HIBISCUS PETROLEUM BERHAD *Outperform*

Steady Progress

Hibiscus Petroleum's 1HFY18 pretax profit of RM22.8m was higher 30.6% YoY, reflective of higher average crude oil prices recognized during the period, which could otherwise have been higher if not for certain operational challenges encountered during the quarter under review. Reported net profit was 76.0% lower YoY however, due to a huge reversal in deferred tax liabilities in the previous corresponding period (1HFY17). While we continue to believe completion of the North Sabah deal is on hand, we are now only accounting for a quarter's contribution from the asset, resulting in FY18 forecasts being lowered by 49.9% but which will have no effect on our sum-of-parts based valuations. We understand the accounting treatment post-completion of the North Sabah deal would be akin to the Anasuria acquisition, in which a relatively large negative goodwill amount could be recorded. We remain positive on Hibiscus' long-term prospects given its ongoing initiatives to constantly increase production levels in enhancing shareholder value. Our ***Outperform*** call is affirmed, with TP lifted slightly to RM1.08 (RM1.06 previously) as we roll over our DCF-based valuations to FY19 while also making slight adjustments to our forex and crude oil price assumptions.

§ **1HFY18 vs 1HFY17.** Revenue of RM134.9m in the current period was up 14.2% YoY largely due to higher average crude oil prices realized (1HFY18: USD57.55 per barrel, 1HFY17: USD43.37 per barrel) as lower average uptime (63%) was seen in 1HFY18 due to a planned shutdown of the Anasuria FPSO for 31 days. The current quarter also saw a temporary interruption in production of the Cook-P1 well and temporary failure of a gas compression facility, both of which dampened 2QFY18 uptime to 57% for a cumulative 1HFY18 average of 63%. 1HFY17 average uptime was 90%.

Group pretax profits were 30.4% higher YoY to RM22.8m, though comparisons are slightly distorted by non-operational related changes, 1) lower amortization of intangible assets and depreciation of oil and gas assets (Anasuria), 2) lower losses recognizes in its Australian operations due to the strengthening of its currency against the US Dollar. To note, 274,644 barrels of crude oil were sold at an average of USD62.93 per barrel in 2QFY18 as compared to the 246,132 barrels in 1QFY18 at USD51.54 per barrel.

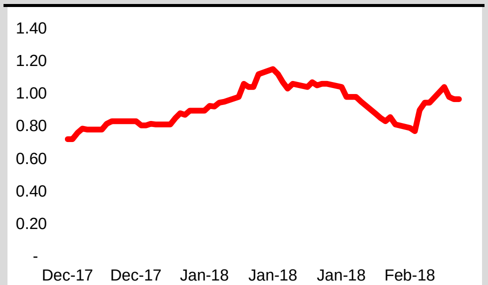
§ **Anasuria updates.** The period under review saw the completions of 1) Offshore Turnaround of the Anasuria FPSO, and 2) the GUA-P4 gas lift project. The former is for performance of compliance and general maintenance related activities, and anticipated to improve average unplanned facilities uptime/availability of the FPSO facilities up to 90%, post-shutdown. The next turnaround is planned for late 2019. The latter, meanwhile, is to lighten the well to ensure smoother flow and increase of production, adding 0.5mmbls (net to Hibiscus) of 2P reserves. Production rate is anticipated to improve to 350bbls/day net to AHUK from 60bbls/day. This equates to c.10% increase in production, ensuring depletion of the field is arrested. We gather production has actually been better-than-expected,

DESCRIPTION

An 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	RM1.08
Current Price	RM0.965
Expected Return	+11.7%
Market	Main
Sector	Oil & Gas
Bursa Code	5199
Bloomberg Ticker	HIBI MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.38 – 1.17
3-Month Average Vol ('000)	50,690.2

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-9.0	27.8	116.9
Relative Returns	-8.5	14.8	107.1

KEY STOCK DATA

Market Capitalisation (RM m)	1,532.6
No. of Shares (m)	1,588.2

MAJOR SHAREHOLDERS

	%
Hibiscus Upstream Sdn Bhd	10.6
Polo Investments Limited	8.7
Mohd Zulkefli Bin Mohd Abdah	5.9

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The Group also recently announced that its UK joint operating company Anasuria Operating Company Limited (AOCL) had contracted a 6th generation semi-submersible rig to drill the Guillemot-A, GUA-P2 side-track into the Forties (primary target) or Fulmar (secondary target) reservoirs. The drilling of this side-track is part of the Group's strategy to enhance production from the Anasuria Cluster to a volume of ~5,000 barrels per day by FY2020. This project is also anticipated to realize net proved and probable (2P) reserves of 1.01 million barrels, potentially enhancing valuations of the Group further. Incremental contributions are already anticipated from July 2018 onwards upon completion of this exercise.

§ **North Sabah updates.** Inching every so closer, the Group anticipates completion of the deal by 31 March barring any unforeseen circumstances. To recap, the Group (through wholly-owned subsidiary SEA Hibiscus) is proposing to acquire a 50% participating interest in the 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract from Sabah Shell Petroleum Company Limited and Shell Sabah Selatan Sdn Bhd (sellers) for a total consideration of USD25m.

On 22 December 2017, SEA Hibiscus, PETRONAS, the sellers and Petronas Carigali Sdn Bhd entered into a novation agreement for the assignment and transfer of the sellers' interests in the asset to SEA Hibiscus to continue production as well as the further development of petroleum resources at the fields upon completion of the proposed acquisition. So near yet so far. We remain comforted by the fact that the commercial arrangement for net economic benefits and risks in the asset to accrue to SEA Hibiscus from 1 January 2017 remains in place.

We continue to be excited over this impending acquisition, though we acknowledge this has mostly priced-in at current levels. Nevertheless, the entitlement of an additional ~6,000bbls/day production (at the minimum) from these 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)

§ **Free warrant issue.** Hibiscus recently announced plans to undertake a free warrant issue on the basis of 1 for every 5 existing ordinary shares held, subject to shareholder approval. While this essentially expands its share base by 20% upon full exercise of the said warrants over the next 3 years and may be dilutive, we are leaving our sum-of-parts derived RM1.08 valuation unchanged for now given the potential uplift from the conversion of 2C to 2P reserves for the North Sabah field, which we have not accounted for in our computations. Assuming a 50% conversion, we are estimating the Group's overall fair value to be bumped up to RM1.17 (post-dilution)

KEY FINANCIAL TABLE

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F	3YR-CAGR
Revenue	81.7	261.3	348.1	789.1	779.6	44.0%
Gross Profit	40.9	168.2	224.1	508.0	501.9	44.0%
Pre-tax Profit	-56.3	62.0	112.7	257.0	255.5	60.3%
Net Profit	-60.0	106.1	135.2	308.4	306.5	42.4%
Core Net Profit	-176.0	99.3	135.2	308.4	306.5	45.6%
EPS (Sen)	-5.7	7.3	8.5	19.4	19.3	
P/E (x)	0.0	13.1	11.3	5.0	5.0	
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

Table 1: Results Summary

FYE Jun (RM m)	2Q18	2Q17	1Q18	YoY chg (%)	QoQ chg (%)	1H FY18	1H FY17	YoY chg (%)	Comments
Revenue	76.1	62.8	58.2	21.1%	30.6%	134.3	117.6	14.2%	Higher revenue QoQ was driven by higher average realised oil price in the quarter of USD62.93/bbl vs. USD51.54/bbl.
Gross Profit	38.4	45.2	39.2	-15.2%	-2.2%	77.6	75.8	2.5%	
Other Income	(21.9)	(28.9)	(24.2)	-24.3%	-9.4%	(46.1)	(45.4)	1.5%	
Finance costs	(3.4)	(6.3)	(5.3)	-46.2%	-36.7%	(8.7)	(12.9)	-32.1%	
Pretax Profit	13.1	10.0	9.7	30.7%	34.8%	22.8	17.5	30.4%	
Taxation	(2.1)	0.6	1.1	n.m.	n.m.	(1.0)	73.4	n.m.	1HFY17 saw the effects of a deferred tax liability reversal
Net Profit	**11.0**	**10.7**	**10.8**	**3.4%**	**2.4%**	**21.8**	**91.0**	**-76.0%**	
EPS (sen)	0.7	0.8	0.7	-5.3%	-1.4%	1.5	6.5		
Operating Margin	50.5%	72.0%	67.4%			57.8%	64.4%		
PBT Margin	17.2%	16.0%	16.7%			17.0%	14.9%		
Net Profit Margin	14.5%	17.0%	18.5%			16.3%	77.4%		

Source: Company

Table 2: Performance Indicators For Anasuria Cluster

Achieved For	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Average Daily Oil Production Rate (bbl/day)	3,934	2,617	3,204	2,576	2,071
Average Daily Gas Export Rate (boe/day) (conversion rate of 6,000 scf/boe)	474	257	317	156	141
Average Oil Equivalent Production Rate (boe/day)	4,408	2,873	3,522	2,731	2,212
Average Realised Oil Price (USD/bbl)	41.70	52.95	50.46	51.54	62.93
Average Gas Price (USD/mmbtu)	1.73*/4.16~	2.11*/4.94~	1.60*/3.88~	1.58*/3.86~	2.35*/5.23~
OPEX (USD/boe)	12.97	15.12	13.98	23.61	34.33
Average Uptime / Availability Of Anasuria Facilities	98%	76%	84%	70%	57%

Source: Company
Note: * Cook field, ~Guillemot A, Teal and Teal South Fields

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	81.7	261.3	348.1	789.1	779.6
Cost of sales	-40.8	-93.1	-124.0	-281.2	-277.8
Operating Profit	-313.8	157.0	209.9	477.4	473.2
Other Income / (Expenses)	265.7	-73.0	-97.2	-220.4	-217.7
Finance Costs	-8.2	-22.0	0.0	0.0	0.0
Pre-tax Profit	-56.3	62.0	112.7	257.0	255.5
Income Tax	-3.6	44.1	22.5	51.4	51.1
Effective Tax Rate (%)	-6.5	-71.1	-20.0	-20.0	-20.0
Net Profit	-60.0	106.1	135.2	308.4	306.5
Core Net Profit	-176.0	99.3	135.2	308.4	306.5
Growth					
Revenue (%)	424.2%	219.8%	33.3%	126.7%	-1.2%
Operating Profit (%)	706.6%	n.a.	33.7%	127.4%	-0.9%
Net Profit (%)	n.a.	n.a.	36.2%	128.1%	-0.6%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Equipment	211.5	202.6	280.4	292.0	305.1
Cash and Cash Equivalents	28.7	54.5	125.8	493.3	784.7
Receivables, deposits and prepayment	24.3	25.1	33.4	75.8	74.8
Other Assets (intangible assets)	1,004.6	1,037.4	963.4	934.7	930.5
Total Assets	**1,269.2**	**1,319.6**	**1,403.1**	**1,795.8**	**2,095.1**
Payables	88.8	58.2	77.3	174.6	171.9
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**	**576.0**	**653.2**	**630.5**
Shareholders' Equity	584.3	742.4	827.1	1,142.6	1,464.6
Total Equity and Liabilities	**1,269.2**	**1,319.6**	**1,403.1**	**1,795.8**	**2,095.1**

Source: Company, PublicInvest Research estimates

PER SHARE DATAS AND RATIOS

FYE Jun	2016A	2017A	2018F	2019F	2020F
Book Value Per Share	0.37	0.47	0.52	0.72	0.92
NTA Per Share	-0.26	-0.18	-0.06	0.15	0.35
EPS (Sen)	-5.7	7.3	8.5	19.4	19.3
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%	9.6%	17.2%	14.6%
ROE (%)	-30.1%	13.4%	16.3%	27.0%	20.9%

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 12months.
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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