

20 August 2018

Energy & Petrochemicals | Exploration & Production

GSS Energy

Buy (Maintained)

Positive Gas Discovery With Production By 4Q18

GSS announced the full reopening of well P1 in the Trembul Operating Area and discovered two gas-bearing and three oil-bearing reservoirs. With a flow rate of 2MMSCFD from the two gas-bearing reservoirs, GSS and Pertamina have agreed on a programme to produce gas from the gas reservoirs. Coupled with the first well, a production of 3.5MMSCFD is expected to be completed by 4Q18F and monetized by 1Q19F. With the twin drivers both activated in FY19F, we maintain BUY with an unchanged SOTP of SGD0.22 TP, 64% upside.

Oil and gas discovered in well P1. After the reopening of well P1 in the Trembul Operating Area, which was previously drilled by Pertamina in 2005, GSS made a hydrocarbon discovery in that well of two gas-bearing and three oil-bearing reservoirs. GSS also agreed on a programme to produce gas from the gas reservoirs with Pertamina, with a flow rate of 2MMSCFD from the two gas-bearing reservoirs. Together with SGT-1, which GSS previously drilled and discovered 1.5 MMSCFD of gas, this would make a total of 3.5MMSCFD of gas which GSS would be able to monetise.

Monetisation of gas, gives a bumper in cashflow. Based on our assumptions of using an estimated selling price of USD3.5/MMBTU at a flow rate of 3.5MMSCFD, we expect GSS to add SGD5.9m as a yearly revenue stream into the group, with minimal costs since most of the extraction cost will likely be borne by the off taker. In addition, with the cost recovery stream in place, GSS will likely obtain 80% of the SGD5.9m as a part of their cost recovery agreement with Pertamina. Profitability will also likely be boosted by the gas contribution of SGD1.5-2m a year, with more drilling and discovery of oil/gas wells further boosting bottom-line going forward.

Precision engineering (PE) business stronger in 2H18. PE business topline grew 12.1% YoY in 1H18. We expect a stronger 2H18, mainly due to a few key projects in the automotive and consumer segments to ramp up during this period. GSS also acquired a piece of land in Batam in April to relocate its existing facility operated under an extended long lease. The new facility should help meet expanded demand as its existing factory in Batam is close to full utilisation.

Catalysts ahead, maintain BUY. We view favourably GSS' prospects and expect both twin drivers to contribute positively to the business in FY19F. With rising oil prices, especially over the last few months, GSS is expected to benefit directly. We believe the group is close to securing an off-taker for its gas, and think that the current weakness represents a good opportunity to accumulate. Maintain BUY with an unchanged SOTP of SGD0.22.

RHB is the only broker covering this counter.

Target Price:	SGD0.22
Price:	SGD0.13
Market Cap:	USD48.3m
Bloomberg Ticker:	GSSE SP

Share Data

Avg Daily Turnover (SGD/USD)	0.08m/0.06m
52-wk Price low/high (SGD)	0.13 - 0.19
Free Float (%)	57
Shares outstanding (m)	496
Estimated Return	64%

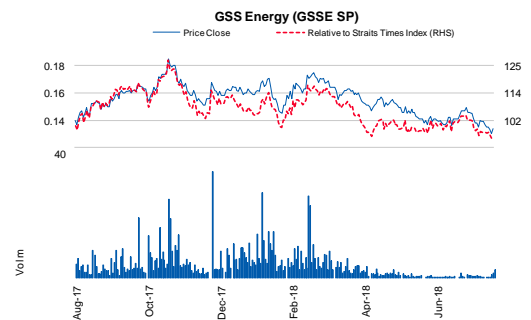
Shareholders (%)

Roots Capital Asia Limited	18.3
Sundan Pacific Limited	17.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.3)	(5.0)	(11.3)	(11.3)	(4.3)
Relative	(11.7)	(4.1)	(2.1)	(4.6)	(2.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	76	94	108	125	139
Reported net profit (SGDm)	22.2	5.3	4.7	9.1	10.8
Recurring net profit (SGDm)	13.4	4.3	6.9	9.1	10.8
Recurring net profit growth (%)		(67.8)	59.7	31.5	19.7
Recurring EPS (SGD)	0.03	0.01	0.01	0.02	0.02
DPS (SGD)	na	na	0.002	0.004	0.004
Recurring P/E (x)	4.9	15.4	9.6	7.3	6.1
P/B (x)	1.75	1.54	1.42	1.23	1.06
P/CF (x)	21.0	21.9	na	6.2	5.5
Dividend Yield (%)	na	na	1.4	2.7	3.3
EV/EBITDA (x)	2.85	7.45	7.42	4.10	3.11
Return on average equity (%)	86.7	13.0	10.4	17.9	18.5
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-08-17.

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.03	0.01	0.01	0.02	0.02
Energy & Petrochemicals	EPS (SGD)	0.05	0.01	0.01	0.02	0.02
GSS Energy	DPS (SGD)	0.000	0.000	0.002	0.004	0.004
Bloomberg GSSE SP	BVPS (SGD)	0.08	0.09	0.09	0.11	0.13
Buy	Weighted avg adjusted shares (m)	484	496	496	496	496
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
SOTP of SGD0.22 backed by DCF	Recurring P/E (x)	4.9	15.4	9.6	7.3	6.1
Key drivers	P/E (x)	2.9	12.6	14.2	7.3	6.1
Undervalued O&G business segment and growth in the PE business segment.	P/B (x)	1.75	1.54	1.42	1.23	1.06
Key risks	FCF Yield (%)	(3.7)	(17.1)	(14.7)	2.6	4.7
i. Foreign currency risk;	Dividend Yield (%)	0.0	0.0	1.4	2.7	3.3
ii. Vulnerable to manufacturing slowdown;	EV/EBITDA (x)	2.85	7.45	7.42	4.10	3.11
iii. Oil & gas sale prices risk.	EV/EBIT (x)	3.2	9.5	10.7	5.0	3.7
Company Profile	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
GSS Energy ("GSS") has two core operating businesses: Oil and Gas and Precision Engineering. Previously known as Giken Sakata (S) Limited ("Giken") which operates the PE business division, was listed on the Singapore Stock Exchange in February 1993. The listing status was transferred to GSS with effect from 12 February 2015 and Giken became a wholly-owned operating subsidiary of GSS. In 2014 GSS ventured into the energy business, and today GSS is operating a twin business model, PE and O&G, to build greater resilience to meet the increasing uncertainty in the business environment and global economy.	Total turnover	75.7	94.3	108.5	125.4	139.2
	Gross profit	17.9	19.1	22.9	26.9	30.0
	EBITDA	16.3	7.5	8.7	14.5	16.9
	Depreciation and amortisation	(1.6)	(1.6)	(2.7)	(2.7)	(2.7)
	Operating profit	14.7	5.8	6.0	11.9	14.3
	Net interest	0.2	0.2	0.2	0.2	0.2
	Income from associates & JVs	(0.0)	0.0	0.0	0.0	0.0
	Exceptional income - net	0.2	0.0	(3.0)	0.0	0.0
	Pre-tax profit	23.8	7.1	6.2	12.1	14.5
	Taxation	(1.6)	(1.8)	(1.6)	(3.0)	(3.6)
	Recurring net profit	13.4	4.3	6.9	9.1	10.8
	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	(2.6)	(0.2)	(5.6)	(2.4)	(2.0)
	Cash flow from operations	3.1	3.0	(0.8)	10.7	12.2
	Capex	(5.5)	(14.4)	(9.0)	(9.0)	(9.0)
	Cash flow from investing activities	(5.8)	(16.4)	(7.3)	(4.1)	(2.9)
	Proceeds from issue of shares	7.9	0.1	0.0	0.0	0.0
	Dividends paid	0.0	0.0	(0.9)	(1.8)	(2.2)
	Cash flow from financing activities	6.8	1.8	4.1	(1.8)	(2.2)
	Cash at beginning of period	10.2	14.9	4.7	0.7	5.6
	Net change in cash	4.1	(11.5)	(4.0)	4.9	7.1
	Ending balance cash	14.7	4.2	0.9	5.6	12.7
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	18.9	13.8	9.8	14.6	21.7
	Tangible fixed assets	12.2	24.2	30.5	31.9	32.2
	Intangible assets	0.1	0.2	0.2	0.2	0.2
	Total investments	0.0	0.0	0.0	0.0	0.0
	Total assets	57.5	75.0	82.5	95.0	107.4
	Short-term debt	0.1	2.9	7.9	7.9	7.9
	Other liabilities	1.3	1.4	1.4	1.4	1.4
	Total liabilities	19.6	31.8	35.6	40.8	44.5
	Shareholders' equity	38.0	43.2	47.0	54.2	62.9
	Minority interests	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	Total equity	37.9	43.1	46.9	54.1	62.8
	Net debt	(18.8)	(10.9)	(1.9)	(6.7)	(13.8)
	Total liabilities & equity	57.5	75.0	82.5	95.0	107.4
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	(19.3)	24.6	15.0	15.6	11.0
	Recurrent EPS growth (%)		(68.5)	59.7	31.5	19.7
	Gross margin (%)	23.6	20.2	21.1	21.5	21.5
	Operating EBITDA margin (%)	21.5	7.9	8.0	11.6	12.2
	Net profit margin (%)	29.4	5.6	4.3	7.2	7.8
	Capex/sales (%)	7.2	15.3	8.3	7.2	6.5
	Interest cover (x)	983	277			

Source: Company data, RHB

Figure 1: Gas revenue contribution (SGDm)

		FY2019F	FY2020F	FY2021F	FY2022F
Gas					
SGT-01	MMSCFD	3.5	3.5	3.5	3.5
conversion (1MMSCF = 1000MMBTU)	MMBTU/day	3500	3500	3500	3500
Total MMBTU per year	365	1277500	1277500	1277500	1277500
Price per MMBTU	USD	3.5	3.5	3.5	3.5
Revenue S\$ (at exchange rate 1.31)	1.31	5.86	5.86	5.86	5.86

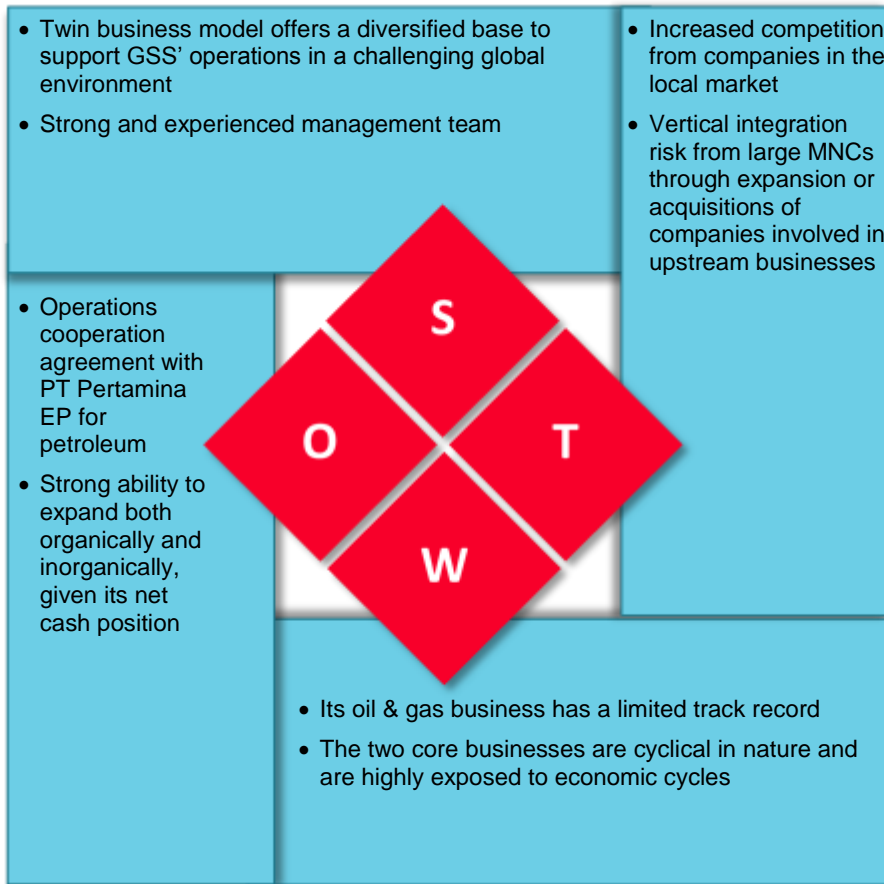
Source: RHB

Figure 2: Recoverable cost schedule oil & gas (SGDm)

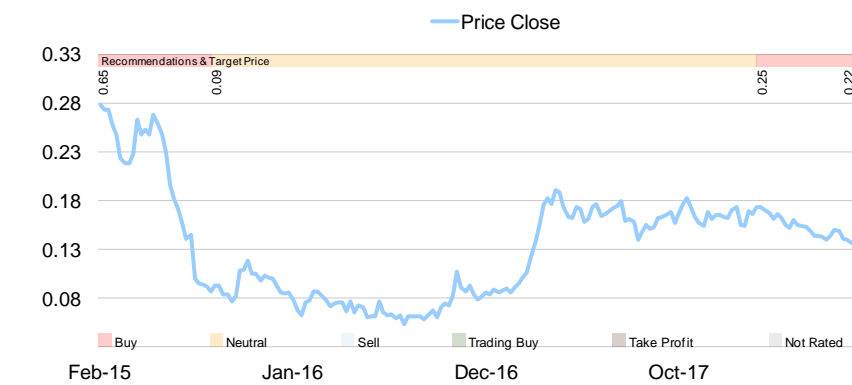
Recoverable Cost schedule Oil & Gas	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
Opening Balance	-7.65	-11.65	-10.73	-8.62	-6.04
Capex - Exploration and evaluation assets (S\$2m/well)	-4.00	-4.00	-4.00	-4.00	-4.00
Other receivables & deposit	0.00	-0.11	-0.65	-0.86	-1.29
Cost recovery (offset from revenue)	0.00	5.03	6.75	7.44	8.82
Ending Balance (to be recovered)	-11.65	-10.73	-8.62	-6.04	-2.51

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-08-15	Buy	0.22	0.13
2018-05-17	Buy	0.25	0.15
2018-03-26	Buy	0.25	0.17
2018-03-06	Buy	0.25	0.16
2015-08-24	Neutral	0.09	0.08
2015-01-05	Buy	0.65	na
2014-11-05	Buy	0.65	na

Source: RHB, Bloomberg

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