

# HIBISCUS PETROLEUM

(HIBI MK EQUITY, HIBI.KL)

23 Feb 2021

*Rising with oil price momentum*

## BUY

(Maintained)

### Company report

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**Rationale for report: Company results**

Price **RM0.69**  
 Fair Value **RM0.79**  
 52-week High/Low **RM0.89/RM0.25**

#### Key Changes

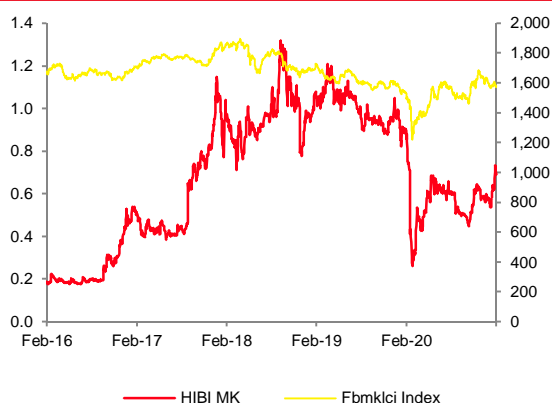
Fair value ⇄  
 EPS ⬇️

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	646.5	665.1	682.3	785.9
Core net profit (RM mil)	71.4	55.4	63.0	96.4
FD Core EPS (sen)	4.5	2.8	3.1	4.8
FD Core EPS growth (%)	(69.7)	(38.8)	13.8	53.1
Consensus Net Profit (RM mil)	-	59.3	76.8	94.8
DPS (sen)	-	1.0	1.0	1.0
PE (x)	15.4	25.1	22.0	14.4
EV/EBITDA (x)	3.6	3.3	2.9	2.1
Div yield (%)	-	1.4	1.4	1.4
ROE (%)	(4.0)	4.5	4.9	7.2
Net Gearing (%)	nm	nm	nm	nm

#### Stock and Financial Data

Shares Outstanding (million)	1,729.5
Market Cap (RM mil)	1,193.4
Book Value (RM/share)	0.77
P/BV (x)	0.9
ROE (%)	(4.0)
Net Gearing (%)	-
Major Shareholders	Kenneth Gerard Pereira (6.3%) Datuk Michael Tang Vee Mun (8.2%)
Free Float	85.0
Avg Daily Value (RM mil)	21.3

Price performance	3mth	6mth	12mth
Absolute (%)	26.6	15.0	(23.3)
Relative (%)	28.5	15.5	(25.3)



#### Investment Highlights

- We maintain our BUY recommendation on Hibiscus Petroleum (Hibiscus) with a sum-of-parts-based fair value of RM0.79/share, which implies an enterprise value/proven and probable reserves (2P) valuation of US\$6.10/barrel. This is at discounts of 32% to EnQuest's US\$9/barrel and 48% to regional average of US\$11.80/barrel. Our valuation is unchanged even though we have reduced FY21F–FY22F earnings by 7% due to higher non-cash amortization and decommissioning assumptions for the group's 50%-owned Anasuria concession.
- Hibiscus' 1HFY21 core net profit of RM25mil (-67% YoY) was below expectations, accounting for 38% of our earlier FY21F earnings and 41% of consensus, vs 46%-47% over the past 2 years. This was mainly due to a RM16mil increase in amortisation charge for intangibles and RM4mil provision increment for decommissioning costs in 2QFY21 for the Anasuria cluster, which we understand will be mostly recurring going forward.
- However, management has declared the group's maiden dividend with a first interim 0.5 sen although 1HFY21 weighted average crude oil price dropped 40% YoY to US\$40/barrel. As Brent crude oil price is currently higher above US\$60/barrel, we have incorporated FY21F–FY23F DPS of 1 sen.
- QoQ, the group's 4QFY21 revenue rose 31% due to an additional shipment from its 50%-owned North Sabah production sharing contract which drove this segment's sales by 47% to 871K barrels amid flattish crude oil price.
- However, the higher amortisation and decommissioning costs together with a RM18mil lumpy scale squeeze operation at the Guillemot field's GUA-P3 well led to Anasuria's loss of RM16mil. Hence, the group's pretax profit halved QoQ to RM8mil while a positive tax charge of RM4mil supported Hibiscus' core net profit increase of 8% QoQ to RM13mil.
- Hibiscus is reviewing the development sequence of either its recently acquired 70% interest in the Teal West field or its 50% equity stake in Block 15/13a of the Marigold and Block 15/13b of the Sunflower concessions, which was acquired for US\$37.5mil cash from India-based rig operator Aban Offshore's wholly-owned Caldera Petroleum in October 2018.
- Even so, based on the enterprise value for the group's existing 2P reserves, Hibiscus is currently only trading at US\$5.85/barrel – at a discount of 35% to its closest peer, UK-listed EnQuest and half of regional average (Exhibit 6). This is compelling given the more optimistic crude oil price environment. Additionally, Hibiscus is listed in the FTSE4Good Bursa Malaysia Index with the highest 4-star environmental, social and governance (ESG) rating, which ranks amongst the top 25% in the FBM Emas Index.

## EXHIBIT 1: RESULTS SUMMARY

YE 30 June (RMmil)	1HFY20	1HFY21	YoY (%)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)
Revenue	431.1	335.8	(22.1)	271.8	145.5	190.3	30.8	(30.1)
<b>EBITDA</b>	<b>219.0</b>	<b>131.2</b>	<b>(40.1)</b>	<b>149.2</b>	<b>67.7</b>	<b>63.4</b>	<b>(6.3)</b>	<b>(57.1)</b>
Net interest expense	(18.8)	(19.2)	2.0	(9.3)	(8.6)	(10.6)	23.2	13.1
Depreciation & amortization	(70.2)	(84.0)	19.7	(41.5)	(39.8)	(44.2)	11.0	6.1
Associates & JV	(0.2)	(0.9)	>100	(0.1)	(0.8)	(0.1)	(85.6)	30.1
Unrealised forex gain/loss	(6.3)	(4.8)	(23.9)	(7.0)	(4.1)	(0.7)	(83.9)	(90.1)
Exceptionals	0.0	2.3		0.0	2.4	0.0		
<b>Pre-tax Profit</b>	<b>129.9</b>	<b>24.7</b>	<b>(81.0)</b>	<b>91.3</b>	<b>16.8</b>	<b>7.9</b>	<b>(52.8)</b>	<b>(91.1)</b>
Taxation	(62.4)	(2.6)	(95.8)	(40.0)	(6.7)	4.1	>100	>10
<b>Net Profit</b>	<b>67.5</b>	<b>22.0</b>	<b>(67.3)</b>	<b>51.2</b>	<b>10.0</b>	<b>12.0</b>	<b>19.8</b>	<b>(76.1)</b>
<b>Core Net Profit</b>	<b>73.7</b>	<b>24.5</b>	<b>(66.8)</b>	<b>58.2</b>	<b>11.8</b>	<b>12.6</b>	<b>7.5</b>	<b>(78.1)</b>
EPS (sen)	4.3	1.4	(67.8)	3.2	0.6	0.7	17.5	(77.1)
Gross DPS (sen)	-	0.5		-	-	0.5		
BV/Share (RM)	0.81	0.72	(11.1)	0.81	0.75	0.72	(4.0)	(11.1)
EBITDA margin (%)	50.8	39.1		54.9	46.5	33.3		
Pretax margin (%)	30.1	7.4		33.6	11.5	4.2		
Effective tax rate (%)	48.1	10.7		43.8	40.2	(51.8)		

Source: Bursa Malaysia

## EXHIBIT 2: SUM-OF-PARTS VALUATION

	Equity stake	Valuation		Methodology (based on flat US\$55/barrel)	2P Reserves mil barrels	Value/2P Reserves US\$/barrel
	%	US\$mil	RMmil			
Anasuria	50	192.7	763.2	DCF at WACC of 10%, natural decline rate of 8% post FY23F	21.5	8.96
North Sabah	50	195.7	782.8	DCF at WACC of 10%, natural decline rate of 8% post FY24F	24.6	7.96
Net shareholders funds as at 30 June 2020			1,221.3			
Less intangibles & right of use			(1,377.0)			
<b>Basic SOP</b>			<b>1,390.4</b>			
CRPS conversion			203.6			
<b>Diluted SOP</b>			<b>1,594.0</b>			
Basic no of shares (mil)			1,729.5			
Increase in shares from CRPS conversion at 48 sen			282.9			
Diluted no of shares (mil)			2,012.4			
<b>Diluted SOP (RM/share)</b>			<b>0.79</b>			

Source: AmInvestment Bank

## EXHIBIT 3: RESULTS SUMMARY

YE 30 June (RMmil)	1HFY20	1HFY21	YoY (%)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)
North Sabah	284.9	240.6	(15.5)	195.9	98.0	142.7	45.6	(27.2)
Anasuria Hibiscus	144.2	92.8	(35.6)	75.0	46.6	46.2	(0.7)	(38.3)
Investment holding	2.0	2.3	14.7	1.0	0.9	1.4	46.6	45.5
<b>Revenue</b>	<b>431.1</b>	<b>335.8</b>	<b>(22.1)</b>	<b>271.8</b>	<b>145.5</b>	<b>190.3</b>	<b>30.8</b>	<b>(30.0)</b>
North Sabah	156.4	112.5	(28.0)	109.9	46.2	66.4	43.8	(39.6)
Anasuria Hibiscus	70.0	25.9	(62.9)	34.9	21.4	4.6	(78.6)	(86.9)
Bass Strait Cluster	(0.6)	2.6	>100	0.9	0.4	2.3	>100	>100
Investment holding	(6.4)	(12.7)	97.7	(3.4)	(2.6)	(10.0)	>100	>100
<b>EBITDA</b>	<b>219.4</b>	<b>128.5</b>	<b>(41.4)</b>	<b>142.3</b>	<b>65.3</b>	<b>63.2</b>	<b>(3.2)</b>	<b>(55.6)</b>
<b>EBITDA margin (%)</b>	<b>50.9</b>	<b>38.3</b>	<b>(24.8)</b>	<b>52.4</b>	<b>44.9</b>	<b>33.2</b>	<b>(26.0)</b>	<b>(36.6)</b>
North Sabah	54.9	46.8	(14.8)	56.1	47.1	46.5	(1.2)	(17.0)
Anasuria Hibiscus	48.5	27.9	(42.4)	46.5	45.9	9.9	(78.4)	(78.7)
North Sabah	106.0	52.6	(50.3)	79.7	19.4	33.2	71.3	(58.3)
Anasuria Hibiscus	32.9	(15.8)	(>100)	15.0	(0.1)	(15.7)	>100	(>100)
Bass Strait Cluster	(0.6)	2.6	>100	0.9	0.4	2.3	>100	>100
Investment holding	(8.4)	(14.8)	76.2	(4.4)	(3.0)	(11.9)	>100	>100
<b>Pretax profit</b>	<b>129.9</b>	<b>24.7</b>	<b>(81.0)</b>	<b>91.3</b>	<b>16.8</b>	<b>7.9</b>	<b>(52.8)</b>	<b>(91.3)</b>
North Sabah	53.1	38.4	(27.7)	44.8	12.0	26.4	>100	(41.1)
Anasuria Hibiscus	23.4	(4.3)	(>100)	9.9	0.6	(4.9)	(>100)	(>100)
Bass Strait Cluster	(0.6)	2.6	>100	0.9	0.4	2.3	>100	>100
Investment holding	(8.4)	(14.7)	74.6	(4.4)	(3.0)	(11.7)	>100	>100
<b>Net profit</b>	<b>67.5</b>	<b>22.0</b>	<b>(67.3)</b>	<b>51.2</b>	<b>10.0</b>	<b>12.0</b>	<b>19.8</b>	<b>(76.6)</b>
<b>Sale of crude oil (barrels)</b>								
North Sabah	1,006,065	1,463,327	45.5	671,452	592,453	870,874	47.0	29.7
Anasuria Hibiscus	522,049	502,625	(3.7)	249,704	250,337	252,289	0.8	1.0
<b>Total</b>	<b>1,528,114</b>	<b>1,965,952</b>	<b>28.7</b>	<b>921,156</b>	<b>842,790</b>	<b>1,123,163</b>	<b>33.3</b>	<b>21.9</b>
<b>Average daily net production (barrels)</b>								
North Sabah	n/a	6,393	n/a	n/a	6,251	6,534	4.5	n/a
Anasuria Hibiscus	2,779	3,097	11.4	2,968	3,084	3,109	0.8	4.8
<b>Total</b>	<b>n/a</b>	<b>9,490</b>	<b>n/a</b>	<b>n/a</b>	<b>9,335</b>	<b>9,643</b>	<b>3.3</b>	<b>n/a</b>
<b>Average crude oil price (US\$/barrel)</b>								
North Sabah	68.01	39.73	(41.6)	70.19	39.46	39.91	1.1	(43.1)
Anasuria Hibiscus	63.32	41.50	(34.5)	68.67	41.99	40.85	(2.7)	(40.5)
<b>Opex/barrel (US\$/barrel)</b>								
North Sabah	13.64	15.16	11.1	12.23	17.08	13.32	(22.0)	8.9
Anasuria Hibiscus	24.26	19.78	(18.5)	22.64	17.53	22.00	25.5	(2.8)
<b>Capex (RM)</b>	<b>234.5</b>	<b>101.9</b>	<b>(56.5)</b>	<b>75.0</b>	<b>87.7</b>	<b>14.2</b>	<b>(83.8)</b>	<b>(81.0)</b>

Source: Bursa Malaysia

EXHIBIT 4: PB BAND CHART

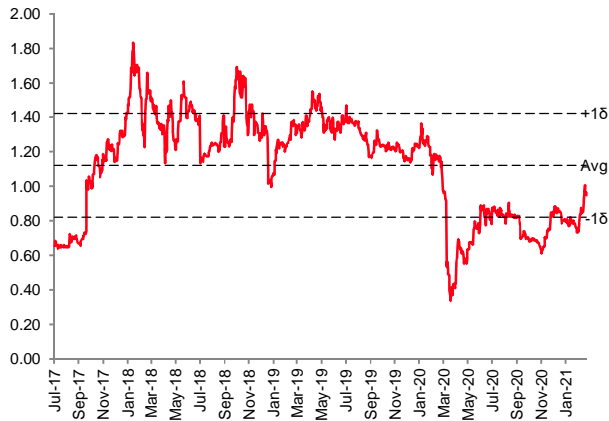


EXHIBIT 5: PE BAND CHART

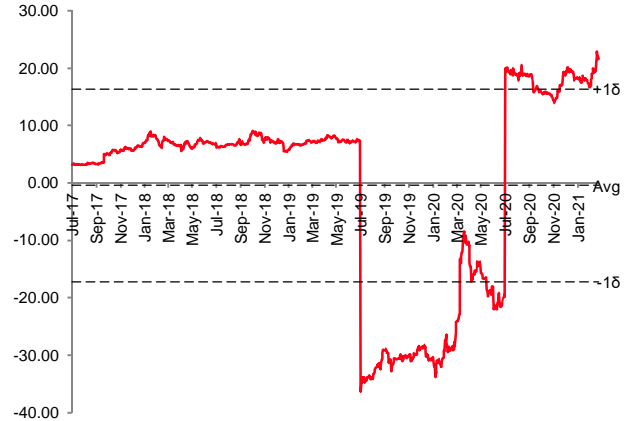


EXHIBIT 6: PEER'S RELATIVE VALUATIONS

	Market cap US\$mil	EV US\$mil	Country	EV/EBITDA		PE		Div yld %	2P Reserves mil boe	EV/2P US\$/barrel
				FY21F x	FY22F x	CY21F x	CY22F x			
Hibiscus	294.3	269.5	Malaysia	3.3	3.0	20.1	14.9	-	46.1	5.85
EnQuest	424.6	1,908.8	UK	3.5	3.6	(0.0)	(4.3)	-	213.0	8.96
Cairn Energy	1,242.7	1,149.9	UK	6.1	6.3	129.8	59.8	4.7	154.8	7.43
Serica Energy	429.0	410.1	UK	2.9	2.3	8.9	8.2	2.6	62.3	6.58
Premier Oil	298.6	2,464.7	UK	3.0	2.2	9.5	1.9	-	174.7	14.11
Hurricane Energy	92.0	166.9	UK	2.2	1.5	4.0	1.7	-	9.4	17.76
Lundin Energy	9,002.6	12,884.8	Sweden	4.5	3.9	16.0	14.0	4.2	670.9	19.21
Aker BP ASA	9,173.2	13,099.1	Norway	4.4	3.5	17.9	14.1	0.5	905.6	14.46
<b>Average</b>				<b>3.7</b>	<b>3.3</b>	<b>25.8</b>	<b>13.8</b>			<b>11.79</b>

Source: AmInvestment Bank & Bloomberg

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	988.3	646.5	665.1	682.3	785.9
EBITDA	554.0	333.4	328.9	340.5	391.0
Depreciation/Amortisation	(115.5)	(145.0)	(164.5)	(164.7)	(184.7)
Operating income (EBIT)	438.6	188.4	164.4	175.8	206.4
Other income & associates	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net interest	(41.5)	(42.1)	(43.9)	(44.8)	(45.8)
<b>Exceptional items</b>	<b>(5.2)</b>	<b>(120.6)</b>	-	-	-
Pretax profit	391.5	25.3	120.1	130.6	160.2
Taxation	(161.5)	(74.5)	(64.8)	(67.6)	(63.7)
<b>Minorities/pref dividends</b>	-	-	-	-	-
Net profit	230.0	(49.3)	55.4	63.0	96.4
Core net profit	235.2	71.4	55.4	63.0	96.4
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	380.2	587.4	632.2	660.0	679.8
Intangible assets	1,530.1	1,377.0	1,308.2	1,242.8	1,180.6
<b>Other long-term assets</b>	<b>72.6</b>	<b>108.3</b>	<b>108.1</b>	<b>107.8</b>	<b>107.5</b>
Total non-current assets	1,982.9	2,072.7	2,048.5	2,010.6	1,968.0
Cash & equivalent	206.7	81.0	174.4	291.1	447.3
Stock	21.4	68.1	74.9	82.4	90.6
Trade debtors	64.9	11.4	12.0	12.6	13.2
<b>Other current assets</b>	<b>117.3</b>	<b>192.9</b>	<b>202.5</b>	<b>212.6</b>	<b>223.2</b>
Total current assets	410.3	353.4	463.9	598.7	774.4
Trade creditors	8.7	4.8	5.0	5.3	5.6
Short-term borrowings	1.0	59.9	65.9	72.4	79.7
<b>Other current liabilities</b>	<b>386.5</b>	<b>337.6</b>	<b>354.0</b>	<b>371.6</b>	<b>390.0</b>
Total current liabilities	396.3	402.2	424.8	449.4	475.2
Long-term borrowings	3.8	14.4	14.4	14.4	14.4
<b>Other long-term liabilities</b>	<b>755.5</b>	<b>788.2</b>	<b>813.7</b>	<b>840.5</b>	<b>868.6</b>
<b>Total long-term liabilities</b>	<b>759.3</b>	<b>802.6</b>	<b>828.1</b>	<b>854.9</b>	<b>883.0</b>
Shareholders' funds	1,237.5	1,221.3	1,259.4	1,305.1	1,384.2
Minority interests	-	-	-	-	-
BV/share (RM)	0.78	0.77	0.73	0.75	0.80
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	391.5	25.3	120.1	130.6	160.2
Depreciation/Amortisation	115.5	145.0	164.5	164.7	184.7
Net change in working capital	92.6	(149.8)	(17.1)	(17.8)	(19.3)
<b>Others</b>	<b>(309.5)</b>	<b>593.6</b>	<b>1.8</b>	<b>(3.2)</b>	<b>(1.4)</b>
Cash flow from operations	290.1	614.1	269.4	274.2	324.0
Capital expenditure	(266.4)	(852.2)	(209.3)	(192.5)	(204.5)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	-	-	-	-	-
Cash flow from investing	(266.4)	(852.2)	(209.3)	(192.5)	(204.5)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-	(17.3)	(17.3)	(17.3)
<b>Others</b>	<b>(41.5)</b>	<b>(42.1)</b>	<b>(43.9)</b>	<b>(44.8)</b>	<b>(45.8)</b>
<b>Cash flow from financing</b>	<b>(41.5)</b>	<b>(42.1)</b>	<b>(61.2)</b>	<b>(62.1)</b>	<b>(63.1)</b>
<b>Net cash flow</b>	<b>(17.8)</b>	<b>(280.2)</b>	<b>(1.1)</b>	<b>19.6</b>	<b>56.5</b>
<b>Net cash/(debt) b/f</b>	<b>136.0</b>	<b>201.9</b>	<b>6.7</b>	<b>94.2</b>	<b>204.3</b>
Net cash/(debt) c/f	118.1	(78.2)	5.6	113.8	260.8
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	-	(34.6)	2.9	2.6	15.2
EBITDA growth (%)	-	(39.8)	(1.4)	3.5	14.8
Pretax margin (%)	39.6	3.9	18.1	19.1	20.4
Net profit margin (%)	23.3	(7.6)	8.3	9.2	12.3
Interest cover (x)	10.6	4.5	3.7	3.9	4.5
Effective tax rate (%)	41.2	294.8	53.9	51.8	39.8
Dividend payout (%)	-	nm	31.2	27.5	17.9
Debtors turnover (days)	nm	22	6	7	6
Stock turnover (days)	nm	25	39	42	40
Creditors turnover (days)	nm	4	3	3	3

Source: Company, AmlInvestment Bank Bhd estimates

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