

Geo Energy Resources Ltd

Loss expanded in 1Q19



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SINGAPORE | MINING | 1Q19 RESULTS

- 1Q19 revenue and net profit missed our expectations due to lower ASP and higher cash cost.
- On-track to meet the FY19 production target of 8mn tonnes.
- First gross loss since 1Q16, mainly to the fall of ASPs while cash costs remained high.
- GEO is likely to raise debt to pursue inorganic growth going forward. Alternatively, GEO may consider redeeming the Senior Notes at the end of the year if the deployment of cash fails.
- Downgrade to NEUTRAL with a lower TP of S\$0.15 (previously S\$0.215), as we lower our forecasted sales volume and ASP, and adjust upwards forecasted cash cost.

Results at a glance

| (US\$ mn) | 1Q19 | 1Q18 | YoY (%) | Comments |
|--------------|-------|------|---------|---|
| Revenue | 65.7 | 90.5 | (27.4) | Lower ASP offsetting higher sales volume |
| Gross profit | (1.5) | 21.9 | N.M. | Higher strip ratio and pre-stripping costs for TBR |
| EBIT | (4.0) | 19.6 | N.M. | In line with the above |
| PATMI | (8.7) | 8.9 | N.M. | Lower finance expenses due to the adjustment on the amortisation of transaction costs of Senior Notes |

N.M.: not meaningful
Source: Company, PSR

The Positives

+ On-track to meet the FY19 production target of 8mn tonnes. In 1Q19, GEO delivered 1.9mn tonnes of production (SDJ: 1mn tonne, TBR: 0.9mn tonne), which accounts for 23.8% of the annual target of 8mn tonnes. According to the updated mining plan, the respective output from SDJ and TBR will be 3mn tonnes and 5mn tonnes. In addition, GEO had communicated plans to increase production quotas, which could further boost FY19 production.

The Negatives

- First gross loss since 1Q16. Gross loss of US\$1.5mn was due mainly to the fall of ASPs while cash cost remained relatively high. The price for ICI 4,200 GAR averaged at US\$35.5/tonne (-26.1% YoY, +6% QoQ). Correspondingly, the ASP arrived at US\$32/tonne (-31.2% YoY, -9.1% QoQ). Owing to the backwards-looking pricing scheme, the 2Q19 ASP is expected to be higher. On the other hand, the 1Q19 strip ratios for SDJ and TBR were 2.8 and 3.6 (4Q18: 4.4 and 1.1), respectively. The increase in overburden hauling cost and fuel prices offset the savings from the lower SDJ from SR. FY19e cash cost is expected to be above US\$30/tonne.

Figure 1: Significant ASP correction

| | 1Q19 | 1Q18 | YoY (%) | 4Q18 | YoY (%) |
|----------------------------------|------|------|---------|------|---------|
| Production volume (tonnes) | 1.9 | 2.1 | (9.5) | 1.6 | 18.8 |
| ASP (US\$/tonne) | 32.0 | 46.5 | (31.2) | 35.2 | (9.1) |
| Cash cost (US\$/tonne) | 30.2 | 33.4 | (9.6) | 29.6 | 2.0 |
| Revenue from coal mining (US\$m) | 65.7 | 90.5 | (27.4) | 56.2 | 16.9 |

Source: Company, PSR

28 May 2019

NEUTRAL (Downgraded)

| | |
|---------------|-----------|
| CLOSING PRICE | SGD 0.152 |
| FORECAST DIV | SGD 0.004 |
| TARGET PRICE | SGD 0.150 |
| TOTAL RETURN | 1.3% |

COMPANY DATA

| | |
|-------------------------------|-------------|
| Bloomberg Code | GERL SP |
| O/S SHARES (MN): | 1,399 |
| MARKET CAP (USD mn / SGD mn): | 153 / 211 |
| 52 - WK HI/LO (SGD): | 0.26 / 0.15 |
| 3M Average Daily T/O (mn): | 0.45 |

MAJOR SHAREHOLDERS (%)

| | |
|-----------------------|-------|
| MELATI CHARLES ANTONN | 21.0% |
| MASTER RESOURCES | 15.6% |
| INTERNATIONAL RES IL | 8.4% |
| HEAH THEARE HAW | 5.4% |
| MACQUARIE BANK LTD | 5.0% |

PRICE PERFORMANCE (%)

| | 1MTH | 3MTH | 1YR |
|------------|--------|--------|--------|
| COMPANY | (12.6) | (16.8) | (29.3) |
| STI RETURN | (4.1) | (0.5) | (6.1) |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec | FY17 | FY18 | FY19e | FY20e |
|-------------------|------|------|-------|-------|
| Revenue (US\$ mn) | 316 | 299 | 296 | 320 |
| EBITDA (US\$ mn) | 83 | 69 | 64 | 68 |
| PATMI (US\$ mn) | 37 | 18 | 15 | 17 |
| P/E (x) | 3.9 | 8.3 | 10.6 | 9.4 |
| P/B (x) | 1.0 | 0.9 | 0.9 | 0.8 |
| Dividend yield | 7% | 3% | 2% | 3% |
| ROE | 24% | 10% | 8% | 9% |
| ROA | 7% | 3% | 3% | 3% |

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:10.0x)

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Outlook

With the recent recovery of coal prices, we expect performance to improve for the remaining quarters provided GEO delivers the targeted production. TBR is still at the initial production stage. Therefore, the overburden costs will be relatively high this year. In a nutshell, GEO's FY19e mining business will underperform FY18.

At the moment, the price of a coal mine with 2P reserve averages at US\$6-7/tonne. GEO aims to be one of the top five coal producers in Indonesia in terms of production. Hence, any potential acquisitions of sizable targeted coal mines would require GEO to fork out more than its holding cash as of 1Q19. In other words, GEO is likely to raise debt to pursue inorganic growth going forward. Alternatively, GEO may consider redeeming the Senior Notes (US\$300mn) at the end of the year if the deployment of cash fails.

Downgrade to NEUTRAL with a lower target price of S\$0.15 (previously S\$0.215)

We lower forecasted sales volume to 7.5mn tonnes (previously 8mn tonnes) and ASP to US\$39.5/tonne (previously US\$40.2/tonne) for FY19e to reflect protracted unfavourable market conditions. Meanwhile, we revise the cash cost upwards to US\$30/tonne (previously US\$29.5/tonne). Our FY19e EPS has thus been cut to 1.1 US cents (previously 1.6 US cents). Based on an unchanged forward PER of 10x (average of regional peers) and an exchange rate (USD/SGD) of 1.36, we downgrade our call to NEUTRAL with a lower target price of S\$0.15 (previously S\$0.215).

Financials

Income Statement

| Y/E Dec, US mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|----------------------------------|------------|------------|------------|------------|------------|
| Revenue | 182 | 316 | 299 | 296 | 320 |
| Gross profit | 42 | 78 | 67 | 56 | 60 |
| EBITDA | 53 | 83 | 69 | 64 | 68 |
| Depreciation & amortisation | 13 | 18 | 14 | 17 | 18 |
| EBIT | 40 | 65 | 55 | 47 | 50 |
| Net Finance (Expense)/Inc | (6) | (13) | (27) | (26) | (26) |
| PBT | 34 | 52 | 29 | 21 | 24 |
| Taxation | (10) | (16) | (11) | (6) | (7) |
| PAT | 24 | 37 | 18 | 15 | 17 |
| Loss from discontinued operation | (1) | 0 | 0 | 0 | 0 |
| Non-controlling interests | (0) | (0) | (0) | (0) | (0) |
| PATMI | 22 | 37 | 18 | 15 | 17 |

Per share data

| Y/E Dec | FY16 | FY17 | FY18 | FY19e | FY20e |
|-----------------------|------|------|------|-------|-------|
| EPS, basic (Cents) | 1.8 | 2.9 | 1.3 | 1.1 | 1.2 |
| EPS, diluted (Cents) | 1.8 | 2.9 | 1.3 | 1.1 | 1.2 |
| DPS (SG cents) | 1.0 | 1.0 | 0.4 | 0.3 | 0.4 |
| BVPS, basic (Cents) | 10 | 12 | 12 | 13 | 14 |
| BCPS, diluted (Cents) | 10 | 12 | 12 | 13 | 14 |

Cash Flow

| Y/E Dec, US mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|----------------------------------|------------|-------------|-------------|-------------|-------------|
| CFO | | | | | |
| PBT | 33 | 52 | 29 | 21 | 24 |
| Adjustments | 15 | 34 | 37 | 41 | 42 |
| WC changes | 21 | (30) | (55) | 4 | (1) |
| Cash generated from ops | 48 | 86 | 66 | 62 | 66 |
| Others | (0) | (10) | (19) | (19) | (20) |
| Cashflow from ops | 48 | 76 | 47 | 43 | 45 |
| CFI | | | | | |
| CAPEX, net | 3 | (35) | (4) | (4) | (5) |
| Others | (9) | 2 | (32) | (7) | (7) |
| Cashflow from investments | (6) | (33) | (37) | (11) | (12) |
| CFF | | | | | |
| Loans, net of repayments | (2) | 213 | (0) | 0 | 0 |
| Others | (6) | (26) | (20) | (30) | (29) |
| Cashflow from financing | (8) | 187 | (21) | (30) | (29) |
| Net change in cash | 34 | 229 | (10) | 2 | 4 |
| Effects of exchange rate | 0 | 0 | (0) | 0 | 0 |
| Ending cash | 58 | 262 | 197 | 203 | 206 |

Source: Company, PSR

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

Balance Sheet

| Y/E Dec, US mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|--------------------------------------|------------|------------|------------|------------|------------|
| ASSETS | | | | | |
| PP&E | 103 | 182 | 172 | 164 | 158 |
| Deferred stripping costs | 10 | 8 | 58 | 73 | 86 |
| Others | 9 | 14 | 52 | 60 | 65 |
| Total non-current assets | 122 | 204 | 282 | 297 | 309 |
| Cash | 68 | 266 | 203 | 208 | 211 |
| Trade receivables | 103 | 51 | 25 | 30 | 31 |
| Others | 16 | 30 | 38 | 44 | 49 |
| Total current assets | 188 | 346 | 266 | 282 | 291 |
| Total Assets | 309 | 550 | 549 | 579 | 600 |
| LIABILITIES | | | | | |
| Borrowings | 69 | 288 | 291 | 293 | 296 |
| Others | 1 | 3 | 7 | 3 | 3 |
| Total non-current liabilities | 70 | 291 | 298 | 296 | 299 |
| Trade payables | 107 | 92 | 74 | 97 | 106 |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Others | 7 | 12 | 2 | 2 | 2 |
| Total current liabilities | 114 | 104 | 77 | 99 | 108 |
| Total Liabilities | 184 | 396 | 374 | 395 | 407 |
| Shareholder Equity | 124 | 153 | 174 | 184 | 193 |
| Non-controlling interests | 0.2 | 1.3 | 0.2 | 0.2 | 0.1 |

Valuation Ratios

| Y/E Dec | FY16 | FY17 | FY18 | FY19e | FY20e |
|-----------|------|------|------|-------|-------|
| P/E (x) | 6.1 | 3.9 | 8.3 | 10.6 | 9.4 |
| P/B (x) | 1.1 | 1.0 | 0.9 | 0.9 | 0.8 |
| EV/EBITDA | 3.5 | 2.7 | 4.2 | 3.8 | 3.6 |

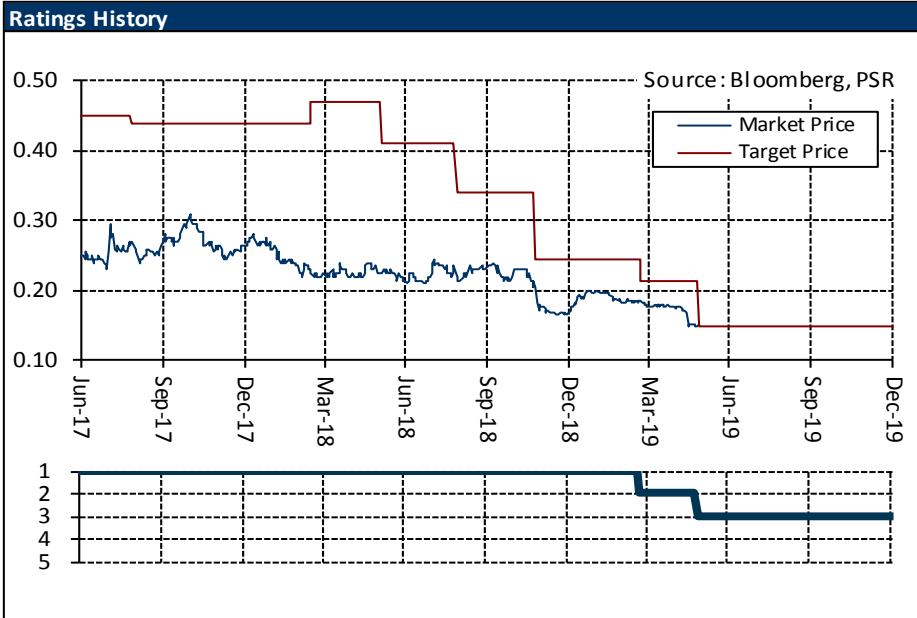
Growth & Margins (%)

| | | | | | |
|----------------|------|-----|------|------|-----|
| Growth | | | | | |
| Revenue | N.M. | 74% | -5% | -1% | 8% |
| EBITDA | N.M. | 58% | -17% | -7% | 6% |
| EBIT | N.M. | 64% | -15% | -14% | 6% |
| PATMI | N.M. | 65% | -51% | -18% | 13% |
| Margins | | | | | |
| Gross margin | 23% | 25% | 22% | 19% | 19% |
| EBIT margin | 22% | 21% | 18% | 16% | 16% |
| PATMI margin | 12% | 12% | 6% | 5% | 5% |

Key Ratios

| | | | | | |
|------------------------|-----|-----|-----|-----|-----|
| Dividend yield (%) | 7% | 7% | 3% | 2% | 3% |
| ROE (%) | 18% | 24% | 10% | 8% | 9% |
| ROA (%) | 7% | 7% | 3% | 3% | 3% |
| Net Debt or (Net Cash) | 1 | 23 | 88 | 85 | 85 |
| Gearing (%) | 22% | 52% | 53% | 51% | 49% |

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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