

HLIB Research

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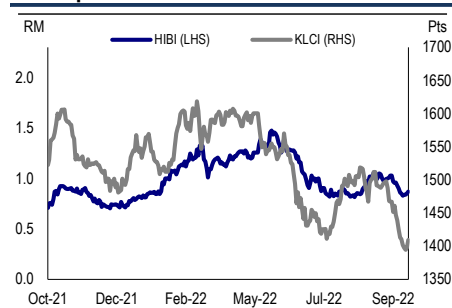
BUY (Maintain)

Target Price: **RM1.54**
Previously: **RM1.63**
Current Price: **RM0.87**

Capital upside	77.0%
Dividend yield	0.0%
Expected total return	77.0%

Sector coverage: O&G

Company description: Hibiscus Petroleum is an independent upstream exploration and production company that explores for oil and gas.

Share price


Historical return (%)	1M	3M	12M
Absolute	-13.9	-12.6	20.0
Relative	-8.9	-10.6	30.3

Stock information

Bloomberg ticker	HIBMK
Bursa code	5199
Issued shares (m)	2,012
Market capitalisation (RM m)	1,751
3-mth average volume ('000)	26,283
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Polo Investments Limited	6.9%
Hibiscus Upstream Sdn Bhd	5.4%
Pereira Kenneth Gerard	3.5%

Earnings summary

FYE (Jun)	FY22	FY23f	FY24f
PATMI - core (RMm)	382.5	594.8	569.2
EPS - core (sen)	19.0	27.6	24.9
P/E (x)	4.6	3.1	3.5

Hibiscus Petroleum

To start FY23 with a clean slate

Overnight, Hibiscus announced a few key updates: (i) declared a final single-tier dividend of 1 sen for FY22, (ii) on 21 Sep, Hibiscus has proposed to pay the Sabah State Government a total of RM85.7m in regards to the sales tax debacle, and (iii) reversal of prior tax provision totalling RM125.5m in relation to its 35% owned PM3CAA for additional taxes and penalties for 2014-2016. Hibiscus has decided to incur items (ii) and (iii) in 4QFY22 (previous quarter's results) rather than in 1QFY23, allowing it to move on a clean slate for FY23. We are positive on this development. Post-revision of earnings, we maintain BUY on Hibiscus with a slightly lower TP of RM1.54/share.

NEWSBREAK

Overnight, Hibiscus announced a few key updates:

i) Hibiscus has declared a final single-tier dividend of 1 sen for FY22 – with both ex-date and payment date to be announced at a later date;

ii) On 21 Sep 2022, Hibiscus has agreed to pay the Sabah State Government a total of RM85.7m in regards to the sales tax debacle; and

iii) Recall that the Inland Revenue Board of Malaysia (IRB) raised assessments on Hibiscus's 35%-owned PM3CAA for additional taxes and penalties for 2014-2016. PM3CAA had disputed these assessments and in Sep 2022 has made full provision for the payments. The unit and the IRB reached an amicable settlement on this matter – which resulted in a reversal of provision for a total of RM125.5m.

HLIB's VIEW

Starting FY23 on a clean slate. Including the recent declaration, dividends for FY22 totaled to 2 sen/share. With Hibiscus proposing to pay the Sabah State Government, this resolves the SST debacle that was brought up in Jul 2022. We highlight that this is at a discount to the initial sum of RM97.3m (comprising RM66.0m in SST and RM31.3m in penalty incurred for late payment). Hibiscus has decided to incur both the Sabah SST expense (RM85.7m) and the non-cash reversal of tax provision (RM125.5m) in its previous quarter 4QFY22, rather than in 1QFY23. With that, the restated core net profit for 4QFY22 and FY22 would be RM257.3m and RM382.5m respectively (from RM217.5m and RM342.7m previously) – see Figure #1. Going forward, the group will move on with a clean slate. We are positive on this development as we believe that there was a share price overhang previously, mainly due to the Sabah SST debacle.

Forecast. We trim our FY23-25f net profit forecasts by 6%, 12% and 17% respectively to account for: (i) an additional 5% royalty payment annually to the Sabah government in regards to the SST; and (ii) some housekeeping tweaks in our earnings model.

Maintain BUY, lower TP: RM1.54/share. Post adjustment of earnings, we maintain BUY on Hibiscus with a marginally lower TP of RM1.54/share (from RM1.63/share previously). Our TP is derived based on NPV of all its producing assets' future free cash flows (FCF), after accounting for each asset's targeted lifespan. At about only 3x revised FY23F P/E, we believe that Hibiscus is a compelling case and is conspicuously undervalued given its strong foothold in the upstream energy space.

Financial Forecast

All items in (RM m)

Balance Sheet

FYE Jun	FY21	FY22	FY23f	FY24f	FY25f
Cash	177.7	549.4	832.7	1390.8	2144.3
Receivables	112.9	405.5	596.4	597.2	594.8
Inventories	49.5	163.9	241.1	241.4	240.4
PPE	604.8	1839.0	1821.2	1659.6	1374.4
Others	1843.2	2551.1	2462.8	2587.0	2587.0
Assets	2788.0	5508.9	5954.3	6476.0	6940.8
Payables	9.6	11.5	17.0	17.0	16.9
Debt	26.8	557.8	577.8	597.8	617.8
Others	1277.7	2779.0	2779.0	2779.0	2779.0
Liabilities	1314.1	3348.3	3373.8	3393.8	3413.7
Shareholder's equity	1473.9	2160.5	2716.7	3218.4	3663.3
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	1473.9	2160.5	2716.7	3218.4	3663.3

Cash Flow Statement

FYE Jun	FY21	FY22	FY23f	FY24f	FY25f
Profit before tax	167.6	790.7	926.9	836.2	741.5
D&A	171.0	280.2	480.0	504.0	529.2
Working capital	-80.7	221.3	-262.7	-1.1	3.3
Taxation	20.7	-133.4	-370.8	-334.5	-296.6
Others	18.3	-239.4	13.9	-63.1	61.0
CFO	297.0	919.5	787.4	941.5	1038.4
Capex	-104.4	-141.1	-462.2	-342.4	-244.0
Others	-225.1	-393.4	0.0	0.0	0.0
CFI	-329.5	-534.4	-462.2	-342.4	-244.0
Changes in debt	-49.4	84.8	-41.0	-41.0	-41.0
Shares issued	196.1	0.0	0.0	0.0	0.0
Dividends	-9.9	-20.1	0.0	0.0	0.0
Others	-17.4	-69.6	0.0	0.0	0.0
CFF	119.4	-4.9	-41.0	-41.0	-41.0
Net cash flow	86.9	380.2	284.2	558.1	753.4
Forex	9.7	-9.3	0.0	0.0	0.0
Others	3.8	3.8	3.8	3.8	3.8
Beginning cash	81.0	177.7	548.5	832.7	1390.8
Ending cash	177.7	548.5	832.7	1390.8	2144.3

Income Statement

FYE Jun	FY21	FY22	FY23f	FY24f	FY25f
Revenue	804.8	1696.5	2495.4	2498.6	2488.7
EBITDA	381.9	815.0	1468.0	1401.2	1331.7
EBIT	210.8	534.8	988.0	897.2	802.5
Finance cost	-42.2	-61.0	-61.0	-61.0	-61.0
Associates & JV	-1.1	-0.4	0.0	0.0	0.0
Profit before tax	167.6	790.7	926.9	836.2	741.5
Tax and Zakat	-63.9	-177.6	-370.8	-334.5	-296.6
Net profit	103.7	613.1	556.2	501.7	444.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Core PATMI	103.7	382.5	556.2	501.7	444.9
Exceptionals	0.0	230.6	0.0	0.0	0.0
Reported PATMI	103.7	613.1	556.2	501.7	444.9
Consensus core PATMI			534.8	526.8	447.8
HLIB/ Consensus			1.0	1.0	1.0

Valuation & Ratios

FYE Jun	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	5.2	19.0	27.6	24.9	22.1
P/E (x)	16.9	4.6	3.1	3.5	3.9
DPS (sen)	1.5	2.0	0.0	0.0	0.0
Dividend yield	1.7%	2.3%	0.0%	0.0%	0.0%
BVPS (RM)	0.7	1.1	1.3	1.6	1.8
P/B (x)	1.2	0.8	0.6	0.5	0.5
EBITDA margin	47.5%	48.0%	58.8%	56.1%	53.5%
EBIT margin	26.2%	31.5%	39.6%	35.9%	32.2%
PBT margin	20.8%	46.6%	37.1%	33.5%	29.8%
Net margin	12.9%	36.1%	22.3%	20.1%	17.9%
ROE	7.0%	17.7%	20.5%	15.6%	12.1%
ROA	3.7%	6.9%	9.3%	7.7%	6.4%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Jun	FY21	FY22	FY23f	FY24f	FY25f
Realised Crude Oil Price	51.3	96.8	90.0	85.0	75.0
North Sabah Output (bpd)	6,444	5,073	5,237	6,210	6,787
Anasuria Output (bpd)	2,665	2,119	2,206	3,323	6,375
FIPC Output (bpd)			12,292	14,554	10,405

Figure #1 4Q/FY22 Results Review - restated

FYE June	FY21	FY22	FY22	QoQ	YoY	FY21	FY22	YoY
	4Q	3Q	4Q			12M	12M	
Revenue	253.0	297.1	868.4	192%	243%	804.8	1696.5	111%
Gross Profit (GP)	171.5	261.9	605.5	131%	253%	500.8	1216.9	143%
EBITDA	130.0	117.5	433.8	269%	234%	381.9	815.0	113%
Depreciation & Amortisation	41.7	87.8	112.7	28%	170%	171.0	280.2	64%
Operating Profit (EBIT)	88.3	29.7	321.1	980%	264%	210.8	534.8	154%
Finance costs	-10.2	-16.6	-24.1	46%	135%	-42.2	-61.0	45%
Share of profits from associates	-0.1	-0.1	-0.1	24%	19%	-1.1	-0.4	-61%
Negative goodwill	0.0	317.3	0.0	-100%	N.A.	0.0	317.3	N.A.
Profit Before Tax (PBT)	78.0	330.4	296.9	-10%	281%	167.6	790.7	372%
Taxation	-28.4	-22.9	-81.4	256%	187%	-63.9	-177.6	178%
Profit After Tax (PAT)	49.6	307.5	215.5	-30%	335%	103.7	613.1	491%
Exceptional Items	0.0	272.4	-41.8	-115%	N.A.	0.1	230.6	N.A.
Core Net Profit	49.6	35.1	257.3	633%	419%	103.6	382.5	269%
Profit Margins								
Gross Profit	67.8%	88.2%	69.7%			62.2%	71.7%	
EBITDA	51.4%	39.6%	50.0%			47.5%	48.0%	
EBIT	34.9%	10.0%	37.0%			26.2%	31.5%	
PBT	30.8%	111.2%	34.2%			20.8%	46.6%	
PAT	19.6%	103.5%	24.8%			12.9%	36.1%	
Core Net Profit	19.6%	11.8%	29.6%			12.9%	22.5%	
Tax Rate	-36.4%	-6.9%	-27.4%			-38.1%	-22.5%	

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Figure #2 Net Present Value of Free Cash Flows (NPV of FCF)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40
Realised Crude Oil Price Assumption	90	85	75	75	65	65	65	65	65	65	65	65	65	65	65	65	65	65
Free Cash Flows (FCF)																		
Producing Assets																		
North Sabah	33.7	40.4	55.1	54.4	34.3	30.8	26.9	26.8	26.7	26.2	22.0	17.9	17.3	14.4	15.1	12.9	13.9	11.7
NPV (WACC: 15%)	208.9																	
Anasuria	-23.6	-11.9	45.5	96.8	81.1	73.4	57.9	43.2	31.0	23.5	18.7	14.6	10.6	-194.0	-44.0			
NPV (WACC: 10%)	185.5																	
FIPC - PM3CAA (35%)	62.3	59.0	35.1	22.8	-3.2													
NPV (WACC: 10%)	145.3																	
FIPC - Kinabalu Oil (60%)	88.9	70.2	40.9	29.9	15.2	8.7	2.4	1.3	-4.7	-11.2								
NPV (WACC: 15%)	182.9																	
Total NPV (US\$ mil)	722.7																	

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Figure #3 Target Price (TP) computation

Total NPV (US\$ mil)	722.7
USD/MYR assumption	4.28
Total NPV (RM mil)	3,093.0
No. of shares outstanding	2,012.4
NPV/share (RM): Target Price (TP)	1.54

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
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