

# Interra Resources Limited

Date: 16 November 2018

**BUY**  
(Maintained)

**Target price: S\$0.089**  
(+123%)

**ITRR SP**

**Price: S\$0.040** (as at 15 November 2018)



Share price	1M	3M	6M	1Y
Interra Resources	(20.0)%	(20.0)%	(33.3)%	(33.3)%
Straits Times Index	(0.0)%	(8.9)%	(5.0)%	(26.2)%

<b>Market capitalisation</b>	S\$23.4 million
<b>Current price</b>	S\$0.040
<b>Shares outstanding</b>	585,973,604
<b>Free Float</b>	17.6%
<b>Major shareholders</b>	North Petroleum International (1) 13.57% PT Saratoga Investama Sedaya (2) 13.54%
<b>Recommendation of other brokers</b>	N/A

Source: Company data, Bloomberg, SAC Advisors

(1) North Petroleum International Company Ltd is headquartered in Hong Kong. The Company's line of business includes the wholesale distribution of petroleum and petroleum products.

(2) Edwin Soeryadjaya and Sandiogo Salahuddin Uno are deemed to have interests in all the shares held by PT Saratoga Investama Sedaya.

## Analyst

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## Key Financials

Year ended December (US\$'000)	FY2014	FY2015	FY2016	FY2017	FY2018E
<b>Revenue</b>	55,796	23,452	15,173	11,245	15,900
<b>% Growth</b>	11.2%	(58.0%)	(35.3%)	(25.9%)	41.4%
<b>Gross profit</b>	11,155	(10,621)	5,563	6,203	7,712
<b>Gross profit margin</b>	20.0%	(45.3%)	36.7%	55.2%	48.5%
<b>Profit/(loss) before tax</b>	(7,998)	(52,229)	(7,787)	1,212	635
<b>Profit/(loss) before tax margin</b>	NA	NA	NA	10.8%	4.0%
<b>Profit/(loss) attributable to owners (3)</b>	(10,794)	(47,417)	(8,041)	1,320	477
<b>EPS/(LPS) (US cents)</b>	(2.4)	(9.8)	(1.6)	0.3	NA
<b>P/E (x)</b>	NA	NA	NA	14.9	NA
<b>P/B (x)</b>	0.3	0.6	0.7	0.7	NA
<b>Net Debt/Equity</b>	Net cash	Net cash	Net cash	Net cash	Net cash

(3) Profit/(loss) attributable to equity holders of the Company from continuing operations

## Second consecutive quarter of profitability

Interra Resources Limited, and together with its subsidiaries, ("Interra Resources", "Company", or the "Group") reported third quarter results which saw revenue for the quarter come in at US\$4.3 million, 10% higher than the previous quarter and 73% higher on a year-on-year basis. Overall, revenue benefited from the higher weighted average transacted oil price of US\$72.43 per barrel as compared to the previous quarter of US\$70.39, and the higher sales of shareable oil of 75,103 barrels as compared to the previous quarter of 64,095 barrels. This boosted the Group's gross margins by 14.3% from 39.0% in the corresponding period to 53.3% this quarter. Their 9M18 profit of US\$1.28 million also beat our FY18 profit of US\$477,000 by a wide margin (>168%).

**Group's shareable production for the quarter increased 35% from previous quarter to 75,103 barrels.** The Group benefited from the increased drilling activity post contract extension, which saw higher shareable production from Myanmar in the third quarter. A total of 2 new wells were drilled during the quarter, bringing the total wells drilled for the year to 8, the incremental production has now reached the pre-contract extension level.

**We maintain BUY with a target price of S\$0.089** based on a conservative target 6.4x EV/1P Reserves. This is a 50% discount to the industry average. We believe Interra Resources is at a key inflexion point. Firmer oil prices and contract extensions have led to a turnaround in profitability which we have already seen in their last 2 quarters, and this has already exceeded our FY18 forecast. The stock trades at 0.7x of its book value, albeit sitting on net cash of US\$5.3m as at September 2018. We maintain BUY with a target price of S\$0.089, representing a 123% upside potential.

**Key risks:** (i) Variability in crude oil price and (ii) variability in final shareable oil production

## Group’s profit margins soars

Interra Resources, reported third quarter results which saw revenue for the quarter come in at US\$4.3 million, 10% higher than the previous quarter and 73% higher on a year-on-year basis. Overall, revenue benefited from the higher weighted average transacted oil price of US\$72.43 per barrel as compared to the previous quarter of US\$70.39, and the higher sales of shareable oil of 75,103 barrels as compared to the previous quarter of 64,095 barrels. This boosted the Group’s gross margins by 14.3% from 39.0% in the corresponding period to 53.3% this quarter.

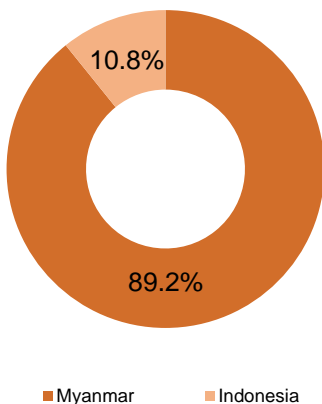
The strong operating performance saw the Group report a profit of US\$1.3 million, reversing the loss of US\$0.1 million reported from the corresponding period last year, and marked their second consecutive quarter of turning a profit for FY18. Their 9M18 profit of US\$1.28 million also beat our FY18 profit of US\$477,000 by a wide margin (>168%).

**Group’s shareable production for the quarter increased 35% from previous quarter to 75,103 barrels.** The Group benefited from the increased drilling activity post contract extension, which saw higher shareable production from Myanmar in the third quarter. A total of 2 new wells were drilled during the quarter, bringing the total wells drilled for the year to 8, the incremental production has now reached the pre-contract extension level. The increase this quarter however, was offset by the loss of shareable production from LS TAC in Q318 (representing 7,370 barrels in Q317) due to the deconsolidation of PT Intinusa Abadi Manufacturing by PT Mitra Investindo TBK.

### Business Overview:

Interra Resources engages in the petroleum exploration production activities in Indonesia and Myanmar. They have a 60% interests in two onshore oil fields in Chauk and Yenangyaung, which contribute the bulk of revenue. Interra Resources was incorporated in 1973.

Net 1P Reserves (FY2017)



Source: Company data, SAC Advisors

(US\$'000)	3Q18	2Q18	3Q17
Gross profit	<b>2,289</b>	2,061	971
Gross margin	<b>53.3%</b>	52.7%	39.0%
Profit for period	<b>1,302</b>	544	(184)
Profit margin	<b>30.3%</b>	13.9%	N/A

Source: Company data, SAC Advisors

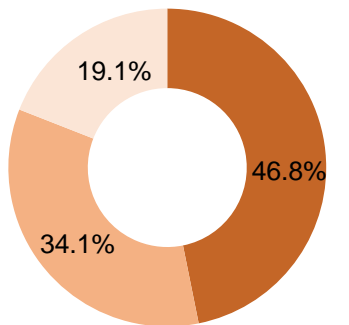
In our view, the quarter-on-quarter rise in shareable production illustrates the Group’s Water Flood Project – which commenced in 2Q18 – is progressing well. The Group also disclosed that the technical team is evaluating various strategies and options to optimise the output of the Water Flood Project, which has so far exceeded our expectations.

## Increased shareable production and profitability

**We maintain BUY with a target price of S\$0.089** based on a conservative target 6.4x EV/1P Reserves. This is a 50% discount to the industry average. We believe Interra Resources is at a key inflexion point. Firmer oil prices and contract extensions have led to a turnaround in profitability which we have already seen in their last 2 quarters, and this has already exceeded our FY18 forecast. The stock trades at 0.7x of its book value, albeit sitting on net cash of US\$5.3m as at September 2018. We maintain BUY with a target price of S\$0.089, representing a 123% upside potential.

## Company Background

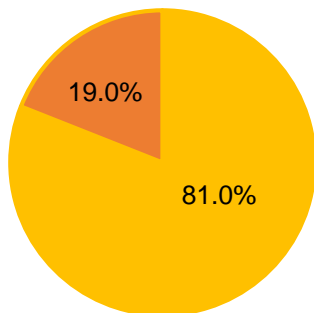
Revenue Breakdown (FY2017) – By oilfield



■ Chauk ■ Yenangyaung ■ Linda-Sele

Source: Company data, SAC Advisors

Revenue breakdown (FY2017) – By country



■ Myanmar ■ Indonesia

Source: Company data, SAC Advisors

\*The Group's revenue from Indonesia declined in FY17 vs. FY16 because the Technical Assistance Contract for the Tanjung Miring Timur field expired in December 2016.

Interra Resources is engaged in the business of petroleum E&P. Its E&P activities include petroleum production, field development and exploration. Interra Resources is positioning themselves to become a leading regional independent producer of petroleum. Its current portfolio of production, development and exploration assets comprises five petroleum contract areas in Indonesia and Myanmar.

Its operations in Myanmar, namely Chauk and Yenangyaung contributed 81.0% of total revenue as compared to 19.0% from Indonesia, which came solely from the Linda-Sele fields.

In line with the curtailment of the drilling programme for the past two years owing to the crude oil slump and contract expiry, the Group's total shareable oil production for FY2017 fell 48.2% to 261,635 barrels from 504,979 barrels for FY2016.

It was previously listed on the SGX Catalist Board before getting transferred to the SGX Mainboard on the 10 January 2013.

## Petroleum Assets

Country/asset name	Effective interest (%)	Development status	Type of contract	Contract Expiry date	Contract area (km <sup>2</sup> )	Type of deposit
<b>Myanmar</b>						
Chauk Field	60.00	Producing	Improved Petroleum Recovery Contract ("IPRC")	3 Apr 2028	955	Hydrocarbon
Yenangyaung Field	60.00	Producing	IPRC	3 Apr 2028	845	Hydrocarbon
<b>Indonesia</b>						
Linda-Sele Fields	53.99	Producing	Technical Assistance Contract ("TAC")	15 Nov 2018	19	Hydrocarbon
Benakat Barat Field	30.65 (indirect)	Producing	Operations Cooperation Agreement ("KSO")	15 Mar 2024	73	Hydrocarbon
Kuala Pambuang Block	67.50	Exploration	Production Sharing Contract ("PSC")	18 Dec 2021	1,631	Hydrocarbon

Source: Company data, SAC Advisors

**Income Statement (US\$'000)**

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
<b>Revenue</b> <sup>(1)</sup>	<b>23,452</b>	<b>15,173</b>	<b>11,245</b>	<b>15,900</b>	N/A
Less: Cost of sales	(34,073)	(9,610)	(5,042)	(8,189)	N/A
<b>Gross Profit</b>	<b>(10,621)</b>	<b>5,563</b>	<b>6,203</b>	<b>7,712</b>	N/A
Other income	324	63	594	395	N/A
Administrative expenses	(41,247)	(6,574)	(5,269)	(7,155)	N/A
Finance expenses	(59)	(82)	(130)	(130)	N/A
Share of losses of associated companies	(626)	(6,755)	(186)	(186)	N/A
<b>Results from operating activities</b>	<b>(52,229)</b>	<b>(7,787)</b>	<b>1,212</b>	<b>635</b>	N/A
Tax expense	(555)	(1,031)	(813)	(159)	N/A
Profit/(Loss) from discontinued operations for FY	(655)	(39)	(46)	0	N/A
<b>Total profit/(loss)</b>	<b>(53,439)</b>	<b>(8,857)</b>	<b>353</b>	<b>477</b>	N/A
<b>Profit/(Loss) attributable to owners of company</b>	<b>(47,719)</b>	<b>(8,062)</b>	<b>1,298</b>	<b>N/A</b>	<b>N/A</b>
<b>Earnings/(Loss) per share:</b>					
-Basic (US cents)	<b>(9.85)</b>	<b>(1.59)</b>	<b>0.26</b>	N/A	N/A
-Diluted (US cents)	<b>(9.85)</b>	<b>(1.59)</b>	<b>0.26</b>	N/A	N/A

(1) From continuing operations

**Balance Sheet (US\$'000)**

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
<b>As at 31 December</b>					
Property, plant and equipment	133	92	95	N/A	N/A
Producing oil and gas properties	359	206	3,152	N/A	N/A
Exploration and evaluation costs	10,488	10,584	10,616	N/A	N/A
Other non-current assets	12,127	3,792	11,451	N/A	N/A
<b>Total non-current assets</b>	<b>23,107</b>	<b>14,674</b>	<b>25,314</b>	<b>N/A</b>	<b>N/A</b>
Inventories	6,804	4,880	5,202	N/A	N/A
Trade and other receivables	12,450	13,486	8,295	N/A	N/A
Cash and bank balances	17,828	14,087	11,291	N/A	N/A
Other current assets	777	377	353	N/A	N/A
Assets of disposal group classified as held-for-sale	4,452	4,599	4,496	N/A	N/A
<b>Total current assets</b>	<b>42,311</b>	<b>37,322</b>	<b>29,637</b>	<b>N/A</b>	<b>N/A</b>
<b>Total assets</b>	<b>65,418</b>	<b>52,103</b>	<b>54,951</b>	<b>N/A</b>	<b>N/A</b>
Share capital	69,258	69,258	69,258	N/A	N/A
Accumulated losses	(21,271)	(29,369)	(28,169)	N/A	N/A
Other reserves	(18,597)	(18,397)	(18,713)	N/A	N/A
<b>Equity attributable to owners of the Company</b>	<b>29,390</b>	<b>21,492</b>	<b>22,376</b>	<b>N/A</b>	<b>N/A</b>
Non-controlling interests	3,962	3,847	4,746	N/A	N/A
<b>Total Equity</b>	<b>33,352</b>	<b>25,339</b>	<b>27,122</b>	<b>N/A</b>	<b>N/A</b>
Provision for environmental and restoration costs	4,474	1,564	139	N/A	N/A
Other non-current liabilities	39	53	25	N/A	N/A
<b>Non-current liabilities</b>	<b>4,513</b>	<b>1,617</b>	<b>164</b>	<b>N/A</b>	<b>N/A</b>
Trade and other payables	16,096	9,499	13,234	N/A	N/A
Borrowings	3,728	3,739	3,736	N/A	N/A
Provision for environmental and restoration costs	-	3,300	1,581	N/A	N/A
Current income tax liabilities	6,657	7,327	7,604	N/A	N/A
Liabilities directly associated with disposal group classified as Held-for-sale	1,072	1,282	1,510	N/A	N/A
<b>Current liabilities</b>	<b>27,553</b>	<b>25,147</b>	<b>27,665</b>	<b>N/A</b>	<b>N/A</b>
<b>Total liabilities</b>	<b>32,066</b>	<b>26,764</b>	<b>27,829</b>	<b>N/A</b>	<b>N/A</b>
<b>Total equity and liabilities</b>	<b>65,418</b>	<b>52,103</b>	<b>54,951</b>	<b>N/A</b>	<b>N/A</b>

**Cash Flow Statement (US\$'000)**

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
<b>Profit/(Loss) before tax</b>	<b>(53,439)</b>	<b>(8,857)</b>	<b>353</b>	<b>NA</b>	<b>NA</b>
Depreciation, amortisation and impairment <sup>(2)</sup>	52,374	431	270	NA	NA
Change in working capital	7,230	(799)	304	NA	NA
Others	2,427	7,928	1,709	NA	NA
<b>Net Cash from/ (used in) operations</b>	<b>8,592</b>	<b>(1,297)</b>	<b>2,636</b>	<b>NA</b>	<b>NA</b>
Capital Expenditures	(8,501)	(332)	(3,309)	NA	NA
Others	650	139	(1,921)	NA	NA
<b>Net Cash from/(used in) investing</b>	<b>(7,851)</b>	<b>(193)</b>	<b>(5,230)</b>	<b>NA</b>	<b>NA</b>
Net increase in equity	1	-	100	NA	NA
Net increase in debt	3,000	(4,476)	658	NA	NA
Others	(4,327)	(2,080)	1,165	NA	NA
<b>Net Cash from/(used in) financing</b>	<b>(1,326)</b>	<b>(6,556)</b>	<b>1,923</b>	<b>NA</b>	<b>NA</b>

(2) The decline in both crude oil prices and production levels gave rise to an overall impairment charge on the producing oil and gas properties in FY15.

**Ratios**

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
<b>Profitability (%)</b>					
Gross profit margin	(45.3%)	36.7%	55.2%	NA	NA
Profit/(loss) before tax margin	(222.7%)	(51.3%)	10.8%	NA	NA
Profit/(loss) after tax margin	(227.9%)	(58.4%)	3.1%	NA	NA
<b>Liquidity (x)</b>					
Current ratio	1.5	1.5	1.1	NA	NA
Quick ratio	1.3	1.3	0.9	NA	NA
Interest coverage ratio	(890.8)	(93.4)	10.3	NA	NA
Net Debt to Equity	(48.0%)	(37.8%)	(33.3%)	NA	NA
<b>Valuation (x)</b>					
P/S	1.5	2.4	3.2	NA	NA
P/E	NA	NA	14.9	NA	NA
P/B	0.6	0.7	0.7	NA	NA
<b>Cash Conversion Cycle</b>					
Net trade receivable days	52	87	107	NA	NA
Inventory days	65	132	282	NA	NA
Trade payable days	65	41	97	NA	NA
CCC days	48	193	276	NA	NA
<b>Returns</b>					
Return on equity	(162.4%)	(37.5%)	5.8%	NA	NA
Return on capital employed	(141.1%)	(32.9%)	1.3%	NA	NA
Dividend payout ratio	NA	NA	NA	NA	NA

n.m.: not meaningful

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Nil	Nil

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Nil	Nil	Nil

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Analyst name	Quantum of position
Nil	Nil

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