

18 September 2018

Energy & Petrochemicals | Exploration & Production

GSS Energy

Maintain BUY On Catalysts; Moving Into E-Vehicles

Maintain BUY, SOP-based TP of SGD0.22, 69% upside. GSS has entered into a JV agreement with GPCC Korea, a leading manufacturer of electric wheelers, to establish I-Motor Asia. This JV will be starting the distribution of its tuk-tuks and electric scooters under the iconic ISOMOTO line – which, in turn, is owned by the Lamborghini family through its partners in Thailand and Vietnam – by end-2018. GSS will aid in the manufacturing and assembly of both the gasoline and electric models in the 125cc and 150cc categories and 3-wheelers.

Reviving the iconic ISOMOTO model. The electric scooters are a revival of the iconic ISOMOTO line, which was hugely popular in Italy in the 1950s. The ISO brand is owned by Mr Ferruccio Lamborghini, the grandson of the founder of the Lamborghini Group. Among the most famous models are the *Furetto* (1948), *Isoscooter* (1950), *Isocarro* (1951), *Isomoto* (1954) and *Isosport* (1953). The last ISO motorcycle model was the *Iso 500* (1961).

Establishing a JV – I-Motor Asia. GSS Energy will establish a JV with GPCC Korea Co Ltd, a leading manufacturer of electric 2-wheelers, 3-wheelers and 4-wheel low-speed electric vehicles, to form I-Motor Asia. Under this JV, I-Motor Asia will be working with GSS' precision engineering facilities to manufacture and assemble both gasoline and electric models in the 125cc and 150cc categories and 3-wheelers (*tuk-tuk*) in South-East Asia, India and Taiwan.

Launching ISO in Thailand and Vietnam by end-2018. I-Motor Asia will be launching the distribution business of its electric scooters and *tuk-tuks* through its partners, the Stallions Group in Thailand and the H.Dream Group in Vietnam by end-2018. The JV is also in active discussions with interested parties in the Philippines, Cambodia, Taiwan, Malaysia, Indonesia and India on the distributorship and sale of these vehicles.

Catalysts ahead; maintain BUY. We remain optimistic on GSS' prospects and expect both twin drivers to contribute positively to the business in FY19. We expect this new JV to contribute positively to group numbers in FY19, especially if the launches in Vietnam and Thailand are successful. We expect the pricing of these bikes to likely range between USD3,000 and USD5,000 – which should lead to wider margins for GSS.

Still a BUY, unchanged TP of SGD0.22. Until more details on production and sales volumes are shared over the next few months, we maintain our earnings estimates. 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 the stock. In addition, GSS is also in the midst of re-entering four old wells, and we should expect some of the drilling results by end-October. Downside risks to our call are an economic slowdown and issues in executing projects.

RHB is the only broker covering this counter.

Forecasts and Valuations	Dec-16	Dec-17	Dec 18 F	Dec 19 F	Dec 20 F
Total turnover (SGDm)	75.7	94.3	108.5	125.4	139.2
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 (%)		(67.9)	59.9	31.8	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	13.8	7.1	6.0
P/B (x)	1.8	1.5	1.4	1.2	1.0
P/CF (x)	21.0	21.9	na	6.0	5.3
Dividend Yield (%)	na	na	1.5	2.8	3.4
EV/EBITDA (x)	2.9	7.5	8.2	4.6	3.5
Return on average equity (%)	86.7	13.0	14.6	16.7	17.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

Buy (Maintained)

Target Price:	SGD0.22
Price:	SGD0.13
Market Cap:	USD46.9m
Bloomberg Ticker:	GSSE SP

Share Data

Avg Daily Turnover (SGD/USD)	0.7m/0.5m
52-wk Price low/high (SGD)	0.19 - 0.13
Free Float (%)	81.6
Shares outstanding (m)	496
Estimated Return	69%

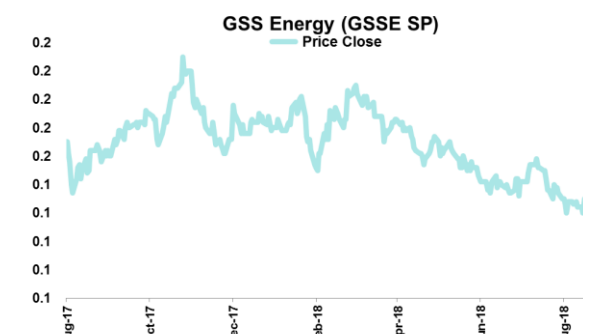
Shareholders (%)

Roots Capital Asia	18.3
Sundan Pacific	13.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.8)	(3.0)	(7.8)	(24.0)	(13.3)
Relative	(12.0)	(0.8)	(1.3)	(13.4)	(11.1)

Source: Bloomberg



Source: Bloomberg

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Figure 1: Isomoto Bike in F1 Singapore 2018



Source: RHB

Figure 2: : Isomoto Bike in F1 Singapore 2018 (side view)



Source: RHB

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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

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