

Hibiscus Petroleum Bhd (HIBI MK)

NOT RATED

Thirsting For First Oil

Background

- Listed in Jul 11 as the first Special Purpose Acquisition Company (SPAC) in Southeast Asia, Hibiscus Petroleum (HIBI) focuses on investment in small- to medium-sized oil and gas fields in the Asia and Oceania regions. HIBI completed its first investment in April 2012 through the acquisition of a 35% stake in Lime Petroleum Plc (Lime), which owns the rights for exploration and production for four concessions in the Middle East and five in Norway. HIBI subsequently acquired a 13% stake in Australian-listed 3D Oil Ltd (3D Oil) and recently formed a JV partnership with Rex South East Asia Ltd to identify exploration and production (E&P) opportunities in the Asia Pacific region. While HIBI has yet to produce its first barrel of oil, some of its explorations have yielded promising results.

Investment Highlights

- E&P concessions in different regions, with potential hundreds million barrel of reserves.** Through its partnership with BVI-based Rex Oil & Gas Ltd (Rex), HIBI's 35%-owned Lime Petroleum owns four and five E&P concessions in the Middle East and Norway respectively. Progresses at the oil fields are currently at preliminary to advanced exploration stages. Amongst these, Lime's most promising asset is an offshore oil field located in Oman, which has an estimated 200m barrels of prospective recoverable resources.
- What is Rex Technology?** Rex Technology is a suite of tools that is used to enhance and expedite the hydrocarbon exploration process. With the adoption of the latest Rex Virtual Drilling (VD) Technology, the company claimed that it could increase the probability of success in detecting hydrocarbon deposits and determining precise drilling locations.
- Rex Technology, the turning point for HIBI.** Under the licensing agreement with Rex, Lime has exclusive usage of the technology in 15 Middle East countries until Oct 16 (with annual renewal thereafter) and Norway on a project basis. According to management, the probability of discovery using Rex VD Technology can be up to four to five times higher than that of the conventional geology and geophysics method. In fact, over the past 12 months, experiments have been done on eight previously drilled wells in Norway and all tests yielded accurate results. Lime targets to drill two wells in Block 50 by Sep 13 and the drilling contract is being finalised at this juncture.
- Production in Australian oil field to commence by early-15.** Through its JV with 3D Oil, HIBI owned a 50.1% stake in VIC/57 permit, which has an estimated 9m barrels of Oil in Place. The production license has been submitted to the Australian government for approval in May 13 and first oil is targeted by 2015.
- Exploring opportunities in Asia Pacific regions.** Earlier this year, HIBI formed a JV company, Hirex Petroleum Sdn Bhd, to seek for exploration assets in the Asia Pacific region. This new venture has been well-received with Hirex receiving a US\$10m capital injection from Panama-based oil company Triax Ventures Corp in return for a 15% stake in the company. This latest JV would further diversify HIBI's regional exposure.

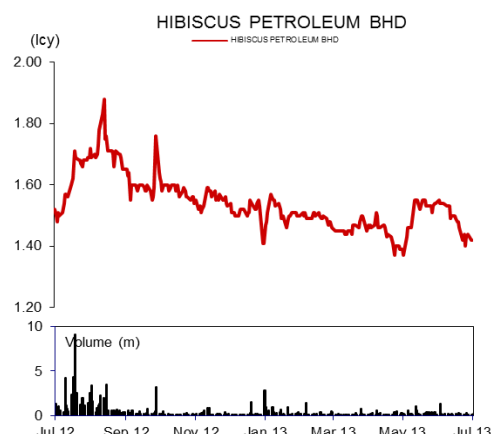
Share Price: 1.42
Target Price: N.A.
Upside: N.A.

Company Description

An investment holding company focusing on the 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):	450.3
Market cap (RMm):	639.5
Market cap (US\$m):	202.1
3-mth avg t'over (US\$m):	0.1

Price Chart



Source: Bloomberg

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Our View

- **Catch the right timing to maximise investment return in an exploration company.** Although speculative in nature, 3Q13 could provide a timely entry into HIBI, as the company is planning to initiate drilling activities in 4Q13. 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 return to shareholders.
- **'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 (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 cashflow and allow the company to pursue more exploration activities.

Share Price Catalysts

- **Successful drilling effort** at HIBI's Block 50 in Oman could prove the viability of Rex Technology in exploration stage and potentially realise the recoverable resources at its other prospects. Management guided that, 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. For now, HIBI's estimated oil in place stands at 9m barrels while its estimated prospective recoverable oil stands at 200m barrels.

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 on upcoming drilling activities could erode investors' confidence on HIBI's future exploration.
- **Prolonged slump in oil price** which prompt 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
28/06/2013	0	0	1	P/E	-	-
Target Price			N.A.	EV/EBIT	-	-
Upside			N.A.	EV/EBITDA	-	-
				P/S	127.3	76.4
Income Statement	3/12		3/13	P/B	3.0	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 @ 2 Jul 13	Market Cap (US\$)	-----PE-----		-----P/B-----		Yield FY13F
				FY12 (x)	FY13F (x)	FY12 (x)	FY13F (x)	(%)
Interra Resources Ltd	ITRR SP	SGD 0.450	158	59.1	40.9	2.8	2.6	n.a.
Roc Oil Co Ltd	ROC AU	AUD 0.475	297	5.3	7.7	1.5	1.2	0.0
Drillsearch Energy Ltd	DLS AU	AUD 1.075	421	24.2	16.8	2.6	1.7	0.0
Kanto Natural Gas Develop	1661 JP	JPY 679.000	413	15.0	10.4	0.6	n.a.	1.8
Energi Mega Persada Tbk Pt	ENRG J	IDR 117.000	158	n.m.	n.m.	n.m.	n.a.	n.a.
Average*				25.9	18.9	1.9	1.9	0.6
Hibiscus Petroleum Bhd	HIBI MK	MYR 1.420	202	n.a.	n.a.	2.6	2.6	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) - Technical Buy (At Support)

Last price: RM1.42
Resistance: RM1.61
Support: RM1.89

While HIBI's share price is trading at below the medium-term trend line, consolidating between the range of RM1.33 to RM1.61 since 12 Oct 12, there is a hidden bullish divergence between the price and the RSI, indicating a potential reversal. With the shares trading firmly at above the support of RM1.39, we expect HIBI to notch higher towards RM1.61, which if further violated, would lead to an extended rally towards the RM1.89 resistance in the near term. A stop-loss can be placed at RM1.31.

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