

14 November 2018

Energy & Petrochemicals | Exploration & Production

## GSS Energy

**Buy** (Maintained)

### Moving Into E-Vehicles; Maintain BUY

**Maintain BUY, new SOP-based SGD0.19 TP from SGD0.22, 96% upside with 3% FY19F yield. GSS Energy reported a decent 3Q18, with PE booking 14.7% topline and 34% NPAT YoY growth. However, overall profitability remains hampered by the lack of revenue from oil & gas, which may only come in 1H19. On this delay and its higher corporate expenses, we trim FY19F PATMI by 10%, which results in a lower TP. As its oil & gas segment – despite multiple setbacks – will likely bear fruit in FY19 while PE is set to continue growing solidly, we maintain our call.**

**New projects to further drive precision engineering (PE) growth.** Its PE segment registered healthy growth despite ongoing trade war issues. This is as the bulk of its revenue largely comes from its Batam factory, which is undergoing an expansion due to the increased orders for 2019 from new and existing customers. For 3Q18, the PE segment recorded YoY revenue and recurring PATMI growth of 14.7% and 34%.

It will also be involved in the manufacture and assembly of gasoline and electric models for the 125cc and 150cc categories, and 3-wheelers (*tuk-tuk*) in South-East Asia markets, India and Taiwan – using the iconic ISOMOTO model. We expect its PE division's earnings to continue to grow at 10-15% for FY19F.

**Oil & gas segment likely to bear fruit in FY19.** GSS Energy's oil & gas segment has gone through setbacks and delays throughout the year. However, we remain optimistic that this business will bear fruit in FY19. It will likely be able to monetise the two gas wells that it discovered earlier this year. In the meantime, it will also re-enter a few old shallow wells, and the results of these drilling activities will likely be known by end-December. 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 currently not reflected in its market cap valuation.

**Catalysts ahead; maintain BUY.** We remain optimistic on the company's prospects and expect both growth drivers (new PE projects and oil & gas business improving) to contribute positively to FY19 numbers. With oil prices on an increase, especially over the last few months, GSS Energy is expected to benefit directly from this trend.

We believe the group is close to securing a off-taker for its gas, and that the current weakness represents a good opportunity to accumulate the stock. GSS Energy is also in the midst of re-entering four old wells (after some delay), and we should expect drilling results in end-Jan 2018 instead of Oct 2018. As a result of the delay and the higher corporate expenses, we trim FY19F PATMI by 10%, resulting in a lower TP of SGD0.19. RHB is the only broker covering this counter. Key risks to our call are a decrease in oil prices, the trade war worsening, and a delay in the monetisation of its oil & gas assets.

Target Price:	SGD0.19
Price:	SGD0.097
Market Cap:	USD35.1m
Bloomberg Ticker:	GSSE SP

#### Share Data

Avg Daily Turnover (SGD/USD)	0.1m/0.1m
52-wk Price low/high (SGD)	0.09 - 0.18
Free Float (%)	81.6
Shares outstanding (m)	496
Estimated Return	96%

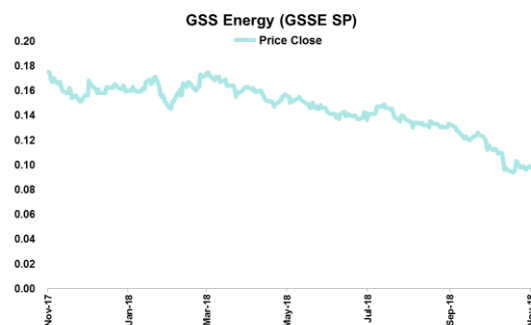
#### Shareholders (%)

Roots Capital Asia	18.3
Sundan Pacific	13.4

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.5)	(15.5)	(27.4)	(37.6)	(45.6)
Relative	(29.2)	(15.0)	(21.5)	(23.1)	(34.8)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec 18 F	Dec 19 F	Dec 20 F
Total turnover (SGDm)	75.7	94.3	103.8	120.4	134.0
Reported net profit (SGDm)	13.4	4.2	2.7	7.1	8.2
Recurring net profit (SGDm)	4.2	3.1	5.6	7.1	8.2
Recurring net profit growth (%)		(25.4)	79.5	25.8	15.2
Recurring EPS (SGD)	0.01	0.01	0.01	0.01	0.02
DPS (SGD)	na	na	0.001	0.003	0.003
Recurring P/E (x)	4.9	15.4	8.6	6.8	5.9
P/B (x)	1.8	1.5	1.1	1.0	0.8
P/CF (x)	21.0	21.9	na	5.2	5.2
Dividend Yield (%)	na	na	1.1	2.9	3.4
EV/EBITDA (x)	2.9	7.5	9.2	4.3	3.5
Return on average equity (%)	86.7	13.0	12.4	13.9	14.2
Net debt to equity (%)	net cash	net cash	6.9	3.1	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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