

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Mar 2020

Hibiscus Petroleum Berhad (HIBI MK) : BUY

Mkt. Cap: US\$163m | **3m Avg. Daily Val:** US\$3.4m

Last Traded Price (11 Mar 2020): RM0.44

Price Target 12-mth: RM0.82 (89% upside) (Prev RM0.82)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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Well prepared to weather the storm

- Hibiscus to adapt to the lower oil price environment by selectively deferring capex or bringing forward maintenance activities
- North Sabah oil's premium to Brent is at c.US\$10/bbl
- Two offtakes already done in February, one more expected in March for 3QFY20
- Maintain BUY with unchanged TP of RM0.82

Forecasts and Valuation

FY Jun (RMm)	2019A	2020F	2021F	2022F
Revenue	988	715	782	819
EBITDA	558	379	418	462
Pre-tax Profit	366	207	237	278
Net Profit	230	128	144	168
Net Pft (Pre Ex.)	255	128	144	168
Net Pft Gth (Pre-ex) (%)	498.4	(49.9)	12.5	17.2
EPS (sen)	12.1	6.74	7.58	8.88
EPS Pre Ex. (sen)	13.4	6.74	7.58	8.88
EPS Gth Pre Ex (%)	422	(50)	12	17
Diluted EPS (sen)	13.4	6.74	7.58	8.88
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	65.2	72.0	79.5	88.4
PE (X)	3.6	6.5	5.7	4.9
PE Pre Ex. (X)	3.2	6.5	5.7	4.9
P/Cash Flow (X)	1.7	7.2	2.8	2.6
EV/EBITDA (X)	0.8	1.9	2.1	1.8
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.7	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	0.0	0.0
ROAE (%)	20.6	9.8	10.0	10.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Hibiscus has announced plans to take certain measures to deal with the oil price plunge. The company intends to defer certain capex spending to ensure that a healthy level of cash flow can be sustained even if oil prices stay lower for longer.

Hibiscus might also bring forward its maintenance activity plans for Anasuria while maintaining its production levels for North Sabah in view of the current low oil price environment as it believes that the oil market is currently in contango. Furthermore, North Sabah's premium to Brent Crude oil has risen to almost US\$10/bbl from US\$7/bbl last month due to more stringent enforcement of the International Maritime Organisation (IMO) regulation on sulphur content for tankers.

Hibiscus is only expected to suffer on its second offtake for North Sabah, slated to be delivered in March for its 3QFY20 quarter as two of its offtakes, one in North Sabah and one in Anasuria, had already been delivered at a higher oil price in February. However, we expect the IMO premium for North Sabah's crude to partially offset the significantly weaker oil price.

Despite the weaker overall sentiment, the company will remain on the lookout for new ventures as the lower oil price environment could be advantageous in acquiring assets at a reasonable price. Recall that Hibiscus purchased its stake in the Anasuria Cluster for US\$52.5m in 2015 from Shell UK



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Limited, a 62.5% discount from the initial purchase price of US\$140m, with an eventual cash outlay of only US\$5.2m.

Outlook

We believe that Hibiscus would be able to weather the storm going forward as it is the most efficient production sharing contractor (PSC) in Malaysia. We are also of the view that oil prices would experience a V-shaped recovery from current levels to US\$50-55/bbl beginning from 2HCY20. With most of its maintenance/EOR works already completed for its North Sabah field, we expect North Sabah's production to remain robust in the quarters to come. Hibiscus is also currently in a net cash position and we do not expect to see any drainage of cash from the low oil price as its total cash breakeven cost for its Anasuria field currently ranges from about US\$28-32/bbl while that for its North Sabah field ranges from about US\$27-30/bbl.

Valuation & recommendation

Maintain BUY at SOP-derived TP of RM0.82; Hibiscus Petroleum is our top BUY for the Malaysian oil & gas sector.

We believe that Hibiscus has been oversold beyond its fundamentals as neither Russia nor Saudi Arabia would be able to withstand oil prices at current levels and even if oil prices stays at current levels for a longer period of time. Its average cash breakeven cost of about US\$30/bbl for both its fields presents Hibiscus with a large safety net, signifying that the company would be able to withstand lower oil prices. Its widening premium of its crude oil out of its North Sabah field would enable it to be profitable even at current Brent crude oil price of US\$37.

Sum-of-parts table

		Per share	Method
	RM m	RM	
Anasuria, North Sea	359	0.19	DCF 11% discount rate
North Sabah, Malaysia	714	0.38	
West Seahorse field, Australia		0.00	
	1,072	0.57	
Net cash as at FY19	274	0.14	
	1,346	0.71	
Proceeds from warrant exercise	216	0.11	
Proceeds from private placement		0.00	
	1,562	0.82	

Source: Company, AllianceDBS

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Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Jin Wu LOW

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 12 Mar 2020 08:16:13 (MYT)

Dissemination Date: 12 Mar 2020 08:19:10 (MYT)

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