

Interra Resources Limited

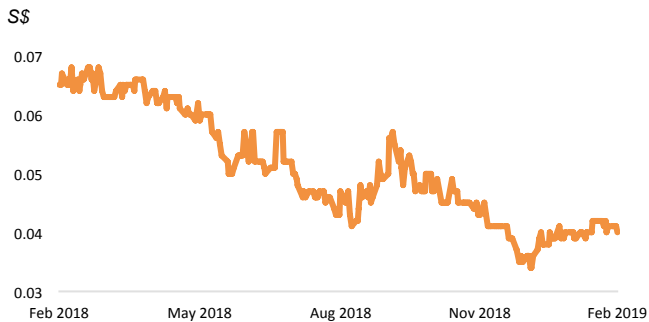
Date: 1 March 2019

BUY
(Maintained)

Target price: S\$0.089
(+154%)

ITRR SP

Price: S\$0.035 (as at 28 February 2019)



Share price	1M	3M	6M	1Y
Interra Resources	0%	0%	(22.2%)	(41.7%)
Straits Times Index	(2.3%)	(6.8%)	(21.9%)	(51.1%)

Market capitalisation	S\$20.5 million
Current price	S\$0.035
Shares outstanding	585,973,604
Free Float	17.6%
Major shareholders	North Petroleum International (1) 13.57% PT Saratoga Investama Sedaya (2) 13.54%
Recommendation of other brokers	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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Interra's FY18 profit ahead of our estimates by 83.2%

Interra Resources Limited, and together with its subsidiaries, ("Interra Resources", "Company", or the "Group") reported full year FY18 results which saw revenue for the year come in at US\$14.9 million, 32% higher than the previous year, profit for FY18 came in 95% higher on a y-y basis. For the full year, Interra's profit of \$0.9 million came ahead of our expectations by 83.2%.

Management expecting recovery in the first quarter of 2019. The dip in revenue for the quarter was attributed to the recent dip in the oil price, resulting in revenue for the last two months to decline. However, owing to the good drilling result from the new wells in Myanmar together with the slight recovery of the oil price in the beginning of 2019, management now expect a slight rebound for the first quarter of 2019.

Group announced completion of drilling for a total of 4 oil wells in 2019. The Group announced a series of oil well completions for the year with CHK 1212, CHK 1213, CHK 1214, and CHK 1215 being completed as an oil producer in Myanmar. The Group has also announced the drilling commencement of CHK 1216 and CHK 1217 which should boost production volumes when they come onstream.

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 154% upside potential.

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

Key Financials

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

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

Rebound expected in 1Q19

Interra Resources, reported full year FY18 results which saw revenue for the year come in at US\$14.9 million, 32% higher than the previous year, profit for FY18 came in 95% higher on a y-y basis. Overall, revenue for the year benefited from higher sales of shareable oil of 266,531 barrels as compared to the previous financial year of 259,968 barrels and higher weighted average transacted oil prices of US\$67.95 per barrel as compared to the previous financial year of US\$51.38 per barrel. For the full year, Interra's profit of \$0.9 million came ahead of our expectations by 83.2%.

During the quarter, Myanmar's shareable production decreased by 4% to 71,741 barrels in 4Q2018 from 75,103 barrels in 3Q2018. As no new wells were drilled during the quarter, the decrease was due to natural decline although the decline was offset due to the success of Water Flooding project. A total of 3 new wells were drilled during 4Q2018 as part of 2019 drilling program. As a result, production in 1Q2019 is expected to improve. With the infrastructure for the Water Flooding project in place in 2018, contribution from this project is expected in 2019.

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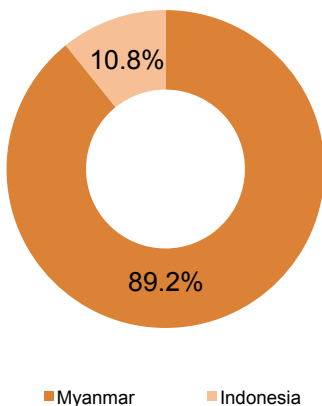
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Business Overview:

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.

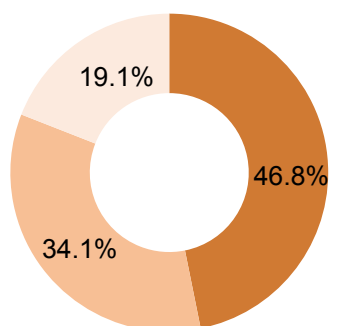
Net 1P Reserves (FY2017)



Source: Company data, SAC Advisors

Company Background

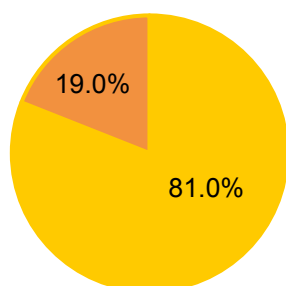
Revenue Breakdown (FY2017) – By oilfield



■ 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 (km2)	Type of deposit
Myanmar						
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
Indonesia						
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
Revenue ⁽¹⁾	23,452	15,173	11,245	15,900	N/A
Less: Cost of sales	(34,073)	(9,610)	(5,042)	(8,189)	N/A
Gross Profit	(10,621)	5,563	6,203	7,712	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
Results from operating activities	(52,229)	(7,787)	1,212	635	N/A
Tax expense	(555)	(1,031)	(813)	(159)	N/A
Profit/(Loss) from discontinued operations for FY	(655)	(39)	(46)	0	N/A
Total profit/(loss)	(53,439)	(8,857)	353	477	N/A
Profit/(Loss) attributable to owners of company	(47,719)	(8,062)	1,298	N/A	N/A
Earnings/(Loss) per share:					
-Basic (US cents)	(9.85)	(1.59)	0.26	N/A	N/A
-Diluted (US cents)	(9.85)	(1.59)	0.26	N/A	N/A

(1) From continuing operations

Balance Sheet (US\$'000)

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
As at 31 December					
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
Total non-current assets	23,107	14,674	25,314	N/A	N/A
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
Total current assets	42,311	37,322	29,637	N/A	N/A
Total assets	65,418	52,103	54,951	N/A	N/A
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
Equity attributable to owners of the Company	29,390	21,492	22,376	N/A	N/A
Non-controlling interests	3,962	3,847	4,746	N/A	N/A
Total Equity	33,352	25,339	27,122	N/A	N/A
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
Non-current liabilities	4,513	1,617	164	N/A	N/A
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
Current liabilities	27,553	25,147	27,665	N/A	N/A
Total liabilities	32,066	26,764	27,829	N/A	N/A
Total equity and liabilities	65,418	52,103	54,951	N/A	N/A

Cash Flow Statement (US\$'000)

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
Profit/(Loss) before tax	(53,439)	(8,857)	353	NA	NA
Depreciation, amortisation and impairment ⁽²⁾	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
Net Cash from/ (used in) operations	8,592	(1,297)	2,636	NA	NA
Capital Expenditures	(8,501)	(332)	(3,309)	NA	NA
Others	650	139	(1,921)	NA	NA
Net Cash from/(used in) investing	(7,851)	(193)	(5,230)	NA	NA
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
Net Cash from/(used in) financing	(1,326)	(6,556)	1,923	NA	NA

(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
Profitability (%)					
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
Liquidity (x)					
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
Valuation (x)					
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
Cash Conversion Cycle					
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
Returns					
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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Analyst name	Quantum of position
Nil	Nil

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