

20 June 2019

Manufacturing & Exploration | Manufacturing & Exploration

## GSS Energy (GSSE SP)

**Neutral** (Maintain)

### Oil & Gas Unit Going On Hiatus; Stay NEUTRAL

Target Price (Return)	SGD0.08 (0%)
Price:	SGD0.08
Market Cap:	USD28.7m
Avg Daily Turnover (SGD/USD)	0.1m/0.1m

- Maintain NEUTRAL, DCF-based TP of SGD0.08, nil upside.** While we think farming out the oil & gas arm will be positive for GSS Energy's (GSS) shareholders, it also indicates the business has not performed as well as anticipated. We would like to see a concrete upturn in its engineering business, as well as the monetisation of its oil & gas segment before revising our estimates.
- GSS has entered into a sale and purchase agreement** with Oakhursts Investment Ptd Ltd and PT Kharisma Agri Indo NUSA regarding a 80% stake in GSS Energy Trembul Ltd (GETL) for USD1. The purchaser will settle all liabilities and obligations of PT Sarana GSS Trembul (SGT, the JV company between GETL and a third party to monetise the oil wells), and fund and complete the work programme for GETL. GSS is entitled to recover the sunk cost in GETL and hold a 20% stake in the entity, without needing to inject more cash – which we deem as positive.
- Oil & gas segment set to stop dragging on profitability.** This division has suffered many setbacks and delays throughout the year. It is at an advanced stage of getting regulatory approvals to monetise the two proven wells, but may see further delays due to the uncertain timeline of getting the green light. As a result, the business will likely continue to drag on group earnings, until approvals are in hand and monetisation has been done. In this asset disposal, management has effectively farmed out 80% of its oil & gas segment and retained a 20% stake to ride on future incoming profits without having to inject more cash into the business. It will also not have to incur more costs, while the stewardship of the oil & gas segment will be handed to the purchaser. With this, oil & gas losses should no longer weigh on GSS' profitability ahead.
- Key downside risks** are a decrease in oil prices, the trade war worsening, and a slowdown in customer orders. The opposite situation would present upside risks.

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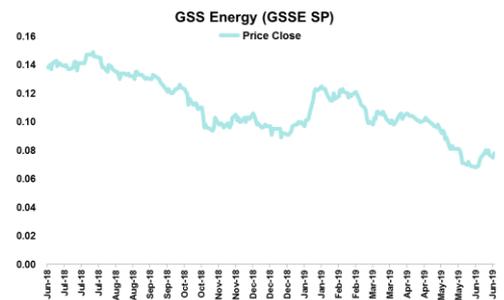


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.3)	(3.7)	(25.7)	(14.3)	(44.7)
Relative	(19.8)	(4.7)	(26.5)	(20.6)	(42.1)
52-wk Price low/high (SGD)	0.07 – 0.15				



Source: Bloomberg

Forecasts and Valuation	Dec -17	Dec -18	Dec -19F	Dec -20F	Dec -21F
Total turnover (SGDm)	94.3	100.8	112.2	119.6	126.0
Recurring net profit (SGDm)	3.1	5.3	3.6	4.1	4.5
Recurring net profit growth	(25.4)	68.9	(31.4)	12.1	10.0
Recurring P/E (x)	12.3	7.3	10.6	9.5	8.6
P/BV (x)	0.9	0.8	0.8	0.7	0.7
P/CF (x)	9.0	6.5	8.0	6.0	5.4
Dividend Yield (%)	-	-	1.9	2.1	2.3
EV/EBITDA (x)	4.9	7.8	5.3	4.5	3.7
ROE (%)	9.8	4.5	7.4	7.8	8.0
Net debt to equity (%)	net cash				
Interest coverage (x)	277.0	20.6	36.1	40.5	44.6

Source: Company data, RHB

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