

# Interra Resources Limited

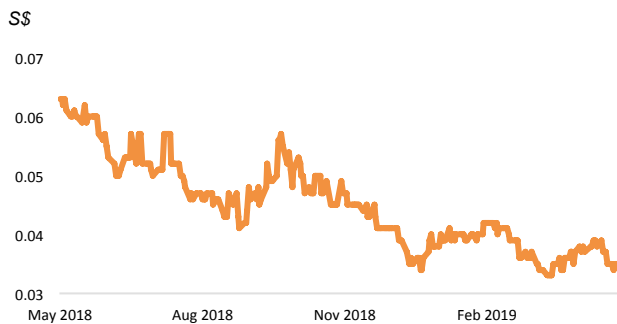
Date: 14 August 2019

**BUY**  
(Maintained)

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

**ITRR SP**

**Price: S\$0.029** (as at 13 August 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%)

<b>Market capitalisation</b>	S\$17.0 million
<b>Current price</b>	S\$0.029
<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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## Revenue higher, but profit impacted by impairment charges

Interra Resources Limited, and together with its subsidiaries, ("Interra Resources", "Company", or the "Group") reported second quarter FY19 results which saw revenue for the quarter come in at US\$4 million, 2% higher than the previous quarter or 5% higher compared to last year. The Group also recorded an overall loss of US\$2.1 million from impairment charges made during the quarter, following which the Group has no more obligations to recognise further losses of these associated companies.

**Management announced further progress for the drilling of an exploration well at Kuala Pambuang PSC which is now in the final stages.** The Group had previously announced that the local authority has approved the well location and related expenditure. Barring any unforeseen circumstances, they now expect the exploration well to be spudded before the end of Q3 2019.

**Group reported net operating cash flow of US\$4 million for quarter vs. US\$0.8 million last year.** Despite recording an impairment charge for this quarter, the Group reported net operating cash flow of US\$4 million for the quarter or US \$3.4 million for 6M2019. Overall, the Group generated free cash flows of US\$3.3 million and US\$0.7 million for 2Q2019 and 1H2019 respectively.

**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
<b>Revenue</b>	23,452	15,173	11,245	15,900	19,302
<b>% Growth</b>	(58.0%)	(35.3%)	(25.9%)	32.4%	29.7%
<b>Gross profit</b>	(10,621)	5,563	6,203	6,897	8,897
<b>Gross profit margin</b>	(45.3%)	36.7%	55.2%	46.3%	46.0%
<b>Profit/(loss) before tax</b>	(52,229)	(7,787)	1,212	263	1,518
<b>Profit/(loss) before tax margin</b>	NA	NA	10.8%	1.8%	7.9%
<b>Profit/(loss) attributable to owners (3)</b>	(47,417)	(8,041)	1,320	874	1,518
<b>EPS/(LPS) (US cents)</b>	(9.8)	(1.6)	0.3	0.2	0.2
<b>P/E (x)</b>	NA	NA	11.1	19.2	12.4
<b>P/B (x)</b>	0.4	0.5	0.5	0.4	0.4
<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

## Strengthened cash position

Interra Resources reported second quarter FY19 results which saw revenue for the quarter come in at US\$4 million, 2% higher than the previous quarter or 5% higher compared to last year. The increase was due mainly to higher weighted average transacted oil prices of US \$66.87 per barrel as compared to the previous quarter of US\$61.59 per barrel. The Group also recorded an overall loss of US\$2.1 million from impairment charges made during the quarter, following which the Group has no more contractual obligations to recognise further losses of these associated companies.

During the quarter, Myanmar's shareable production decreased by 6% on a quarter-on-quarter basis to 77,522 barrels in 2Q2019 from 82,272 barrels in 1Q2019. The decrease was due largely to the natural decline of the existing wells, for the year though, 2Q2019's shareable oil production is 24.5% higher. Despite the good operational performance from their Myanmar operations, the unexpected termination of Benakat Barat KSO (as per the Group's announcement on 16 May 2019) concession resulted in the impairment charges made during the quarter against the investments in an associated company.

**Management announced further progress for the drilling of an exploration well at Kuala Pambuang PSC which is now in the final stages.** The Company gave further updates on their drilling activity at Kuala Pambuang PSC in their recent 2Q2019 results announcement. The Group had previously announced that the local authority has approved the well location and related expenditure, and preparations are underway towards spudding the exploration well later in the year. Barring any unforeseen circumstances, they now expect the exploration well to be spudded before the end of Q3 2019. That said, no significant contribution is expected from this field in the near term. The cost of drilling of the exploration well is expected to be funded internally, though the Group will also explore funding options for this.

**Group reported net operating cash flow of US\$4 million for quarter vs. US\$0.8 million last year.** Despite recording an impairment charge for this quarter, the Group reported net operating cash flow of US\$4 million for the quarter or US\$3.4 million for 6M2019. Overall, the Group generated free cash flows of US\$3.3 million and US\$0.7 million for 2Q2019 and 1H2019 respectively. Consequently, the Group's net cash position improved from US\$3.0 million last quarter to US\$6.3 million in the current quarter.

**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\$6.3m as at June 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 Yenangaung, which contribute the bulk of revenue. Interra Resources was incorporated in 1973.

Oil reserves (mmstb) <sup>(1)</sup> 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
<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	FY18	FY19E
<b>Revenue</b> <sup>(1)</sup>	<b>23,452</b>	<b>15,173</b>	<b>11,245</b>	<b>14,885</b>	<b>19,302</b>
Less: Cost of sales	(34,073)	(9,610)	(5,042)	(7,988)	(10,423)
<b>Gross Profit</b>	<b>(10,621)</b>	<b>5,563</b>	<b>6,203</b>	<b>6,897</b>	<b>8,879</b>
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)
<b>Results from operating activities</b>	<b>(52,229)</b>	<b>(7,787)</b>	<b>1,212</b>	<b>263</b>	<b>1,518</b>
Tax expense	(555)	(1,031)	(813)	516	(152)
Profit/(Loss) from discontinued operations for FY	(655)	(39)	(46)	(54)	0
<b>Total profit/(loss)</b>	<b>(53,439)</b>	<b>(8,857)</b>	<b>353</b>	<b>779</b>	<b>1,366</b>
<b>Profit/(Loss) attributable to owners of company</b>	<b>(47,719)</b>	<b>(8,062)</b>	<b>1,298</b>	<b>848</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>	0.15	0.23
-Diluted (US cents)	<b>(9.85)</b>	<b>(1.59)</b>	<b>0.26</b>	0.15	0.23

(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	Nil

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Nil	Nil

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