

Geo Energy Resources Ltd

Amass war chest amid robust production



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SINGAPORE | MINING | 3Q17 RESULTS

28 November 2017

- 9M17 revenue and net profit were in line with our expectations.
- Full year sales target is revised down from 10mn tonnes to 7mn~8mn tonnes.
- Coal price stayed strong and hit YTD high of c.US\$50/tonne in Oct-17.
- Issuance of the new note enhanced solvency and liquidity.
- Higher cash costs suppressed margin in 3Q17.
- We lower the forecasted coal sales volume to 7.8mn tonnes (previous 8.5mn tonnes) but raise the estimated ASP to US\$41/tonne (previous US\$37/tonne) in FY17. Accordingly, FY17e EPS is updated to 3.3 US cents, 3.1% higher than our previous estimation. Based on unchanged forward PER of 10.0x (the average of regional peers), we maintain our BUY call with unchanged target price of S\$0.44.

BUY (Maintained)

CLOSING PRICE	SGD 0.255
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.440
TOTAL RETURN	76.5%

COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN)	1,329
MARKET CAP (USD mn / SGD mn)	252 / 339
52 - WK HI/LO (SGD)	0.36 / 0.22
3M Average Daily T/O (mn)	4,875

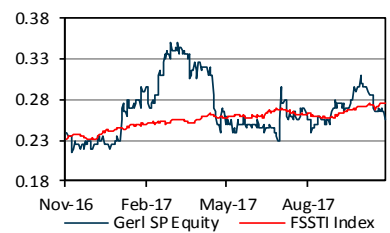
MAJOR SHAREHOLDERS (%)

MASTER RESOURCES	25.8%
MELATI CHARLES ANTONN	14.6%
INTERNATIONAL RES IL	8.8%
SURYA DHAMMA	7.7%
THEARE HAW HEAH	5.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(10.3)	(2.0)	9.2
STIRETURN	16	5.6	24.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Revenue (US\$ mn)	22.3	182	316	421
EBITDA (US\$ mn)	(5.8)	53	86	120
PATMI (US\$ mn)	(16.3)	22	44	58
P/E (x)	N.M.	10.6	5.7	4.3
P/B (x)	2.4	19	15	11
ROE (%)	N.M.	18%	26%	25%
ROA (%)	N.M.	7%	7%	9%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:10.0x)

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Results at a glance

(US\$ mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	74.9	56.9	31.6	Increase in revenue from coal mining segment resulted from higher sales volume and ASP
Gross profit	16.2	12.7	27.0	Higher sales volume and cash profits
EBIT	13.0	11.7	11.6	Higher overhead costs
PATMI	8.6	7.4	15.6	In line with the above

Source: Company, PSR

+ Positives

Soaring coal price and production volume drove a stunning performance: See the table below, revenue from coal mining segment, main top line contributor, was mainly driven by the booming coal prices in 3Q17. The 9M17 sales volume had surpassed 5.5mn tonnes which were the full year result in FY16. Management has revised down the full year target to 7mn to 8mn tonnes from the initial 10mn tonnes of coal sales due to the disruption of prolonged monsoon season in 2Q and 3Q17. The coal price (ICI 4,200 GAR) remains on the bull run, arriving at YTD high of c.US\$50/tonne in Oct-17.

	3Q17	3Q16	YoY (%)	9M17	9M16	YoY (%)
Production volume (tonnes)	1.9	1.8	5.6	5.6	3.1	76.6
ASP (US\$/tonne)	38.6	30.8	25.5	39.5	28.6	37.8
Cash cost (US\$/tonne)	28.3	23.0	23.0	26.6	22.1	20.2
Revenue from coal mining (US\$mn)	73.9	56.9	29.9	219.4	90.2	143.4

Source: Company, PSR

Issuance of the new note enhanced solvency and liquidity: GEO issued a new senior note with aggregate principal amount of US\$300mn in early Oct-17. The net interest rate of the note will be 5%+ (8% of coupon rate - 2%+ deposit rate). The proceeds were used to partially redeem the S\$100mn (US\$72mn) MTN which will be due in Jan-18 and repay the advances from ECTP. The balance of roughly US\$200mn, together with the cash on hand of US\$36mn as of Sep-17, will fund working capital or to fund potential acquisitions of coal mining assets.

- Negatives

Higher cash costs suppressed margin in 3Q17: The reported cash costs were US\$28.3/tonne in 3Q17, its highest in recent two years. It was attributed to the increase in logistics costs mainly due to the wet season. The strip ratio of SDJ mine in FY17 is expected to be 3.4 and lower in FY18. Hence, the cash cost of SDJ mine will decrease next year. We expect the cash cost for FY18e to be c.US\$26/tonne.

Outlook

Stumbled by the unexpected poor climate conditions, we do not expect GEO to achieve the 10mn sales target set in the early of FY17. However, its still manage to generate 1.5mn to 2.5mn more of sales than it did in FY16. Look ahead in FY18, GEO guides that the production target will range from 12mn to 15mn tonnes, along with the expected commecment of opertion of TBR mine in 1Q18. As of now, the group is offered three proposals of offtake agreements for TBR mine, and the prepayment price of which will be at least US\$4/tonne, comparable to the offer for SDJ mine in FY16. If it pans out, the new offtake will provide more visibility to production volume and further improve the cash position. Moreover, we believe the cash profit of at least US\$10/tonne is sustainable for GEO.

Valuation

We lowered the forecasted coal sales volume to 7.8mn tonnes (previous 8.5mn tonnes) but raised the estimated ASP to US\$41/tonne (previous US\$37/tonne) in FY17e. Meanwhile, we revised up forecasted sales volume to 10.8mn tonnes (previous 10.2mn tonnes) and ASP to US\$39/tonne (previous US\$38/tonne) in FY18. Accordingly, FY17/18e EPS are updated to 3.3 US cents/4.4 US cents, or 3.1%/7.3% higher than our previous estimations. Based on unchanged forward PER of 10.0x (the average of regional peers), we maintain our BUY call with unchanged target price of S\$0.44.

Financials

Income Statement

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	53	22	182	316	421
Gross profit	(2)	0	42	82	118
EBITDA	(4)	(6)	53	86	120
Depreciation & amortisation	7	5	13	17	18
EBIT	(11)	(10)	40	69	102
Net Finance (Expense)/Inc	(5)	(8)	(6)	(6)	(19)
PBT	(16)	(18)	34	63	84
Taxation	3	(10)	(10)	(19)	(25)
PAT	(13)	(28)	24	44	58
Loss from discontinued operation	0	0	(1)	0	0
Non-controlling interests	(0)	(12)	(0)	0	0
PATMI	(13)	(16)	22	44	58

Per share data

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, basic (Cents)	(1)	(1)	1.8	3.3	4.4
EPS, diluted (Cents)	(1)	(1)	1.8	3.3	4.4
DPS (SG cents)	0	0	1	1	1
BVPS, basic (Cents)	9	8	10	13	17
BCPS, diluted (Cents)	9	8	10	13	17

Cash Flow

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	(16)	(18)	32	63	84
Adjustments	10	16	18	26	39
WC changes	(8)	23	20	(50)	(16)
Cash generated from ops	(14)	21	70	39	107
Others	(3)	2	(0)	(8)	(9)
Cashflow from ops	(17)	23	70	31	97
CFI					
CAPEX, net	(49)	(17)	2	(31)	(30)
Others	0	(0)	(9)	2	5
Cashflow from investments	(49)	(17)	(6)	(29)	(25)
CFF					
Loans, net of repayments	68	(6)	(2)	291	(73)
Others	(9)	(2)	(6)	(15)	(19)
Cashflow from financing	59	(8)	(8)	276	(92)
Net change in cash	(7)	(3)	55	278	(20)
Effects of exchange rate	(1)	(1)	0	0	0
Ending cash	11	7	63	341	321

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Balance Sheet

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PP&E	115	132	103	181	163
Deferred stripping costs	0	1	10	8	4
Others	17	13	9	11	13
Total non-current assets	132	146	122	201	180
Cash	13	12	68	341	321
Trade receivables	32	33	103	32	64
Others	35	24	16	48	57
Total current assets	80	69	188	421	442
Total Assets	212	215	309	621	622
LIABILITIES					
Borrowings	75	72	69	290	290
Others	5	3	1	4	4
Total non-current liabilities	80	75	70	294	294
Trade payables	13	40	107	75	86
Borrowings	10	7	0	73	0
Others	0	0	7	11	11
Total current liabilities	23	46	114	159	97
Total Liabilities	104	121	184	453	391
Shareholder Equity	108	94	124	167	230
Non-controlling interests	0.4	0.2	0.2	1.3	1.3

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	N.M.	N.M.	10.6	5.7	4.3
P/B (x)	2.1	2.4	1.9	1.5	1.1
EV/EBITDA	N.M.	N.M.	5	4	3

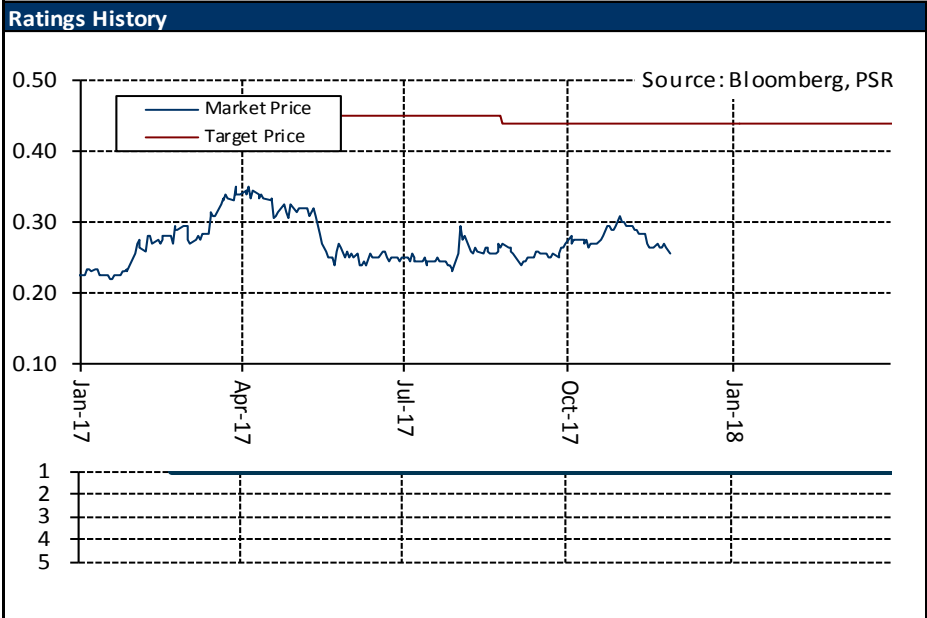
Growth & Margins (%)

	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	-51%	-58%	715%	73%	33%
EBITDA	N.M.	40%	N.M.	64%	40%
EBIT	N.M.	-4%	N.M.	73%	49%
PATMI	N.M.	51%	N.M.	98%	33%
Margins					
EBITDA margin	N.M.	-26%	29%	27%	29%
EBIT margin	N.M.	-46%	22%	22%	24%
PATMI margin	N.M.	-73%	12%	14%	14%

Key Ratios

	FY14	FY15	FY16	FY17e	FY18e
ROE (%)	N.M.	N.M.	18%	26%	25%
ROA (%)	N.M.	N.M.	7%	7%	9%
Net Debt or (Net Cash)	72	66	1	23	(31)
Gearing (%)	40%	37%	22%	58%	47%

N.M.: not meaningful



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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