

Geo Energy Resources Ltd

Temporary headwinds are limited



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SINGAPORE | MINING | 1Q17 RESULTS

24 May 2017

- Revenue and net profit exceeded our expectation mainly due to higher average selling price (ASP). Our forecasted ASP is US\$37/tonne in FY17, and average ICI 4,200 price was US\$43/tonne.
- We maintain the unchanged forecast of 8.5mn tonnes of coal sales volume with US\$37/tonne average selling price (ASP) in FY17. Due to the probably early redemption of MTN, the mild drop in finance costs will improve the net profit slightly from previous forecasted US\$41mn to updated US\$42mn. Based on unchanged PER of 11x, we maintain our TP of **SG0.45** for FY17.

Results at a glance

(US\$ mn)	1Q17	1Q16	y-y (%)	Comments
Revenue	99.3	11.9	735.2	Substantial increase in coal sales volume (2.21mn tonnes in 1Q17 vs 0.48mn tonnes in 1Q16) and average selling price (US\$39.45/tonne in 1Q17 vs US\$30.55/tonne in 1Q16); new revenue from coal trading and mining management
Gross profit	25.3	0.2	N.M	In line with the above
EBIT	19.9	(3.0)	N.M	Increase in other expenses due to FX difference on S\$MTN against the US\$
PAT	14.6	(2.6)	N.M	Increase in income tax expenses
PATMI	14.6	(2.6)	N.M	In line with the above

Source: Company, Phillip Securities Research (Singapore)

N.M: Not Meaningful

Early redemption of MTN awaited to be approved

Geo proposed a consent solicitation exercise for an early redemption of the S\$100mn MTN. In order to incentivize the note holders to approve the proposal, Geo will grant a consent fee of 0.5% for early acceptance. It is only 7 months away from the expiry of the note, but the Group is willing to pay it back in advance even with extra compensation. The covenants of the MTN restrict the Group to refinance from other borrowings under normal circumstances. Once the redemption is completed, it will free up room to refinance so as to fund the business expansion via acquisition and establishment of more sales channels. Since the management reiterated eyeing on long-term growth, the motive is to pave the path to build the future.

Looking ahead, Geo will have more than US\$100mn outlays this year, out of which around c.US\$70mn for MTN repayment, and the rest is for TBR acquisition and other CAPEX. Based on our forecast, the group is capable of paying this up but retains a small amount of cash.

Risks of curtailment on imported coal to China loom

News to restrain on the import of lower grade coal into China was back in May-17. The preliminary target is to decrease the volume from overseas by 5% to 10% YoY in FY17. According to General Administration of Customs of PRC, the total volume of imported thermal coal arrived at 97.65mn tonnes in FY16. The cooling measures comprise of the mandate on the power companies to reduce the volume of imported coal for new or pending contracts, subsidising domestic lower grade coal producers and power plants, and imposing quality control on imported coal. The contingent policies aim to balance the domestic coal supply and demand in order to subdue the upswing of thermal coal price which is expected to pressurise power companies especially when peak season is due in summer.

Buy (Maintained)

CLOSING PRICE	SGD 0.240
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.450
TOTAL RETURN	87.5%

COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN) :	1212
MARKET CAP (USD mn / SGD mn) :	209 / 291
52 - WK HI/LO (SGD) :	0.36 / 0.09
3M Average Daily T/O (mn) :	9.75

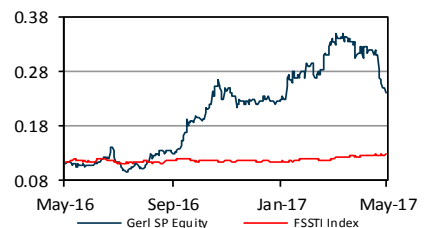
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(214)	(14.7)	1115
STI RETURN	3.8	4.1	20.8

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	43	59
PATMI	(16)	22	42	58

Source: Company Data, PSR est.

VALUATION METHOD

P/E M multiple (P ER:110x)

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ICI 4,200GAR is trading at c.US\$37/tonne currently compared to c.US\$42/tonne in Apr-17. The recent correction of thermal coal price was expected to be short-term. Because most of the coal mines in China are underground and subjected to higher production costs. The lower coal price will drive out those inefficient mines. Subsequently, the domestic supply will fall again. Coal will display the ongoing resiliency.

What's next for Geo

The policy risks are expected to impact more on price side rather than sales volumes for Geo. Geo's sales are c.78% exposed to China market currently, it does not trade directly with end buyers. ECTP, the trading house, has secured 7mn tonnes purchase (70% of the annual sales target) from Geo this year. It will divert some of the coal earmarked for China into other countries. The group is expected to receive compensation if ECTP defaults on the offtake agreement. Geo's goal is not bound to China solely, it is also shipped to India and ASEAN, especially Indonesia domestic market. Therefore sales channels are not to be stuck even China narrows the portal. Management guided that the 10mn tonnes of sales target is still on track, and the group has been actively seeking more reach to Indonesia domestic demand.

Valuation

We maintain the unchanged forecast of 8.5mn tonnes of coal sales volume with US\$37/tonne average selling price (ASP) in FY17. Due to the probably early redemption of MTN, the mild drop in finance costs will improve the net profit slightly from previous forecasted US\$41mn to updated US\$42mn. Based on unchanged PER of 11x, 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)	(5)	(0)
PBT	(16)	(18)	34	59	81
Taxation	3	(10)	(10)	(16)	(22)
PAT	(13)	(28)	24	43	59
Loss from discontinued operation	0	0	(1)	0	0
Non-controlling interests	(0)	(12)	(0)	1	1
PATMI	(13)	(16)	22	42	58

Per share data

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS, basic (Cents)	(1)	(1)	2	3	5
EPS, diluted (Cebts)	(1)	(1)	2	3	5
DPS (SG cents)	0	0	1	0	0
BVPS, basic (Cents)	9	8	10	23	27
BCPS, diluted (Cents)	9	8	10	23	27

Cash Flow

Y/E Dec, US mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	(16)	(18)	32	59	81
Adjustments	10	16	18	24	18
WC changes	(8)	23	20	(18)	(18)
Cash generated from ops	(14)	21	70	65	81
Others	(3)	2	(0)	0	0
Cashflow from ops	(17)	23	70	65	81
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)	(71)	0
Others	(9)	(2)	(6)	(13)	(0)
Cashflow from financing	59	(8)	(8)	(85)	(0)
Net change in cash	(7)	(3)	55	(62)	36
Effects of exchange rate	(1)	(1)	0	0	0
Ending cash	11	7	63	0	37

Source: Company, Phillip Securities Research (Singapore) Estimates

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

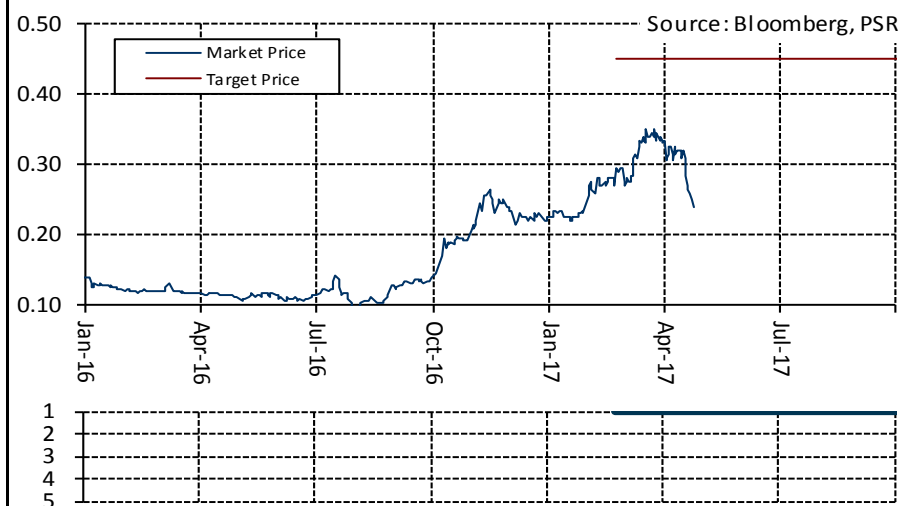
Balance Sheet

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	0	37
Trade receivables	32	33	103	160	192
Others	35	24	16	23	27
Total current assets	80	69	188	182	255
Total Assets	212	215	309	389	459
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	105	127
Borrowings	10	7	0	0	0
Others	0	0	7	7	7
Total current liabilities	23	46	95	113	134
Total Liabilities	104	121	165	114	135
Shareholder Equity	108	94	143	275	323
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	1.5	1.3
EV/EBITDA	N.M.	N.M.	4	5	4
Growth & Margins (%)					
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.	121%	18%
Margins					
EBITDA margin	N.M.	-26%	29%	26%	26%
EBIT margin	N.M.	-46%	22%	20%	21%
PATMI margin	N.M.	-73%	12%	14%	15%
Key Ratios					
ROE (%)	N.M.	N.M.	15%	15%	18%
ROA (%)	N.M.	N.M.	7%	11%	13%
Net Debt or (Net Cash)	72	66	1	(0)	(37)
Gearing (%)	40%	37%	22%	0%	0%

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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