

Interra Resources Limited

Date: 1 September 2020

HOLD
(Maintained)

Target price: S\$0.056
(+9.8%)

ITRR SP

Price: S\$0.051 (as at 31 August 2020)



Share price	1M	3M	6M	1Y
Interra Resources	-1.9%	-8.9%	-22.7%	96.2%
Straits Times Index	0.1%	0.9%	-15.9%	-18.5%

Market capitalisation	S\$33.4 million		
Current price	S\$0.051		
Shares outstanding	655.5 million		
Free Float	57.7%		
Major shareholders	North Petroleum International ⁽¹⁾	12.1%	
	PT Saratoga Investama Sedaya ⁽²⁾	12.1%	
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 Soenyadjaya and Sandiogo Salahuddin Uno are deemed to have interests in all the shares held by PT Saratoga Investama Sedaya.

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Key Financials

Year ended December	FY2016	FY2017	FY2018	FY2019	FY2020E
Revenue (US\$'000)	15,173	11,245	14,885	15,675	9,200
% Growth	(35.3%)	(25.9%)	32.4%	5.3%	(41.3%)
Gross profit (US\$'000)	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 (US\$'000)	(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 (US\$'000)	(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	19.5	33.8	NA	143.5
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

Net loss narrowed for 1H2020

Interra Resources reported a 33.0% fall in revenue for 1H2020 at US\$5.43 million as compared to US\$8.09 million recorded from a year ago. The decrease was mainly due to lower weighted average transacted oil prices despite recording a higher sales of shareable oil from Myanmar. The shareable production increase was largely the result of early drilling successes of three new wells in Myanmar in 1H2020 as well as combined gains from water flood projects and other operations at the existing wells. With the absence of one-off impairment loss and share of losses from associate companies, the Group narrowed net loss to US\$0.82 million for 1H2020, compared with net loss of US\$1.54 million in 1H2019.

Completion of placement exercise. Interra Resources had, on 9 June 2020, issued 62.5m new shares at S\$0.045 each to Poly Legend International Limited (a Hong Kong incorporated company). The Group raised approximately S\$2.8m for general working capital.

FY2020 production to be lifted by early drilling successes and waterflooding project. Looking ahead, while the Group's FY2020 performance might be affected by current weak oil price and volatility, the Group's production level is expected to edge higher, as it enhanced overall production through waterflooding project and the earlier drilling successes of CHK 1219, CHK 1220 and CHK 1224 in 1H2020. Monitoring and optimizing of the nine current water flood projects continue to show positive incremental oil production gains.

We maintained our HOLD call at a lower target price of S\$0.056 in view of the weak oil market outlook. We arrived at our target price by trimming EV/1P Reserves to 5.0x to account for the weak oil price environment. Our target price have not factor in 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.

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

Strengthened Cash Position

Interra Resources reported a 33.0% fall in revenue for 1H2020 at US\$5.43 million as compared to US\$8.09 million recorded from a year ago. The decline was mainly due to lower weighted average transacted oil prices (1H2020: US\$40.83 per barrel vs 1H2019: US\$64.15 per barrel) despite chalking up higher sales of shareable oil from Myanmar (1H2020: 168,364 barrels vs 1H2019: 159,794 barrels). The shareable production increase was largely the result of early drilling successes of three new wells in Myanmar in 1H2020 as well as combined gains from water flood projects and other operations at existing wells. With the absence of one-off impairment loss of US\$0.62 million and share of losses from associate companies of US\$2.42 million, the Group posted lower net loss of US\$0.82 million for 1H2020 as compared to net loss of US\$1.54 million for 1H2019.

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.

Completion of placement exercise. Interra Resources had, on 9 June 2020, allotted and issued 62.5m new shares at S\$0.045 each to Poly Legend International Limited (a Hong Kong incorporated company). The Group raised net proceeds of approximately S\$2.8 million for working capital. It has utilised US\$0.84 million for the work programme of the Chauk and Yenangyaung fields in Myanmar.

FY2020 production level to be lifted by early drilling successes and waterflooding project. Looking ahead, we expect the Group's FY 2020 performance to be affected by the current weak oil price and volatility. However, we also expect the Group's production level to edged slightly higher, as it boosted overall production through waterflooding project and the earlier drilling successes of CHK 1219, CHK 1220 and CHK 1224 in 1H2020. Since then, all new well drilling has been suspended. Despite that, monitoring and optimizing of the nine current water flood projects continue to show positive incremental oil production gains, which partly offset the loss of contribution from new well drilling.

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 has been put on hold amidst low oil price and uncertainties in the world economy. 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 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.

Oil reserves (mmstb) ⁽¹⁾ As at 31 Dec 2019	1P (net)	2P (net)	3P (net)
Myanmar	0.87	1.54	2.01
Net mmstb	1U	2U	3U
Indonesia	46	206	870

⁽¹⁾ Million stock tank barrels

1P: Proved

1U: Unrisked

Source: Company data, SAC Capital

Strengthened Cash Position

We maintained our HOLD call at a lower target price of S\$0.056 in view of the weak oil market outlook. We arrived at our target price by trimming EV/1P Reserves to 5.0x 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
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	2.2	1.7	1.6	2.7
P/E	NA	19.5	33.8	NA	143.5
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

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