

17 May 2018

Energy & Petrochemicals | Exploration & Production

GSS Energy

Buy (Maintained)

Awaiting Results Of Drilling Findings

Maintain BUY with unchanged SOP-based TP of SGD0.25, offering 63% upside. GSS reported a weak 1Q18, due to an increase in administrative and selling & distribution expenses, on higher drilling activities in 1Q18. Its PE segment continued to deliver strong PATMI growth of 21.1% YoY. We expect 2H18 to pick-up on new automotive and consumer projects on the PE side, as well as potential oil findings, and monetisation of oil and hydrocarbons. We remain hopeful of oil discovery at its P1 well, where drilling results should be out by the end of 2Q18.

Weak 1Q18 due to higher drilling expenses at the oil & gas arm. GSS Energy (GSS) reported weak 1Q18 results as its oil & gas arm is still loss-making due to the absence of revenue and higher drilling expenses (drilling activities were carried out in 1Q18), coupled with forex losses.

Growth at the precision engineering (PE) business remained strong. Its PE business continued to deliver strong PATMI growth of 21.1% YoY in 1Q18, as well as healthy topline growth of 12.4%, on new projects and higher customer orders. The division has also received compensation from one of its core customers due to delay in a large project, which should commence by 3Q18. As a result, we expect a few key projects to kick start in 2H18, which will likely support a stronger performance for GSS.

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.

Monetisation of hydrocarbons and potential discovery of oil. Back in 4Q17, management revealed that the drilling results of SGT-01 have led to the discovery of commercially viable hydrocarbons, ie gas. It announced that discussions are ongoing with various parties to finalise the agreement for offtake of its gas, which could result in monetisation for the group in 4Q18. In addition, it commenced exploratory activities in nearby Well P1 in 1Q18, and is currently waiting for the results. As this is a makeover well with oil found previously, we expect a higher rate of success for oil discovery, and with the existing agreement with Pertamina to offtake the oil already in place, we expect monetisation if oil is discovered by 3Q18.

Catalysts ahead, maintain BUY. We remain optimistic of GSS' prospects and expect many potential catalysts to come in the near future, both in the PE and oil & gas segments. With rising oil prices, especially over the last few months, GSS is expected to benefit directly. With a positive outlook ahead affirmed by its recently implemented dividend policy, we believe GSS is currently at an inflection point, and think that the current weakness represents a good opportunity to accumulate. Maintain BUY and SOP-based TP of SGD0.25.

Target Price: SGD0.25
Price: SGD0.15
Market Cap: USD56.5m
Bloomberg Ticker: GSSE SP

Share Data

Avg Daily Turnover (SGD/USD) 0.70m/0.53m
52-wk Price low/high (SGD) 0.14 - 0.19
Free Float (%) 57
Shares outstanding (m) 496
Estimated Return 63%

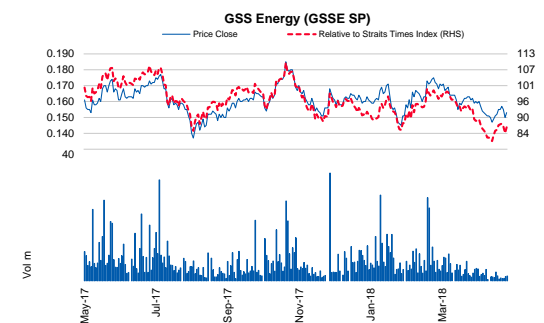
Shareholders (%)

Roots Capital Asia 18.3
Sundan Pacific 17.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	(5.0)	1.3	(8.4)	(1.3)
Relative	(9.4)	(6.0)	(1.3)	(14.1)	(10.8)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	76	94	111	128	143
Reported net profit (SGDm)	22.2	5.3	6.9	9.2	11.0
Recurring net profit (SGDm)	13.4	4.3	6.9	9.2	11.0
Recurring net profit growth (%)		(67.8)	60.8	32.9	19.6
Recurring EPS (SGD)	0.03	0.01	0.01	0.02	0.02
DPS (SGD)	na	na	0.003	0.004	0.004
Recurring P/E (x)	5.5	17.6	10.9	8.2	6.9
P/B (x)	2.00	1.76	1.56	1.35	1.17
P/CF (x)	24.0	25.0	40.5	7.7	6.2
Dividend Yield (%)	na	na	1.8	2.4	2.9
EV/EBITDA (x)	3.41	8.71	6.06	4.69	3.70
Return on average equity (%)	86.7	13.0	15.1	17.6	18.2
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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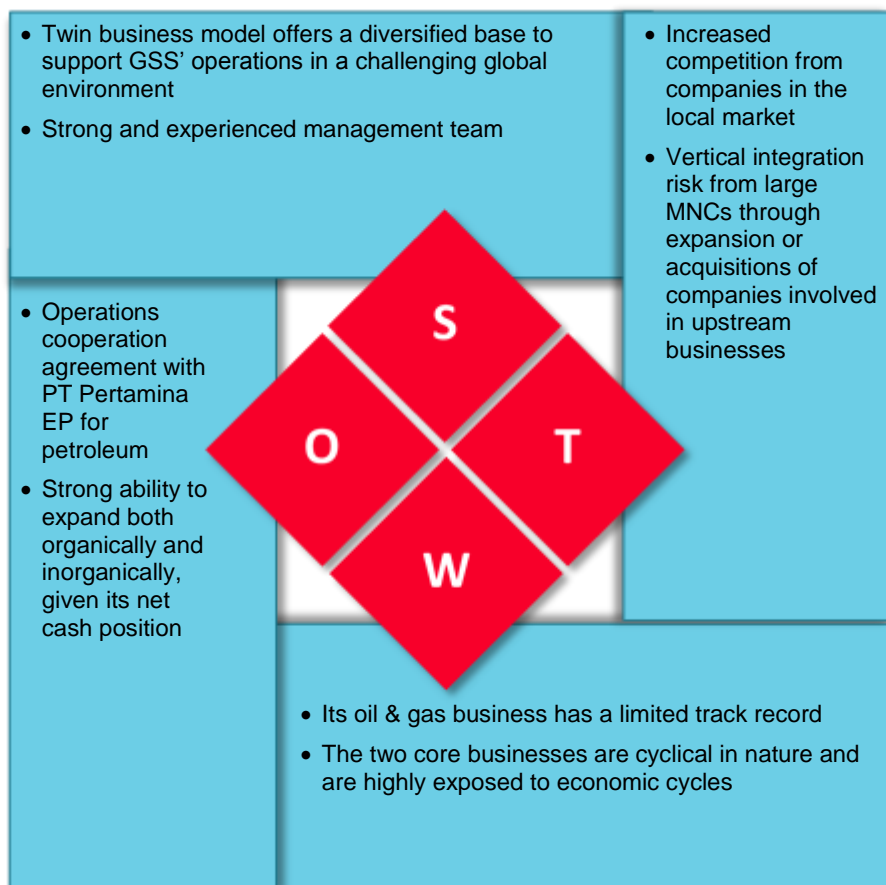
Financial Exhibits

Financial model updated on : 2018-05-17.

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	0.003	0.004	0.004
Bloomberg GSSE SP	BVPS (SGD)	0.08	0.09	0.10	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
SOP of SGD0.25 backed by DCF	Recurring P/E (x)	5.5	17.6	10.9	8.2	6.9
Key drivers	P/E (x)	3.3	14.4	10.9	8.2	6.9
i. Undervalued oil & gas business segment;	P/B (x)	2.00	1.76	1.56	1.35	1.17
ii. Growth in the PE business segment.	FCF Yield (%)	(3.2)	(15.0)	(10.3)	0.2	3.2
Key risks	Dividend Yield (%)	0.0	0.0	1.8	2.4	2.9
i. Foreign currency risk;	EV/EBITDA (x)	3.41	8.71	6.06	4.69	3.70
ii. Vulnerable to slowdown in manufacturing;	EV/EBIT (x)	3.8	11.2	7.9	5.7	4.4
iii. Oil & gas sale price risk.	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Company Profile	Total turnover	75.7	94.3	111.1	127.7	142.9
GSS Energy (GSS) has two core operating businesses – oil and gas and precision engineering (PE). Previously known as Giken Sakata (S) Ltd (Giken), which operates the PE business division, it was listed on the Singapore Stock Exchange in February 1993. The listing status was transferred to GSS with effect from 12 Feb 2015 and Giken became a wholly-owned operating subsidiary of GSS. In 2014 GSS ventured into the energy business, and today GSS operates a twin business model, PE and oil & gas, to build greater resilience to meet the increasing uncertainties in the business environment and global economy.	Gross profit	17.9	19.1	23.4	29.8	33.1
	EBITDA	16.3	7.5	11.7	14.8	17.2
	Depreciation and amortisation	(1.6)	(1.6)	(2.7)	(2.7)	(2.7)
	Operating profit	14.7	5.8	9.0	12.1	14.5
	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	0.0	0.0	0.0
	Pre-tax profit	23.8	7.1	9.2	12.3	14.7
	Taxation	(1.6)	(1.8)	(2.3)	(3.1)	(3.7)
	Recurring net profit	13.4	4.3	6.9	9.2	11.0
	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	(2.6)	(0.2)	(6.0)	(2.8)	(2.1)
	Cash flow from operations	3.1	3.0	1.9	9.9	12.2
	Capex	(5.5)	(14.4)	(9.7)	(9.7)	(9.7)
	Cash flow from investing activities	(5.8)	(16.4)	(6.6)	(6.2)	(4.3)
	Proceeds from issue of shares	7.9	0.1	0.0	0.0	0.0
	Dividends paid	0.0	0.0	(1.4)	(1.8)	(2.2)
	Cash flow from financing activities	6.8	1.8	0.6	(1.8)	(2.2)
	Cash at beginning of period	10.2	14.9	4.7	0.7	2.4
	Net change in cash	4.1	(11.5)	(4.1)	1.8	5.6
	Ending balance cash	14.7	4.2	0.9	2.4	8.1
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	18.9	13.8	9.7	11.5	17.1
	Tangible fixed assets	12.2	24.2	29.8	33.4	35.0
	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	82.7	93.8	106.7
	Short-term debt	0.1	2.9	4.9	4.9	4.9
	Other liabilities	1.3	1.4	1.4	1.4	1.4
	Total liabilities	19.6	31.8	34.0	37.7	41.8
	Shareholders' equity	38.0	43.2	48.8	56.2	65.0
	Minority interests	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	Total equity	37.9	43.1	48.7	56.1	64.9
	Net debt	(18.8)	(10.9)	(4.8)	(6.6)	(12.2)
	Total liabilities & equity	57.5	75.0	82.7	93.8	106.7
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	(19.3)	24.6	17.8	15.0	11.8
	Recurrent EPS growth (%)		(68.5)	60.8	32.9	19.6
	Gross margin (%)	23.6	20.2	21.1	23.3	23.2
	Operating EBITDA margin (%)	21.5	7.9	10.5	11.6	12.0
	Net profit margin (%)	29.4	5.6	6.2	7.2	7.7
	Capex/sales (%)	7.2	15.3	8.7	7.6	6.8
	Interest cover (x)	983	277			

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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