

Interra Resources Limited

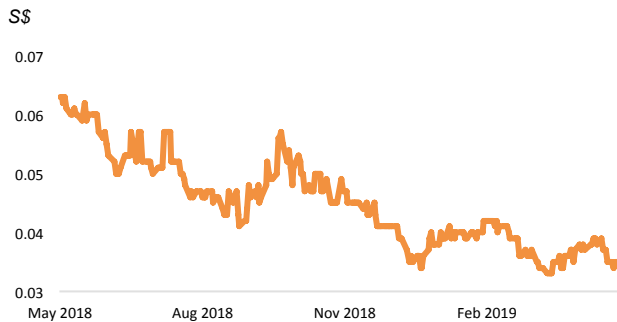
Date: 14 May 2019

BUY
(Maintained)

Target price: S\$0.089
(+207%)

ITRR SP

Price: S\$0.029 (as at 13 May 2019)



Share price	1M	3M	6M	1Y
Interra Resources	(9.4%)	(27.5%)	(33.3%)	(51.7%)
Straits Times Index	(3.1%)	(0.2%)	6.0%	(8.9%)

Market capitalisation	S\$17.0 million
Current price	S\$0.029
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

Terence Chua +65 6232 3236

tchua@saccapital.com.sg

Revenue increased 36% year-on-year with Group turning in a profit

Interra Resources Limited, and together with its subsidiaries, ("Interra Resources", "Company", or the "Group") reported first quarter FY19 results which saw revenue for the year come in at US\$4 million, 36% higher than the previous year. The Group also turned in a profit of US\$610,000 vs the US \$564,000 loss in the same period last year.

Management announced preparations for the drilling of an exploration well at Kuala Pambuang PSC to be in advanced stages. The local authority has approved the well location and related expenditure, and preparations are underway towards spudding the exploration well later in the year. That said, no significant contribution is expected from this field in the near term. The cost of drilling of the exploration well will be funded internally.

Group announced completion of drilling for a total of 6 oil wells in 2019. The Group announced a series of oil well completions for the year with CHK 1212, CHK 1213, CHK 1214, CHK 1215, CHK 1216 and CHK 1217 being completed as an oil producer in Myanmar. The Group has also announced the drilling completion of Yenangyaung development well YNG 3274 in the second quarter of 2019, which will boost production volumes in 2Q19.

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 0.4x of its book value, albeit sitting on net cash of US \$3.0m as at March 2019. We maintain BUY with a target price of S\$0.089, representing a 207% 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)	FY2015	FY2016	FY2017	FY2018	FY2019E
Revenue	23,452	15,173	11,245	15,900	19,302
% Growth	(58.0%)	(35.3%)	(25.9%)	32.4%	29.7%
Gross profit	(10,621)	5,563	6,203	6,897	8,897
Gross profit margin	(45.3%)	36.7%	55.2%	46.3%	46.0%
Profit/(loss) before tax	(52,229)	(7,787)	1,212	263	1,518
Profit/(loss) before tax margin	NA	NA	10.8%	1.8%	7.9%
Profit/(loss) attributable to owners (3)	(47,417)	(8,041)	1,320	874	1,518
EPS/(LPS) (US cents)	(9.8)	(1.6)	0.3	0.2	0.2
P/E (x)	NA	NA	11.1	19.2	12.4
P/B (x)	0.4	0.5	0.5	0.4	0.4
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 first quarter FY19 results which saw revenue for the year come in at US\$4 million, 36% higher than the previous year. The higher revenue was a result of higher sales of shareable oil of 82,272 barrels in the first quarter of 2019, a 44% increase from the corresponding period, and a 15% increase from the fourth quarter of 2018. Though this was transacted at a lower weighted average price of US\$61.59/barrel vs. US\$63.12 in the previous period. The Group also turned in a profit of US\$610,000 vs the US\$564,000 loss in the same period last year.

During the quarter, Myanmar's shareable production decreased by 44% to 82,272 barrels in 1Q2019 from 57,315 barrels in 1Q2018. The increase was due to higher shareable production from Myanmar, though this was offset by the absence of shareable production from LS TAC in the first quarter of 2019 due to the deconsolidation of MITI on 30 June 2018, and the expiry of TAC. A total of five (5) new wells were spudded-in during this quarter as part of 2019 drilling program, and management has revealed that most of them have contributed positively to the improvement in overall production. As a result, they have guided for overall production in FY2019 to improve. With the infrastructure for the Water Flooding project in place in 2018, contribution from this project is expected in 2019.

Management announced preparations for the drilling of an exploration well at Kuala Pambuang PSC to be in advanced stages. The local authority has approved the well location and related expenditure, and preparations are underway towards spudding the exploration well later in the year. That said, no significant contribution is expected from this field in the near term. The cost of drilling of the exploration well will be funded internally.

Group announced completion of drilling for a total of 6 oil wells in 2019. The Group announced a series of oil well completions for the year with CHK 1212, CHK 1213, CHK 1214, CHK 1215, CHK 1216 and CHK 1217 being completed as an oil producer in Myanmar. The Group has also announced the drilling completion of Yenangyaung development well YNG 3274 in the second quarter of 2019, which will boost production volumes in 2Q19.

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 0.4x of its book value, albeit sitting on net cash of US\$3.0m as at March 2019. We maintain BUY with a target price of S\$0.089, representing a 207% upside potential.

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.

Oil reserves (mmstb) ⁽¹⁾ As at 31 December 2018	1P (net)	2P (net)	3P (net)
Myanmar	1.22	1.78	2.36
Indonesia	0	0.35	0.47

Source: Company data, SAC Advisors

(1) Million stock tank barrels

Company Background

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	FY18	FY19E
Revenue ⁽¹⁾	23,452	15,173	11,245	14,885	19,302
Less: Cost of sales	(34,073)	(9,610)	(5,042)	(7,988)	(10,423)
Gross Profit	(10,621)	5,563	6,203	6,897	8,879
Other income	324	63	594	713	713
Administrative expenses	(41,247)	(6,574)	(5,269)	(6,619)	(7,347)
Finance expenses	(59)	(82)	(130)	(102)	(102)
Share of losses of associated companies	(626)	(6,755)	(186)	(625)	(625)
Results from operating activities	(52,229)	(7,787)	1,212	263	1,518
Tax expense	(555)	(1,031)	(813)	516	(152)
Profit/(Loss) from discontinued operations for FY	(655)	(39)	(46)	(54)	0
Total profit/(loss)	(53,439)	(8,857)	353	779	1,366
Profit/(Loss) attributable to owners of company	(47,719)	(8,062)	1,298	848	N/A
Earnings/(Loss) per share:					
-Basic (US cents)	(9.85)	(1.59)	0.26	0.15	0.23
-Diluted (US cents)	(9.85)	(1.59)	0.26	0.15	0.23

(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

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Advisors Private Limited (“**SAC Advisors**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore. SAC Advisors is a wholly-owned subsidiary of SAC Capital Private Limited (“**SAC Capital**”) which is also a capital markets services licensee.

SAC Advisors has prepared this report for the purpose of general circulation and will be compensated for its production. We have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Advisors. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Advisors has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report contains certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the Company, SAC Capital, SAC Advisors or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Advisors, SAC Capital and their associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance related services for the company whose securities are covered in the report. SAC Advisors and its related companies may from time to time perform advisory services, or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report have not and will not participate in the solicitation of such business.

As at the date of this report, SAC Advisors and its associates, including SAC Capital, do not have proprietary positions in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Advisors and its associates, including SAC Capital, has/have had business relations with the subject company within the past 12 months, as disclosed hereunder:

Company	Nature of business relation	Date of business relation
Nil	Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Advisors who produced this report hereby certify that

(i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);

(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Advisors or SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.