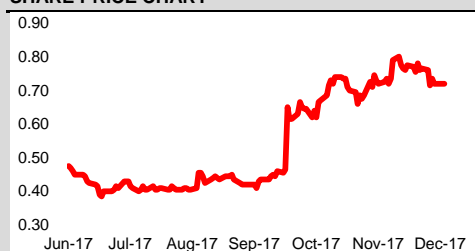


HIBISCUS PETROLEUM
Outperform
DESCRIPTION

A oil and gas production and development company, currently producing average 3,500bbls/day. Hibiscus has 26.7mbbls/day of 2P reserves (Anasuria Cluster – UK), and 6.8mbbls of 2C resources (West Seahorse Field – Australia).

Target Price RM1.06
 Current Price RM0.72
 Expected Return +47.5%

Market Main
 Sector Oil & Gas
 Bursa Code 5199
 Bloomberg Ticker HIBI MK
 Shariah-compliant Yes

SHARE PRICE CHART


52 Week Range (RM) 0.30-0.83
 3-Month Average Vol ('000) 64,315.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	71.4	56.5
Relative Returns	0.9	80.2	57.1

KEY STOCK DATA

Market Capitalisation (RM m) 1,111.6
 No. of Shares (m) 1,543.9

MAJOR SHAREHOLDERS

	%
Hibiscus Upstream Sdn Bhd	10.9
Polo Investments Limited	9.0
Mohd Zulkefli Bin Mohd	6.1

Mabel Tan

T 603 2268 3017

F 603 2268 3014

E mabeltan@publicinvestbank.com.my

Petronas Nod For North Sabah

Hibiscus Petroleum (Hibiscus) has received Petronas Carigali Sdn Bhd's (PCSB) unconditional consent under the joint operating agreement (JOA) to the assignment of Shell's 50% interest in the 2011 North Sabah Enhanced Oil Recovery (EOR) production sharing contract (PSC). We are elated by this news, knowing that the deal is another step closer to completion. Our current valuation of Hibiscus includes the North Sabah acquisition based on its proven and probable (2P) reserves only, which we believe would add another RM0.48 to the Group's underlying fair value of RM0.58. With this announcement, our **Outperform** call with TP of RM1.06 premised on our sum-of-parts valuation is reaffirmed further, as we believe the acquisition has an even higher probability of coming to pass now.

§ **The JOA**, to recap, is for its indirect wholly-owned subsidiary, SEA Hibiscus Sdn Bhd (SEA Hibiscus) to acquire a 25% operating interest in the 2011 North Sabah EOR PSC from Sabah Shell Petroleum Company Limited and a further 25% non-operating interest in the PSC from Shell Sabah Selatan Sdn Bhd. PCSB is the other PSC partner and will retain a 50% non-operating interest.

§ **North Sabah PSC** consists of 4 producing oil fields and and operatorship of all its associated equipment and assets including the Labuan Crude Oil Terminal. The acquisition will entail SEA Hibiscus becoming the operator of the PSC, and includes i) production of petroleum from 4 existing oil fields, namely St Joseph, South Furious, SF30 and Barton; and ii) an existing pipeline infrastructure, the Labuan Crude Oil Terminal, and all other equipment and assets relating to the PSC. The total oil production (on a 100% PSC basis) is c.18,000bbls/day in 2015. The PSC also provides long-term production rights until 2040 with identified future development opportunities.

§ **Potentially more upside.** Assuming a 50% conversion of the field's 2C contingent resources into 2P reserves, we are estimating the North Sabah asset's fair value to be worth RM0.86 (Hibiscus' portion), to bump the Group's overall fair value up to RM1.44.

§ Our **Outperform** recommendation is premised on the improving performance of the Anasuria Cluster which has already been secured, and the potential upside from the North Sabah PSC on Hibiscus' valuation. It also takes into consideration i) further potential upside from conversion of 2C to 2P reserves for North Sabah but which has *not yet* been factored into our valuation, ii) lower OPEX cost which would ensure the viability of its producing fields, and iii) opportunities for cheaper assets in a lower oil price environment, whereby Hibiscus has demonstrated to have the ability to identify and secure high value assets from large companies.

Table 1: North Sabah EOR PSC Asset Overview in 2015

	Total in 2015
Average Daily Production	18 kstb/day ³
Remaining Reserves (2P)	62 MMstb
Contingent Resources (2C)	79 MMstb
Platforms/Structures	19
Wells	135
OPEX per bbl	RM55.10/bbl OR USD12.90/bbl

Source: Sabah Shell Petroleum Company Limited and Shell Sabah Selatan Sdn Bhd and various

§ **North Sabah deal structure.** The commercial arrangement is for net economic benefits and risks in the asset to accrue to SEA Hibiscus from 1 January 2017. In addition, a structured transfer of operatorship process is currently on-going, governed by the terms of a transfer of operatorship agreement (ToOA) which was executed when the SPA was signed.

The ToOA allows a Joint Transition Team (JTT) to oversee a structured and safe transfer of operations (including technical records, human resources, financial data, spares inventory etc.) from the current operator (Sabah Shell Petroleum Company) to SEA Hibiscus.

Petronas' role as the overall regulator of the O&G industry in Malaysia provides oversight and assistance on the transfer of the operatorship.

§ **Potential performance.** We are most excited about the potential acquisition of this North Sabah PSC. The entitlement of c.6,000bbls.day production from North Sabah operations net to Hibiscus is expected to aggregate about 9,500bbls/day production for the Group. Additionally, North Sabah will provide immense opportunities to increase the Group's production rate as there is access to 62mbbls of 2P oil reserves and 79mbbls of 2C contingent resources (numbers based on 2015 gross estimate).

KEY FINANCIAL TABLE

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	81.7	261.3	767.9	818.7	819.6
Gross Profit	40.9	168.2	494.3	527.0	527.6
Pre-tax Profit	-56.3	62.0	248.6	266.6	268.5
Net Profit	-60.0	106.1	298.3	320.0	322.3
Core Net Profit	-176.0	99.3	298.3	320.0	322.3
EPS (Sen)	-5.7	7.3	20.7	22.2	22.3
P/E (x)	-12.7	9.8	3.5	3.2	3.2
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	81.7	261.3	767.9	818.7	819.6
Cost of sales	-40.8	-93.1	-273.6	-291.7	-292.0
Operating Profit	-313.8	157.0	463.0	495.3	497.4
Other Income / (Expenses)	265.7	-73.0	-214.5	-228.6	-228.9
Finance Costs	-8.2	-22.0	0.0	0.0	0.0
Pre-tax Profit	-56.3	62.0	248.6	266.6	268.5
Income Tax	-3.6	44.1	49.7	53.3	53.7
Effective Tax Rate (%)	-6.5	-71.1	-20.0	-20.0	-20.0
Net Profit	-60.0	106.1	298.3	320.0	322.3

Growth

Revenue (%)	424.2	219.8	193.9	6.6	0.1
Operating Profit (%)	706.6	-150.0	194.9	7.0	0.4
Net Profit (%)	-19.2	-276.9	181.1	7.3	0.7

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Equipment	211.5	202.6	217.4	224.6	231.7
Cash and Cash Equivalents	28.7	54.5	419.8	740.1	1,054.8
Receivables, deposits and prepayment	13.9	24.9	73.2	78.0	78.1
Other Assets	1,015.1	1,037.6	948.9	934.2	929.7
Total Assets	1,269.2	1,319.6	1,659.3	1,977.0	2,294.3
Payables	88.8	58.2	170.5	181.1	180.7
Borrowings	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	390.9	325.6	305.6	285.6	265.6
Other Liabilities	205.2	193.4	193.1	193.1	193.1
Total Liabilities	684.9	577.2	669.2	659.8	639.3
Shareholders' Equity	584.3	742.4	990.1	1,317.2	1,654.9
Total Equity and Liabilities	1,269.2	1,319.6	1,659.3	1,977.0	2,294.3

Source: Company, PublicInvest Research estimates

PER SHARE DATAS AND RATIOS

FYE Jun	2016A	2017A	2018F	2019F	2020F
Book Value Per Share	0.6	0.5	0.7	0.9	1.1
NTA Per Share	0.6	0.5	0.7	0.9	1.1
EPS (Sen)	-5.7	7.3	20.7	22.2	22.3
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
ROA (%)	-13.9	7.5	18.0	16.2	14.0
ROE (%)	-30.1	13.4	30.1	24.3	19.5

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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PUBLIC INVESTMENT BANK BERHAD (20027-W)

9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129