

Geo Energy Resources Ltd

More deals awaited to be settled

SINGAPORE | MINING | RESULTS

- US\$182.1mn revenue met 97.8% of our full year expectation of US\$186.1mn.
- US\$22.2mn PATMI exceeded our full year expectation of US\$19.9mn by 11.6%
- 1 SG cent first and final dividend declared for FY16
- We slightly revise up our FY17e/FY18e PATMI forecasts to US\$41mn/US\$58mn (Previous: US\$39mn/US\$56mn). Based on unchanged PER of 11x and USD/SGD 1.3x that stated in our initiation report, we maintain our TP of SG0.45 for FY17. Our TP implies a 60.7% return from the last close price of S\$0.28.

Results at a glance

(US\$ mn)	FY16	FY15	y-y (%)	Comments
Revenue	182.1	22.3	↑ 715.3	The Group sold 5.5mn tonnes of coal in FY2016. There were no coal sales in 2015 other than coal trading where the Group earns a marketing commission
Gross profit	41.9	0.4	N.M	In line with the factor mentioned above
EBITDA	52.6	(5.8)	N.M	Net gain in EBIT with higher depreciation and amortisation in FY16
PAT	23.5	(28.5)	N.M	In line with factors mentioned above
PATMI	22.2	(16.3)	N.M	In line with factors mentioned above

Source: Company, Phillip Securities Research (Singapore)

Potential solutions for restructuring of the MTN

By end of FY16, Geo was carrying SG\$100mn (US\$68.7mn reflected on the balance sheet) of debt, Medium Term Note (MTN), which will be due on Jan-18. This amount will be reclassified under current liabilities after 1Q17. Geo plans to optimise the capital structure in order to achieve long-term growth in FY17 and the ongoing expansions such as acquisition of coal mines and capacity ramp-up demand cash hoard. The management eased the concerns on how the Group plans to deal with the MTN by signaling several potential feasible solutions:

1) Issuance of a new bond to repay MTN, 2) Extension of MTN, 3) Partial payback of MTN and roll-over of the remaining. It is expected to reach the final settlement in next 2 to 3 months. If there are no updates, Geo could possibly pay off the MTN on the due date next year.

In terms of solvency, the Group is capable to repay the full amount. As of Dec-16, Geo held US\$63mn of cash. The upcoming CAPEX is the US\$90mn for TBR mine acquisition, US\$30mn of which will be paid in FY17, and the rest US\$60mn will be gradually repaid afterwards. We expect the group will generate cash from operation amounted to US\$81mn in FY17, which is in line with the management's expectation of c.US\$18mn to US\$20mn EBITDA per quarter. Furthermore, Geo will secure another offtake to receive prepayment by this year end. (US\$40mn for 7mn tonnes of coal sales in FY16 as a reference).

Planning to expand sales in Indonesian market

In FY16, the geographic breakdown of sales is shown below. The sales concentration in China is owing to the establishment of both branding and marketing in the largest coal market. Moving forward, Geo will increase the sales in the domestic market in Indonesia, including exploring the opportunity to supply thermal coal directly to power plants through Perusahaan Listrik Negara (PLN), the government-owned electricity distribution corporation in Indonesia. Accordingly, we expect Geo could have a better offering price for the sales of coal.

7 March 2017

Buy (Maintained)

CLOSING PRICE	SGD 0.280
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.450
TOTAL RETURN	60.7%

COMPANY DATA

O/S SHARES (MN) :	1212
MARKET CAP (USD mn / SGD mn) :	241 / 339
52 - WK HI/LO (SGD) :	0.31 / 0.09
3M Average Daily T/O (mn) :	7.811

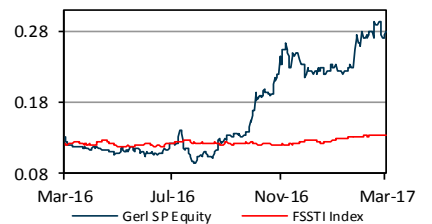
MAJOR SHAREHOLDERS (%)

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 (%)

	1M TH	3M TH	1YR
COMPANY	5.8	25.0	120.0
STI RETURN	2.2	6.4	14.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue	22	182	310	383
Gross profit	0	42	72	91
EBITDA	(6)	53	82	99
EBIT	(10)	40	63	81
PAT	(28)	24	42	59
PATMI	(16)	22	41	58

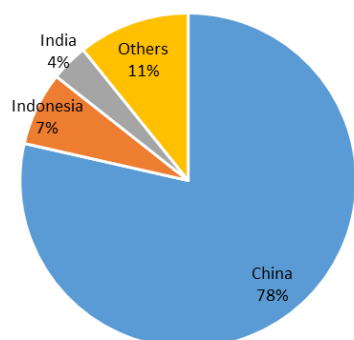
Source: Company Data, PSR est.

VALUATION METHOD

P/E Multiple (PER:110x)

Chen Guangzhi (+65 6212 1859)
chengz@phillip.com.sg

Figure 1. Revenue by geographic segment



Source: Company, PSR

Continue to implement cost control

Since coal price is beyond Geo's control, the efficient methods to enhance profitability are either boosting sales volume or reducing costs or both. Apparently, the Group has been actively lifting up sales through more offtakes, and meanwhile, it will continue to maintain the cash cost at c.US\$26/tonne (based on 10mn tonnes of sales target) that contains the variable costs generated in the subcontract to BUMA, the second largest mining services company in Indonesia.

China continues to curb coal production capacity

"Report On The Work Of Government" announced in the National People's Congress and the Chinese Political Consultative Conference recently disclosed that in 2016 the curb on coal production capacity reached more than 290mn tonnes, surpassing the annual target of 250mn tonnes. In 2017, the central government aims to cut more than 170mn tonnes of coal production. We expect that the shortfall in supply side might not match with the reduction in coal demand. Therefore, we still believe the coal price will be stabilised at c.US\$40/tonne (ICI 4,200 GAR) and the amount of coal import to China remains at the same level in FY17 as in FY16.

Valuation

We maintain our forecast 8.5mn tonnes of coal sales volume with US\$37/tonne average selling price (ASP) in FY17. (FY16: 5.5mn tonnes of coal sales with US\$33/tonne ASP). The coal price (ICI 4,200 GAR) was c.US\$45/tonne in Feb-17.

We slightly revise up our FY17e/FY18e PATMI forecasts to US\$41mn/US\$58mn (Previous: US\$39mn/US\$56mn). Based on unchanged PER of 11x and USD/SGD 1.3x that stated in our initiation report, we maintain our TP of SG0.45 for FY17.

Financials

Income Statement

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	53	22	182	310	383
Gross profit	(2)	0	42	72	91
EBITDA	(4)	(6)	53	82	99
Depreciation & amortisation	7	5	13	18	18
EBIT	(11)	(10)	40	63	81
Net Finance (Expense)/Inc	(5)	(8)	(6)	(6)	(0)
PBT	(16)	(18)	34	57	81
Taxation	3	(10)	(10)	(15)	(22)
PAT	(13)	(28)	24	42	59
Loss from discontinued operation	0	0	(1)	0	0
Non-controlling interests	(0)	(12)	(0)	1	1
PATMI	(13)	(16)	22	41	58

Per share data

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, basic (Cents)	(1)	(1)	2	3	5
EPS, diluted (Cents)	(1)	(1)	2	3	5
DPS (SG cents)	0	0	1	0	0
BVPS, basic (Cents)	9	8	10	19	23
BVPS, diluted (Cents)	9	8	10	19	23

Cash Flow

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	(16)	(18)	32	57	81
Adjustments	10	16	18	24	18
WC changes	(8)	23	20	8	(3)
Cash generated from ops	(14)	21	70	90	96
Others	(3)	2	(0)	0	0
Cashflow from ops	(17)	23	70	90	96
CFI					
CAPEX, net	(49)	(17)	2	(30)	(30)
Others	0	(0)	(9)	(13)	(15)
Cashflow from investments	(49)	(17)	(6)	(43)	(45)
CFF					
Loans, net of repayments	68	(6)	(2)	(0)	(71)
Others	(9)	(2)	(6)	(15)	(0)
Cashflow from financing	59	(8)	(8)	(15)	(71)
Net change in cash	(7)	(3)	55	32	(21)
Effects of exchange rate	(1)	(1)	0	0	0
Ending cash	11	7	63	95	74

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	175	157
Deferred stripping costs	0	1	10	23	38
Others	17	13	9	9	9
Total non-current assets	132	146	122	207	204
Cash	13	12	68	95	74
Trade receivables	32	33	84	130	156
Others	35	24	16	23	27
Total current assets	80	69	168	248	258
Total Assets	212	215	290	454	461
LIABILITIES					
Borrowings	75	72	69	0	0
Others	5	3	1	1	1
Total non-current liabilities	80	75	70	1	1
Trade payables	13	40	88	149	179
Borrowings	10	7	0	69	0
Others	0	0	7	7	7
Total current liabilities	23	46	95	226	187
Total Liabilities	104	121	165	227	188
Shareholder Equity	108	94	124	227	273
Non-controlling interests	0.4	0.2	0.2	0.2	0.2

Valuation Ratios

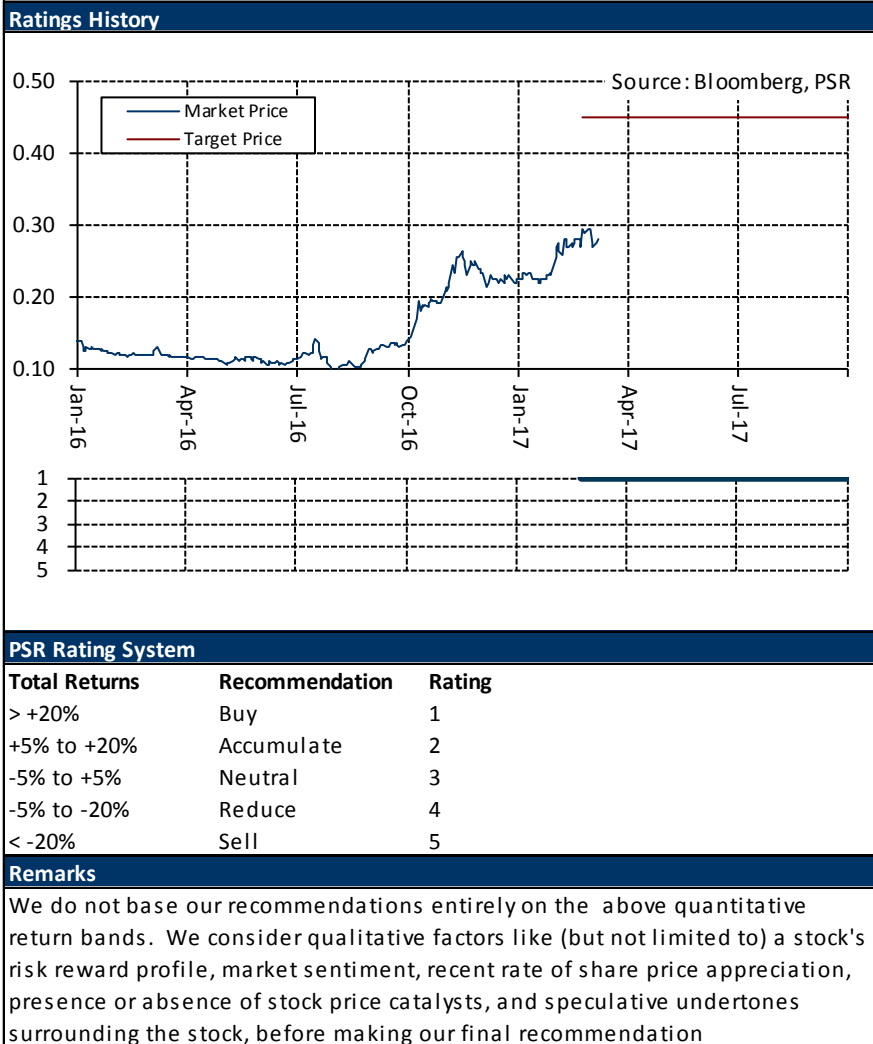
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	N.M.	N.M.	9	11	7
P/B (x)	2.3	1.8	2.2	1.9	1.6
EV/EBITDA	N.M.	N.M.	6	5	4

Growth & Margins (%)

	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	-51%	-58%	715%	70%	23%
EBITDA	N.M.	40%	N.M.	55%	22%
EBIT	N.M.	-4%	N.M.	59%	28%
PATMI	N.M.	51%	N.M.	83%	20%
Margins					
EBITDA margin	N.M.	-26%	29%	26%	26%
EBIT margin	N.M.	-46%	22%	20%	21%
PATMI margin	N.M.	-73%	12%	13%	15%

Key Ratios

	FY14	FY15	FY16	FY17e	FY18e
ROE (%)	N.M.	N.M.	18%	18%	21%
ROA (%)	N.M.	N.M.	8%	9%	13%
Net Debt or (Net Cash)	72	66	1	(26)	(74)
Gearing (%)	40%	37%	24%	15%	0%



Contact Information (Singapore Research Team)

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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