

Excerpts from analysts' report



OSK-DMG analysts: Lee Yue Jer, CFA (left) & Jesalyn Wong

Giken is in a favourable position as its oil sale price is fixed till ~October (likely to remain unchanged thereafter). Maintain BUY and DCF-based SGD0.65 TP (150% upside). Even if the purchase price is reset to USD70/bbl, it will result in a 9% lower price. Our central case is for at least 22 months of oil price immunity. Meanwhile, production has surged to >1,000bopd, ie 60% higher from five months ago.

Immunity to oil prices. Giken Sakata's (Giken) oil sale price is based on 70% multiplied by the state purchase budget price at IDR9,000/USD, which is revised annually. This price is currently set at USD105/barrel (bbl). The next revision is likely to be in October, after the 2016 Budget is presented to the Indonesian Parliament in August. This gives Giken 10 months of oil price immunity going forward.



Group CFO Ng Say Tiong.
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State purchase price less volatile than the oil futures market. In the past three years, when oil prices fluctuated between USD100-120/bbl, the state purchase price was held steady at USD105/bbl. In a similar fashion, while we expect a downward adjustment of this purchase price next year, it is likely to land within the USD70-90/bbl range.

At USD70/bbl, adjusting for the current exchange rate of IDR12,400/USD, Giken's sale price will only fall 9%. At USD80/bbl, the sale price is 5% higher and we expect Pertamina to maintain the current contract terms. In other words, Giken is insensitive to oil prices for at least the next 22 months.

Production surging as more drilling rigs work the fields. Giken's latest production update reveals that it produced 1,070bbls of oil per day (bopd) in Nov 2014, up from 880bopd in Aug 2014 and 670bopd in Jun 2014.

All existing production is at the Dandangilo-Wonocolo-Tungkul (DWT) field, with one rig working now. This year, the company will have at least three more rigs working in its three other fields, which we expect will accelerate this already-high production growth rate.

Upcoming qualified person's report (QPR) is the near-term catalyst. The QPR for the Kawengan and Trembul fields should be out in 1Q15, with a full valuation performed. Giken is currently only trading at the NPV of its DWT field, and we expect the QPR to highlight the value of the newer fields. Maintain BUY and DCF-based SGD0.65 TP.



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