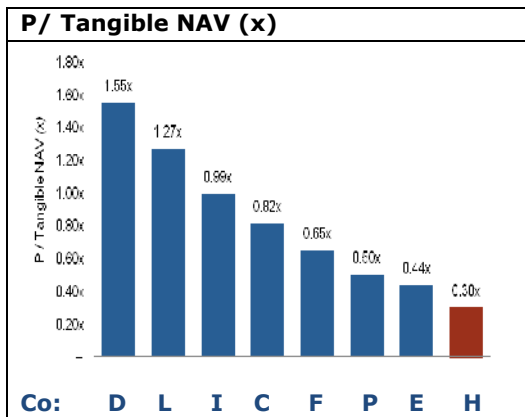
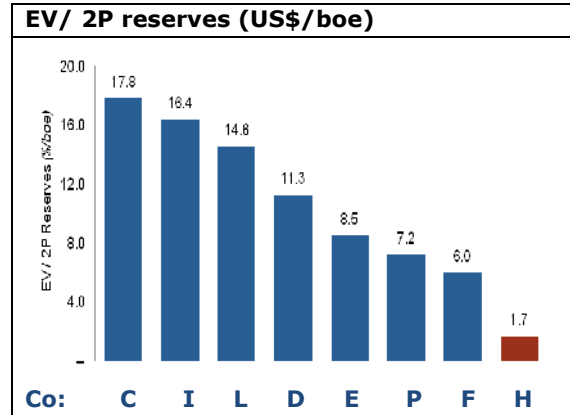
Based on the NAV derived using the June 2016 CPR, Hibiscus is currently trading at just 0.41x Core Net Asset Value (Core NAV) and 0.3x Tangible Net Asset Value (Tangible NAV). This is much lower than O&G peers operating in the North Sea off United Kingdom, such as as Detnorske, Lundin, Ithaca, Cairn, Faroe, EnQuest and PremierOil. Hibiscus is also trading around 1.7x EV/2P Reserves (US\$/boe) and 1.4x EV/2P Reserves & 2C Reserves (US\$/boe), which also appears inexpensive if compared to the peers operating in the North Sea.



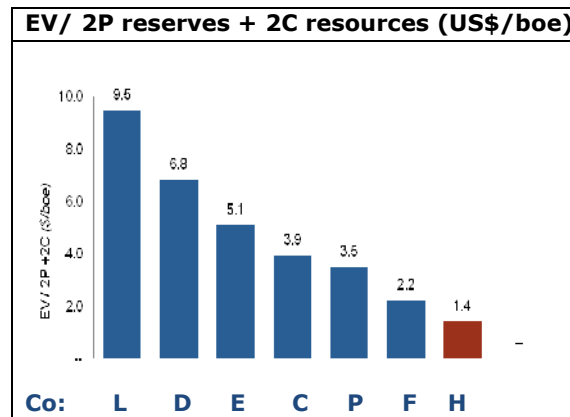
Hibiscus vs Peer comparison – Hibiscus is trading at the lower end of its peer group across various metrics



Source: Company



Source: Company



Company key (North Sea peers):			
D	Detnorske	E	EQ
L	Lundin	P	Premier Oil
C	Cairn	F	Faroe
I	Ithaca	H	Hibiscus Petroleum



Recommendation Framework

Buy/Outperform	The stock's total return is expected to be +15% or better over the next 12 months.
Neutral	The stock's total return is expected to be within +/-15% over the next 12 months.
Sell/Underperform	The stock's total return is expected to be -15% or worse over the next 12 months.
Trading Buy	The stocks total return is expected to be 10% or better over the next 3 months
Trading Sell	The stock's total return is expected to be -10% or worse over the next 3 months.

DISCLAIMER

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

For any enquiries, please contact us:

*L-7-2,
No.2, Jalan Solaris,
Solaris Mont Kiara,
50480, Kuala Lumpur
Tel: 603-6203 7227
Email: mercurykl@mersec.com.my*

