

16 August 2018

Energy & Petrochemicals | Exploration & Production

GSS Energy

Buy (Maintained)

Oil Exploration Results Unveiling Soon

After our conference call with management, we remain positive on GSS and maintain BUY. That, and our new SOP-based TP of SGD0.22 from SGD0.25 offering 65% upside, is based on a one-off non-cash impairment of SGD2.95m in its 2Q18 results. The impairment was mainly on its old investment in the West Jambi block, with the focus mainly now on the Trembul operating area. Core earnings remain positive, with topline rising 12.1% YoY and PATMI surging 354% YoY for 2Q18. We expect the PE business to be more robust in the 2H18, while oil exploration results on its second well are anticipated to be made known soon.

SGD2.95m impairment for West Jambi block. GSS Energy had an investment arrangement with the joint operation scheme (KSO) operator for the West Jambi block. The outcome of the first drill and the operator's other business priorities caused uncertainties in continuing works in the West Jambi block. As such, GSS deemed it a prudent measure to book impairments for this investment.

Precision engineering (PE) business stronger in 2H18. While its PE unit's topline grew 12.1% YoY in 1H, we expect its performance to improve in 2H. This is mainly due to a few key projects in the automotive and consumer segments that are expected 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 present Batam factory is close to being fully utilised.

Monetisation of hydrocarbons and potential discovery of oil soon. In 4Q17, management revealed that the drilling results of SGT-01 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 success rate for oil discovery. On top of that, 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 on 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, it is expected to benefit directly. With a positive outlook ahead affirmed by its recently-implemented dividend policy, we believe the company is currently at an inflection point, and think that the current weakness represents a good opportunity to accumulate the stock. Maintain BUY, with a lower SOP-based TP of SGD0.22 due to the inclusion of the SGD2.95 impairment.

RHB is the only broker covering this counter.

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	4.7	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	0.002	0.004	0.004
Recurring P/E (x)	4.8	15.3	9.5	7.2	6.0
P/B (x)	1.74	1.53	1.40	1.21	1.04
P/CF (x)	20.8	21.7	na	6.2	5.4
Dividend Yield (%)	na	na	1.4	2.8	3.3
EV/EBITDA (x)	2.82	7.38	7.18	4.05	3.11
Return on average equity (%)	86.7	13.0	10.5	18.2	18.8
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Target Price:	SGD0.22
Price:	SGD0.13
Market Cap:	USD48.0m
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	65%

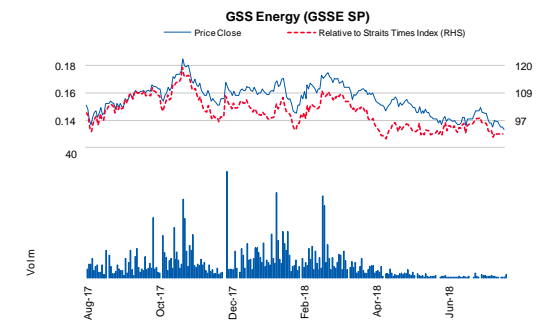
Shareholders (%)

Roots Capital Asia Ltd	18.3
Sundan Pacific Ltd	17.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.9)	(5.7)	(11.3)	(11.9)	(11.9)
Relative	(13.2)	(5.2)	(2.9)	(6.1)	(10.3)

Source: Bloomberg



Source: Bloomberg

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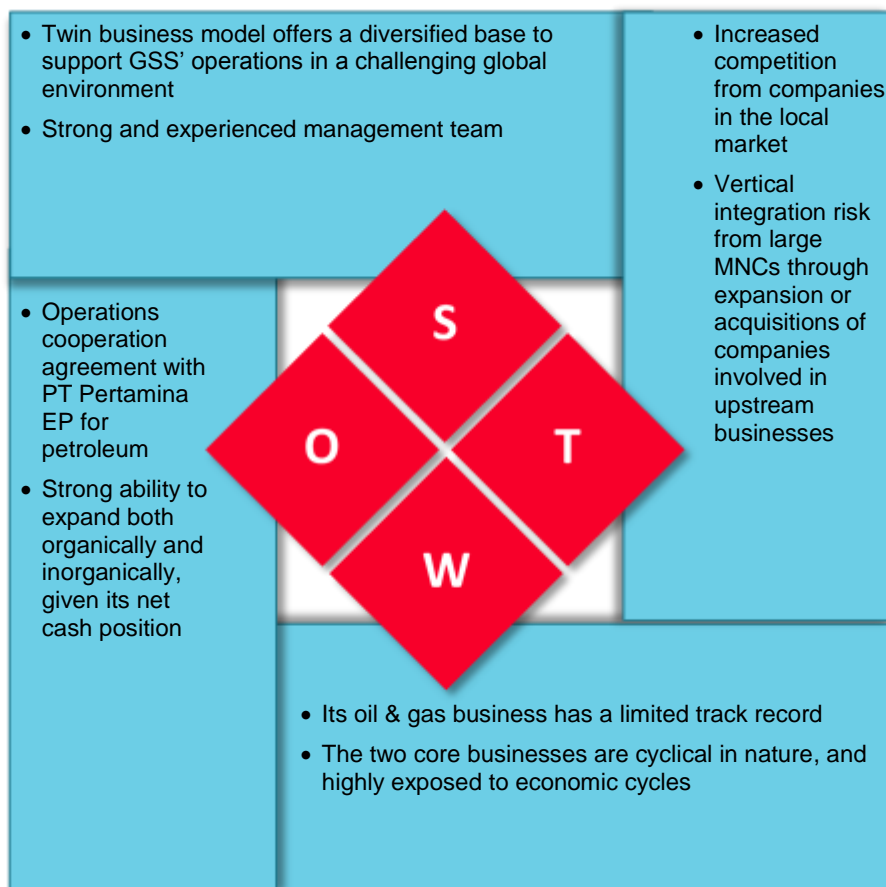
Financial Exhibits

Financial model updated on : 2018-08-15.

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
SOP-based TP of SGD0.22, backed by DCF	Recurring P/E (x)	4.8	15.3	9.5	7.2	6.0
Key drivers	P/E (x)	2.9	12.5	14.0	7.2	6.0
i. Undervalued oil & gas business;	P/B (x)	1.74	1.53	1.40	1.21	1.04
ii. Growth in the PE business segment	FCF Yield (%)	(3.7)	(17.2)	(15.3)	2.4	4.8
Key risks	Dividend Yield (%)	0.0	0.0	1.4	2.8	3.3
i. Foreign currency risk;	EV/EBITDA (x)	2.82	7.38	7.18	4.05	3.11
ii. Vulnerable to manufacturing slowdown;	EV/EBIT (x)	3.1	9.5	10.3	4.9	3.7
iii. Oil & gas sale prices 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 & 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 Feb 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.. Today, it operates through a twin business model, PE and oil & gas, to build greater resilience to meet the increasing uncertainty in the business environment and global economy.	Gross profit	17.9	19.1	23.4	29.8	33.1
	EBITDA	16.3	7.5	8.8	14.8	17.2
	Depreciation and amortisation	(1.6)	(1.6)	(2.7)	(2.7)	(2.7)
	Operating profit	14.7	5.8	6.1	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	(3.0)	0.0	0.0
	Pre-tax profit	23.8	7.1	6.3	12.3	14.7
	Taxation	(1.6)	(1.8)	(1.6)	(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	(1.1)	10.6	12.2
	Capex	(5.5)	(14.4)	(9.0)	(9.0)	(9.0)
	Cash flow from investing activities	(5.8)	(16.4)	(5.9)	(5.5)	(3.6)
	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	1.8	5.1
	Net change in cash	4.1	(11.5)	(2.9)	3.2	6.3
	Ending balance cash	14.7	4.2	2.1	5.1	11.4
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	18.9	13.8	10.9	14.1	20.4
	Tangible fixed assets	12.2	24.2	29.1	32.0	32.9
	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	83.2	95.1	107.9
	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	36.3	40.7	44.8
	Shareholders' equity	38.0	43.2	47.0	54.4	63.2
	Minority interests	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	Total equity	37.9	43.1	46.9	54.3	63.1
	Net debt	(18.8)	(10.9)	(3.0)	(6.2)	(12.5)
	Total liabilities & equity	57.5	75.0	83.2	95.1	107.9
	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	7.9	11.6	12.0
	Net profit margin (%)	29.4	5.6	4.3	7.2	7.7
	Capex/sales (%)	7.2	15.3	8.1	7.0	6.3
	Interest cover (x)	983	277			

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

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

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