Geo Energy Resources Ltd

More offtakes to take off

SINGAPORE | MINING | INITIATION

22 February 2017

Buy (Initiation)

CLOSING PRICE	SGD 0.270
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.450
TOTAL RETURN	66.7%

COMPANY DATA

O/S SHARES (MN) :	1,212
MARKET CAP (USD mn / SGD mn) :	231 / 327
52 - WK HI/LO (SGD) :	0.29 / 0.09
3M Average Daily T/O (mn) :	6.52

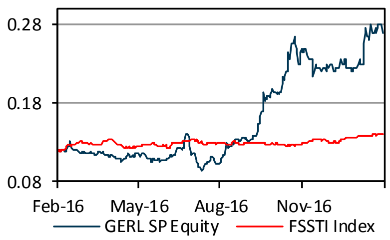
MAJOR SHAREHOLDERS (%)

MASTER RESOURCES	28.3%
MELATI CHARLES ANTONN	16.0%
SURYA DHAMMA	8.4%
HEAH THEARE HAW	6.0%
THONG HUANG SHE	2.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.0	(2.9)	8.1
STI RETURN	(4.6)	(9.2)	(16.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US Cents)	FY15	FY16e	FY17e	FY18e
Revenue	22	186	310	383
Gross profit	0	39	68	87
EBITDA	(6)	49	77	95
EBIT	(10)	36	59	78
PAT	(17)	22	39	57
PATMI	(16)	20	39	56

Source: Company Data, PSR est.

VALUATION METHOD

P/E Multiple (PER:11.0x)

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We initiate coverage on Geo Energy Resources Ltd (Geo) with a **Buy** rating and a target price of **45 SG cents** based on 11.0x annualised 3Q16 P/E ratio and 3 US cents FY17e EPS, as well as 1.3x USD/SGD exchange rate (5 year average), which implies an upside of **66.7%**.

Investment Thesis

1. **Global energy consumption pattern remains similar over past three decades.**
   - Transformation of energy consumption patterns towards renewable sources is a long process with slow progress.
   - Even though renewable energy displayed high growth in recent years, it lags far behind the consumption of fossil fuels.

2. **Global coal consumption has been trending up, peaking in 2013 but remains elevated.**
   - Contribution from coal to total world energy consumption will be reduced from 30% in 2015 to 27% by 2021.
   - Demand from Europe and North America continues to shrink, while Asia remains the major market for coal.

3. **China will remain the largest coal consumption country.**
   - Coal, as the primary energy source, continues to prevail in the near term in China where substitutes for coal hardly replace coal in such a large scale and scope.
   - Domestic coal production will continue to fall, shifting the dependence to imports amid the mild reduction of total consumption in China.

4. **Indonesia coal market is on the run and expected to have strong growth.**
   - We see bright prospects for the domestic coal market in Indonesia driven by strong growth in energy demand and large scale expansion in infrastructure development.

Investment Actions

We initiate coverage on Geo with a "**Buy**" rating and a target price of **45 SG cents** based on **11.0x** annualised 3Q16 P/E ratio and **3 US cents** FY17e EPS, as well as **1.3x** USD/SGD exchange rate (5 year average), which implies an upside of **66.7%**.

MCI (P) 118/10/2015
Ref. No.: SG2017_0037

Company Background

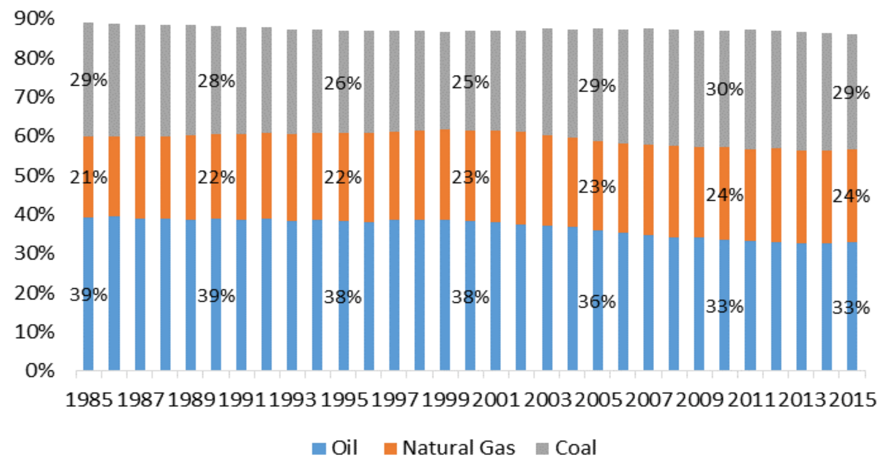
- Established in 2008, Geo was listed in SGX in 2012.
- Prior to 2016, the group is engaged in coal trading, mining and haulage services, and production business. In 2016, it divested the service segment and focused on coal production.
- Currently, the group is operating on BEK and SDJ coal mine. As of Dec 2016, the Group owned 6 coal mines with total over 17,000 hectares of area and 100mn tonnes of coal reserves.
- Geo subcontracts mining work to BUMA, the the second largest mining services company in Indonesia. It also signs offtake agreements with ECTP, a global merchant of commodity products, to secure upcoming sales volume. 70% to 80% of the output will be shipped to China, while the rest is consumed domestically in Indonesia.
- In Dec-16, Geo secured 7mn tonnes of coal sales via offtake agreement with ECTP.

Investment Thesis

1. Global energy consumption pattern remains similar over past three decades

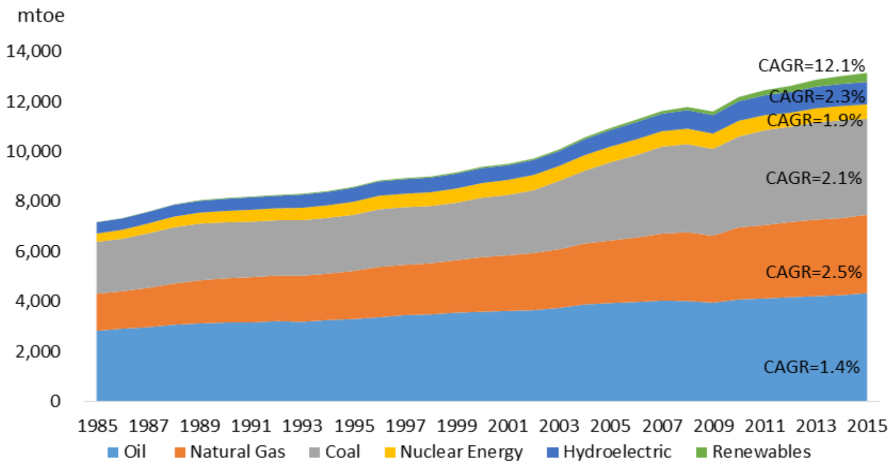
Over the past 2 decades, climate change and global warming have increasingly been major concerns amongst all major economies. From the enactment of Kyoto Protocol in 1997 to the recent Paris Agreement in 2016, more than 190 countries have arrived at the consensus to reduce greenhouse gases emissions collaboratively. Correspondingly, parties such as policy makers, green energy technology innovators, and environmental protection groups have been involved in subduing consumption of fossil fuels, mainly oil, coal, and natural gas, which is the major cause of greenhouse gases. However, up to this day we only see nuance in the evolvement of the structure of world energy consumption source amid the advocation of green energy for years. According to BP Statistical Review of World Energy 2016, as of 2015 fossil fuels took up 86% of total energy consumption, down only 3% from that in 1985, see Figure 1. Throughout this period (1985 to 2015), total consumption grew from 7,179mn tonnes oil equivalent (mtoe) to 13,147 mtoe with compounded annual growth rate (CAGR) of 2%, see Figure 2. Therefore, we can conclude that transformation of energy consumption patterns is a long process with slow progress. Even though renewable energy has shown high growth in recent years, it lags far behind the consumption of fossil fuels, which remain a widely used source of energy especially in developing economies.

Figure 1. Percentage of fossil fuel consumption



Source: BP Statistical Review of World Energy 2016, PSR

Figure 2. World energy demand breakdown

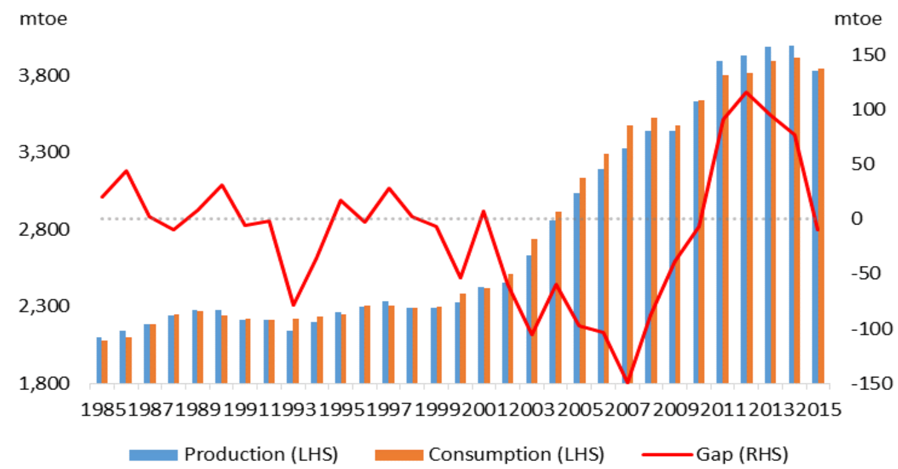


Source: BP Statistical Review of World Energy 2016, PSR

2. Worldwide coal supply and demand overview

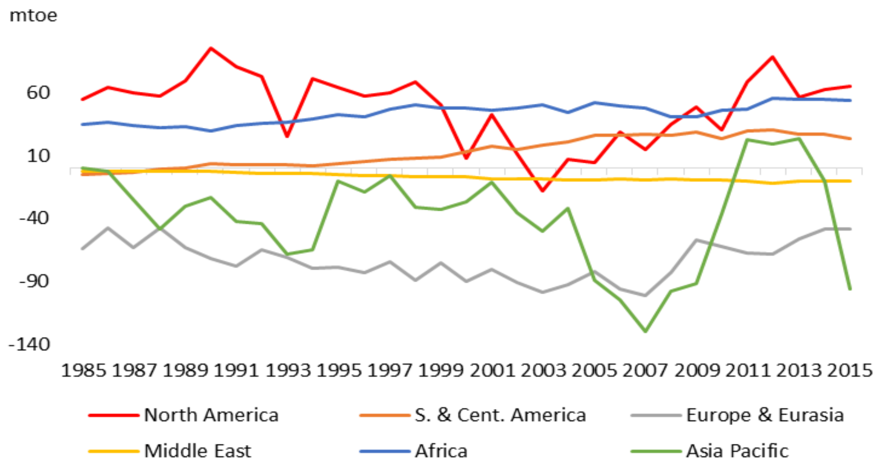
Coal, as mentioned above, which takes up 29% of total energy demand, has been primarily used for electricity and heat generation. Population growth, industrial prosperity, climate variability, as well as regulation, collectively impact coal supply and demand, which are the determinants of underlying price. As shown in Figure 3 below, global supply and demand of coal stagnated below 2,300 mtoe per annum before 2000. Entering into the 21st century, coal enjoyed a euphoric growth with a respective increment of 55.9% in production and 52.7% in consumption from 2000 to 2010. The phenomenal upspring was attributed to China, the largest coal consumer, which successfully joined World Trade Organisation (WTO) in 2001. Since then, the boom in China's manufacturing industry had pulled up coal supply and demand. During this period, the gap between coal production and consumption was negative each year (demand over supply) except in 2001 and 2010 when the gap came in close to flat at zero. The bottom in 2007 followed by a V-shaped rebound, suggests that production was driven by consumption. From 2011 to 2014, the coal market experienced excessive supply due mainly to the ramping up of capacity in coal production in Asia Pacific amid sluggish growth of consumption worldwide, as we see the supply-demand gap in Asia Pacific turn positive, albeit briefly, for the first time in over 3 decades(Figure 4).

Figure 3. World total coal production and consumption



Source: BP Statistical Review of World Energy 2016, PSR

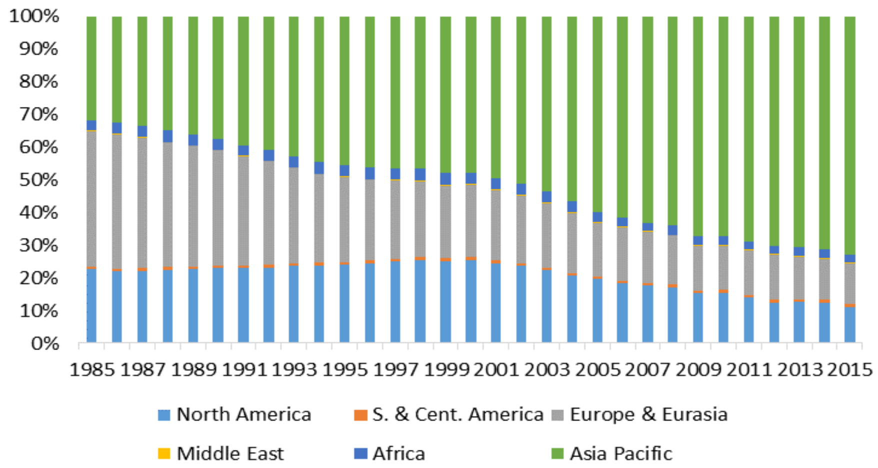
Figure 4. Breakdown of gap between production and consumption



Source: BP Statistical Review of World Energy 2016, PSR

Moving forward, International Energy Agency (IEA) forecasts the contribution from coal to total world energy consumption will be reduced from 30% in 2015 to 27% by 2021 in the "Coal Medium-term Market Report 2016". Demand from Europe and North America continues to shrink, while Asia remains the major market for coal. Consumption in Japan and Korea is expected to retain solid growth, and that in other Southeast Asia emerging economies such as India, Vietnam, and Indonesia likewise displays a strong growth trend. Though China plans to curb coal demand going forward, its dominance in coal market still prevails in the foreseeable future. All in all, coal's demand shift to the east, shown in Figure 5, will accelerate since it is the most affordable energy for developing countries in Asia.

Figure 5. Regional breakdown of coal consumption



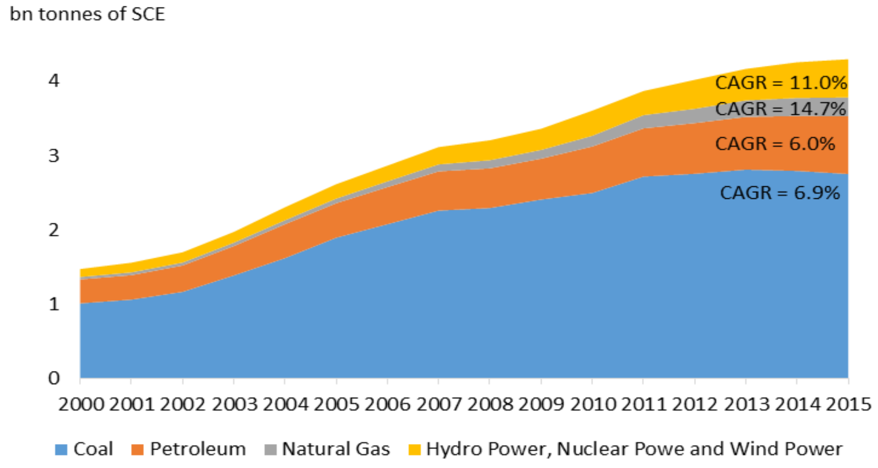
Source: BP Statistical Review of World Energy 2016, PSR

3. **China will remain the largest coal consumption country**

As of Dec-15, taking up 22.9% of total world volume, China's primary energy consumption hit 3,014 mtoe, 1920.4 mtoe out of which were coal consumption. The weight of China's coal demand in the global coal market came in at 50% by end of 2015. Therefore, China is a main driver of the market trend of coal.

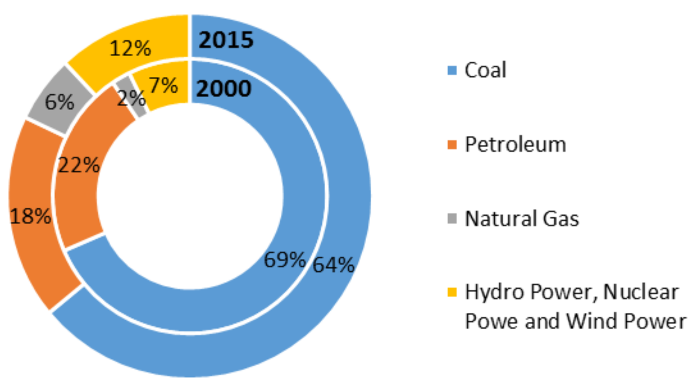
Over the past 15 years, China's total energy consumption grew from 1.5bn tonnes of standard coal equivalent (SCE) in 2000 to 4.3bn tonnes of SCE in 2015; the approximate three-fold soar meant that China overtook the US to become the largest energy consumption country worldwide in 2009, according to IEA. As shown in Figure 6, although natural gas and other green energy achieved higher CAGRs, which are attributed to the enhancing support and advocation from the central government, coal has been the predominant type of energy demand source over the past few decades of stunning economic growth in China. By end of 2015, coal consumption in China totalled at 2.8bn tonnes of SCE, providing close to 64% of aggregated domestic energy needs. In retrospect, as shown in Figure 7, China's energy consumption structure remained anchored in a way that the migration towards green and cleaner energy is tardy. It took 15 years to decrease 5% of coal's share in total energy consumption, so the structural shift-out from coal was averaging at 0.33% per year. Given the status quo and the lack of long-term forward-looking development in China, coal, as the primary energy source, continues to prevail in the near term in China where substitutes for coal can hardly replace coal in such a large scale and scope.

Figure 6. Energy consumption growth in China



Source: National Bureau of Statistics, PSR

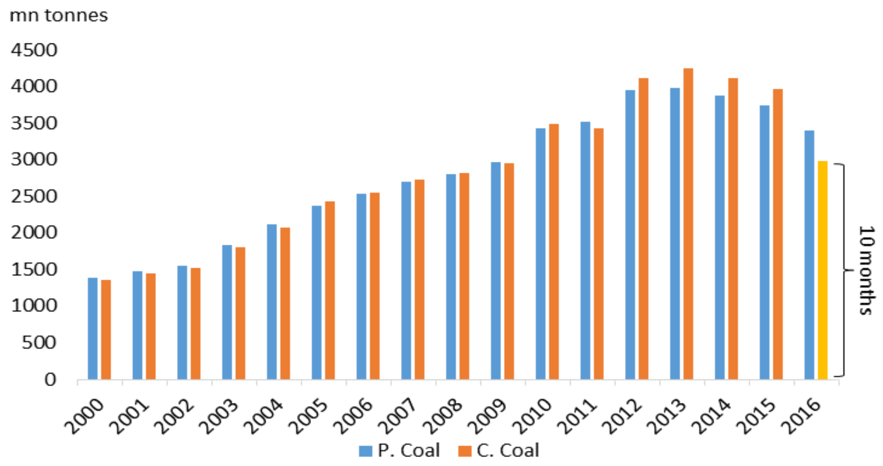
Figure 7. Energy consumption breakdown in types (2015 vs 2000)



Source: National Bureau of Statistics, PSR

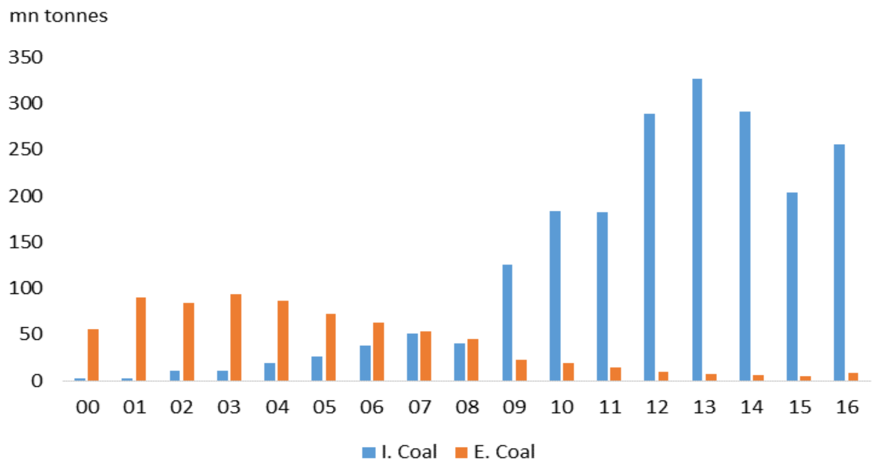
Referring to Figure 8, both coal production and consumption in China have been trending up until 2013 with respective CAGRs of 8.5% and 9.1%. After both peaked at 3.8bn tonnes and 4.2bn tonnes respectively in 2013, coal started see headwinds due to the curtailment initiated by the central government because of increasingly deteriorating environmental pollution, especially the haze issue. However, we can see evidently a shortage of supply over the past 4 years. In fact, China has become a net coal importer since 2008, shown in Figure 9. Such a transformation is due to two main reasons. On the one hand, the quality of coal produced in China is low with high sulphur and phosphorus content and low heat value; on the other hand, transportation cost has been a burden that makes domestic coal pricier than those imported. Eastern cities are the primary consumers of coal which is domestically produced in the western part of China. Comparatively, shipping cost that seaborne coal bears could be less than two third of the transportation cost by rail for inland coal. Total amount of imported coal to China increased by 25% Y-o-Y to 255mn tonnes in 2016 amid the declining coal consumption, while the total amount of domestic capacity is expected to be more than 250mn tonnes. To some extent, the shortage of inland coal supply was supplemented by the import amount. The reversion that drove the average coal price up 55% last year was due mainly to regulation and control on the supply side of coal from the Chinese central government.

Figure 8. China's coal production and consumption



Source: National Bureau of Statistics, PSR

Figure 9. China's coal import and export



Source: National Bureau of Statistics, PSR

Below we list several policies that will likely direct the future development of coal over the next 5 years. As shown in Table 1, we can see that China's government will continue to restrict capacity and aim to stabilise the coal price at the same time. Moving forward, we expect domestic coal production will continue to fall while import amounts remain solid amid the mild reduction of total consumption in China.

Table 1. Guidance for coal market in China

Authority	Policy/Guidance	Remarks
The State Council	13th Five-year plan for coal industry	1. Cut coal production capacity by 500mn tonnes in three to five years, starting from 2016 2. Coal ming capacity is based on 276 working days evaluation 3. Cap national output at no higher than 3.9bn tonnes/year in 2020 4. Total number of coal mines in China will be retained at 6,000 by 2020 with mining capacity of at least 1.2mn tonnes/year will account for over 80% and of no higher than 300,000 tonnes/year will represent less than 10% 5. Encourage industry consolidation, especially big coal miners in Shanxi province. 6. No new coal mining projects will be approved from 2016 to 2018, and only those projects with a capacity of more than 1.2mn tonne/year may be approved to launch/
National Energy Administration	Guidance for energy work 2017	1. Close down more than 500 obsolete coal mines, together with another 50mn tonnes of capacity curb 2. Total coal production aims to be 3.65 bn tonnes, and the weight of coal consumption drops to 60%
National Developent and Reform Commission	Guidance for development of the cooperation between coal and power industries	1. Encourage coal miners and fire power plants to achieve mid to long term suppy contract 2. Enhance the interest and risk sharing scheme bewteen coal miners and fire power plants

Source:PSR

4. Indonesia coal market is on the run and expected to have strong growth

Indonesia is one of the major coal producers and exporters. In terms of coal quality, Indonesia's output mainly consists of medium grade (between 5,100 and 6,100 calorie/gram) (cal/g) and low grade (below 5,100 cal/g), more than 60% of which are supplied to China and India. According to Indonesia Energy Outlook 2016, as of 2015, total coal resources and reserve were reported at 126.6bn tonnes and 32.3bn tonnes respectively, and 50% and 19.5% of which is located in Sumatera and Kalimantan respectively.

Figure 10. Coal Quality, Resources, and Reserve

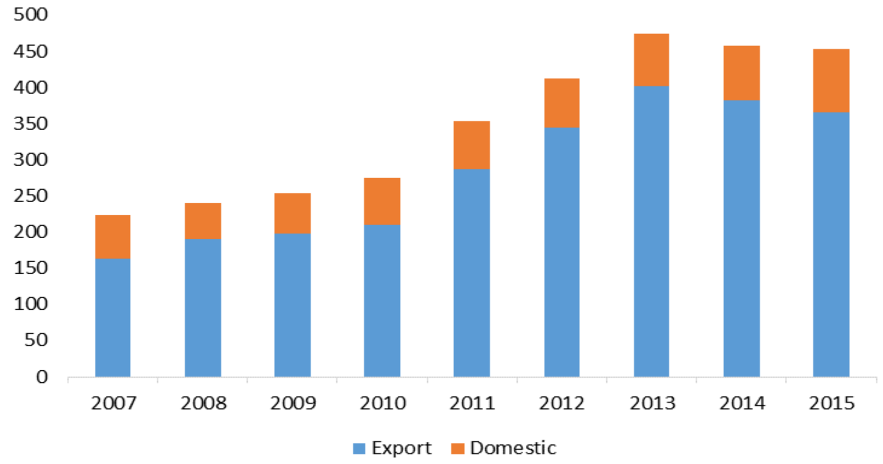
Quality	Resources (Juta Ton)					Percentage (%)	Reserve (Million Ton)		Total
	Hypothetic	Predicted	Shown	Measured	Total		Predicted	Proven	
Low Rank Coal	1.979	9.650	10.432	12.259	34.320	27.11%	6.204	3.272	9.475
Sub-bituminous	16.882	22.413	17.441	24.286	81.023	63.99%	16.486	3.858	20.344
Bituminous	889	2.804	2.186	3.243	9.123	7.21%	545	974	1.520
anthracite	14	1.276	394	459	2.144	1.69%	762	163	925
Total	19.764	36.144	30.454	40.248	126.609	100%	23.996	8.268	32.264

Source: Ministry of Energy and Mineral Resources. 2015
Note: Quality based on calori class (Presidential Decree number 13 year 2000 amended by Presidential Regulation number 45 year 2003)
a. Low rank coal < 5100 kal/gr
b. sub-bituminous 5100 – 6100 kal/gr
c. bituminous > 6100 – 7100 kal/gr
d. anthracite > 7100 kal/gr

Source: Indonesia Energy Outlook 2016, PSR

By 2015, its annual coal production reached 461mn tonnes and ranked 5th globally, after China, US, India, and Australia. 366mn tonne were exported overseas and the remaining 87mn tonnes were consumed domestically. As shown in Figure 10, Indonesia's coal production was driven by export, which peaked in 2013 and then started to trend down. However, the strong domestic demand partially offset the reduction in export, supporting the coal production at above 450mn tonnes per annum since 2012.

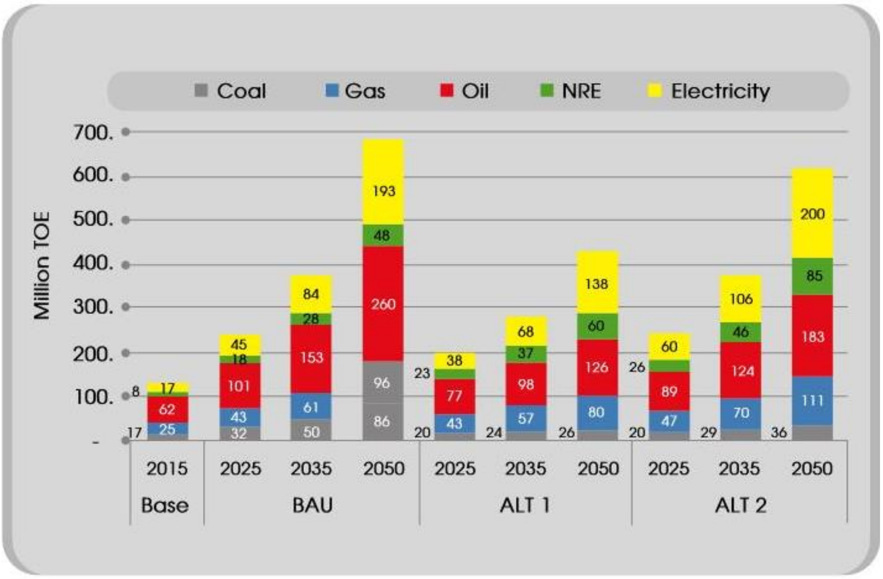
Figure 10. Indonesian export and consumption of coal



Source: Indonesian Coal Mining Association (APBI) & Ministry of Energy and Mineral Resources, PSR

In terms of domestic demand, referring to Figure 11, it is expected to increase at an average 4.8%/year from the base of 17mn tonnes oil equivalent (TOE) in 2015 under a "business as usual" (BAU) scenario, reaching 32mn TOE in 2025 and 86mn TOE in 2050. While for alternative scenarios (ALT) 1 and 2, the forecast is lowered to 1.2%/year and 2.2%/year respectively. We believe that the domestic coal market in Indonesia has bright prospects in the foreseeable future given that this high growth in demand for energy is likely to drive further infrastructure development, especially coal-fuelled power generation.

Figure 11. Final Energy Demand by Source and Scenario



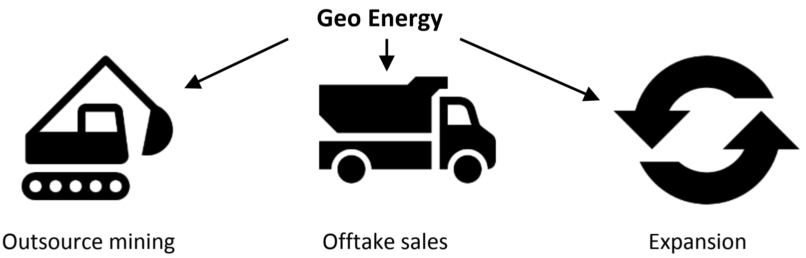
Source: Indonesia Energy Outlook 2016, PSR

Investment Merits

1. **Geo has strong competent in low cash cost**
   2016 is the year of change for Geo, since it optimised the business when coal price had not soared. In June 2016, the group has completed the divestment of mining and haulage services business, which eliminated US$ 1.7mn of fixed cost and US$1mn of working capital thereafter. Henceforth, Geo is capable to focus on the simplified business model shown below. The group owns coal mines through acquisitions, and it subcontracts the mining, overburden removal, and coal haulage services to PT Bukit Makmur Mandiri Utama (BUMA), the second largest mining services company in

Indonesia. Accordingly, Geo does not bear any fixed cost and capital expenditure. Next, it signs sales and purchase (offtake) agreement to Engelhart Commodities Trading Partners (Singapore) (ECTP) to secure certain tonnages of coal sales in the coming financial year. At the same time, Geo will receive prepayments from ECTP which then it will use to ramp up coal capacity or reserve for future mine acquisitions. Throughout this, it will gradually expand the business via duplicating the model.

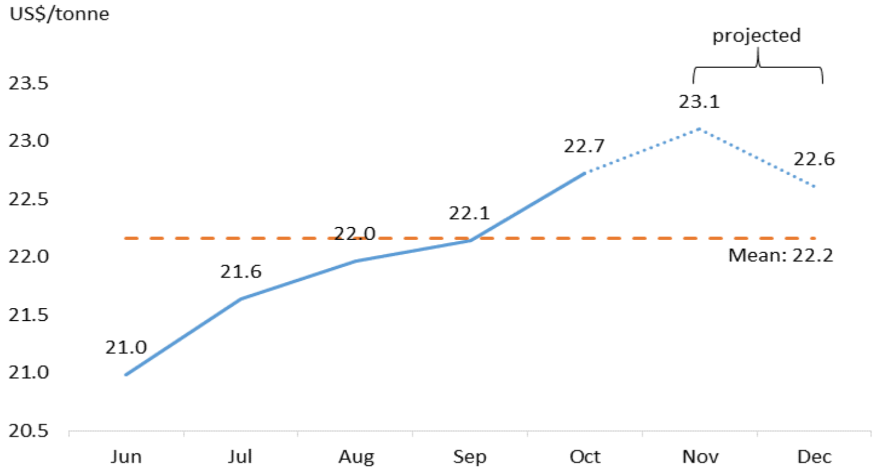
Figure 12. Geo Energy business model



Source: Company, PSR

Geo has a competitive advantage in terms of low cash cost, shown in Figure 13. Based on the guidance from company, Geo's cash cost was aligned with coal output and averaged at US$22.2/tonne in 2H16, during which sales of coal started to increase phenomenally. Since all the coal mines of Geo are open pit with average 3:1 of stripping ratio, excavation cost has been low so far. It is expected that the average cash cost of targeting 10mn tonnes of coal extraction in 2017 remains no more than US$26/tonne, which buffer against a drawdown in coal price. Moreover, the current three major coal mines under PT Bumi Enggang Khatulistiwa (BEK), PT Sungai Danau Jaua (SDJ), and PT Tanah Bumbu Resources (TBR) are strategically located close to seacoast where there are transportation costs advantages due to good accessibility to ports, shown in Figure 14.

Figure 13. Cash cost in 2H16



Source: Company, PSR

Figure 14. Coal mines' locations

Source: Company, PSR

2. More offtakes propelled sales

As of Dec 16, after a series of acquisitions, the Group now has coal reserves estimated to be over 100mn tonnes, as shown in Table 2. As we mentioned above, BEK, SDJ, and TBR are Geo's major coal assets, which make up 95.9% of total reserves. The 10mn tonnes of coal sales target per year that the management aims to achieve dwarfs the current reserves, since 10 years from now Geo will deplete the whole reserve. However, management will strategise to pursue more acquisitions to replenish coal reserve as well as to develop other energy business moving forward. Therefore, we believe it is more important to focus on the company's ability to ramp up capacity.

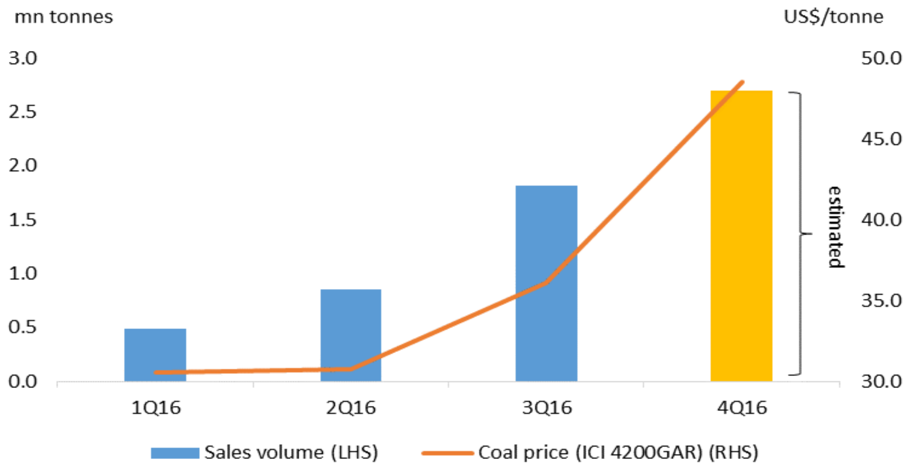
Table 2. Coal mine reserves

Coal mine	Ownership	Area (hectares)	Reserves (mn tonnes)	Average calorific value (GAR)
BEK	99.98%	4,570	11.1	3,400
SDJ	100%	235	42.2	4,200
TBR	98.73%	489	44.4	above 4,200
PT STT	100%	4,600	0.8	7,200
PJA	79.91%	5,000	1.1	6,700 - 8,100
CLS	99.46%	2,310	2.3	6,500 - 7,100
		17,204	**101.9**	

Source: Company, PSR

Geo's coal sales volume started to take off in 1Q16, and it coincided with coal price's rise in the subsequent quarters in FY16, shown in Figure 15. According to the management, FY16's sales volume will peak in 4Q16, estimated to be 2.7mn tonnes. Coal price, for instance that for ICI 4200GAR, the main type of coal sold, has been on an uptrend in FY16 and hit its highest level for the year in 4Q16 as well. Thereby, we expect Geo to deliver its best performance for FY16 in 4Q16. Being forward-looking, the Group targets to generate sales volume of 10mn tonnes in FY17, compared to an estimated 5.8mn tonnes in FY16, a 72% Y-o-Y growth. To-date, the Group has secured a total 7mn tonnes of coal sale with ECTP for FY17. With this offtake agreement, the secured sales volume will be lifted by 20% Y-o-Y.

Figure 15. 2H16 sales volume and coal price reference



Soruce: Company, PSR

Nonetheless, notwithstanding an expected higher sales volume for Geo in FY17, we expect to see coal price will average at c.US$37/tonne in FY17. Firstly, at the National Coal Trade Fair 2017, National Development and Reform Commission (NDRC) of PRC pushed the execution of medium- and long-term contracts between coal producers and buyers in order to avoid violent price fluctuations. In Nov-16, Shenhua Energy Co and China Coal Enery Co, the two leading state-owned coal mining companies, signed long-term supply contracts with China Huadian Co and State Power Investment Co, the two advanced state-owned power companies, at c.25% below the spot rate at that time. Secondly, Perusahaan Listrik Negara (PLN), the Indonesian government-owner electricity corporation, has its coal power purchase agreements (PPAs) in Indonesia. Likewise, PPAs will fix the coal selling price in the coming year. Thus, in Indonesia domestic market, coal price is expected to be stabilised by the government.

How Do We View Geo?

Catch the tailwind amid business expansion

After simplification of its coal mining business, Geo ramped up production capacity starting in FY16. At the same time, coal price has bottomed out since 2Q16 after 5 years of bearish trend. Both favourable conditions pulled up the financial performance of Geo. Moving forward into FY17, Geo will encounter both relative certainty and uncertainty. Because of the updated offtake agreement, Geo has secured 7mn tonnes of coal sales, and we think it is capable to accomplish the order based on the approximated 6mn tonnes of sales in FY16. In terms of the estimated annual sales volume for FY17, it is reasonable to expect the Group to achieve sales of between 7mn tonnes and the targeted 10mn tonnes.

As for the uncertainties, it will be the coal price level, which heavily depends on how China regulates the coal market and the price level China aims to reach. When coal price was as high as it was in 4Q16, China's coal-fuelled power plants suffered the high cost pressure; on the contrary, lower price will weaken coal miners' profitability. Therefore, we believe China's central government will make efforts to balance the interest between both parties, and as a result, coal price is expected to stabilise. However, market is dynamic so price uncertainty remains.

Catalyst: more coal mine acquisitions and offtake agreements

As we mentioned above, the current 100mn tonnes of coal reserves are only enough for Geo to operate the business for 10 years on the assumption of 10mn tonnes per annum coal production. To maintain the ongoing growth as well as to possibly tap into other energy sectors, Geo has to generate inorganic growth through M&A activities. In the foreseeable future, we can expect the Group to seek such opportunities.

By end of 2016, Geo has received US$40mn in total from the offtake agreement. Since Geo has affirmed its expansion through duplicating the business model mentioned previously, we expect Geo to secure further offtake agreements in FY17 and FY18.

Key Assumptions

Y/E Dec (US$)	9M16	4Q16	FY16e	FY17e	FY18e
Sales volume (tonne)	**3,148,600**	**2,500,084**	**5,848,600**	**8,500,000**	**10,200,000**
Average selling price (US$/tonne)	**28.9**	**38.0**	**31.8**	**37.0**	**37.5**
Total revenue	**91,078,809**	**95,003,192**	**186,082,001**	**310,250,000**	**382,500,000**
Cash cost	70,991,137	63,752,142	134,743,279	221,000,000	270,300,000
Cash cost (US$/tonne)	22.5	25.5	23.0	26.0	26.5
EBIT			35,562,972	59,351,412	77,599,885
EBIT margin (%)			19%	19%	20%
Net profit			**21,820,101**	**39,250,311**	**57,188,949**
Net profit margin (%)			12%	13%	15%

Though the management guided Geo targets to deliver 10mn tonne of coal sales in FY17, to be conservative, we estimate it will generate 8.5mn and 10.2mn tonnes in FY17 and FY18. Besides, we think the average coal price (ICI 4,200 GAR) will be US$37 and $37.5 in FY17 and FY18.

Valuation Methodology

We think discounted cash flow model, which is normally used in valuing mining companies, is inappropriate for Geo, for it has no track record of positive cash flow nor dividend paid. Moreover, Geo in under the expansionary stage, from which we expect potential M&As that incur cash inflows and outflows. Thus, the group's cash flows will be fluctuated. Our primary valuation method is using the simple average of P/E ratio of comparable peers. Since Geo operates coal mining business in Indonesia, we use the average of P/E ratio of those companies that have similar operations there.

Due to lack of reference data in forward P/E ratio for FY17, and being prudent, we use the average 3QFY16 annualised P/E ratio of BSSR, MBAP, TOBA, and KKGI (Bloomberg ticker), which is 11x, as the reference valuation P/E for FY17 forecast. These 4 companies have market capitalization values that are close to Geo's. If we use 11x P/E ratio together with 1.6 US cents of FY16e ESP, we can derive 17.6 US cents, which are equivalent to 25 SG cents (using spot USD/SGD 1.43), as FY16e target price. Therefore, we think the growth in FY16 has been factored in the current price level, and 11x P/E ratio is justified.

Based on FY17e EPS of US$0.03, we derive our target price of US$0.035. We use the 5 year average USD/SGD exchange rate of 1.3x as the FX rate. Eventually, we derive our target price of 45 SG cents, which implies an upside of 66.7% from the last closing price.

Peer comparison table

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	3Q16 Annualised P/E	3Q16 Annualised P/B	P/E	FRW P/E	P/B	Net D/E (%)	ROA (%)	ROE (%)
Geo Energy Resources Ltd	GERL SP	327.3	402.6	9.3	6.7	1.8	90.5	12.7	2.1	70.5	0.5	1.2
Singapore												
Golden Energy & Resources Ltd	GER SP	1,258.91	1496.91	N/A	29.00	2.80	129.88	0.5	4.13	29.73	2.11	5.34
BlackGold Natural Resources Ltd	BHR SP	51.27	55.9	N/A	N/A	2.4	N/A	N/A	0.3	Net Cash	-6.7	-8.4
Average				**N/A**	**29.0**	**2.6**	**129.9**	**0.5**	**2.2**	**29.7**	**-2.3**	**-1.5**
Indoneisa												
Adaro Energy Tbk PT	ADRO IJ	5,830.8	7,171.9	4.0	12.1	2.4	22.6	16.0	1.4	25.8	2.9	6.1
Harum Energy Tbk PT	HRUM IJ	612.0	434.6	3.6	17.0	1.2	N/A	31.9	1.5	Net Cash	-2.4	-3.4
Baramulti Suksessarana Tbk PT	BSSR IJ	361.5	370.4	N/A	12.0	2.4	13.1	N/A	2.2	10.6	11.1	17.0
Mitrabara Adiperdana Tbk PT	MBAP IJ	248.5	206.4	N/A	10.0	2.3	6.1	N/A	2.1	Net Cash	26.7	37.8
Toba Bara Sejahtra Tbk PT	TOBA IJ	273.7	346.9	4.1	N/A	1.3	53.0	N/A	1.6	11.9	1.3	3.0
Resource Alam Indonesia Tbk PT	KKGI IJ	265.7	256.6	6.6	11.0	1.3	19.4	N/A	2.2	Net Cash	9.2	11.8
Average				**4.6**	**12.4**	**1.8**	**22.9**	**24.0**	**1.8**	**16.1**	**8.1**	**12.0**

Source: Bloomberg, Company, Phillip Securities Research (Singapore) Estimates

Investment Risks

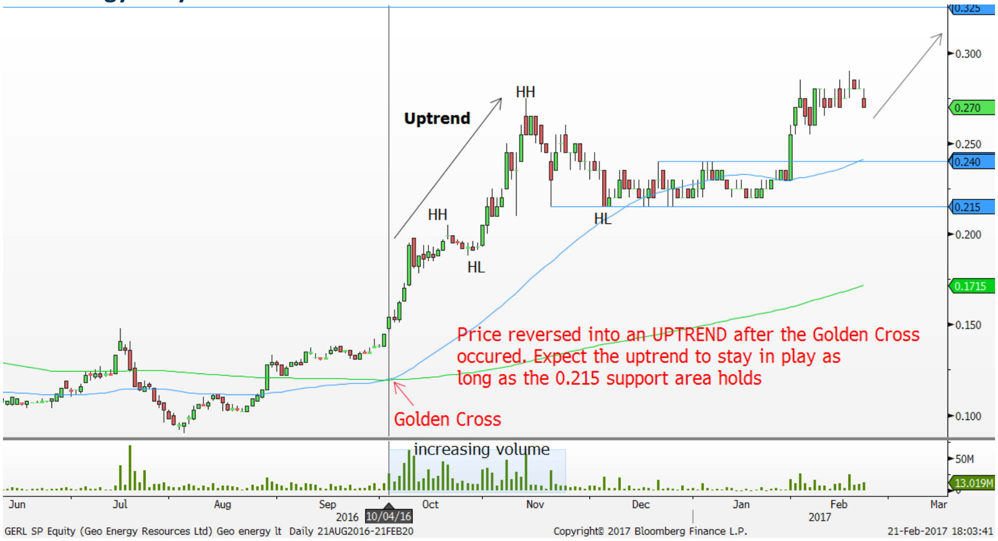
Here we list the key risks for consideration:

Risk	Remarks
	Upside
Coal price	Geo's sales of coal are based on spot coal price. If it surges to a higher level, the top line will increase substantially.
Stripping ratio	The lower the stripping ratio, the lower cash costs will be
Capacity	The control of capacity is at the discretion of company strategy. Currently, we see higher probability that the company will keep expanding it.
FX	The functional currency is IDR while the presentation currency is US$. It can see currency translation surplus when IDR appreciates against US$.
	Downside
Coal price	If coal price trends down, the profit margin will be shrunk.
Stripping ratio	The higher the stripping ratio, the higher cash costs will be
Reserves and resources	Profitability will taper off after coal reserves and resources are being depleted if no new mines are acquired.
FX	When IDR depreciates against US$, it will suffer from currency translation deficit.
Policy	Any unfavourable policy changes can turn the business the other way around, such as Indonesia governemt curbs export quota on coal

Source: PSR

Technical Analysis

Geo Energy daily chart



Resistance 1: 0.325

Resistance 2: 0.340

Support 1: 0.240

Support 2: 0.215

Blue line = 50 simple moving average, Green line = 200 simple moving average

Source: Bloomberg, PSR

Price has been stuck in a long term downtrend since January 2013 where price fell from a high of $0.650. It is only until recently where price is showing some sign of a reversal to the long-term downtrend.

After hitting an intraday low of $0.090 in August 2016, price made a sharp rebound subsequently and managed to turn the prior long term downtrend around where price formed a new series of higher highs, higher lows and higher highs. Moreover, the recovery since August 2016 resulted in the formation of the Golden Cross pattern on 4 October 2016 confirming the bullish narrative. The Golden Cross is shown by the 50 day simple moving average crossing above the 60 day simple moving average. It is a technical bullish pattern signalling a reversal in the prior downtrend as the bullish momentums accelerates rapidly with increasing volume.

Price is currently embarking in a new uptrend here as the $0.215 support area acts a strong base and the uptrend will remain intact as long as the $0.215 support area holds.

Expect the current bullish momentum to propel price higher next to test the $0.325 resistance area followed by $0.340.

Financials

Income Statement

Y/E Dec, US mn	FY14	FY15	FY16e	FY17e	FY18e
Revenue	**53**	**22**	**186**	**310**	**383**
Gross profit	(2)	0	39	68	87
EBITDA	**(4)**	**(6)**	**49**	**77**	**95**
Depreciation & amortisation	7	5	13	18	18
EBIT	**(11)**	**(10)**	**36**	**59**	**78**
Net Finance (Expense)/Inc	(5)	(8)	(6)	(6)	(0)
PBT	**(16)**	**(18)**	**29**	**53**	**78**
Taxation	3	2	(7)	(14)	(20)
PAT	**(13)**	**(17)**	**22**	**39**	**57**
Loss from discotinued operation	0	0	(2)	0	0
Non-controlling interests	(0)	(0)	0	1	1
PATMI	**(13)**	**(16)**	**20**	**39**	**56**

Per share data

Y/E Dec (US Cents)	FY14	FY15	FY16e	FY17e	FY18e
EPS, basic	(1)	(1)	2	3	5
EPS, diluted	(1)	(1)	2	3	5
BVPS, basic	9	8	10	13	18
BVPS, diluted	9	8	10	13	18

Cash Flow

Y/E Dec, US mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
PBT	(16)	(18)	29	53	78
Adjustments	10	16	20	23	17
WC changes	(8)	23	16	1	(22)
Cash generated from ops	(14)	21	66	77	73
Others	(3)	2	2	0	0
Cashflow from ops	**(17)**	**23**	**68**	**77**	**73**
CFI					
CAPEX, net	(49)	(17)	3	(90)	0
Others	0	(0)	(13)	(16)	(20)
Cashflow from investments	**(49)**	**(17)**	**(10)**	**(106)**	**(20)**
CFF					
Loans, net of repayments	68	(6)	(2)	(0)	(72)
Others	(9)	(2)	(6)	(6)	(0)
Cashflow from financing	**59**	**(8)**	**(8)**	**(6)**	**(72)**
Net change in cash	**(7)**	**(3)**	**49**	**(35)**	**(19)**
Effects of exchange rate	(1)	(1)	0	0	0
Ending cash	**11**	**7**	**57**	**22**	**3**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, US mn	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
PP&E	115	132	102	177	162
Deferred stripping costs	0	1	14	31	50
Others	17	13	15	15	15
Total non-current assets	**132**	**146**	**131**	**223**	**227**
Cash	13	12	57	22	3
Trade receivables	32	33	37	40	55
Others	35	24	32	36	43
Total current assets	**80**	**69**	**126**	**98**	**100**
Total Assets	**212**	**215**	**258**	**320**	**328**
LIABILITIES					
Borrowings	75	72	73	72	0
Others	5	3	1	1	1
Total non-current liabilities	**80**	**75**	**74**	**74**	**1**
Trade payables	13	40	57	86	103
Borrowings	10	7	0	0	0
Others	0	0	4	4	4
Total current liabilities	**23**	**46**	**61**	**90**	**107**
Total Liabilities	**104**	**121**	**135**	**164**	**108**
Shareholder Equity	**108**	**94**	**122**	**156**	**219**
Non-controlling interests	0.4	0.2	0.3	0.3	0.3

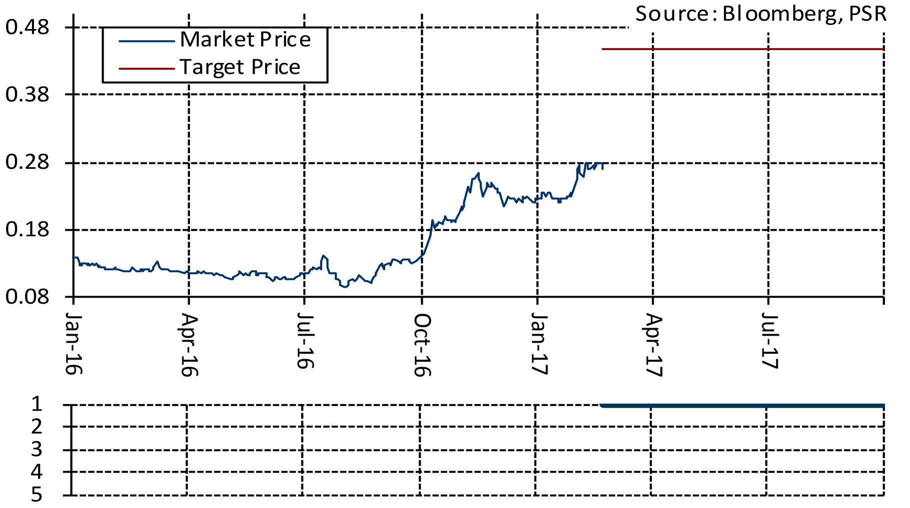
Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	N.M.	N.M.	9.5	11.0	7.5
P/B (x)	2.3	1.8	2.2	2.7	1.9
EV/EBITDA	N.M.	N.M.	4.2	6.2	4.4
Growth & Margins (%)					
Growth					
Revenue	-51%	-58%	733%	67%	23%
EBITDA	N.M.	40%	N.M.	57%	24%
EBIT	N.M.	-4%	N.M.	67%	31%
PATMI	N.M.	51%	N.M.	28%	40%
Margins					
EBITDA margin	N.M.	-26%	26%	25%	25%
EBIT margin	N.M.	-46%	19%	19%	20%
PATMI margin	N.M.	-73%	11%	12%	15%
Key Ratios					
ROE (%)	N.M.	N.M.	16%	25%	26%
ROA (%)	N.M.	N.M.	8%	12%	17%
Net Debt or (Net Cash)	72	66	16	51	(3)
Gearing (%)	40%	37%	28%	23%	0%

N.M: not meaningful

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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