

Interra Resources Limited

Date: 22 May 2020

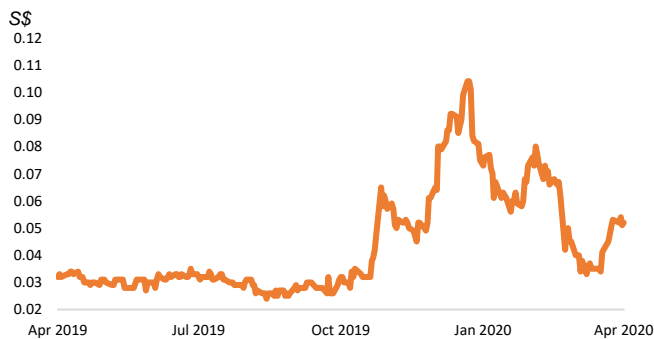
HOLD
(Downgrade)

Target price: S\$0.066
(+13.8%)

Turned around in Q4 2019, announced placement to strategic investor

ITRR SP

Price: S\$0.058 (as at 21 May 2020)



Share price	1M	3M	6M	1Y
Interra Resources	16.0%	(17.4%)	73.3%	73.3%
Straits Times Index	5.0%	(20.3%)	(16.7%)	(21.9%)

Market capitalisation	S\$34.3 million
Current price	S\$0.058
Shares outstanding	592,998,604
Free Float	65%
Major shareholders	North Petroleum International (1) 13.4% PT Saratoga Investama Sedaya (2) 13.4%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Capital

(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

Interra Resources reported revenue of US\$3.9m in Q4 2019, from US\$3.7m last year. The increase was due mainly to higher sales of shareable oil of 78,393 barrels in Q4 2019 vs. 71,741 barrels in Q4 2018 and 76,280 barrels in Q3 2019 from Myanmar. This was largely the result of drilling successes earlier in the year combined with gains from reactivations of shut-in wells and new perforations of prospective reservoirs. With the absence of a one-off impairment from prior year, the Group turned in a profit of US\$589,000 in Q4 2019, vs. a loss of US\$435,000 in Q4 2018.

FY 2020 production to be lifted with new oil wells and waterflooding project. Looking ahead, we expect FY 2020 performance to be affected by the slump in oil price and volatility, partly mitigated by slightly higher production level, as it lifts overall production through waterflooding project and drilling of new oil wells. Since early 2020, Interra has completed the drilling of three new oil wells, CHK 1219, CHK 1220 and CHK 1224.

Positive drilling results from 67.5%-owned Kuala Pambuang PSC exploration well. The exploration well KP-1 was completed after reaching a total depth of 3,771 feet. The drilling and testing results were positive, and casing was successfully installed and cemented. Production testing is now planned for mid-2020.

We revise our call to HOLD with a lower target price of S\$0.066 in view of the weak oil market outlook. We have arrived at our target price by tweaking slightly our target EV/1P Reserves from 6.4x previously to 5.9x to account for the weak oil price environment. Our target price does not factor in the potential resources from Kuala Pambuang PSC exploration well and is based solely on current 1P reserves in Myanmar. The stock trades at 0.8x of FY2020E book value, and is currently in a net cash position.

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

Key Financials

Year ended December (US\$'000)	FY2016	FY2017	FY2018	FY2019	FY2020E
Revenue	15,173	11,245	14,885	15,675	9,200
% Growth	(35.3%)	(25.9%)	32.4%	5.3%	(41.3%)
Gross profit	5,563	6,203	6,897	5,708	1,785
Gross profit margin	36.7%	55.2%	46.3%	36.4%	19.4%
Profit/(loss) before tax	(7,787)	1,212	264	29	281
Profit/(loss) before tax margin	NA	10.8%	1.8%	0.2%	3.1%
Profit/(loss) attributable to owners (3)	(8,041)	1,320	874	(478)	233
EPS/(LPS) (US cents)	(1.6)	0.3	0.2	(0.1)	0.0
P/E (x)	NA	22.2	38.4	NA	146.5
P/B (x)	1.1	1.1	0.9	0.9	0.8
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

Positive drilling results at Kuala Pambuang well

Interra Resources reported Q4 2019 results which saw revenue for the quarter come in at US\$3.9 million from US\$3.7 million last year. The increase was due mainly to higher sales of shareable oil of 78,393 barrels in Q4 2019 vs. 71,741 barrels in Q4 2018 and 76,280 barrels in Q3 2019 from Myanmar. The increase was largely the result of drilling successes earlier in the year combined with gains seen from the reactivations of shut-in wells and new perforations of prospective reservoirs. We also see the effects of the Group's waterflooding boosting overall production and slowing down the decline rate for old wells. For Q4 2019, with the absence of a one-off impairment of S\$2.1m in prior year, it turned in a profit of US\$589,000 versus US\$435,000 loss from last year.

FY 2019 revenue from continuing operations was US\$15.7 million, 5% higher than last year. The increase was due mainly to higher sales of shareable oil of 314,467 barrels as compared to 266,531 barrels in FY2018 in Myanmar. Gross ASP, however, was 7.1% lower at US\$63.13 per barrel (FY2018: US\$67.95). The bottomline was impacted by one-off impairment and loss of US\$2.5m from the write-off of investment in associate PT Benakat Barat KSO, whose contract was terminated by PT Pertamina in mid 2019. It reported net loss of US\$478,000 vs a profit of US\$848,000 in FY2018.

FY2020 production level to be boosted by new oil wells and waterflooding project. Looking ahead, we expect the Group's FY 2020 performance to be affected by the current oil price slump and volatility but expect the Group's production level to be slightly higher, as it boost overall production through waterflooding project and drilling of new oil wells. Since the beginning of the year, the Group has completed the drilling of three new oil wells, CHK 1219, CHK 1220 and CHK 1224.

Positive drilling results at 67.5%-owned Kuala Pambuang PSC exploration well. The exploration well KP-1 was completed in December 2019 after reaching a total depth of 3,771 feet. The drilling and testing results were positive, and casing was successfully installed and cemented. Production testing is now planned for mid-year 2020. For now, further testing of all technical data is ongoing and will be incorporated into well completion plans as well as the overall sub-surface interpretation of the exploration block.

The Group had previously announced that the Indonesian 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 is expected to be funded internally, and we believe the Group's recent proposed placement of 62.5m new shares will be used to fund this exploration.

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 2019	1P (net)	2P (net)	3P (net)
Myanmar	0.87	1.54	2.01
Net mmstb	1U	2U	3U
Indonesia	46	206	870

Source: Company data, SAC Capital

(1) Million stock tank barrels

1P: Proved

1U: Unrisked

Strengthened cash position

Proposed placement to strengthen Group's balance sheet. The Group proposed the placement of 62,500,000 new shares by way of private placement at S\$0.045 per share to a strategic investor, Poly Legend International Limited (a Hong Kong incorporated company).

Upon completion of the placement, the placee will become a substantial shareholder of the company, holding an approximate 9.53%. Interra Resources is expected to net S\$2.8 million proceeds. We expect the placement to be completed by 3Q 2020, and have accounted for the impact in our projections for FY2020.

We revise our call to a HOLD with a lower target price of S\$0.066 in view of the weak oil market outlook. We arrived at our target price by tweaking down slightly our target EV/1P Reserves from 6.4x previously to 5.9x to account for the weak oil price environment. Our target price does not account for the potential resources from the Kuala Pambuang PSC exploration well and is based solely on their current 1P reserves in Myanmar. The stock trades at 0.8x of FY2020E book value, and is currently in a net cash position.

Income Statement (US\$'000)

	Fiscal Year Ended				
	FY16	FY17	FY18	FY19	FY20E
Revenue ⁽¹⁾	15,173	11,245	14,885	15,675	9,200
Less: Cost of sales	(9,610)	(5,042)	(7,988)	(9,967)	(7,415)
Gross Profit	5,563	6,203	6,897	5,708	1,785
Other income	63	594	713	683	683
Administrative expenses	(6,574)	(5,269)	(4,464)	(3,031)	(2,098)
Finance expenses	(82)	(130)	(102)	(89)	(89)
Share of losses of associated companies	(6,755)	(186)	(625)	(2,417)	0
Tax expense	(1,032)	(813)	516	(606)	(48)
Profit/(Loss) from discontinued operations for FY	(39)	(46)	(54)	0	0
Total profit/(loss)	(8,856)	353	726	(577)	233
Profit/(Loss) attributable to owners of company ⁽¹⁾	(8,041)	1,320	874	(478)	233
Earnings/(Loss) per share:					
-Basic (US cents)	(1.59)	0.26	0.15	(0.08)	0.04
-Diluted (US cents)	(1.59)	0.26	0.15	(0.08)	0.04

(1) From continuing operations

Balance Sheet (US\$'000)

	Fiscal Year Ended				
	FY16	FY17	FY18	FY19	FY20E
As at 31 December					
Property, plant and equipment	92	95	19	10	8
Producing oil and gas properties	206	3,152	7,549	10,041	11,644
Exploration and evaluation costs	10,584	10,616	10,641	13,498	13,548
Other non-current assets	3,898	11,451	8,336	7,260	6,851
Total non-current assets	14,674	25,314	26,545	30,809	32,051
Inventories	4,880	5,202	3,379	4,069	3,361
Trade and other receivables	13,379	8,295	2,784	2,460	1,840
Cash and bank balances	14,087	11,291	6,638	2,777	5,420
Other current assets	4,976	4,850	414	209	209
Assets of disposal group classified as held-for-sale	4,599	4,496	0	0	0
Total current assets	37,322	29,637	13,215	9,515	10,830
Total assets	52,103	54,951	39,760	40,324	42,881
Share capital	69,258	69,258	72,738	72,873	75,671
Accumulated losses	(29,369)	(28,169)	(29,503)	(29,979)	(29,746)
Other reserves	(18,397)	(18,713)	(16,139)	(16,164)	(16,164)
Equity attributable to owners of the Company	21,492	22,376	27,096	26,730	29,761
Non-controlling interests	3,847	4,746	2,061	2,944	2,944
Total Equity	25,339	27,122	29,157	29,674	32,705
Provision for environmental and restoration costs	1,564	139	0	0	0
Other non-current liabilities	53	25	0	1,412	1,672
Non-current liabilities	1,617	164	0	1,412	1,672
Trade and other payables	9,499	13,234	5,095	3,642	3,008
Borrowings	3,739	3,736	1,000	1,306	1,206
Provision for environmental and restoration costs	3,300	1,581	0	0	0
Current income tax liabilities	7,327	7,604	4,508	4,290	4,290
Liabilities directly associated with disposal group classified as Held-for-sale	1,282	1,510	0	0	0
Current liabilities	25,148	27,666	10,603	9,238	8,504
Total liabilities	26,765	27,829	10,603	10,650	10,176
Total equity and liabilities	52,103	54,951	39,760	40,324	42,881

Cash Flow Statement (US\$'000)

	Fiscal Year Ended				
	FY16	FY17	FY18	FY19	FY20E
Profit/(Loss) before tax ⁽²⁾	(8,856)	353	726	(577)	233
Depreciation, amortisation and impairment	431	270	3,120	2,077	2,076
Change in working capital	(799)	304	1,162	(824)	694
Others	7,927	1,709	(740)	2,435	(211)
Net Cash from/ (used in) operations	(1,297)	2,636	4,268	3,111	2,792
Capital Expenditures	(332)	(3,223)	(8,483)	(6,748)	(3,058)
Others	245	(2,007)	(1,610)	78	300
Net Cash from/(used in) investing	(87)	(5,230)	(10,093)	(6,670)	(2,758)
Net increase in equity	0	100	3,380	105	2,798
Net increase in debt	(4,582)	658	(2,000)	314	100
Others	(2,080)	1,165	1,891	(721)	(289)
Net Cash from/(used in) financing	(6,662)	1,923	3,271	(302)	2,609

(2) The decline in both crude oil prices and production levels gave rise to sharp rise in impairment charge on the producing oil and gas properties in FY16.

Ratios

	Fiscal Year Ended				
	FY16	FY17	FY18	FY19	FY20E
Profitability (%)					
Gross profit margin	36.7%	55.2%	46.3%	36.4%	19.4%
Profit/(loss) before tax margin	(51.3%)	10.8%	1.8%	0.2%	3.1%
Profit/(loss) after tax margin	(53.1%)	11.5%	5.9%	(3.0%)	2.5%
Liquidity (x)					
Current ratio	1.5	1.1	1.2	1.0	1.3
Quick ratio	1.3	0.9	0.9	0.6	0.9
Interest coverage ratio	(93.4)	10.3	3.6	1.3	4.2
Net Debt to Equity	(40.8%)	(27.9%)	(19.3%)	(6.0%)	(13.5%)
Valuation (x)					
P/S	1.6	2.1	1.6	1.5	2.6
P/E	NA	22.2	38.4	NA	146.5
P/B	1.1	1.1	0.9	0.9	0.8
Cash Conversion Cycle					
Net trade receivable days	87	107	68	57	N/A
Inventory days	132	282	154	149	N/A
Trade payable days	41	97	233	133	N/A
CCC days	193	276	-10	73	N/A
Returns (%)					
Return on equity	(37.4%)	5.9%	3.2%	(1.8%)	0.8%
Return on capital employed	(17.0%)	0.6%	1.8%	0.0%	0.5%
Dividend payout ratio	NA	NA	NA	NA	NA

n.m.: not meaningful

DISCLAIMERS AND DISCLOSURES

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

This report has been prepared 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 Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital 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 might contain 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, 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 Capital and its 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 Capital 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 Capital does not have proprietary positions in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Capital, has 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 Capital 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 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.