

18 January 2019

Manufacturing & Exploration | Manufacturing & Exploration

## GSS Energy (GSSE SP)

**Buy** (Maintained)

### Overselling Presents Buying Opportunity

Target Price (Return) SGD0.19 (+86%)  
 Price: SGD0.102  
 Market Cap: USD37.7m  
 Avg Daily Turnover (SGD/USD) 0.3m/0.2m

- Maintain BUY with SGD0.19 TP, 86% upside.** We remain optimistic of GSS Energy's prospects, and expect both twin drivers to contribute positively to the business in FY19F. We believe the group is close to securing an off-taker for its gas, and the tech correction in 4Q18 across the board, especially on small-mid cap manufacturers like GSS, represents a good opportunity to accumulate at these levels. The depreciating IDR is also positive for it as the main factory is located in Batam, Indonesia, while revenue is largely USD-denominated.
- Potential PE projects likely to come.** The precision engineering (PE) segment registered healthy growth despite the ongoing US-China trade war. This is as the bulk of its revenue is mainly generated from its Batam factory, which is undergoing expansion due to increased orders from new and existing customers in FY19. The company will also be involved in the manufacturing and assembling for both gasoline and electric models in the 125cc and 150cc categories, and three-wheeler ("tuk-tuk") in South-East Asian markets, India, and Taiwan of the iconic ISOMOTO model. GSS is also in talks to secure large sized contracts on the consumer electronics front, which is likely to boost earnings from 2H19 onwards and into FY20. All in all, we expect its PE segment to continue to grow at 10-15% for FY19F.
- Oil & gas segment likely to bear fruit in 2H19.** This segment has suffered many setbacks and delays throughout FY18. However, we remain optimistic that this business will likely bear fruit in 2H19F as it is likely to monetize the two gas wells it discovered in FY18. GSS is also re-entering a few old shallow wells, and the results of these drilling will likely be known by end-1H19. In addition, management is exploring the option of farming out part of the oil field, which will enable it to get a lump sum cash injection and also peg a value to its oil & gas assets, which are not reflected in its market cap valuation.
- Key risks are decrease in oil prices, trade war worsening, and delay in monetisation of oil & gas assets.

RHB is the only broker covering this counter.

#### Analyst

Jarick Seet  
 +65 6232 3891  
[jarick.seet@rhbgroup.com](mailto:jarick.seet@rhbgroup.com)

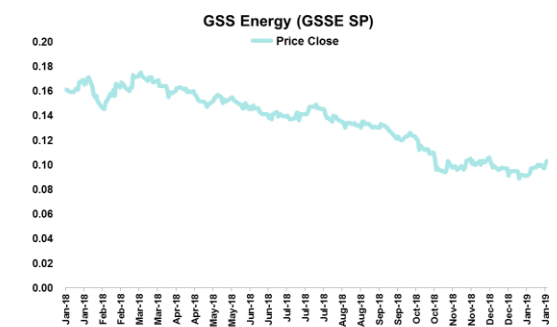


Lee Cai Ling  
 +65 6232 3892  
[lee.cai.ling@rhbgroup.com](mailto:lee.cai.ling@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.2	6.2	(8.0)	(27.0)	(36.8)
Relative	8.3	1.5	(14.2)	(26.6)	(27.5)
52-wk Price low/high (SGD)	0.18 – 0.09				



Source: Bloomberg

Forecasts and Valuation	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	75.7	94.3	103.8	120.4	134.0
Recurring net profit (SGDm)	4.2	3.1	5.6	7.1	8.2
Recurring net profit growth	na	(25.4)	79.5	25.8	15.2
Recurring P/E (x)	12.1	16.3	9.1	7.2	6.3
P/BV (x)	1.3	1.2	1.1	1.0	0.9
P/CF (x)	16.5	16.8	na	5.5	5.4
Dividend Yield (%)	na	na	1.1	2.8	3.2
EV/EBITDA (x)	2.2	6.6	9.6	2.2	2.2
ROE (%)	35.2	9.8	5.9	14.0	14.3
Net debt to equity (%)	net cash	net cash	6.9	3.1	net cash
Interest coverage (x)	983.0	227.0	na	na	na

Source: Company data, RHB

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#### KUALA LUMPUR

**RHB Research Institute Sdn Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710  
Indonesia  
Tel : +6221 2783 0888  
Fax :+6221 2783 0777

#### HONG KONG

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor, World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong  
Tel : +852 2525 1118  
Fax : +852 2810 0908

#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### SINGAPORE

**RHB Research Institute Singapore  
Pte Ltd.**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +65 6533 1818  
Fax : +65 6532 6211