

Interra Resources Limited

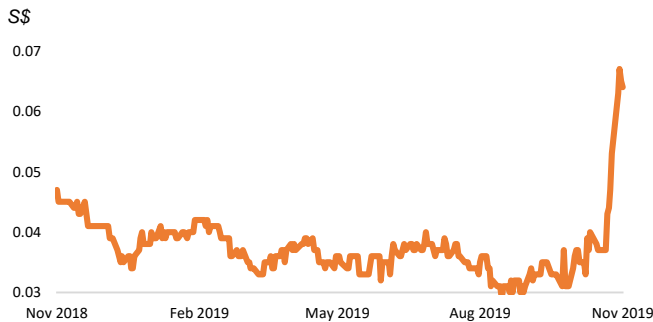
Date: 18 November 2019

BUY
(Maintained)

Target price: S\$0.089
(+56%)

ITRR SP

Price: S\$0.057 (as at 15 November 2019)



Share price	1M	3M	6M	1Y
Interra Resources	196%	196%	196%	47.5%
Straits Times Index	3.1%	3.4%	0.5%	4.8%

Market capitalisation	S\$33.4 million
Current price	S\$0.057
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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Reversed loss from last quarter

Interra Resources Limited, and together with its subsidiaries, ("Interra Resources", "Company", or the "Group") reported third quarter FY19 results which saw revenue for the quarter come in at US\$3.63 million from US\$4.3 million last year. The decrease was due mainly to lower weighted average transacted oil prices of US\$60.33 per barrel as compared to the previous year of US\$72.43 per barrel although sales of shareable oil increased by 2% to 76,280 barrels in Q3 2019. The Group however, turned around from the loss of US\$2.13 million last quarter with a profit of US\$0.4 million this quarter.

Management to announce preliminary results at Kuala Pambuang PSC next month. The Company gave further updates on their drilling activity at Kuala Pambuang PSC in their recent 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. The Group has announced that preliminary results of the drilling will be known next month in December 2019.

Group reported net operating cash flow of US\$1.1 million, net cash position improved to US\$6.5 million. Despite recording slightly lower operating cash flows of \$1.1 million vs. \$1.3 million last year, the Group's net cash position continued to improve, increasing from US\$6.3 million last quarter to US\$6.5 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\$6.5m as at September 2019. We maintain BUY with a target price of S\$0.089, representing a 56% 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	21.8	37.7	24.4
P/B (x)	0.7	1.0	0.9	0.9	0.9
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

Strengthened cash position

Interra Resources reported third quarter FY19 results which saw revenue for the quarter come in at US\$3.63 million from US\$4.3 million last year. The decrease was due mainly to lower weighted average transacted oil prices of US\$60.33 per barrel as compared to the previous year of US\$72.43 per barrel although sales of shareable oil increased by 2% to 76,280 barrels in Q3 2019. The Group however, turned around from the loss of US\$2.13 million last quarter with a profit of US\$0.4 million this quarter.

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.

We see the lower revenue of US\$3.63 million as largely expected given the much reduced price of crude oil prices this year as compared to last year, and are encouraged that shareable oil production is seeing an uptick. In the absence of new drillings in the third quarter of 2019, we also saw a slight dip in the quarter-on-quarter shareable oil production in Myanmar by 2% to 76,280 barrels in Q3 2019 from 77,522 barrels in Q2 2019, going forward, we see these maintaining as management continue to place an emphasis on workover and reactivation of existing wells in this quarter as well as contribution from the water flooding project.

Management to announce preliminary results at Kuala Pambuang PSC next month. The Company gave further updates on their drilling activity at Kuala Pambuang PSC in their recent 3Q2019 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. The Group has announced that preliminary results of the drilling will be known next month in December 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\$1.1 million, net cash position improved to US\$6.5 million. Despite recording slightly lower operating cash flows of \$1.1 million vs. \$1.3 million last year, the Group's net cash position continued to improve, increasing from US\$6.3 million last quarter to US\$6.5 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\$6.5m as at September 2019. We maintain BUY with a target price of S\$0.089, representing a 56% upside potential.

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 (km ²)	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	21.8	37.7	24.4
P/B	0.7	1.0	0.9	0.9	0.9
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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Nil	Nil

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