

Geo Energy Resources Ltd

Gloomy 4Q but will be a bright FY18



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SINGAPORE | MINING | 4Q17 RESULTS

- FY17 revenue was in line with our expectations but net profit missed our expectations by 16.6% due to the accrual interest expenses of the Senior Notes.
- FY17 production was in line with the adjusted target; average selling price (ASP) enjoyed a healthy YoY rise of 22%.
- Not subject to the new domestic production and price regulation in Indonesia.
- We maintain forecasted 10.8mn tonnes of sales volume and US\$39/tonne of ASP in FY18. Meanwhile, we revise the cash cost upward to US\$27.6/tonne (previous US\$26/tonne). Accordingly, FY18e EPS are updated to 3.5 US cents (previous 4.4 US cents). Based on unchanged forward PER of 10.0x (the average of regional peers) and 1.36x of exchange rate (USD/SGD), we roll over the target price to FY18e earnings and maintain our BUY call with a higher price of S\$0.47.

Results at a glance

(US\$ mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	92.8	91.9	1.0	316.3	182.1	73.7	Increase in revenue from coal mining segment resulted from higher sales volume and ASP
Gross profit	18.0	27.7	-35.2	78.4	41.9	87.1	One-off additional assessment on mining royalties in 4Q; Higher cash costs
EBIT	14.3	23.6	(39.6)	65.0	39.7	63.7	Higher overhead costs
PATMI	3.4	14.7	-76.6	36.7	22.2	65.3	In line with the above

Source: Company, PSR

+ Positives

Align with the previous adjusted production target and enjoy a healthy price growth: The FY17 production volume was in line with the adjusted annual target guided in 3Q17. The increase in ASP offset the decrease in volume in 4Q17 which was due to the temporary limitation of holding capacity at the jetty. The coal price (ICI 4,200 GAR) remained strong in 4Q17, averaging at US\$45.7/tonne (+6% QoQ).

	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)
Production volume (tonnes)	2.2	2.4	-8.6	7.7	5.5	40.0
ASP (US\$/tonne)	43.4	38.9	11.6	40.3	33.0	22.0
Cash cost (US\$/tonne)	30.0	25.1	19.5	27.6	23.4	17.7
Revenue from coal mining (US\$m)	91.5	92.0	-0.5	311.0	182.0	70.9
Net profit (US\$m)	8.6	7.5	14.7	33.3	7.5	344.0

Source: Company, PSR

- Negatives

Subject to higher cash costs and interest burden in 4Q17: The reported cash costs was US\$30/tonne in 4Q17, the highest in the past two years. Apart from the variable portion of cash cost linked to movements in coal prices, the one-off additional mining royalties also resulted in the higher cash costs. Geo also accrued interest expenses from the US\$300mn Senior Note, leading to US\$6.7mn surge in finance costs. We expect cash cost to remain at the range of US\$27-28/tonne while finance expense will be at least US\$24mn in FY18.

19 March 2018

BUY (Maintained)

CLOSING PRICE	SGD 0.225
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.470
TOTAL RETURN	113.3%

COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN):	1329
MARKET CAP (USD mn / SGD mn):	228 / 299
52 - WK HI/LO (SGD):	0.36 / 0.22
3M Average Daily T/O (mn):	3.599

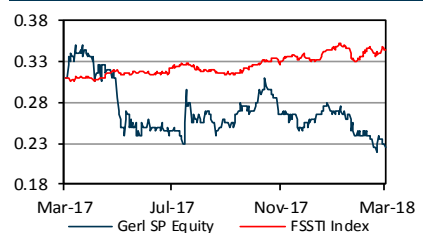
MAJOR SHAREHOLDERS (%)

MELATI CHARLES ANTONN	22.1%
MASTER RESOURCES	16.4%
INTERNATIONAL RES IL	8.8%
THEARE HAWHEAH	5.7%
SURYA DHAMMA	4.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.2)	(9.8)	(21.9)
STIRETURN	2.2	3.3	15.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (US\$ mn)	182	316	427	514
EBITDA (US\$ mn)	53	83	117	149
PATMI (US\$ mn)	22	37	47	66
P/E (x)	8.0	7.1	4.7	3.3
P/B (x)	15	17	12	0.9
Dividend yield (%)	4%	4%	4%	4%
ROE (%)	18%	24%	26%	28%
ROA (%)	7%	7%	8%	10%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER: 10.0x)

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Outlook

Geo has guided an annual production target of 11-12mn tonnes in FY18, of which 8mn tonnes will be from SDJ mine, and the rest will mainly come from TBR mine. TBR mine has commenced operations in 1Q18 and will enter into production phase in 2Q18. Our assumption of average coal price (4,200 GAR) is US\$40/tonne in FY18. The concern on the potential impact of the amended Domestic Market Obligation (DMO) on coal sector is cleared since Geo's mines are under IUP (previous mining business permit) rather than Coal Contract of Work (CCOW) (updated mining permit). Therefore, it is not subject to the new regulations. On the other hand, we expect Geo will conduct some M&As this year with US\$262mn cash on hand it has accumulated and suffer from negative carry interest rates. At present, the market price of coal mines ranges from US\$2.5-3/tonne in Indonesia.

Maintain BUY call with a higher target price of S\$0.47

We maintain our forecasted 10.8mn tonnes of sales volume and US\$39/tonne of ASP in FY18. Meanwhile, we revise the cash cost upward to US\$27.6/tonne (previous US\$26/tonne). Accordingly, FY18e EPS are updated to 3.5 US cents (previous 4.4 US cents). Based on unchanged forward PER of 10.0x (the average of regional peers) and the exchange rate (USD/SGD) of 1.36x, we roll over the target price to FY18e earnings and maintain our BUY call with a higher price of S\$0.47.

Financials

Income Statement

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	22	182	316	427	514
Gross profit	0	42	78	106	136
EBITDA	(6)	53	83	117	149
Depreciation & amortisation	5	13	18	25	30
EBIT	(10)	40	65	92	119
Net Finance (Expense)/Inc	(8)	(6)	(13)	(25)	(25)
PBT	(18)	34	52	67	94
Taxation	(10)	(10)	(16)	(20)	(28)
PAT	(28)	24	37	47	66
Loss from discontinued operation	0	(1)	0	0	0
Non-controlling interests	(12)	(0)	(0)	0	0
PATMI	(16)	22	37	47	66

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, basic (Cents)	(1)	1.8	2.8	3.5	5.0
EPS, diluted (Cents)	(1)	1.8	2.8	3.5	5.0
DPS (SG cents)	0	1.0	1.0	1.0	1.0
BVPS, basic (Cents)	8	10	12	14	18
BCPS, diluted (Cents)	8	10	12	14	18

Cash Flow

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	(18)	33	52	67	94
Adjustments	16	15	34	52	57
WC changes	23	21	(30)	(4)	6
Cash generated from ops	(2)	48	86	120	152
Others	2	(0)	(10)	(12)	(14)
Cashflow from ops	(0)	48	76	108	137
CFI					
CAPEX, net	(17)	3	(35)	(30)	(30)
Others	(0)	(9)	2	2	3
Cashflow from investments	(17)	(6)	(33)	(28)	(27)
CFF					
Loans, net of repayments	(6)	(2)	213	0	0
Others	(2)	(6)	(26)	(25)	(25)
Cashflow from financing	(8)	(8)	187	(25)	(25)
Net change in cash	(26)	34	229	55	85
Effects of exchange rate	(1)	0	0	0	0
Ending cash	7	63	262	314	405

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	132	103	182	159	132
Deferred stripping costs	1	10	8	6	4
Others	13	9	14	12	14
Total non-current assets	146	122	204	178	149
Cash	12	68	266	317	408
Trade receivables	33	103	51	60	63
Others	24	16	30	39	46
Total current assets	69	188	346	415	517
Total Assets	215	309	550	593	666
LIABILITIES					
Borrowings	72	69	288	290	290
Others	3	1	3	3	3
Total non-current liabilities	75	70	291	293	293
Trade payables	40	107	92	106	122
Borrowings	7	0	0	0	0
Others	0	7	12	11	11
Total current liabilities	46	114	104	117	133
Total Liabilities	121	184	396	410	426
Shareholder Equity	94	124	153	181	238
Non-controlling interests	0.2	0.2	1.3	1.6	1.7

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.M.	8.0	7.1	4.7	3.3
P/B (x)	1.3	1.5	1.7	1.2	0.9
EV/EBITDA	N.M.	4	4	2	1

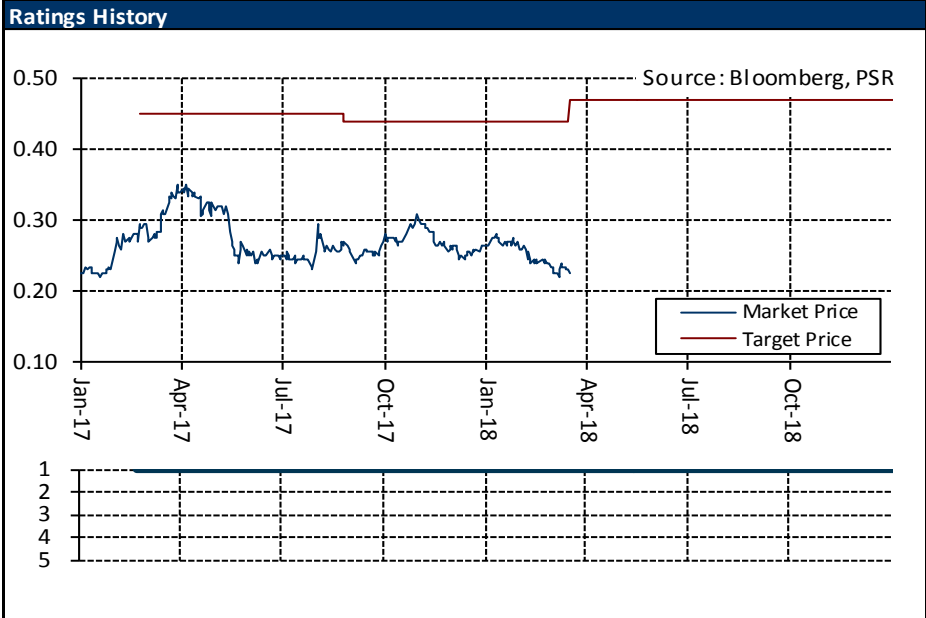
Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-58%	N.M.	74%	35%	20%
EBITDA	N.M.	N.M.	58%	40%	27%
EBIT	N.M.	N.M.	64%	42%	29%
PATMI	N.M.	N.M.	65%	29%	40%
Margins					
Gross margin	N.M.	23%	25%	25%	26%
EBIT margin	N.M.	22%	21%	22%	23%
PATMI margin	N.M.	12%	12%	11%	13%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
Dividend yield (%)	0%	4%	4%	4%	4%
ROE (%)	N.M.	18%	24%	26%	28%
ROA (%)	N.M.	7%	7%	8%	10%
Net Debt or (Net Cash)	66	1	23	(27)	(118)
Gearing (%)	37%	22%	52%	49%	44%

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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