

Geo Energy Resources Ltd

Lacklustre outlook in 2019



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SINGAPORE | MINING | 4Q18 RESULTS

- 4Q18 revenue and net profit missed our expectations due to lower production volume and ASP
- We lower our FY19e sales volume to 8mn tonnes (previously 10mn tonnes) and revise down the ASP to US\$40.2/tonne (previously US\$41/tonne). Meanwhile, we lower the cash cost to US\$29.5/tonne (previously US\$30/tonne). Accordingly, FY19e EPS is cut to 1.6 US cents (previously 3.3 US cents). Based on an unchanged forward PER of 10x (average of regional peers) and the exchange rate (USD/SGD) of 1.35, we downgrade to ACCUMULATE recommendation with a lower target price of S\$0.215 (previously S\$0.245).

Results at a glance

(US\$ mn)	4Q18	4Q17	YoY (%)	Comments
Revenue	56.2	92.8	(39.4)	Lower sales volume and ASP
Gross profit	6.4	18.0	(64.5)	In line with the above
EBIT	1.4	14.3	(90.4)	In line with the above
PATMI	(5.0)	3.4	N.M.	Interest expenses on the Senior Notes

N.M.: not meaningful

Source: Company, PSR

The Positives

+ Lower stripping ratio for SDJ and TBR mine. In 4Q18, the average stripping ratio (SR) for SDJ mine dropped to 1.4 (3Q18: 3.0, 4Q17: 4.6). The full-year SR is 2.9, compared to 3.7 in FY17. On the other hand, the average SR for TBR mine which has been producing since Jul-18 dropped to 1.1 in 4Q18 (3Q18: 3.6), and the full-year SR is 2.4. The average cash cost of the overall production arrived at US\$29.6/tonne in 4Q18 (down 1.3% YoY).

+ Progress on asset acquisition. GEO has submitted a non-binding offer for a brownfield coal mine (high-CV coal) in East Kalimantan. If the deal pans out, GEO's production could double.

The Negatives

- Downsize production guidance in FY19. The full-year production met the downward-revised target (7mn to 8mn tonnes) in FY18. However, the FY19 output guidance is flat (8mn tonnes) with 3mn and 5mn tonnes of production from SDJ and TBR mine respectively. The lower target is attributable to a cut in quota from the authorities.

- Double whammies due to lower sales and ASP. As per Figure 1 below, both production/sales volume and ASP dropped in 4Q18. The average ICI 4,200 GAR plunged by 19.3% QoQ and 26.7% YoY to US\$33.5/tonne. The market price rout was due to the restriction on coal imports in China. Production and sales slowed down due to the collapse in margins or cash profit.

25 March 2019

ACCUMULATE (Downgrade)

CLOSING PRICE	SGD 0.184
FORECAST DIV	SGD 0.004
TARGET PRICE	SGD 0.215
TOTAL RETURN	19.0%

COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN)	1,399
MARKET CAP (USD mn / SGD mn)	191 / 257
52 - WK HI/LO (SGD)	0.26 / 0.16
3M Average Daily T/O (mn)	0.963

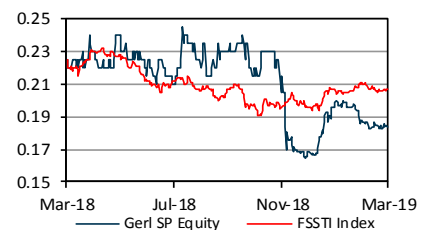
MAJOR SHAREHOLDERS (%)

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	(1.6)	9.5	(14.0)
STI RETURN	(1.7)	5.9	(5.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (US\$ mn)	316	299	322	356
EBITDA (US\$ mn)	83	69	81	90
PATMI (US\$ mn)	37	18	22	27
P/E (x)	6.9	9.1	8.3	6.6
P/B (x)	1.7	1.0	1.0	1.0
Dividend yield	4%	2%	2%	3%
ROE	24%	10%	12%	14%
ROA	7%	3%	4%	5%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:10.0x)

Chen Guangzhi (+65 6212 1859)

Research Analyst

chengz@phillip.com.sg

Figure 1: Cash profits collapsed

	4Q18	4Q17	YoY (%)	FY18	FY17	YoY (%)
Production volume (mn tonnes)	1.9	2.2	(13.6)	7.9	7.3	8.2
Sales volume (mn tonnes)	1.6	2.2	(25.9)	7.1	7.7	(8.0)
ASP (US\$/tonne)	35.2	42.4	(17.0)	42.1	40.3	4.6
Cash cost (US\$/tonne)	29.6	30.0	(1.3)	30.7	27.6	11.5
Revenue from coal mining (US\$mn)	69.3	73.9	(6.3)	299.2	316.3	(5.4)
Cash profit (US\$mn)	9.0	26.8	(66.5)	53.1	103.8	(48.8)

Source: Company, PSR

Outlook

Recently, the thermal coal prices rebounded due to the mine accident in China in Jan-19. However, the upside to coal prices will be limited as the seasonally weaker season is coming soon and the restriction on coal imports remains in China. There is little room for the group to grow the top line and bottom line given an expected slight improvement of output and a lower ASP. The catalyst is the potential deployment of cash and the increment of cash flows generated from any newly-acquired mine (assume the acquisition is completed). The longer the group delays completing a deal, the larger the drag on earnings from the interest expenses borne from their 8% US\$300mn bond.

Downgrade to ACCUMULATE with a lower target price of S\$0.215 (previously S\$0.245)

We lower forecasted sales volume to 8mn tonnes (previously 10mn tonnes) and revise ASP to US\$40.2/tonne (previously US\$41/tonne) for FY19e. Meanwhile, we revise the cash cost to US\$29.5/tonne (previously US\$30/tonne). Accordingly, FY19e EPS is cut to 1.6 US cents (previously 3.3 US cents). Based on an unchanged forward PER of 10x (average of regional peers) and the exchange rate (USD/SGD) of 1.35 we downgrade to ACCUMULATE recommendation with a lower target price of S\$0.215 (previously S\$0.245).

Financials

Income Statement

Y/E Dec, US mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	182	316	299	322	356
Gross profit	42	78	67	69	79
EBITDA	53	83	69	81	90
Depreciation & amortisation	13	18	14	23	24
EBIT	40	65	55	57	65
Net Finance (Expense)/Inc	(6)	(13)	(27)	(26)	(26)
PBT	34	52	29	31	39
Taxation	(10)	(16)	(11)	(9)	(12)
PAT	24	37	18	22	27
Loss from discontinued operation	(1)	0	0	0	0
Non-controlling interests	(0)	(0)	(0)	(0)	(0)
PATMI	22	37	18	22	27

Per share data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, basic (Cents)	1.8	2.9	1.3	1.6	2.0
EPS, diluted (Cents)	1.8	2.9	1.3	1.6	2.0
DPS (SG cents)	1.0	1.0	0.4	0.4	0.5
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	31	39
Adjustments	15	34	37	47	48
WC changes	21	(30)	(55)	(15)	(19)
Cash generated from ops	48	86	66	78	87
Others	(0)	(10)	(19)	(19)	(20)
Cashflow from ops	48	76	47	59	67
CFI					
CAPEX, net	3	(35)	(4)	(4)	(5)
Others	(9)	2	(32)	(15)	(20)
Cashflow from investments	(6)	(33)	(37)	(19)	(25)
CFF					
Loans, net of repayments	(2)	213	(0)	0	0
Others	(6)	(26)	(20)	(30)	(30)
Cashflow from financing	(8)	187	(21)	(30)	(30)
Net change in cash	34	229	(10)	10	12
Effects of exchange rate	0	0	(0)	0	0
Ending cash	58	262	197	192	185

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	66	78
Others	9	14	52	57	64
Total non-current assets	122	204	282	288	300
Cash	68	266	203	197	190
Trade receivables	103	51	25	26	31
Others	16	30	38	44	49
Total current assets	188	346	266	267	269
Total Assets	309	550	549	555	569
LIABILITIES					
Borrowings	69	288	291	293	296
Others	1	3	7	5	5
Total non-current liabilities	70	291	298	298	301
Trade payables	107	92	74	71	67
Borrowings	0	0	0	0	0
Others	7	12	2	2	2
Total current liabilities	114	104	77	73	69
Total Liabilities	184	396	374	371	370
Shareholder Equity	124	153	174	184	199
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)	8.0	6.9	9.1	8.3	6.6
P/B (x)	1.5	1.7	1.0	1.0	1.0
EV/EBITDA	3.7	3.4	3.5	3.6	3.3

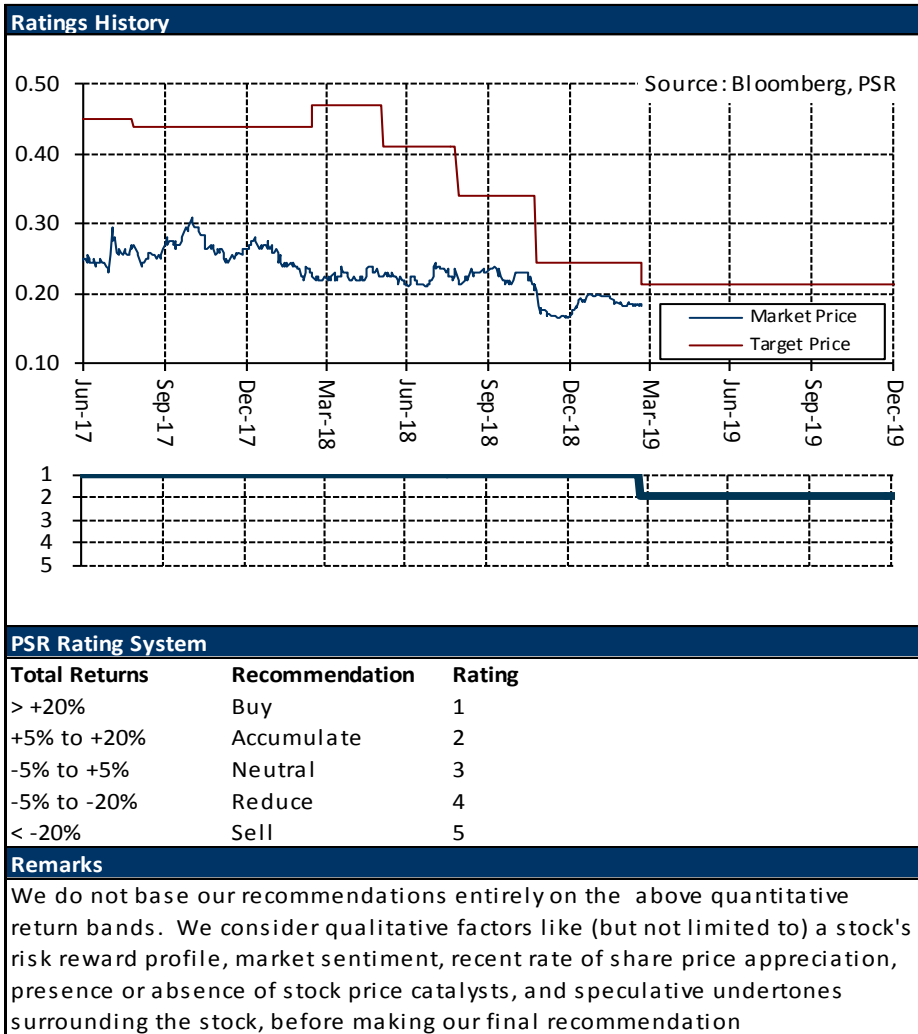
Growth & Margins (%)

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	N.M.	74%	-5%	7%	11%
EBITDA	N.M.	58%	-17%	17%	11%
EBIT	N.M.	64%	-15%	4%	14%
PATMI	N.M.	65%	-51%	20%	26%
Margins					
Gross margin	23%	25%	22%	22%	22%
EBIT margin	22%	21%	18%	18%	18%
PATMI margin	12%	12%	6%	7%	8%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
Dividend yield (%)	4%	4%	2%	2%	3%
ROE (%)	18%	24%	10%	12%	14%
ROA (%)	7%	7%	3%	4%	5%
Net Debt or (Net Cash)	1	23	88	96	106
Gearing (%)	22%	52%	53%	53%	52%

N.M.: not meaningful



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

syazwina@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

Property | REITs

Tara Wong - tarawongsj@phillip.com.sg

REITs

Natalie Ong - natalieongpf@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

US Equity

Edmund Xue – edmundxuejj@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 8633 9803
Fax +61-03 8633 9899
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

No. 60, 5th Lane,
Colombo 3, 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 (DGEX)
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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