

Hibiscus Petroleum Bhd (HIBI MK)

In Pursuit Of Deep Sea Treasures

What's New

We understand that drilling on Oman Block 50 (HIBI's 35%-owned associate, Lime Petroleum Plc (LIME), has a 64% stake in this block) is scheduled to commence in Sep 13. As Oman Block 50 has an estimated 200m barrels of prospective recoverable resources, striking oil is key to the rerating of HIBI's share price. On the other hand, HIBI's JV partner, Rex International (Rex Intl), will be listed on Singapore Exchange's Catalist Board on 31 Jul 13. Should Rex's IPO listing be well received, there could be a positive spillover effect on HIBI's share price.

Investment Highlights

- Drilling plan in Oman Block 50 on schedule.** We understand that LIME has secured a drilling rig for Oman Block 50. The rig is expected to be delivered in August and drilling will start in September. With this, we expect HIBI to announce the drilling contract soon. This new development is significant for HIBI as the company's operations have yet to break even since listing, due to the long gestation period of the O&G exploration process, which typically requires several years (72-114 months required under conventional technologies but Rex Technologies has shortened the exploration process to 18-60 months). We understand from management that LIME has sufficient funds to drill at least the first 2 wells on Block 50 in Oman. The total cost for the first two wells is estimated at US\$40m-50m. Successful drilling efforts on Block 50 could enhance investors' confidence in Rex's technology and management's execution capabilities.
- Rex Intl: A larger version of HIBI.** While Rex Intl would be a much larger company upon listing (US\$420m based on S\$0.50 IPO price) as compared with HIBI (US\$207m), the business model and assets of both companies are very much alike. LIME (65% and 35% owned by Rex Intl and HIBI respectively), with four and five exploration licences in Middles East and Norway respectively, is the most significant asset of both companies. However, both HIBI and Rex Intl have different exposure in terms of development assets, with HIBI focusing on Australia though its 13% stake in Australian-listed 3D Oil Ltd, while Rex Intl's operations are based in the US through its partnerships with Loysz Energy and Fram. Given that HIBI's and Rex Intl's shares of assets under LIME make up 85-95% of their risked NAV estimates, the share price performances of HIBI and Rex Intl are expected to be highly correlated.

NOT RATED

Share Price: 1.47

Target Price: N.A.

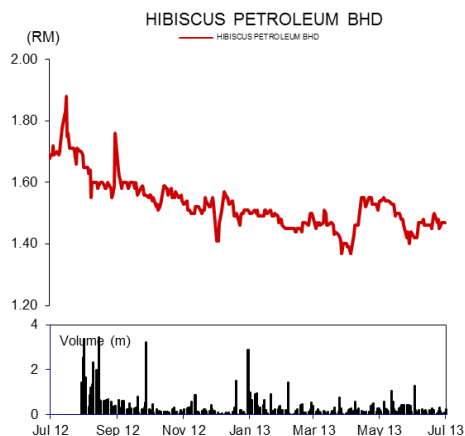
Upside: N.A.

Company Description

The first Special Purpose Acquisition Company (SPAC) in Southeast Asia, with the focus on development of small- and medium-sized oil and gas fields in the Middle East, South Asia, East Asia and Oceania regions.

GICS sector	Energy
Bloomberg ticker:	HIBI MK
Shares issued (m):	451.4
Market cap (RMm):	663.5
Market cap (US\$m):	205.7
3-mth avg t'over (US\$m):	0.1

Price Chart



Source: Bloomberg

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Exploration asset under LIME	Net Risked Best Estimate Recoverable Resources to Lime (mmboe)	Effective working interest (%)	
		HIBI	Rex Intl
Oman Block 50*	248.6	22.4	41.6
UAE – RAK Offshore	13.4	20.7	38.4
UAE – RAK Onshore	TBA	35.0	65.0
UAE – Sharjah Offshore	55.0	35.0	65.0
Norway - PL 503	16.5	4.3	8.1
Norway - PL 503B	TBA	4.3	8.1
Norway - PL 526	7.1	11.6	21.7
Norway - PL 498	TBA	1.8	3.3
Norway - PL 616	TBA	5.3	9.8

* Upon successful discovery in Block 50, the Government of Oman has an option of up to 25% participating interest in the concession, which would dilute LIMEs stake to no less than 48%

Source: HIBI, UOB Kay Hian

Rex Technologies has the following proprietary exploration technologies:

- 1. Rex Gravity.** To detect possible hydrocarbon accumulations through the use of satellite altimetry and bathymetry to map out hydrocarbon prospects
- 2. Rex Seepage.** To verify hydrocarbon presence at sea surface through the use of thermal imagery satellite information
- 3. Rex Virtual Drilling.** To detect liquid hydrocarbon accumulations using seismic data interpretation techniques. Seismic responses are characterised and the exact location and formation of oil reservoirs can be pinpointed

Source: HIBI

- **Schlumberger veteran to head Hirex.** To recap, HIBI formed a JV company, Hirex Petroleum, with Rex Intl in Mar 13 to seek exploration assets in the Asia-Pacific. On 1 Jul 13, Hirex appointed Ainul Azhar Ainul Jamal to be the Executive Director of Hirex. Jamal has had an expansive career with Schlumberger since 1984, which includes field experience on land-based and offshore rigs in Australia, New Zealand and Indonesia. Among the positions that he held in Schlumberger were Managing Director of Schlumberger South East Asia, Global Human Resource (HR) Director of Schlumberger's seismic business and Group HR Director. In 2010, Jamal was appointed Chairman of Schlumberger Group of Companies, Asia Pacific. The appointment of Jamal would be key to achieving Hirex's target of identifying 20-40 concessions each year, which would need to be crucially established in order for Hirex to make at least three investments p.a..

Our View

- **Timing is crucial in maximising investment returns.** Although speculative in nature, 3Q13 could provide a timely entry to HIBI, as the company is planning to initiate drilling activities in Sep 13. We reckon that there is a high chance of it striking oil, which would initially lift the share price. Should the reserves prove commercially viable, the shares could provide manifold returns to shareholders.
- The table below illustrates the possible fair value of HIBI based on the different probabilities of success on its Middle East concessions, assuming that the value of the concessions is assessed based on US\$5 per barrel of oil:

	Worst Case	Base Case				
Probability of success (%)	11.5	13.6	15.0	25.0	50.0	60.0
Share price (RM)^	1.30	1.50	2.40	3.00	4.60	5.20
Concession Value						
Masirah	106	106	106	106	106	106
Middle East Concessions	156	212	470	641	1069	1241
VIC/57	31	31	31	31	31	31
Norway	17	17	17	17	17	17
Total (US\$m)	310	366	624	795	1223	1395

^Based on 886m total number of shares; 451m HIBI's shares, 307 unexercised warrant-A, 84m unexercised warrant-B and 44m new shares from CRPS, upon conversion

- **“Explore, drill and dispose”.** We understand from management that HIBI would be selective in investing in the production of some of its oilfields given the huge capex involved. We note that the production capex for the Block 50 Oman oilfield could be as high as US\$2b. Therefore, the company intends to focus on the exploration phase and once discoveries are made, it will dispose of (part of) its concession stake in order to recover some of its initial investment. While this could result in a lower share of profits from future production, this business model would allow HIBI to free up vital cash flow and allow the company to pursue more exploration activities.

Share Price Catalysts

- **Rex Intl IPO well-received in Singapore.** While HIBI does not own any stake in Rex Intl, the successful listing of the latter at a higher valuation could create a positive spillover effect on the share price of HIBI, as the business models of both companies are very much alike.
- **Successful drilling effort** at HIBI's Block 50 in Oman could prove the viability of Rex Technology in the exploration stage and potentially realise the recoverable resources at its other prospects. According to management, in general, the value of the concession could be assessed based on US\$5 per barrel of oil, once the oil field is proved to be commercially viable.

Risks

- **Reliant on Rex Technology in oil discovery and well location estimation.** As Rex Technology's proprietary exploration technology has not been commercially proven, any failure in the upcoming drilling activities could erode investors' confidence in HIBI's future exploration.
- **Prolonged slump in oil price** prompts National Oil Companies and International Oil Companies to hold back on heavy capex spending on production.

Bloomberg Consensus

Recommendation	Buy	Hold	Sell	Valuation Ratios	3/12	3/13
28/07/2013	0	0	1	P/E	-	-
Target Price			N.A.	EV/EBIT	-	-
Upside			N.A.	EV/EBITDA	-	-
				P/S	113.1	75.4
Income Statement	3/12		3/13	P/B	2.6	2.7
Revenue	2		9	Div Yield (%)	0.0	0.0
Operating Income	(10)		(17)	Profitability Ratios %		
Pretax Income	(4)		(4)	Gross Margin	-	-
Net Income Adjusted*	(5)		(4)	EBITDA Margin	-559.5	-192.6
EPS Adjusted	0.00		(0.01)	Operating Margin	-565.7	-195.3
Dividends Per Share	0.00		0.00	Profit Margin	-264.2	-49.3
Payout Ratio (%)	-		-	Return on Assets	-4.1	-1.4
EBITDA	(10)		(16)	Return on Equity	-	-1.8

Peer Comparison	Ticker	Price @ 29Jul 13	Market Cap (US\$)	PE FY12 (x)	PE FY13F (x)	P/B FY12 (x)	P/B FY13F (x)	Yield FY13F (%)
Interra Resources Ltd	ITRR SP	SGD 0.470	166	61.7	42.7	3.0	2.8	n.a.
Roc Oil Co Ltd	ROC AU	AUD 0.530	335	6.0	8.5	1.7	1.4	0.0
Drillsearch Energy Ltd	DLS AU	AUD 1.255	496	28.2	19.9	3.0	2.0	0.0
Kanto Natural Gas Develop	1661 JP	JPY 764.000	476	16.9	11.7	0.7	n.a.	1.6
Energi Mega Persada Tbk Pt	ENRG J	IDR 102.000	166	n.m.	n.m.	n.m.	n.a.	n.a.
Average*				28.2	20.7	2.1	2.1	0.5
Hibiscus Petroleum Bhd	HIBI MK	MYR 1.470	206	n.a.	n.a.	2.6	2.7	0.0

* Energi Mega Persada Tbk Pt has been excluded in average calculation

Price to Book Ratio (1 year average)



Source: Bloomberg

Technical View



Source: Bursa Station Professional

Hibiscus Petroleum Berhad (HIBI MK) – BUY

Last price: RM1.47
Resistance: RM1.89
Support: RM1.33
Stop-loss: RM1.31

BUY with a target price of RM1.89. Following our recent write-up on 4 July, HIBI's share price is still consolidating within a contracting range, despite growing positive signals from the RSI reading. On 18 Jul 13, HIBI's intraday high of RM1.55 successfully broke above the downtrend line, but was unable to stay at the level and closed at RM1.49. We expect investors to continue to accumulate HIBI at the current level as breakout above the trendline would lead to further upside of RM1.61 in the near term, which if broken, could set HIBI to retest the previous high of RM1.89 in the medium term. A stop-loss can be placed at RM1.31.

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