

# Geo Energy Resources Ltd

Looking forward to a good deal



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## SINGAPORE | MINING | 1Q18 RESULTS

5 June 2018

- 1Q18 revenue and net profit missed expectations due to lower production volume and higher cash cost.
- 11mn tonnes of production target is on track, but cash cost will jump this year.
- Remain upbeat on any near-term acquisition
- We maintain our forecast of 10.8mn tonnes of sales volume and revise our ASP forecast upwards from US\$39/tonne to US\$41.5/tonne in FY18. Cash cost assumption also increased to US\$30.5/tonne (previous US\$27.6/tonne). Accordingly, FY18e EPS is lowered to 3.0 US cents (previously 3.5 US cents). Based on unchanged forward PER of 10x (average of regional peers) and the exchange rate (USD/SGD) of 1.36. We maintain our BUY recommendation but at a lower target price of S\$0.41 (previously S\$0.47).

### Results at a glance

(US\$ mn)	1Q18	1Q17	YoY (%)	Comments
Revenue	90.5	99.3	(8.8)	Lower sales volume due to higher rainfall offset by higher ASP; No coal trading activities during 1Q18 vs 411k tonnes in 1Q17
Gross profit	21.9	25.3	(13.5)	Higher cash costs due to higher strip ratio
EBIT	19.6	21.7	(9.8)	In line with the above
PATMI	9.0	14.6	(38.6)	Higher interest expenses on the Senior Notes

Source: Company, PSR

### The Positives

**+ Riding on benign coal prices:** In 1Q18, the ICI 4,200 GAR price continued to rise by 12% to US\$48/tonne. Though coal price corrected moderately in March and April due to a slow season and the domestic price cap, it is expected to be a stable. According to IHS Markit, 4,200 GAR FOB is projected to stay at high US\$40/tonne in 3 years since seaborne coal market is expected to stay in healthy dynamic. Accordingly, GEO will continue to benefit from the favourable ASP moving forward.

### The Negatives

**- Production target on track but cash cost jumps:** See the table below, 1Q18 production volume arrived at 1.9mn tonnes (17.3% of annual target of 11mn tonnes). According to the mine plan, 8mn of production will be from SDJ mine, and 3mn is from TBR mine. TBR has effectively commenced production in May, but it will be subject to a high strip ratio this year owing to more overburden. The production-weighted average strip ratio (SDJ and TBR mine) will be 3.9 in FY18 (SDJ mine: 3.4 in FY17). Accordingly, the estimated annualised cash cost will be at low US\$30/tonne in FY18 (SDJ mine: US\$28/tonne in FY17).

	1Q18	1Q17	YoY (%)
Production volume (tonnes)	1.9	2.2	(13.6)
ASP (US\$/tonne)	46.5	39.5	17.7
Cash cost (US\$/tonne)	33.4	26.3	27.0
Revenue from coal mining (US\$mn)	91.5	87.3	4.8
Net profit (US\$mn)	9.0	14.6	(38.6)

Source: Company, PSR

### BUY (Maintained)

CLOSING PRICE	SGD 0.225
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.410
TOTAL RETURN	86.7%

### COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN)	1,329
MARKET CAP (USD mn / SGD mn)	224 / 299
52 - WK HI/LO (SGD)	0.31 / 0.22
3M Average Daily T/O (mn)	2.45

### MAJOR SHAREHOLDERS (%)

MELATI CHARLES ANTONN	22.7%
MASTER RESOURCES	16.4%
INTERNATIONAL RES IL	8.8%
THEARE HAW HEAH	5.7%
SURYA DHAMMA	4.3%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.3	(4.3)	(8.4)
STIRETURN	(4.3)	(0.9)	9.6

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (US\$ mn)	182	316	448	520
EBITDA (US\$ mn)	53	83	102	130
PATMI (US\$ mn)	22	37	39	59
P/E (x)	8.0	7.1	5.6	3.7
P/B (x)	15	17	13	10
Dividend yield (%)	4%	4%	4%	4%
ROE (%)	18%	24%	23%	27%
ROA (%)	7%	7%	7%	9%

Source: Company, PSR

### VALUATION METHOD

P/E M multiple (PER:10.0x)

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### Outlook

As of Mar-18, GEO held US\$248mn cash in hand. With the war chest, GEO has been actively seeking assets that are aimed to generate ROI of 20%. The potential targets could be low calorific value coal mine with reserves of around 50mn to 60mn tonnes. Management believes the consolidation of smaller mines aligns with the strategy of fast cash cycle. In other words, GEO aims to monetise assets within 5 to 6 years to avoid long-term holding cost. We are upbeat on the potential acquisition in the near term.

### Maintain BUY call with a lower target price of S\$0.41 (previously S\$0.47)

We maintain our forecasted 10.8mn tonnes of sales volume and revise ASP from US\$39/tonne to US\$41.5/tonne in FY18. Meanwhile, we revise the cash cost upwards to US\$30.5/tonne (previous US\$27.6/tonne). Accordingly, FY18e EPS is cut to 3.0 US cents (previously 3.5 US cents). Based on unchanged forward PER of 10x (average of regional peers) and the exchange rate (USD/SGD) of 1.36, we maintain our BUY recommendation but with a lower target price of S\$0.41.

### Appendix: Our visit to SDJ mine in May-18

Figure 1: SDJ mine pit



Source: PSR

Two layers of coal seams (those black coloured soil).

It took 6 months to mine 100m

Figure 2: Dumping overburden by the pit



Source: PSR

The overburden will be temporarily placed by the pit that is being mined. Once the pit is mined completely, it will be refilled with the overburden.

**Figure 3: Sideways birds view of the jetty near SDJ mine**



Source: Company

Each conveyor belt has a loading capacity of 15k tonnes/day.

The barge can freight 75k tonnes.

**Figure 4: Front birds view of the jetty near SDJ mine**



Source: Company

GEO has a life-of-mine use permission.

Distance between SDJ mine and the jetty is around 11km.

## Financials

### Income Statement

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
<b>Revenue</b>	<b>22</b>	<b>182</b>	<b>316</b>	<b>448</b>	<b>520</b>
Gross profit	0	42	78	97	127
<b>EBITDA</b>	<b>(6)</b>	<b>53</b>	<b>83</b>	<b>102</b>	<b>130</b>
Depreciation & amortisation	5	13	18	15	15
<b>EBIT</b>	<b>(10)</b>	<b>40</b>	<b>65</b>	<b>86</b>	<b>115</b>
Net Finance (Expense)/Inc	(8)	(6)	(13)	(30)	(30)
<b>PBT</b>	<b>(18)</b>	<b>34</b>	<b>52</b>	<b>56</b>	<b>85</b>
Taxation	(10)	(10)	(16)	(17)	(25)
<b>PAT</b>	<b>(28)</b>	<b>24</b>	<b>37</b>	<b>39</b>	<b>59</b>
Loss from discontinued operation	0	(1)	0	0	0
Non-controlling interests	(12)	(0)	(0)	0	0
<b>PATMI</b>	<b>(16)</b>	<b>22</b>	<b>37</b>	<b>39</b>	<b>59</b>

### Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, basic (Cents)	(1)	1.8	2.8	3.0	4.5
EPS, diluted (Cents)	(1)	1.8	2.8	3.0	4.5
DPS (SG cents)	0	1.0	1.0	1.0	1.0
BVPS, basic (Cents)	8	10	12	13	17
BCPS, diluted (Cents)	8	10	12	13	17

### Cash Flow

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
PBT	(18)	33	52	56	85
Adjustments	16	15	34	48	48
WC changes	23	21	(30)	(24)	(5)
Cash generated from ops	(2)	48	86	104	133
Others	2	(0)	(10)	(12)	(14)
<b>Cashflow from ops</b>	<b>(0)</b>	<b>48</b>	<b>76</b>	<b>93</b>	<b>119</b>
<b>CFI</b>					
CAPEX, net	(17)	3	(35)	(30)	(30)
Others	(0)	(9)	2	0	3
<b>Cashflow from investments</b>	<b>(17)</b>	<b>(6)</b>	<b>(33)</b>	<b>(30)</b>	<b>(27)</b>
<b>CFF</b>					
Loans, net of repayments	(6)	(2)	213	0	0
Others	(2)	(6)	(26)	(30)	(30)
<b>Cashflow from financing</b>	<b>(8)</b>	<b>(8)</b>	<b>187</b>	<b>(30)</b>	<b>(30)</b>
<b>Net change in cash</b>	<b>(26)</b>	<b>34</b>	<b>229</b>	<b>33</b>	<b>61</b>
Effects of exchange rate	(1)	0	0	0	0
<b>Ending cash</b>	<b>7</b>	<b>63</b>	<b>262</b>	<b>272</b>	<b>328</b>

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
<b>ASSETS</b>					
PP&E	132	103	182	169	156
Deferred stripping costs	1	10	8	8	5
Others	13	9	14	17	18
<b>Total non-current assets</b>	<b>146</b>	<b>122</b>	<b>204</b>	<b>193</b>	<b>180</b>
Cash	12	68	266	277	333
Trade receivables	33	103	51	56	60
Others	24	16	30	58	68
<b>Total current assets</b>	<b>69</b>	<b>188</b>	<b>346</b>	<b>390</b>	<b>462</b>
<b>Total Assets</b>	<b>215</b>	<b>309</b>	<b>550</b>	<b>584</b>	<b>641</b>
<b>LIABILITIES</b>					
Borrowings	72	69	288	290	290
Others	3	1	3	3	3
<b>Total non-current liabilities</b>	<b>75</b>	<b>70</b>	<b>291</b>	<b>293</b>	<b>293</b>
Trade payables	40	107	92	101	112
Borrowings	7	0	0	0	0
Others	0	7	12	14	14
<b>Total current liabilities</b>	<b>46</b>	<b>114</b>	<b>104</b>	<b>115</b>	<b>125</b>
<b>Total Liabilities</b>	<b>121</b>	<b>184</b>	<b>396</b>	<b>409</b>	<b>419</b>
<b>Shareholder Equity</b>	<b>94</b>	<b>124</b>	<b>153</b>	<b>174</b>	<b>221</b>
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	5.6	3.7
P/B (x)	1.3	1.5	1.7	1.3	1.0
EV/EBITDA	N.M.	4	4	3	2

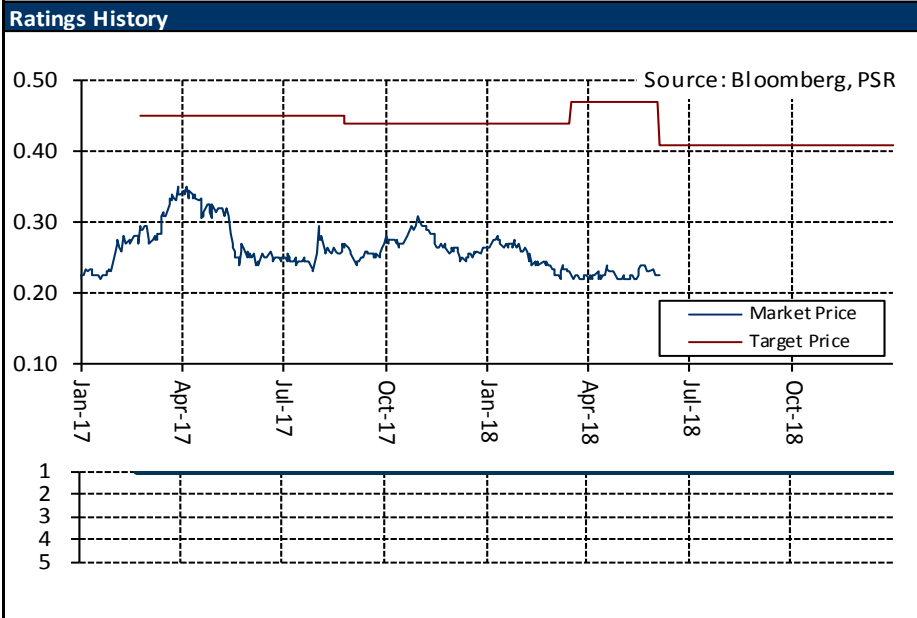
### Growth & Margins (%)

<b>Growth</b>					
Revenue	-58%	N.M.	74%	42%	16%
EBITDA	N.M.	N.M.	58%	22%	28%
EBIT	N.M.	N.M.	64%	33%	33%
PATMI	N.M.	N.M.	65%	7%	51%
<b>Margins</b>					
Gross margin	N.M.	23%	25%	22%	24%
EBIT margin	N.M.	22%	21%	19%	22%
PATMI margin	N.M.	12%	12%	9%	11%

### Key Ratios

Dividend yield (%)	0%	4%	4%	4%	4%
ROE (%)	N.M.	18%	24%	23%	27%
ROA (%)	N.M.	7%	7%	7%	9%
Net Debt or (Net Cash)	66	1	23	13	(43)
Gearing (%)	37%	22%	52%	50%	45%

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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