



# HIBISCUS PETROLEUM

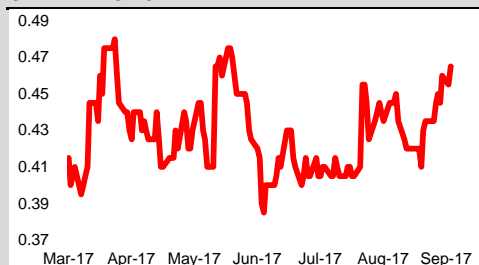
## Outperform

### 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	RM0.71
Expected Return	+69.6%
Market	Main
Sector	Oil & Gas
Bursa Code	5199
Bloomberg Ticker	HIBI MK
Shariah-compliant	Yes

### SHARE PRICE CHART



52 Week Range (RM)	0.27-0.83
3-Month Average Vol ('000)	63,610.2

### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	4.4	68.2	74.4
Relative Returns	6.3	74.9	79.5

### KEY STOCK DATA

Market Capitalisation (RM m)	1,103.9
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

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## Planned Shutdown

Hibiscus Petroleum's (Hibiscus) 1QFY18 revenue improved to RM58.2m (+6.4% YoY, -21.8% QOQ) while recording a core net profit of RM12.8m, supported by higher average prices recorded for oil sold in the quarter (1QFY18: USD51.54/bbl vs. 1QFY17: USD45.21/bbl). This quarter however saw about 15 days of shutdown for initiatives undertaken to improve daily oil production rates up to c.5,000bbls/day net oil to Hibiscus by FY20. Numbers were weaker sequentially, but will see better results 2Q onwards with additional production of c.665bbls/day from the Anasuria Cluster due to the recent enhancement projects, while also assuming higher oil price levels. 1QFY18 net profit estimates are deemed in line albeit only meeting 5% of ours and 7% of consensus' estimates, due to our inclusion of the North Sabah acquisition which we assume to begin contribution 2HFY18. We remain positive on Hibiscus with an **Outperform** call and an unchanged TP of RM1.06 premised on our sum-of-parts valuation. Our valuation includes the upcoming 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.

§ **1QFY18 vs 4QFY17.** Revenue came in at RM58.2m (-21.8% QoQ) in 1QFY18 due to lower 246,132 barrels of oil sold in the quarter of versus the 284,963bbls in 4QFY17, this coming as a result of planned 15-day shutdown which would translate to c.15% loss in oil production time. Earnings wise, the preceding quarter also recognized a one-off RM10.3m gain attributable to the revaluation of the provision for decommissioning costs based on the closing forex rate as at 30 June 2017.

§ **Anasuria updates (net to Hibiscus).** Currently producing an average of c.3500boe/day, the field saw delivery of significant projects in the quarter, amongst which include i) the concluded offshore turnaround of Anasuria FPSO which will assist in improving facility uptime to a targeted 90% for the longer term (previously 85%), ii) the souring project which has brought wells that were shut-in by the previous operator due to high levels of hydrogen sulfide (H<sub>2</sub>S) back online. This initiative will add an average 315bbls/day by CY17 from both Guillemot P1 (GUA-P1) and Teal South (TLS-P1) fields, iii) installation of GUA-P4 gas lift facilities, to lighten the well for a smoother flow and increase of production. The well will add 0.5m bbls 2P reserves. The production rate is anticipated to improve to 350bbls/day from 60bbls/day.

§ **Other Anasuria updates.** All 4 fields are in production except for Kite which is a discovered field. Kite, we understand, is planned for 4-5 years later and implementation in 2021 onwards.

§ **North Sabah updates.** The Group is currently working on fulfilling all conditions required by the sellers - Sabah Shell Petroleum Company Limited and Shell Sabah Selatan Sdn Bhd coupled with the Malaysian regulators to ensure the transaction is unconditional in the near future. We are estimating the deal to be completed by January 2018. Nevertheless it is also important to note that the back-stop date for the acquisition is April 2018.

- § **Offshore Turnaround** for Anasuria FPSO facilities, which is the shut down for performance of compliance and general maintenance related activities has been completed and is assumed to improve average unplanned facilities uptime/availability of the FPSO facilities up to 90%, post-shutdown. The operations commenced from mid-September to mid-October for 31 days, with the most minimal downtime from its 1 year of planning. The next turnaround is planned for late 2019. We understand the shutdown was carried out in between 2 quarters, hence 15 days of shutdown is recorded in 1QFY18 and the remaining in 2QFY18. The next quarter's shutdown loss of production however is expected to be minimized by the additional production from the souring and gas lift projects.
- § **Souring Project** is to bring wells that were shut-in by the previous operator due to high levels of H<sub>2</sub>S back online. The project comprised of opening new wells – (GUA-P1) in January 2017 and Teal South (TLS-P1) in June 2017. This will add an average of 315bbls/day of production net to Anasuria Hibiscus (UK) Limited (AHUK) from both TLS-P1 and GUA-P1 in CY17.
- § **Installation of GUA-P4 gas lift facilities** is to lighten the well to ensure smoother flow and increase of production. Hibiscus is in the process of restarting the well which, upon completion, will add 0.5mbbls (net to AHUK) 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. The initiative was carried out from early October to early November 2017.
- § 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 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.

#### KEY FINANCIAL TABLE

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	81.7	261.3	694.0	818.7	819.6
Gross Profit	40.9	168.2	446.7	527.0	527.6
Pre-tax Profit	-56.3	62.0	224.6	266.6	268.5
Net Profit	-60.0	106.1	269.6	320.0	322.3
Core Net Profit	-176.0	99.3	269.6	320.0	322.3
EPS (Sen)	-5.7	7.3	18.7	22.2	22.3
P/E (x)	-8.2	6.3	2.5	2.1	2.1
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**

<u>FYE Jun</u> <u>(RM m)</u>	<u>1Q18</u>	<u>1Q17</u>	<u>4Q17</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>YTD 18</u>	<u>YTD 17</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	58.2	54.7	74.5	-21.8	6.4	58.2	54.7	6.4	Higher revenue YoY was driven by higher average realised oil price recorded for oil sold in the quarter of USD51.54/bbl vs. USD45.21/bbl.
Gross Profit	39.2	30.5	45.7	-14.2	28.6	39.2	30.5	28.6	
Operating Income	32.2	31.6	49.3	-34.7	1.9	32.2	31.6	1.9	
Finance costs	-5.3	-6.6	-3.2	67.5	-18.6	-5.3	-6.6	-18.6	
Pretax Profit	9.7	7.5	27.7	-64.9	30.0	9.7	7.5	30.0	
Taxation	1.0	72.8	-19.0	-105.4	-98.6	1.0	72.8	-98.6	In 1QFY17 saw the one-off and non-cash tax credit recognised by the impact of a reduction in the rate of the supplementary charge in the UK on deferred tax liabilities relating to the FV of the identifiable assets and liabilities of the Anasuria Cluster recognised as at 30 June 2016.
<b>Net Profit</b>	<b>10.8</b>	<b>80.3</b>	<b>8.7</b>	<b>24.3</b>	<b>-86.6</b>	<b>10.8</b>	<b>80.3</b>	<b>-86.6</b>	
<b>Core Net Profit</b>	<b>12.8</b>	<b>-6.7</b>	<b>8.7</b>	<b>47.6</b>	<b>&gt;100.0</b>	<b>12.8</b>	<b>-6.7</b>	<b>&gt;100.0</b>	
EPS (sen)	0.7	5.9	0.6	21.7	-87.6	0.7	5.9	-87.6	
Operating Margin	55.3	57.7	66.2			55.3	57.7	-4.2	
PBT Margin	16.7	13.7	37.2			16.7	13.7	22.2	
Net Profit Margin	18.5	146.6	11.6			18.5	146.6	-87.4	
Core Net Profit Margin	21.9	-12.2	11.6			21.9	-12.2	>100.0	

Source: Company

**Figure 1: Performance Indicators For Anasuria Cluster**

<u>Achieved For</u>	<u>1QFY17</u>	<u>2QFY17</u>	<u>3QFY17</u>	<u>4QFY17</u>	<u>1QFY18</u>
Average Daily Oil Production Rate (bbl/day)	3032	3,934	2,617	3204	2576
Average Daily Gas Export Rate (boe/day) (conversion rate of 6,000 scf/boe)	374	474	257	317	156
Average Oil Equivalent Production Rate (boe/day)	3406	4,408	2,873	3522	2731
Average Realised Oil Price (USD/bbl)	45.21	41.7	52.95	50.46	51.54
Average Gas Price (USD/mmbtu) (Cook Field/Guillemot A, Teal and Teal South Fields)	1.33/3.30	1.73/4.16	2.11/4.94	1.60/3.88	1.58/3.86
OPEX (USD/boe)	18.39	12.97	15.12	13.98	23.61
Average Uptime / Availability Of Anasuria Facilities	82%	98%	76%	84%	70%

Source: Company

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	81.7	261.3	694.0	818.7	819.6
Cost of sales	-40.8	-93.1	-247.3	-291.7	-292.0
Operating Profit	-313.8	157.0	418.4	495.3	497.4
Other Income / (Expenses)	265.7	-73.0	-193.8	-228.6	-228.9
Finance Costs	-8.2	-22.0	0.0	0.0	0.0
Pre-tax Profit	-56.3	62.0	224.6	266.6	268.5
Income Tax	-3.6	44.1	44.9	53.3	53.7
Effective Tax Rate (%)	-6.5	-71.1	-20.0	-20.0	-20.0
Net Profit	-60.0	106.1	269.6	320.0	322.3

#### Growth

Revenue (%)	424.2	219.8	165.6	18.0	0.1
Operating Profit (%)	706.6	-150.0	166.5	18.4	0.4
Net Profit (%)	-19.2	-276.9	154.1	18.7	0.7

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Jun (RM m)	2016A	2017A	2018F	2019F	2020F
Equipment	211.5	202.6	228.5	235.7	242.8
Cash and Cash Equivalents	28.7	54.5	368.0	700.3	1,015.0
Receivables, deposits and prepayment	13.9	24.9	66.1	78.0	78.1
Other Assets	1,015.1	1,037.6	951.5	934.2	929.7
<b>Total Assets</b>	<b>1,269.2</b>	<b>1,319.6</b>	<b>1,614.2</b>	<b>1,948.3</b>	<b>2,265.5</b>
Payables	88.8	58.2	154.1	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
<b>Total Liabilities</b>	<b>684.9</b>	<b>577.2</b>	<b>652.8</b>	<b>659.8</b>	<b>639.3</b>
Shareholders' Equity	584.3	742.4	961.4	1,288.5	1,626.2
<b>Total Equity and Liabilities</b>	<b>1,269.2</b>	<b>1,319.6</b>	<b>1,614.2</b>	<b>1,948.3</b>	<b>2,265.5</b>

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	18.7	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	16.7	16.4	14.2
ROE (%)	-30.1	13.4	28.0	24.8	19.8

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### **STOCKS**

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### **SECTOR**

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

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