Giken Sakata (GSS SP)

Buy

Energy & Petrochemicals - Exploration & Production

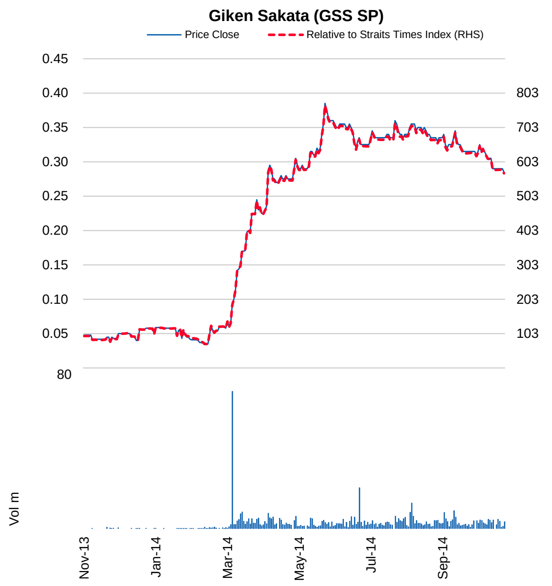
Market Cap: USD105m

Target Price: SGD0.65

Price: SGD0.29

Old Is Beautiful

Macro ◆◆
Risks ◆◆
Growth ◆◆◆
Value ◆◆◆



Source: Bloomberg

Avg Turnover (SGD/USD)	1.12m/0.89m
Cons. Upside (%)	986.2
Upside (%)	124.1
52-wk Price low/high (SGD)	0.03 - 0.39
Free float (%)	74
Share outstanding (m)	473
Shareholders (%)	
Roots Capital Asia Ltd	16.1
Java Petral Energy Pte Ltd	16.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	391.4	(9.5)	(19.7)	3.6	418.2
Relative	389.3	(8.2)	(16.1)	4.5	418.1

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We initiate coverage on Giken with a BUY and a DCF-derived SGD0.65 TP, a 124% potential upside. Giken transformed itself into an Indonesian onshore oil company with the 51% acquisition of CSE and is focused on the old wells programme. We see production surging to 6,300bopd/14,400bopd in FY15/16F (Aug) from c.900bopd at present. Giken's market cap only prices in two existing fields, with three new fields not valued yet.

- **New oil company focused on old wells.** Giken Sakata (Giken) owns 51% of Cepu Sakti Energy Pte Ltd (CSE), which has signed contracts for five oilfields under Indonesia's old wells programme. The first two have proven and probable (2P) reserves and best estimate of contingent resources (2C) of 7.6m barrels of oil (mmbo) and 3.8mmbo respectively. We expect the next three fields to be larger.
- **Superior economics yield NPV/barrel (bbl) of USD16.60/bbl, low oil price variability.** The Old Wells Programme has a much simpler cash waterfall that results in an NPV/bbl of USD16.60/bbl vs USD7-10/bbl under production sharing contracts (PSCs). The oil is sold at a fixed price to Pertamina, ie there is almost no oil price risk.
- **Business model is scalable at negligible cost, strong production ramp-up.** CSE can secure new acreages at low cost, requiring only the signing of new contracts. Exploration risk is negligible, as the fields have produced before. It can even reach first oil in the year of contract signing, with no data acquisition costs. Drilling costs are also <20% of its peers. From c.900bbls of oil per day (bopd) currently, we expect 6,356bopd/14,336bopd in FY15/FY16F.
- **Strong profitability and cashflow.** CSE was already profitable in 1Q14, producing c.300bopd. With a strong production profile, we expect earnings and cash flows to surge. Giken is effectively trading at 3x FY15F P/E, with 1.1x EV/EBITDA. If management pays out 20% of earnings, the yield would be 5.8%/15.5% for FY15/16F respectively.
- **Deeply undervalued even after price surge.** Share prices have surged post acquisition, but market clearly values only two out of its five fields. Our SGD0.65 valuation is based on a DCF of the five fields, which can still grow as it continues to sign more old wells acreage in the Cepu area.
- **Key risks:** Operational delay which may defer production growth; Short track record for CSE; Portfolio concentration.

Forecasts and Valuations	Aug-12	Aug-13	Aug-14	Aug-15F	Aug-16F
Total turnover (SGDm)	90	127	69	126	285
Reported net profit (SGDm)	0.4	0.5	2.1	32.6	87.1
Recurring net profit (SGDm)	0.4	0.5	2.1	32.6	87.1
Recurring net profit growth (%)	na	24.0	357.1	1486.8	166.7
Recurring EPS (SGD)	0.00	0.00	0.01	0.08	0.22
DPS (SGD)	0.00	0.00	0.00	0.02	0.04
Recurring P/E (x)	103	83	37	3	1
P/B (x)	4.87	4.47	5.88	1.90	0.90
P/CF (x)	13.2	12.9	na	1.5	0.7
Dividend Yield (%)	0.0	0.0	0.0	5.8	15.5
EV/EBITDA (x)	15.5	17.3	20.0	1.1	0.2
Return on average equity (%)	4.9	5.6	17.4	75.9	78.9
Net debt to equity (%)	2.1	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				0.0	0.0

Source: Company, OSK-DMG

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Executive Summary

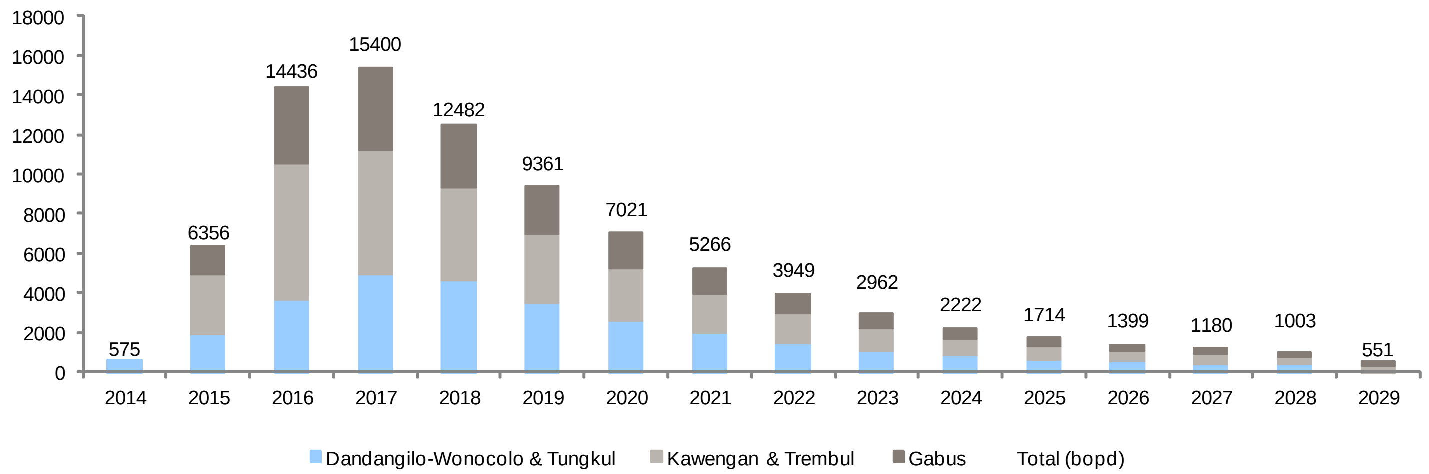
Old is beautiful. The Old Well Programme is a Pertamina-sanctioned agreement between local village cooperatives (KUDs) and their selected operators. CSE has the rights to extract, operate and finance oil production from existing wells in such villages' fields. CSE will work over old wells or drill twinned wells, with the acreage defined by the location of such old wells. The KUDs enjoy 20% of the gross revenues, but trade operational rights to the fields in return. CSE's operations are extremely low cost, with drilling and development costs less than a fifth of its peers.

Triple win-win situation. The Old Well Programme is a win-win for all parties involved. The KUDs' 20% share of gross production using modern technology is growing rapidly. Operator CSE earns the benefit of a simplified cash waterfall that yields an NPV/bbl double that of a PSC. The oil is then sold to Pertamina at an equivalent of c.USD54/bbl, and the national oil company immediately earns the spread to the prevailing global light oil price, c.USD85/bbl. The triple-win situation gives us confidence that this programme will find long-term support amongst all stakeholders.

Easily scalable model with negligible exploration risk. One of the key limiting factors of traditional PSCs is exploration costs in terms time and cash. Under the Old Wells Programme, there is almost no exploration cost as the fields have had prior production. This cuts geological risk to almost zero. To secure more acreage, CSE merely has to sign contracts to take on more old wells. Furthermore, these do not involve much upfront costs before production, which usually happens in the same year as a contract signing. By contrast, traditional PSCs are likely to see first oil only after 3-5 years.

Vastly simplified cash waterfall with 41% of production being net to operator vs 16% for PSCs. For typical PSCs, a relatively complicated cash waterfall applies. Here, domestic market obligations, operating costs, the 50-70% profit oil take by the Government and the high c.45% tax on profit oil combine to reduce an operator's take to about 15.6% of the oil revenue/bbl. Even though CSE sells its oil to the KUDs at only c.USD54/bbl, about 41% of this eventually flows back to the company as operating cash flow.

Figure 1: Production expected to surge to 15,400bopd in 2017 from 575bopd in 2014



Source: OSK-DMG

Strong production growth to drive earnings and cash flows. We expect CSE to ramp production up to 6,356bopd/14,336bopd in FY15F/FY16F respectively with four rigs currently working over old wells or drilling new ones. With each barrel netting the company c.USD22 in net income and cash flow, we expect earnings to jump to SGD32.6m (FY15) and SGD87.1m (FY16).

Figure 2: Key model drivers

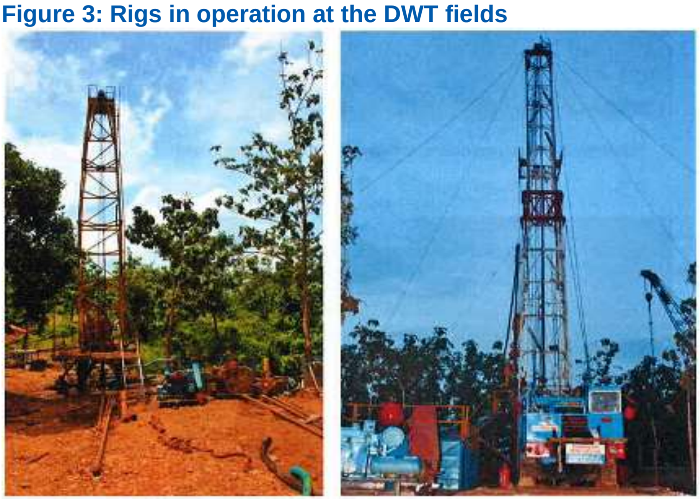
Key drivers	DWT	Kawengan	Trembul	Gabus
No. of contracted wells in each field	139 wells	91 wells	24 wells	46 wells
No. of wells drilled/workovers per year	43 wells/year	50 wells/year, mostly workovers	24 wells/year	24 wells/year
Initial production rate	52bopd	65bopd	120bopd	120bopd
Capex/well	USD160,000	USD50,000	USD200,000	USD200,000
No. of rigs in field	1 rig	1 rig	1 rig	1 rig
Decline rate	First nine years: 25%, Subsequent six years: 15%			
Oil sale price/litre	IDR4,160			
Transportation cost/bbl	USD1.85			
Generator cost/bbl	USD2.00			
Abandonment cost/well	USD15,000			
G&A cost/bbl	Doubled fixed cost used in QPR, allocated to each field using units-of-production method			
Annual oil sale price escalation	0%			
Annual cost escalation	3%			

Source: OSK-DMG

Key risk is operational delay, which may defer production growth. The strong expected production growth from c.900bopd today to 6,356bopd (FY15) and 14,436bopd (FY16) underpins our strong earnings growth and cash flows, and, therefore, our DCF value. CSE may run into operational problems that delay the completion of wells, initial production per well could be lower (or higher) than what we believe to be conservative parameters and these could defer our targeted production rates to future years.

Market only prices in two out of five fields. Giken's 51% stake in CSE's Dandangilo-Wonocolo and Tungkul (DWT) fields are valued at c.USD104.3m by Lloyd's-Register-Senergy, a world-leading consultant it engaged to produce the qualified persons report (QPR) for its oilfields. This value is 99% of Giken's current USD105m market cap. Using conservative parameters, we have estimated the company's share of the oil recoverable at 14.36mmbo, with each barrel worth c.USD16.60. This means Giken's market cap should be in the range of SGD300m, which is more than double of what it is today. We see upside to our TP should the QPR for the next three fields result in higher 2P and 2C figures than our estimate.

Figure 3: Rigs in operation at the DWT fields



Source: Company

Figure 4: Oil produced stored in 1,000-litre bladders

Source: Company

OSK | DMG

Valuation: Initiate With BUY, SGD0.65 TP

SGD0.65 TP based on a conservative DCF model. We model CSE's oilfield assets with individual DCFs, summing their contributions to the group (Giken) before taking out the 49% minority interest at the free cash flow (FCF) level. We believe our model parameters are highly conservative (see Figure 5 below), which leaves more than 20% upward revision potential should CSE outperform our production forecast or achieve lower cost-per-unit economies of scale.

Figure 5: DCF valuation of SGD0.65 per share

DCF Valuation (SGDm)	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBITDA	**95**	**236**	**252**	**198**	**142**	**99**	**67**	**43**	**25**	**11**	**6**	**4**	**2**	**2**	**0**
DWT	29	59	80	73	52	37	25	16	9	4	2	1	1	1	-
Trembul	21	41	31	23	16	11	8	5	3	1	1	0	0	0	0
Kawengan	24	71	72	53	38	26	18	11	7	3	1	1	1	1	0
Gabus	21	64	68	50	36	25	17	11	6	3	1	1	1	1	0
Working Capital Requirement	(2)	(31)	(4)	11	12	9	7	5	4	3	1	1	1	0	1
-Tax	(22)	(57)	(62)	(49)	(35)	(24)	(16)	(10)	(5)	(2)	(1)	(1)	(1)	(1)	(0)
Capex	4	(24)	(21)	(4)	-	-	-	-	-	-	-	-	-	-	-
FCF	75	123	165	157	120	85	58	38	23	12	6	3	2	2	1
FCF (51% interest to Giken)	38	63	84	80	61	43	30	20	12	6	3	2	1	1	1
NPV of FCF	**35**	**52**	**64**	**55**	**38**	**25**	**15**	**9**	**5**	**2**	**1**	**1**	**0**	**0**	**0**

Total NPV of FCF	**304**	**Our assumption**		**Cost of equity:**		**Cost of debt:**	
Terminal value	**0**	WACC	8.2%	Risk free rate	1.6%	Pretax cost of debt	5%
-Net debt + MI + cash	**4**	Small cap penalty	1.5%	Expected market returns	8.1%	Effective tax rate	25%
DCF value	**309**	Discount rate	9.7%	Stock beta	100.0%	Average cost of debt (Kd)	4%
DCF/share (SGD)	**0.65**	Terminal growth	0.0%	Cost of equity (Ke)	8.1%	Equity (%)	103%

Source: OSK-DMG

Our key assumptions for CSE's fields are:

i) Oil sales price fixed at IDR4,160/litre, translating into c.USD54.21/bbl at USD/IDR=12,200. We conservatively assume no oil price escalation through to 2029F

ii) Transportation, generator and abandonment costs are USD1.85/bbl, SGD2.00/bbl and SGD0.015/bbl respectively with 3% escalation per year (the QPR uses 0%)

iii) Drilling cost of c.USD200,000/well where 20% of the cost is expensed in the first year and the remaining 80% depreciated over 10 years. CSE is unlikely to twin-drill every old well, as some are in good condition and simple workovers are sufficient. Workover cost per well is only c.USD50,000

iv) Initial production level of 52bopd/well for the Dandangilo-Wonocolo and Tungkul fields, 65bopd/well for the Kawengan field, and 120bopd/well for each of the Trembul and Gabus fields that are still "charged", ie reservoir pressures are still high as production was interrupted by World War II and cumulative productions are relatively low

v) 25% production decline rate for each well for the first nine years and a 15% decline rate for the last six years. This is much more conservative than oil companies' models, which assume a flat 2-3 years' peak production after first oil while reservoir pressure remains high

The main impacts of our conservative assumptions are:

i) Lower initial production per field and, therefore, lower cumulative production. Our 2P estimates for the Kawengan, Trembul and Gabus fields are likely to be (far) too low.

ii) Lower production growth profile and higher decline rates than may be realised.

iii) Lower net profit and cash flow in the high-growth years of 2015-2018

Giken's 51% stake worth USD238.5m. Using these assumptions, we discount FCFs at the industry-standard 10% and arrive at a total NPV of USD463m for CSE's five fields. This reflects an NPV/bbl value of USD16.60/bbl. Giken's 51% stake in the fields is worth USD238.5m.

Figure 6: Our NPV-and-risking model

Country	Field	Equity %	2P mmbo	2C mmbo	Prospective resources mmboe	Risking %	Risked mmboe	NPV USDm	NPV USD/boe
Production / Near-production Stage									
Indonesia	Dandangilo-Wonocolo Tungkul	51%	3.9	2.0		100%	5.9	76.6	13.04
Indonesia	Kawengan	51%	3.5			100%	3.5	66.4	18.94
Indonesia	Trembul	51%	1.7			100%	1.7	33.7	19.70
Indonesia	Gabus	51%	3.3			100%	3.3	61.7	18.87
	Total:		**12.41**	**1.96**	**0.00**		**14.36**	**238.5**	**16.60**

	Value (USDm)	Per share
Producing / near-production	238.5	0.50
Adjust for Group gross cash USDm)	4.4	0.01
Adjust for Group gross debt (USDm)	0.0	0.00
Target equity value (USDm)	**242.9**	**0.51**
Shares (m)	472.6	
Forex rate (USDSGD)		1.273
Equity value per share (SGD/share)		**0.65**

Source: OSK-DMG

Note: 2P figures for Kawengan, Trembul and Gabus fields are based on our estimates of recoverable reserves

Sensitivity Analysis

Our sensitivity analysis aims to demonstrate the variability of our TP with regard to the key value drivers of: i) oil sales price, ii) discount rates, and iii) initial production rates per well. Production costs are not a major contributor to our valuation, as they are a low 20% of the oil sales price.

We note that in the vast majority of cases, the TP is higher than the current share price, even under bearish assumptions.

Figure 7: Varying oil price and discount rate

		% change in oil sale price						
		-30%	-20%	-10%	0%	10%	20%	30%
Change in discount rate	-3%	0.41	0.51	0.62	0.72	0.82	0.92	1.02
	-2%	0.40	0.50	0.59	0.69	0.79	0.89	0.98
	-1%	0.38	0.48	0.57	0.67	0.76	0.86	0.95
	0%	0.37	0.46	0.56	0.65	0.74	0.83	0.92
	1%	0.36	0.45	0.54	0.62	0.71	0.80	0.88
	2%	0.35	0.44	0.52	0.60	0.69	0.77	0.85
	3%	0.34	0.42	0.51	0.59	0.67	0.75	0.83

Source: OSK-DMG

Figure 8: Varying oil price and initial production rates

		% change in oil sale price						
		-30%	-20%	-10%	0%	10%	20%	30%
% change in initial production rates	-15%	0.29	0.37	0.45	0.52	0.60	0.68	0.75
	-10%	0.32	0.40	0.48	0.57	0.65	0.73	0.81
	-5%	0.35	0.43	0.52	0.61	0.69	0.78	0.86
	0%	0.37	0.46	0.56	0.65	0.74	0.83	0.92
	5%	0.40	0.50	0.59	0.69	0.78	0.88	0.97
	10%	0.43	0.53	0.63	0.73	0.83	0.92	1.02
	15%	0.46	0.56	0.66	0.77	0.87	0.97	1.08

Source: OSK-DMG

Figure 9: Varying initial production and discount rates

		% change in initial production rates						
		-15%	-10%	-5%	0%	5%	10%	15%
Change in discount rate	-3%	0.58	0.63	0.67	0.72	0.76	0.81	0.85
	-2%	0.56	0.60	0.65	0.69	0.74	0.78	0.82
	-1%	0.54	0.58	0.63	0.67	0.71	0.75	0.79
	0%	0.52	0.57	0.61	0.65	0.69	0.73	0.77
	1%	0.51	0.55	0.59	0.62	0.66	0.70	0.74
	2%	0.49	0.53	0.57	0.60	0.64	0.68	0.72
	3%	0.48	0.51	0.55	0.59	0.62	0.66	0.69

Source: OSK-DMG

Old Is Beautiful – Solid Economics Of The Old Well Programme

Introducing the Old Well Programme

Cooperative agreement between locals and operator. Under a ministerial decree in 2008, the rights to extract and produce oil from oil fields in the Cepu area were vested to the local KUDs, which are the approved legal entities of the local governments. The KUDs then signed agreements with operators (one of which was CSE), to extract, operate and finance oil production from their fields.

Figure 10: Oil separator tank

Source: Company

Figure 11: Progressive cavity pump at work in the field

Source: Company

CSE now demonstrating the viability of this simple and elegant model. The oil produced is sold by the KUDs to Pertamina at IDR4,160/litre (equivalent to c.USD54/bbl), with the KUD taking 20% and Pertamina 2% of gross revenue. After lifting costs and a 25% corporate tax, the balance is net income and cash flow to CSE. This Old Wells Programme is a completely different structure compared to the traditional PSC and cooperation agreement (KSO) structure, and its viability is now being proven with CSE currently producing c.900bopd. According to management, word of the company's success has spread and it has since received enquiries from other KUDs eager to sign similar agreements.

Win-win-win situation for locals-Pertamina-operator provides high probability of contract renewals. Prior to CSE's entry, the locals had been producing less than 100bopd from the old wells. With the well workovers and new ones drilled by CSE, their 20% share equates to more than 180bopd today, already doubling their economic benefit on merely c.900bopd. Pertamina enjoys a growing source of cheap oil at c.USD54/bbl vs a market price of c.USD85/bbl. Therefore, we see strong incentives for the national oil company to continually extend this programme with the KUDs, which are locked in for 5-10 years with potential 5-year renewals. It is interesting to note that CSE has wisely locked in the KUDs for each of its potential extensions.

Figure 12: CSE's contract terms

	Dandangilo	Wonocolo	Tungkul	Kawengan	Trembul	Gabus
Mother agreement (Pertamina & KUDs)	31 Oct 2012 - 31 Oct 2017, potential 5-year extension	31 Oct 2012 - 31 Oct 2017, potential 5-year extension	3 Nov 10 - 3 Nov 2020	12 May 2014 - 12 May 2019, potential 5-year extension	3 Nov 2010 - 3 Nov 2020	15 Dec 2011 - 15 Dec 2016, potential 5-year extension
Cooperation agreement (CSE & KUDs)	25 Mar 2013-25 Mar 2023, extend to Mar 2028 subject to validity of mother agreement	27 Feb 2014-27 Feb 2024	28 Feb 2013-28 Feb 2023, extend to Feb 2028 subject to validity of mother agreement	20 Jun 2014-20 Jun 2024, automatically extended for another 5 years upon expiry	15 Sep 2014-15 Sep 2024, potential extension for another 5 years	15 Sep 2014-15 Sep 2024, potential extension for another 5 years

Source: Company data

Easily scalable with little upfront commitments, low capex to reach early cash flows. Unlike PSCs, which typically come with seismic data acquisition, drilling and other capex commitments, there are no such requirements to operate the old well programme. PSC operators are typically limited by capital, being unable to rapidly expand their asset portfolios due to the high expected near-term expenditures with multi-year horizons before cash inflows. CSE's operations are able to reach first oil even in the year of contract signing, with no data acquisition expenditure and drilling costs that are less than 20% of its peers, making this a much more scalable model.

We understand that CSE has spent merely c.USD4m on the Dandangilo-Wonocolo and Tungkul fields to date, and that production is already almost c.900bopd. With low capital requirements and superior business-model economics, the company is already profitable and cash-generative.

Figure 13: Low-cost diesel generator set (for three wells)

Source: Company

Figure 14: Low-cost compacted access road

Source: Company

300 wells in hand, more than 5,000 to go. To give an idea of the scalability of this model, we note that CSE has secured rights to just 300 wells spread over its five oilfields. In a Nov 2013 Parliamentary discussion, a member of the House of Representatives estimated that there are "5,000 old oil wells in Indonesia scattered all over Kalimantan, Sumatra and Java" (source: *www.tempo.co*) and that these were those that had been "closed since 1971". However, the Dutch drilled many more wells from 1895 through 1942 before World War II shut down their operations. Management estimated that the Old Well Programme could cover as many as 18,000 wells across the archipelago.

Old Well Programme vs standard PSCs

Essentially zero exploration risk. CSE's reserves and resources are based on fields that were drilled by the Dutch in the 1900s and which had been producing (albeit generally at low volumes and interrupted by two world wars) using dated technology. As such, the probability of the company's wells – which are drilled adjacent (or "twinned") to existing ones – intersecting oil columns is close to 100%. This drastically de-risks the business model from an investor's standpoint vis-à-vis PSCs, in which typical oil companies have less than 50% success rates in discovering oil. CSE's management has so far experienced 100% success in drilling production wells.

Lower capex costs. Each of CSE's twinned wells cost only USD200,000 and one month on average to drill and complete, given that they are onshore and are at shallow targeted depths of less than 550m. This is a much lower cost, in dollar and temporal terms, when compared to the usual USD5m-30m over multiple months for deeper onshore wells and offshore ones in Indonesia. If the old wells are in good condition, even twinning may not be required – a simple USD50,000 workover will do.

Figure 15: Preparing a site for twin drilling

Source: Company

5-month payback period per well. At an assumed initial flow rate of 70bopd and sales price of USD54/bbl, we expect each new well to generate USD542,000 in cash in the first year, with an average of USD331,000 annually over the first five years. In other words, the payback period per well is only 4-5 months when compared to the multiple years for PSCs, especially after taking dry hole expenses into consideration.

Figure 16: Less than five months' payback per well

Capex (USD)	200,000	We use USD200,000 cost/well vs management guidance of USD50,000/workover and USD150,000/new drill.
Initial bopd	70	
Decline rate 1	25%	First nine years
Decline rate 2	15%	Last six years
Oil sale px	54.21	
Cash cost per bbl	14	
Tax	25%	

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
Production (bbls)	25,550	19,163	14,372	10,779	8,084	6,063	4,547	3,411	2,558	1,918	1,631	1,386	1,178	1,001	851
Production (bopd)	70	53	39	30	22	17	12	9	7	5	4	4	3	3	2
USD'000															
Gross revenue	1,385	1,039	779	584	438	329	247	185	139	104	88	75	64	54	46
Net revenue	**1,080**	**810**	**608**	**456**	**342**	**256**	**192**	**144**	**108**	**81**	**69**	**59**	**50**	**42**	**36**
COGS	(358)	(268)	(201)	(151)	(113)	(85)	(64)	(48)	(36)	(27)	(23)	(19)	(16)	(14)	(12)
PBT	**723**	**542**	**406**	**305**	**229**	**171**	**129**	**96**	**72**	**54**	**46**	**39**	**33**	**28**	**24**
Tax	(181)	(135)	(102)	(76)	(57)	(43)	(32)	(24)	(18)	(14)	(12)	(10)	(8)	(7)	(6)
Net cash flow	**542**	**406**	**305**	**229**	**171**	**129**	**96**	**72**	**54**	**41**	**35**	**29**	**25**	**21**	**18**

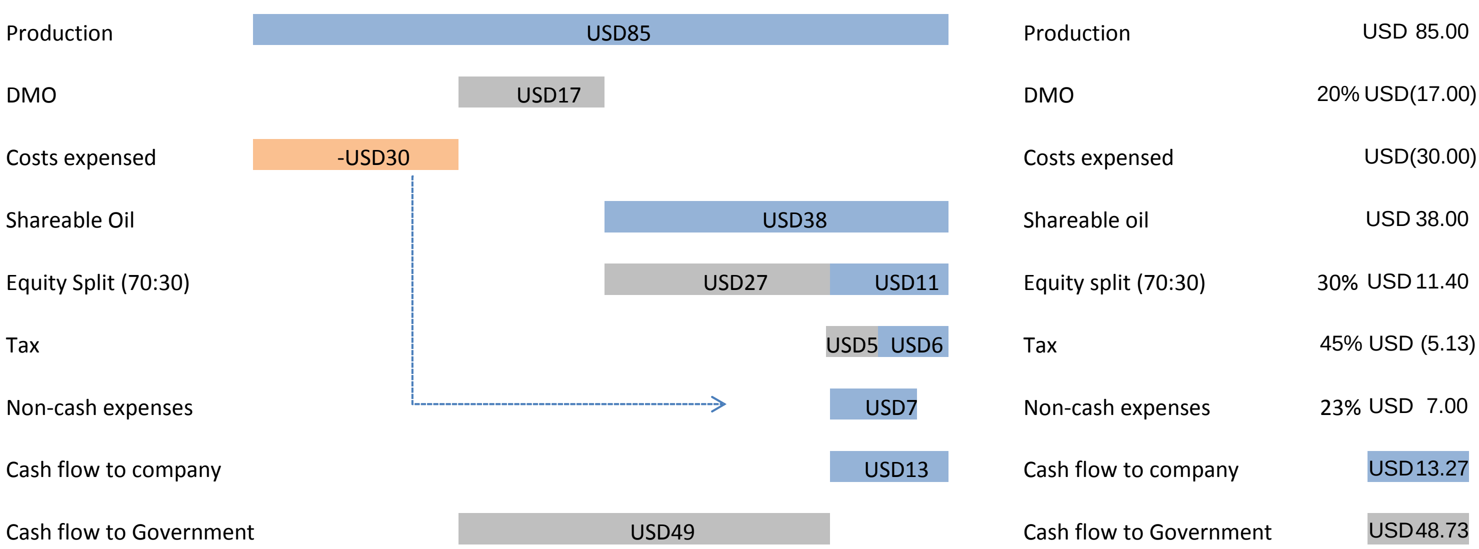
Source: OSK-DMG

Lower operational costs. Being onshore and low capex, CSE's operational costs are also significantly lower at c.USD9.75/bbl (c.USD8.63/bbl cash costs, excluding depreciation) in FY15-19F. These include transportation and labour costs, electricity generation, overheads for field and administration offices, and well abandonment costs. Management believes these costs can be driven even lower by using larger pumps that utilise newer technology, employing larger trucks to carry more oil/trip to Pertamina's collecting station and spreading out fixed costs over more fields in future.

Working interests already exclude royalties/domestic obligations. Where typical PSCs recognise reserves and resources in direct proportion to their equity ownership in the field before subtracting royalties and profit oil sharing, CSE's 2P figures have already excluded the 20% equivalent of a domestic market obligation. This creates some confusion regarding inter-company comparisons, but reflects a more conservative take on its reserves figures. Investors should note this distinction.

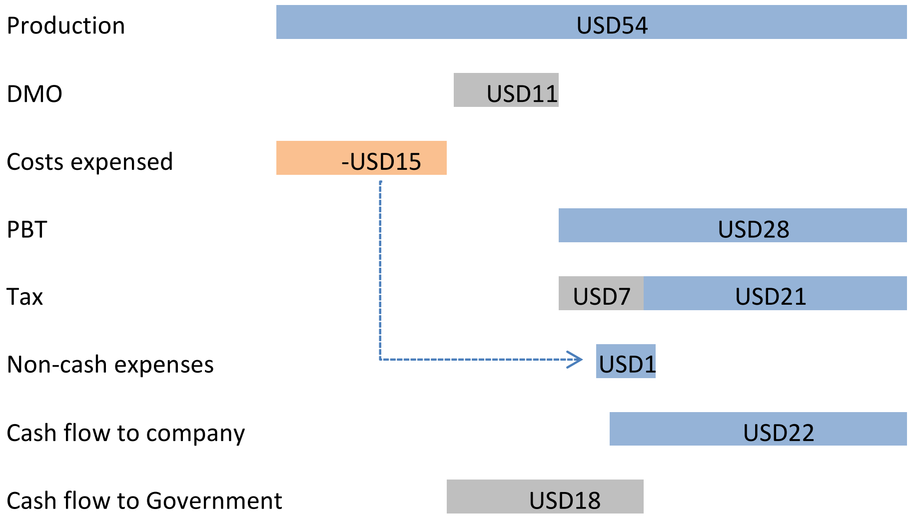
Vastly simplified cash waterfall with 41% of production being net to operator. For typical PSCs, a relatively complicated cash waterfall applies where domestic market obligations, operating costs, the 50-70% profit-oil take by the Government and the high c.45% tax on profit oil all combine to reduce an operator's take to about 15.6% of the oil revenue/barrel. Even though CSE sells its oil to the KUDs at only c.USD54/bbl, about 41% of this eventually flows to CSE as operating cash flow.

Figure 17: 15.6% of revenue goes to contractor in a traditional PSC



Source: OSK-DMG

Figure 18: Old Well Programme yields USD22/bbl net cash to operator - 41% of sales revenue



Production		USD 54.00
DMO	20%	USD (10.80)
Costs expensed		USD (15.00)
PBT		USD 28.20
Tax	25%	USD (7.05)
Non-cash expenses		USD 1.00
Cash flow to company		USD 22.15
Cash flow to Government		USD 17.85

Source: OSK-DMG

NPV of USD16.60/bbl (or c.SGD21/bbl)

Already profitable at c.900bopd. CSE was already in the black in 1Q14 at c.300bopd. Today it is producing c.900bopd. Our projections are for c.1,100bopd for December, with a bottomline of c.USD4m for the year ending Dec 2014. This compares favourably to other SGX-listed peers like RH PetroGas (RHP SP, BUY, TP: SGD1.19) that is now operating at breakeven with 4,400 bbls of oil equivalent per day (boepd) and KrisEnergy (KRIS SP, NR), which lost USD5.8m in 2Q14 at 7,887boepd of production.

Superior EBITDAX of USD28/bbl. CSE's fields will be highly-productive in the initial 10 years between 2015 and 2024, when we expect the company to consistently generate about USD27.89 in EBITDAX for every barrel of oil produced in the first 10 years of a field's life. By contrast, RH Petrogas delivered USD21/bbls of oil equivalent (boe) in 2Q14, whereas KrisEnergy only had USD14/boe due to its higher proportion of low-priced gas production.

Relatively high NPV of USD16.60/bbl. Discounting CSE's cash flows in 2014-2029 at the industry-standard 10%, we arrive at an NPV of USD238.5m, which translates into an NPV/bbl of USD16.60. To put this into perspective, we previously valued RH Petrogas at c.USD8.74/boe of 2P reserves and 2C resources. This result is not unexpected, given: i) the superior economics in the Old Wells Programme, ii) the minimal capex requirements, and iii) the short time required to hit first oil.

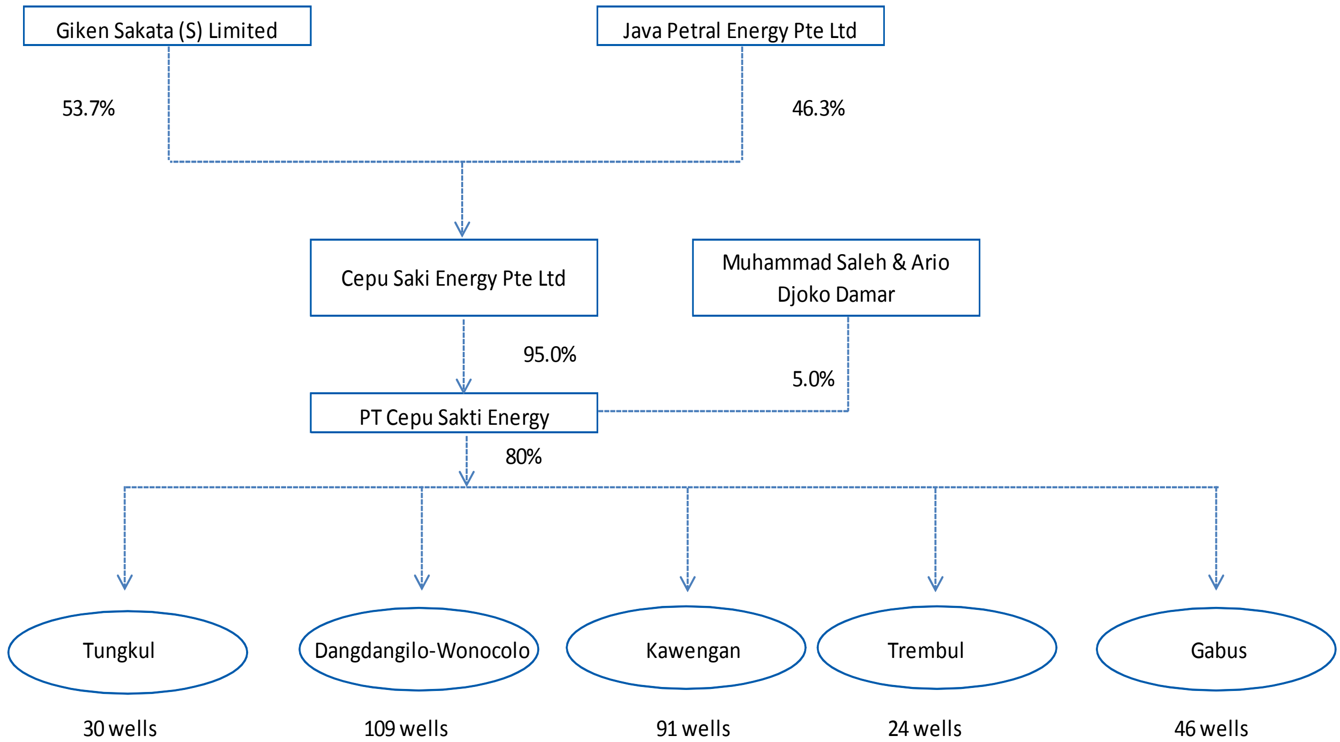
Company Profile: Transformational Acquisition At a Great Price

In this section, we briefly describe the deal which transformed Giken from a small technology company into an up-and-coming upstream exploration & production company.

Giken acquired a 53.68% stake in Cepu Sakti Energy for a consideration of SGD48m, of which SGD25.2m was satisfied in cash and SGD22.8m by the issuance of 76m new ordinary shares at SGD0.30/share. Giken now effectively owns 51% of PT Cepu Sakti Energy, which directly owns the 80% (after the KUD share) stake in each of the oilfields.

Shareholding and corporate structure

Figure 19: Corporate Structure after acquisition



Source: Company data, Senergy, OSK-DMG

Terms of the deal

Figure 20: The deal will be satisfied by 52.5% cash, 47.5% shares

	SGDm	Remarks
Cash	25.2	Placed 80m shares at SGD0.30/share, with the remainder internally funded.
New Equity	22.8	Issued 76m shares at SGD0.30/share
Total Consideration	**48.0**	

Source: Company data, OSK-DMG

Note: The acquisition occurred when CSE only had rights to the Dandangilo-Wonocolo and Tungkul fields, valued at USD195m-222m by Senergy using Best-case parameters

Figure 21: Pre- and post shareholding structure

	Shareholdings before Transactions		Shareholdings after Transactions	
	No of shares	%	No of shares	%
Directors				
Tan Kay Guan	652,000	0.21%	652,000	0.14%
Substantial Shareholders				
Roots Capital Asia Ltd	76,275,000	24.21%	76,275,000	16.14%
JPEL			76,000,000	16.08%
Placees	-	-	80,000,000	16.92%
Tam Siew Foong	-	-	1,600,000	0.34%
Other Shareholders	238,091,657	75.58%	238,091,657	50.38%
Total	315,018,657	100.00%	472,618,657	100.00%

Source: Company data

Figure 22: Ownership structure of JPEL

JPEL Shareholder	No of shares in JPEL	% shareholding in JPEL
Blue Water*	280,000	30%
Howard James Smith	46,000	5%
Lee Kok Wah	161,000	18%
Ong Chin Yew	49,000	5%
Yaw Chee Siew	175,000	19%
Muhammad Saleh	105,000	11%
Ario Djoko Samar	105,000	11%
Total	**921,000**	**100%**

Source: Company data

**Blue Water is an investment holding company which is equally owned by Charles Madhavan and Anthony Clive Reudavey*

Estimated 14.36mmbo of 2P reserves and 2C contingent resources

Based on our model, we calculate the likely reserves for the upcoming Kawengan, Trembul and Gabus fields using highly conservative parameters and attribute the results to 2P reserves. For the Dandangilo-Wonocolo and Tungkul fields, we use the 2P and 2C figures as given in the QPR issued by Senergy.

Net to Giken, we estimate the 2P figure to be 12.41mmbo and 2C resources to be 1.96mmbo, for a total of 14.36mmbo. Management has already commissioned the QPR from Senergy for the Kawengan and Trembul fields and is in the process of commissioning the QPR for the Gabus field – we expect the final 2P and 2C figures to be significantly higher than ours, given that our figures are 17% lower for the already-published QPR on Dandangilo-Wonocolo and Tungkul.

Figure 23: Expected 2P and 2C of at least 14.36mmbo

	2P reserves		2C contingent resources	
	Gross attributable to license (100%)	Attributable to Giken (40.8%)	Gross attributable to license (100%)	Attributable to Giken (40.8%)
Dandangilo-Wonocolo and Tungkul Fields	9.60	3.92	4.80	1.96
Kawengan	8.59	3.51	-	-
Trembul	4.20	1.71	-	-
Gabus	8.01	3.27	-	-
Total	**30.41**	**12.41**	**4.80**	**1.96**

Source: Senergy, OSK-DMG

History of the company

Giken was established in 1979 and listed on SGX in Feb 1993. Since the 1980s, it has been an integrated contract manufacturer with manufacturing plants in Singapore, Indonesia and China. However, since the acquisition of CSE in 2014, the company has now effectively transformed itself into an upstream oil & gas company. We expect the electronics business to be sold off by FY15.

Figure 24: Corporate milestones

Date	Event
Dec-79	Incorporation of Giken Sakata (S) Pte Ltd (GSS) in Singapore
Jul-91	Establishment of PT. Giken Precision Indonesia (GPI) in Batam
Jul-92	Relocated headquarters from Japan to Singapore
Feb-93	Change name to Giken Sakata (S) Ltd Listed on SESDAQ
Sep-94	Establishment of Changzhou Giken Precision Co. Ltd (CGP)
Sep-09	Became a subsidiary of Miyoshi Precision Limited (MPL)
Oct-13	Ceased to be a subsidiary and become an associated company of Miyoshi
Mar-14	Ceased to be an associate company of Miyoshi Precision Limited (MPL)
Aug-14	Proposed acquistion of 53.68% stake in Cepu Sakti Energy Pte Ltd
Sep-14	Acquired 53.68% stake in Cepu Sakti Energy Pte Ltd

Source: Company

Key management team

Mr Lee Kok Wah, executive director of Giken and chairman of CSE

Mr Lee is an executive director of Giken. He is also the executive director of CSE and has more than 30 years experience in the corporate, finance and capital markets with emphasis on marine and shipping sectors. He was previously with Otto Marine from 2003 to 2011 and held various positions at different stages, including being appointed as managing director and group CEO. He received a Bachelor of Social Sciences with Honours in Economics from the University of Singapore in 1969.

Mr Sydney Yeung, group CEO of Giken

Mr Yeung was appointed as Giken's group CEO in Sep 2014. Having graduated with a bachelor's degree from Fordham University, he started his career at Morgan Stanley New York's institutional equities division. Yeung is currently the managing director of Pioneer Capital Management. He is also the independent director of China Gaoxian Fibre Fabric Holdings, Global Initiatives Communications and Maiplay, a director of Ares Asia Ltd and Roots Capital Asia, a substantial shareholder of Giken.

Mr Charles Madhavan, managing director of CSE

Mr Madhavan serves as an executive director at CSE. He has more than 30 years of experience in oil & gas construction and drilling, with expertise in managing and operating land drilling rigs and sludge processing plants. Prior to heading Blue Water Consultants, Madhavan also served as the managing director of Rotary Environment from 1996 to 2000 and has experience in a number of large oil and gas players from Arco and Amoco to Chevron and Unocal.

Mr Ng Say Tiong, group CFO of Giken Sakata

Mr Ng joined Giken in 1996 and was appointed as its CFO in 2002. He is also a director of Changzhou Giken Precision, chairman of the Fuchun Community Club Management Committee and the treasurer of the Marsiling Consultative Committee. He holds a Bachelor of Accountancy and Master of Business degree (International Marketing) and was awarded a Public Service Medal by the President of Singapore in the 2012 National Day Award.

Mr Howard Smith, chief geologist

Mr Smith has more than 32 years of diverse experience in the upstream oil and gas industry. He had a successful 23-year career in the upstream services sector in the Asia-Pacific, Middle East and North America regions, and established a track record as a key person in the start-up exploration and production business in Indonesia. He was also the former shareholder of Vela Energy Ltd, whose assets gave the shareholders a 10-fold return.

Key Investment Themes

Transformed into an upstream oil company. With the completion of the 53.68% acquisition of CSE, Giken has transformed into an oil production company. CSE's 95% owned subsidiary, PT CSE, currently has operational rights to five oilfields. The QPR has been completed by Senergy for the first two fields Dandangilo-Wonocolo and Tungkul, certifying 2P reserves and 2C resources of 7.6mmbo and 3.8mmbo respectively net to CSE, of which 51% is net to Giken.

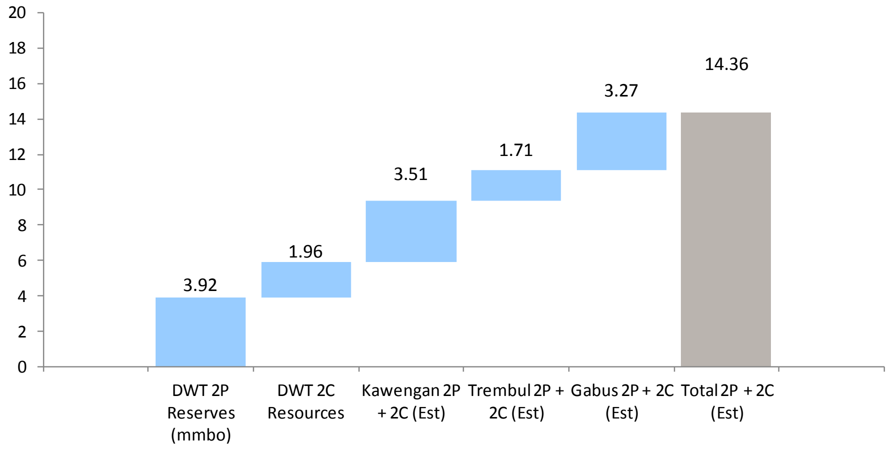
QPR values DWT fields at USD195m-222m. Senergy's DCF of the DWT fields, at a 10% discount rate, provides an NPV to CSE of USD195m–222m. This is based on 12.5mmbo produced at the field level, of which 10mmbo are net to the company. In other words, the NPV for CSE's field is USD19.50-22.20/bbl. Based on this, Giken's 51% stake in the original two fields could be worth USD99m-113m. Our valuation model updates the production profile using more conservative assumptions and arrives at a figure that is about 33% lower than this range.

QPR valuation already accounts for 99% of market cap, next three fields are significantly larger. Taking Giken's share of CSE's assets, 51% of Senergy's NPV of the DWT fields already makes up USD104.3m, or 99%, of the former's USD105m market cap. Using our valuation of USD76.6m for the DWT fields, this percentage is 73%. We note that our modelled production in the DWT fields is 4.3mmbo net to Giken, vis-à-vis our total expected production of 14.36mmbo. In other words, the market is likely pricing in only two of Giken's five oilfields, and not the three larger fields that CSE signed for after DWT.

Asset portfolio is easily scalable with little upfront commitment. Unlike PSCs that typically come with seismic data acquisition, drilling and other capex commitments, there are no such requirements when operating the Old Well Programme. PSC operators are typically limited by capital, being unable to rapidly expand their asset portfolios due to high expected near-term expenditures with multi-year horizons before cash inflows. CSE's operations are able to reach first oil even in the year of contract signing, with no data acquisition expenditure and drilling costs that are less than 20% of its peers, making this a much more scalable model.

Reserves and resources growing rapidly on CSE's acquisition to >14.36mmbo from 5.88mmbo. Giken's acquisition of CSE gives it a 2P+2C figure of 5.88mmbo for the Dandangilo-Wonocolo and Tungkul fields, as certified in the QPR performed by Senergy. With the Kawengan, Trembul and Gabus fields' contracts having been signed recently, our model indicates that Giken could have recoverable reserves upwards of 14.36mmbo. CSE has already contracted Senergy to perform the QPRs for these three fields, and we expect the Kawengan and Trembul report to be out this month. Note that our assumptions are more conservative than those used by Senergy in the first report, potentially leaving ample room for upside surprises.

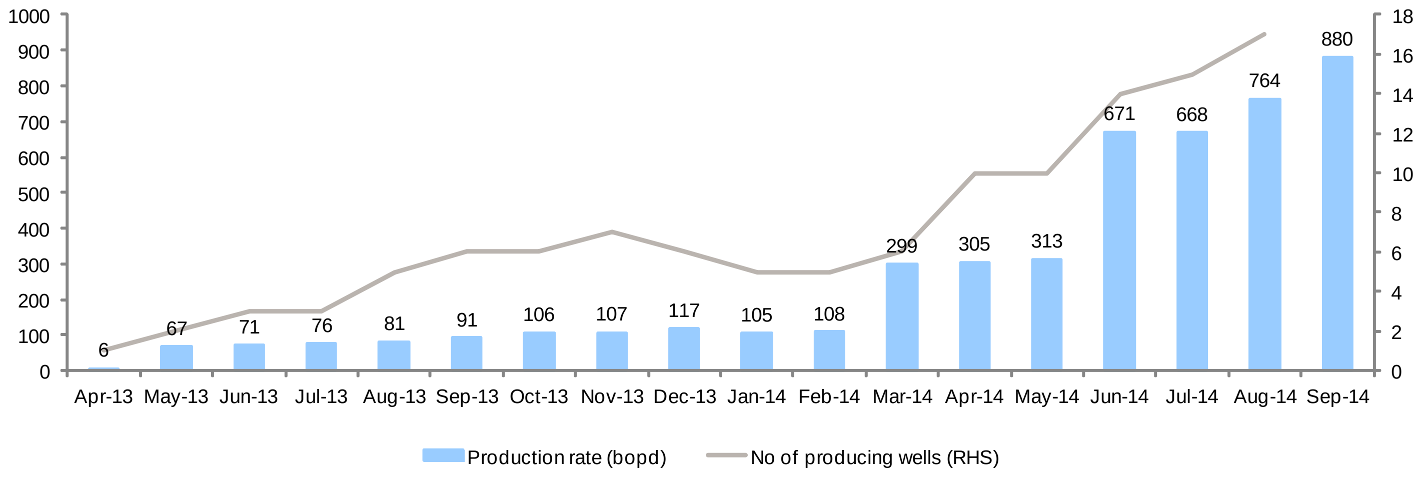
Figure 25: At least 14.36mmbo of expected 2P reserves and 2C resources



Source: Company data, Senergy, OSK-DMG

Strong production and revenue growth. CSE's monthly production has been increasing since operations began in Apr 2013, reaching c.900bopd today. We expect the Kawengan, Trembul and Gabus fields to contribute in FY15, sending production surging further.

Figure 26: Production surging today as more wells are brought online



Source: Senergy

CSE's production may hit c.15,400bopd in 2017. The DWT fields are already producing c.900bopd as of today, and with at least 43 wells coming online in 2015, we expect average production next year to be c.1,868bopd.

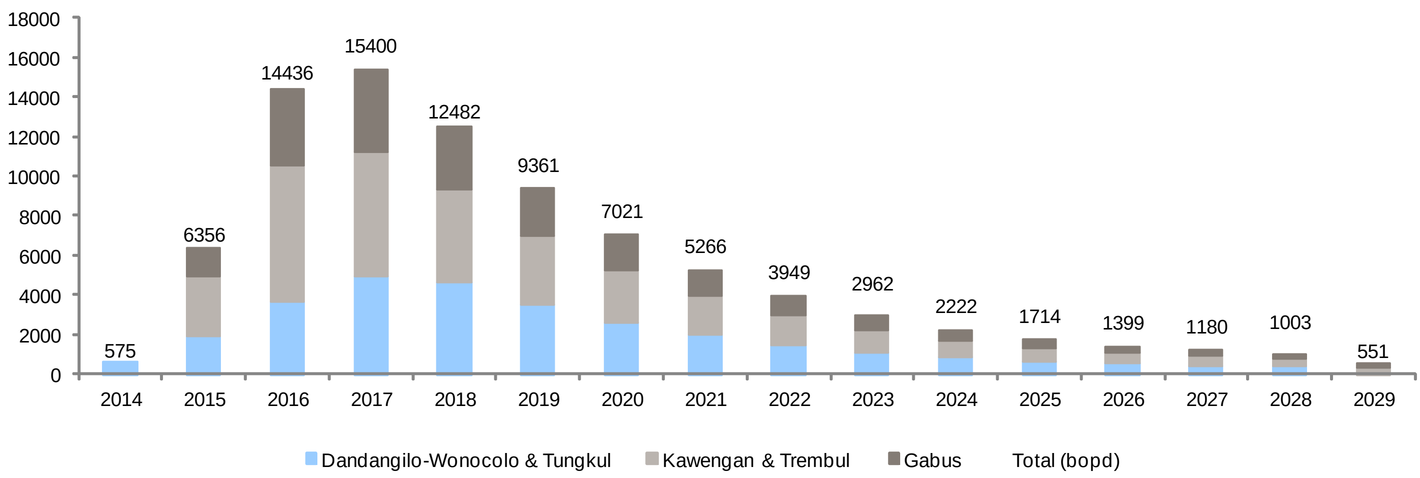
CSE has one rig working in the Kawengan field today, which is expected to perform 50 well workovers next year. At initial flow rates of 65bopd/well, we expect average production next year to be 1,609bopd from this field.

CSE also has one rig working in the Trembul field now, and we expect all 24 contracted twin-drilling wells to be completed next year. As the field is still "charged", ie it has produced relatively little before the wells were shut-in and reservoir pressures remained high, we use 120bopd/well as the initial flow rate assumption. This results in a 1,440bopd contribution in 2015 from this field.

Similarly, the one rig working now in the charged Gabus field is expected to twin-drill 24 wells a year until the 46 contracted wells are completed. We similarly expect 1,440bopd from this field in 2015.

Under these assumptions, which we believe are conservative, we expect CSE to achieve 6,356bopd in 2015, 14,436bopd in 2016, and peaking in 2017 at 15,400bopd. By then, we expect the company to have signed on additional fields or wells within the Trembul, Kawengan and Gabus fields to combat natural decline.

Figure 27: Production to surge to 15,400bopd in 2017 from 575bopd in 2014



Source: OSK-DMG

Already profitable even at 300bopd in the quarter to Mar 2014, now at c.900bopd. In the start-up years of FY12 (Dec) and FY13, CSE was unprofitable as there was little oil production. Profitability arrived quickly in 1Q14 with production at a mere c.300bopd. We understand that CSE is currently producing in the range of 900bopd.

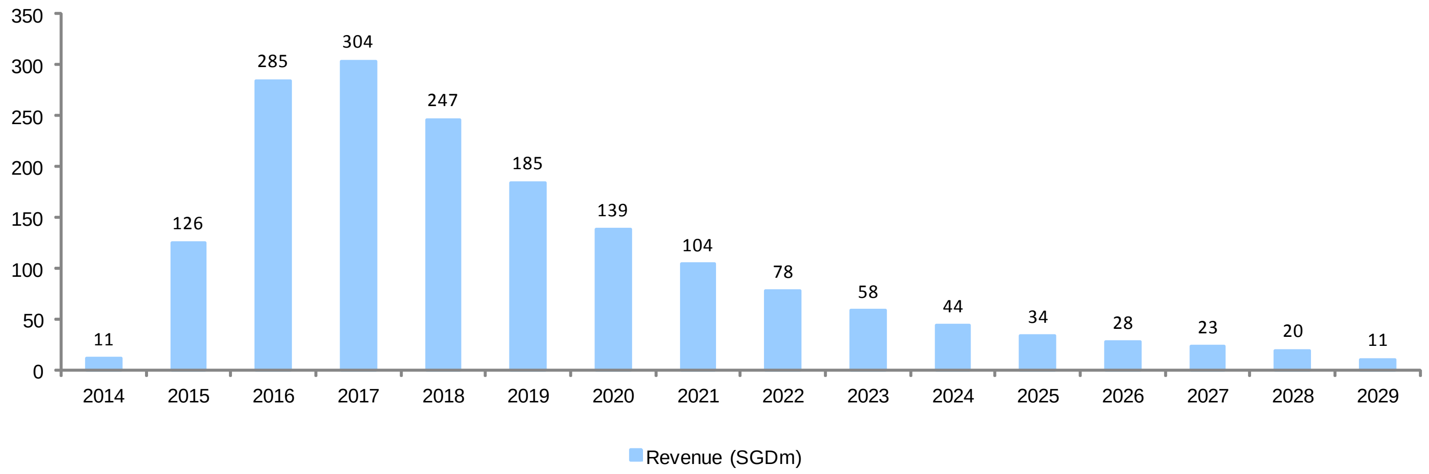
Figure 28: CSE's PAT turned positive at 300bopd

SGD'000	FY2011	FY2012	FY2013	1Q14
Revenue	-	-	1,634	1,075
Cost of sales	-	-	(619)	(362)
Gross Profit	-	-	1,015	713
EBITDA	(0.40)	(211)	(445)	353
Profit before tax	(0.40)	(211)	(617)	290
Profit after tax	(0.40)	(211)	(617)	168

Source: Company data

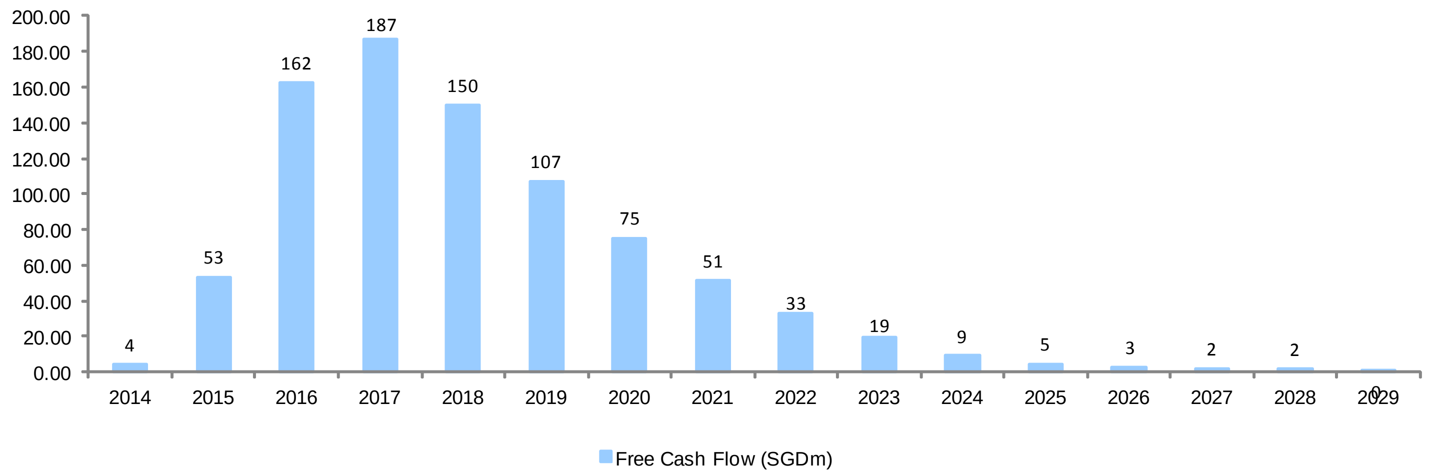
Business model provides strong cash flow profiles even in early days and rapid near-term growth. We expect production to average c.575bopd in 2014 with net cash flows of SGD4.1m, peaking at SGD186.5m in FY17 before declining. This assumption is based on its existing fields. We expect CSE and, by extension, Giken, to be profitable and strongly cash-generative over the next decade.

Figure 29: Production surge to drive revenue growth



Source: OSK-DMG

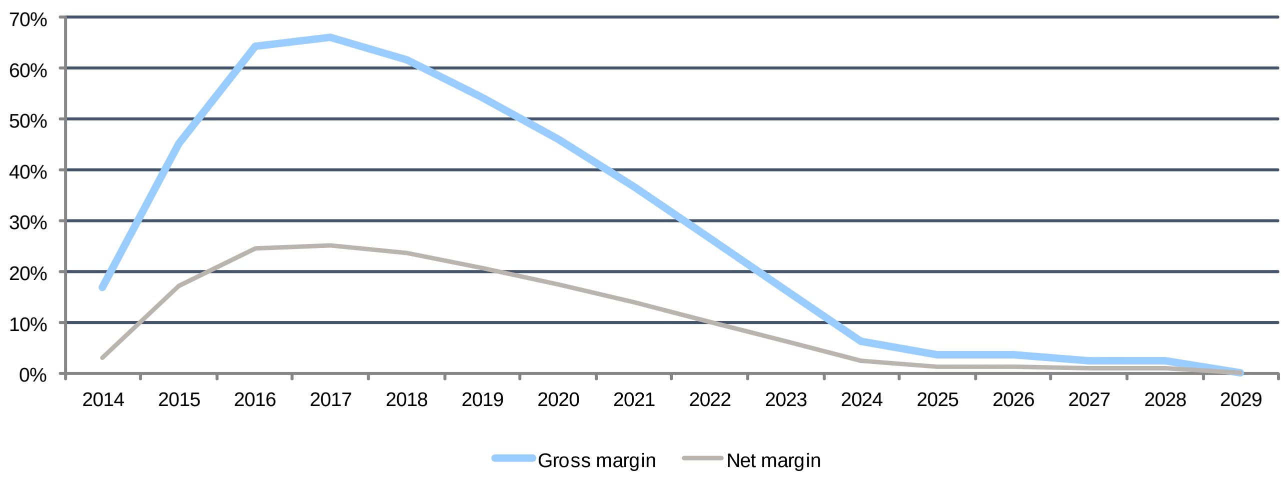
Figure 30: Strong cash flows to Giken in the next three years



Source: OSK-DMG

Significantly higher margins for CSE's unique business model. CSE reported 1Q14 gross margin of 66% on a production level of c.300bopd. We expect its gross margins to be 68%/80% in FY15/FY16, driven by its low capex and low depreciation. This compares favourably against peers like RH Petrogas and KrisEnergy, whose gross margins are 32% and 36% respectively.

Figure 31: Gross and net margins



Source: OSK-DMG

Figure 32: Peers' production volume and quarterly financials

Company	Production volume (bopd)	Sales	Gross Profit	EBITDA	Net Profit	GPM	EBITDA margins	NPM
Cepu Sakti Energy	800	1,075	713	353	168	66%	33%	16%
RH Petrogas	4,130	19,166	6,221	8,229	993	32%	43%	5%
Kris Energy	7,887	22,339	7,945	7,195	(5,819)	36%	32%	-26%
Interra Resources	2,040	14,042	3,993	5,863	32	28%	42%	0%
Loyz Energy	839	8,580	6,360	4,564	737	74%*	53%	9%
Mirach Energy	n.a	599	599	(1,387)	(1,691)	100%**	-232%	-282%
Ramba Energy	n.a	21,101	7,656	(2,686)	(4,429)	36%	-13%	-21%

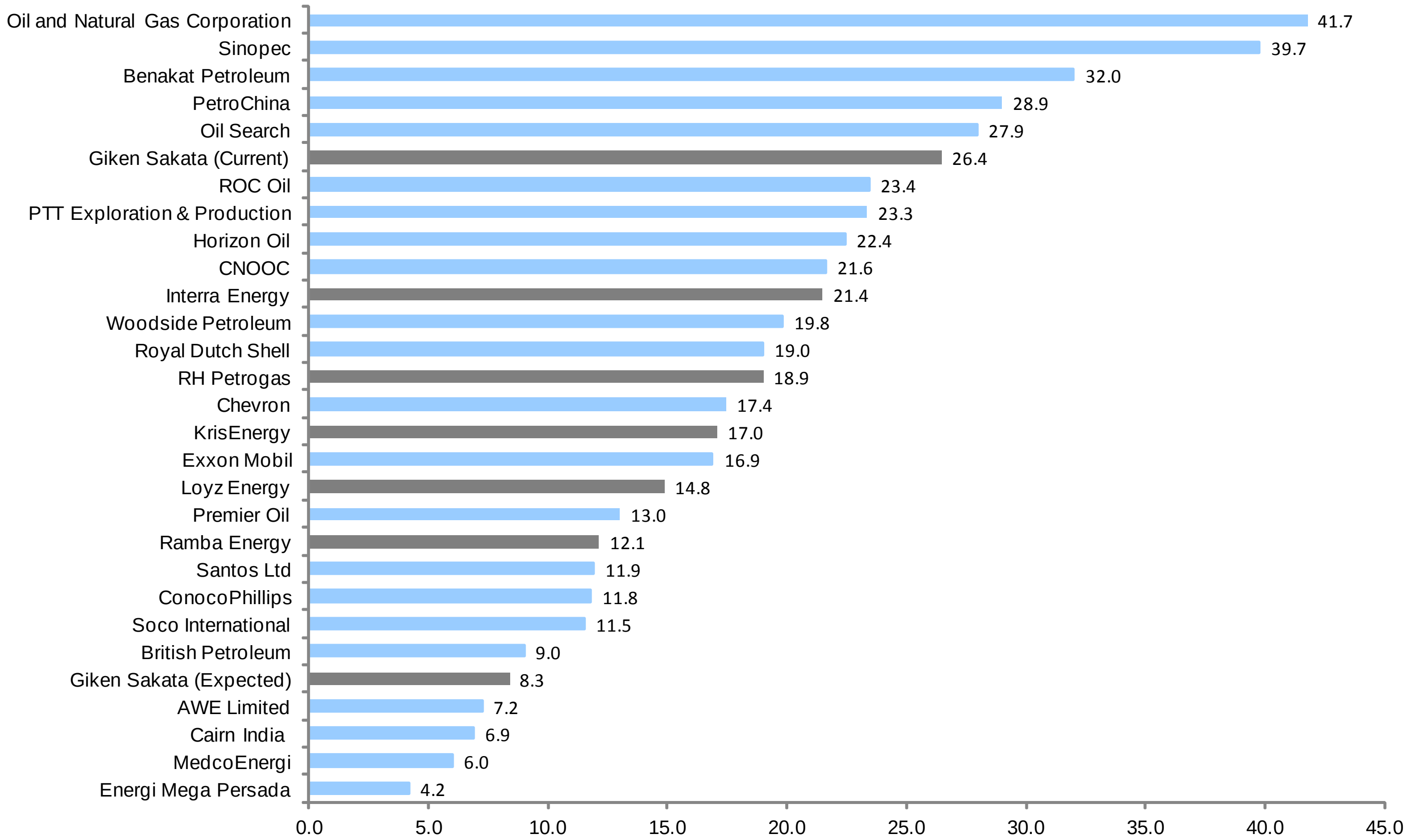
Source: Company data, OSK-DMG

*Note: * Loyz' revenues are mainly from drilling activities*
*Note: ** Mirach's revenues are mainly from oilfield consulting services. Oil production expense was reflected in other operating expenses*

♦ CSE's EV/2P will soon fall to the lowest in Singapore, and it deserves a significant valuation premium

Reserves growth will drastically reduce EV/2P valuation. Currently, with an EV of c.USD103.4m and 2P reserves of 3.92mmbo, Giken's EV/2P looks relatively high at USD26.40/bbl. However, after the Senergy reports for the Kawengan, Trembul and Gabus fields are released, we expect the 2P figure to jump to at least 12.41mmbo, which would lower the EV/2P figure to a low USD8.33/bbl, the lowest amongst all the upstream names in Singapore. Investors should also note that Giken deserves a higher EV/2P valuation due to: i) its 100% portfolio concentration in light sweet oil, ii) unique business model resulting in higher NPV/bbl, and iii) easy low-cost scalability.

Figure 33: EV/expected 2P of USD8.33/boe - the lowest amongst SGX-listed peers



Source: Bloomberg, OSK-DMG

Essentially zero exploration risk. CSE's reserves and resources are based on fields which were drilled by the Dutch in the 1900s, and which have been producing (albeit generally at low volumes and interrupted by two world wars) using dated technology. As such, the probability of CSE's wells – which are drilled adjacent to existing wells – intersecting oil columns is close to 100%. If the old wells are in suitable condition, CSE may not even need to twin-drill but merely workover the old well at c.USD50,000 per well with no drilling and exploration risks.

This drastically de-risks the business model from an investor's standpoint compared to PSCs, in which typical oil companies have less than 50% success rates in discovering oil. CSE's management has so far experienced 100% success rates in drilling production wells.

Easy scalability allows production growth beyond 2018. Based on the five fields on hand today, CSE's production is likely to peak in 2017. To secure more acreage, the company merely has to sign contracts to take on more old wells. These do not involve much upfront costs before production, which usually happens in the same year as contract signing. By contrast, traditional PSCs are likely to see first oil only after 3-5 years, with heavy expenditure in seismic data collection, drilling and production facilities. This makes CSE's business model highly scalable.

We understand management is working on securing more fields that may begin production between 2016 and 2018. These would then peak in 2018 and beyond, which will allow CSE to continue producing at high volumes beyond our forecast peak.

Key Risks

Short track record for CSE. CSE has an operational track record of only two years in the Indonesian oil & gas space. As production volumes were low initially, the company was recording losses in the first two years. It achieved profitability in 1Q14, at around 300bopd of production. According to its management, CSE is now currently producing c.900bopd.

Production forecast is key earnings driver. The strong production growth from c.900bopd today to 6,356bopd and 14,436bopd in 2014/2015F underpins our strong earnings growth and cash flow projections and – therefore – our DCF value. CSE may run into operational problems which may delay the completion of wells, and the initial production per well could be lower (or higher) than what we believe to be conservative parameters. Such factors could defer our targeted production rates to future years.

Portfolio concentration risk. All of CSE's fields are in Indonesia, which leads to a concentration risk in geographical and political terms. Although the current presidential election has been concluded, these risks remain over the long license terms of 15 years.

Oil sales price risk. The terms of the KUDs' oil sales contract with Pertamina state that the price of oil will be reset annually, which opens the possibility of sales price fluctuations between said years. However, in practice, as the price is based on a discount from Pertamina's oil purchase budget, and as few companies proactively cut their own purchasing budgets, we view this risk to be low.

With the current price of c.USD54/bbl being a steep discount to the prevailing global oil price of c.USD85/bbl, Pertamina is effectively making a 57% profit on every barrel of oil delivered by the KUDs. We believe it would be rather difficult for Pertamina to justify reducing its purchase price to the KUDs given this level of profitability.

Our model uses conservative assumptions in assuming a flat oil sales price over the entire contract term to 2029.

Contract structure risks. CSE's operational agreements are signed with the KUDs for a term of 10 years plus extensions. However, note that the validity of these agreements depends on the renewal of the mother agreements, which are signed between the KUD and Pertamina (or the local government entity, PT Sarana Patra Jateng). These agreements are valid for five to ten years and pose (in our opinion, relatively small) a renewal risk. The question of whether the mother agreements would be renewed at the same terms is a more pertinent risk factor.

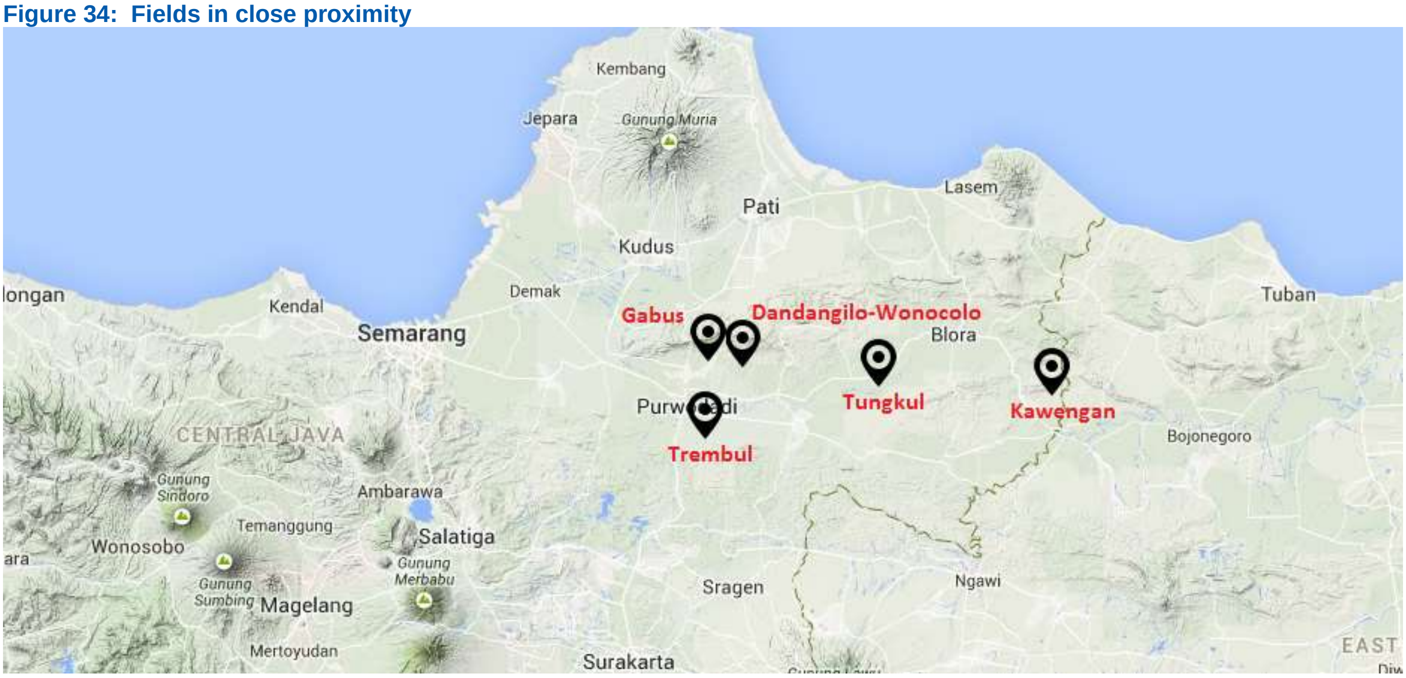
Exchange rate risk. As the contract prices are all set in IDR, a weak IDR could lead to lower net earnings when converted to the reporting currency in SGD. However, since CSE's costs are in IDR as well, we expect margins to remain relatively stable through fluctuations in the exchange rate.

Oilfield Assets

Overview

CSE currently has two producing oilfields, ie Dandangilo-Wonocolo and Tungkul in Cepu, Indonesia. In 2014, it was granted the rights to the Kawengan, Trembul and Gabus fields. We expect these oil fields to begin production in FY15.

Figure 34: Fields in close proximity



Source: Company, Senergy, OSK-DMG

Figure 35: Oil-producing fields

Asset Name/ Country	Issuer's Interest	Development Status	License Expiry Date	Contract Price	Type of mineral, oil or gas deposit
Dandangilo-Wonocolo	80%	Producing	Mar-2028	IDR4,160/litre	Oil
Tungkul	80%	Producing	Mar-2028	IDR4,160/litre	Oil

Source: Company data, Senergy

Figure 36: Contract terms

	Dandangilo	Wonocolo	Tungkul	Kawengan	Trembul	Gabus
Mother agreement (Pertamina & KUDs)	31 Oct 2012-31 Oct 2017, potential 5 year extension	31 Oct 2012-31 Oct 2017, potential 5 year extension	3 Nov 2010-3 Nov 2020	12 May 2014-12 May 2019, potential 5-year extension	3 Nov 2010-3 Nov 2020	15 Dec 2011-15 Dec 2016, potential 5-year extension
Cooperation agreement (CSE & KUDs)	25 Mar 2013-25 Mar 2023, extend to Mar 2028 subject to validity of mother agreement	27 Feb 2014-27 Feb 2024	28 Feb 2013-28 Feb 2023, extend to Feb 2028 subject to validity of mother agreement	20 Jun 2014-20 June 2024, automatically extended for another 5 years upon expiry	15 Sep 2014-15 Sep 2024, potential extension for another 5 years	15 Sep 2014-15 Sep 2024, potential extension for another 5 years

Source: Company data

Figure 37: Summary of oil reserves for Dandangilo-Wonocolo and Tungkul fields as at 30 Apr 2014

	Gross attributable to license	Net (80%) attributable to issuer
Reserves		
Oil (mmbo)		
1P	5.6	4.4
2P	**9.6**	**7.6**
3P	13.2	10.4
Contingent resources		
Oil (mmbo)		
1C	2.2	1.7
2C	**4.8**	**3.8**
3C	12.5	9.9

Source: Senergy, Company data

Figure 38: We estimate Giken's recoverable oil at 14.36mmbo

	2P reserves		2C contingent resources	
	Gross attributable to license (100%)	Attributable to Giken (40.8%)	Gross attributable to license (100%)	Attributable to Giken (40.8%)
Dandangilo-Wonocolo and Tungkul Fields	9.60	3.92	4.80	1.96
Kawengan	8.59	3.51	-	-
Trembul	4.19	1.71	-	-
Gabus	8.00	3.27	-	-
Total	**30.38**	**12.40**	**4.80**	**1.96**

Source: Senergy

Note: Giken effectively owns 51% of CSE. Thus, its share of the gross field reserves and resources is 40.8% (51% of the 80% net to CSE).

Dandangilo-Wonocolo and Tungkul

Location of the fields. The Dandangilo-Wonocolo and Tungkul fields are located in North-East Java, Indonesia, approximately 75km west of the city of Surabaya. CSE has the rights to extract, operate and finance oil production for 139 wells, ie 98 wells in the Dandangilo field, 30 wells in the Tungkul field and 11 wells in the Wonocolo field.

Figure 39: Location of oil producing fields

Source: Company, OSK-DMG

Field history. Production in these fields first took place in 1900-1920, where a total of 160 wells were drilled in Dandangilo, 50 in Wonocolo and 41 in Tungkul.

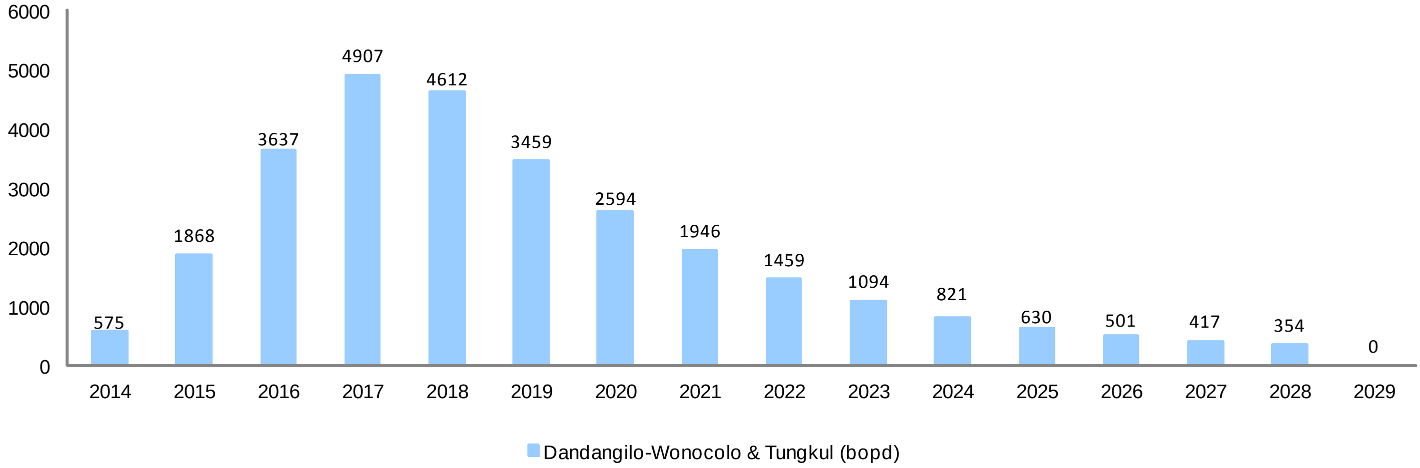
Capex plans. As at Dec 2013, there were 13 wells drilled and oil production stood at 117bopd from six wells. CSE plans to drill more wells over the next few years and boost production. Drilling was slow in 2014 at only two wells due to capital constraints and because of the acquisition by Giken. However, with one rig working in the field now contracted for at least the next two years, CSE will be able to drill up to 43 wells a year in these fields.

Figure 40: New well drilling expansion plans

Year	Dandangilo-Wonocolo & Tungkul
Existing at 2013	13
2014	2
2015	43
2016	43
2017	38
Total new drills	**126**
Total drills	139
Capex/well (USDm)	0.16
Total capex (USDm)	**20.41**

Source: Company data, OSK-DMG

Figure 41: Production forecasts for the Dandangilo-Wonocolo and Tungkul fields



Source: OSK-DMG

Kawengan and Trembul

Location of the fields. The Kawengan and Trembul fields are located 12km north of Cepu.

Figure 42: Location of upcoming fields

Source: Company, OSK-DMG

Figure 43: Expansion plan for the Kawengan and Trembul fields

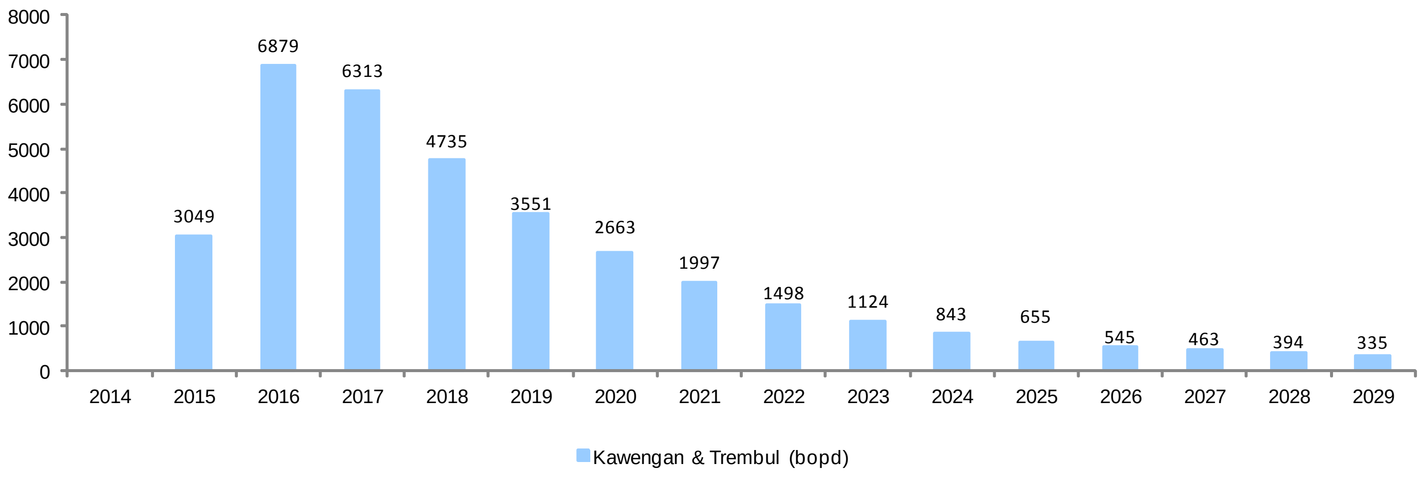
No of wells	2015	2016	2017
Kawengan	50	41	-
Trembul	24	-	-
Total Capex (USDm)	**11.1**	**6.15**	**-**

Source: OSK-DMG

Capex plans for Kawengan. CSE has the rights to workover 91 wells and we expect these wells to be completed by FY16 at 12-13 wells per quarter. This is a 10-year contract that expires on 20 Jun 2024 and will be automatically extended for another five years upon expiry.

Capex plans for Trembul. The Trembul field will be mostly twin-drilled and we expect six wells to be drilled and completed per quarter, which implies that all 24 wells will be completed in FY15. This contract expires on 15 Sep 2024, with a potential extension for another five years.

Figure 44: Production forecasts for the Kawengan and Trembul fields



Source: OSK-DMG

Gabus

Location of the field. The Gabus field is located in the District of Gabus, Grobogan Regency, Central Java.

Figure 45: Location of the Gabus field

Source: Company data, OSK-DMG

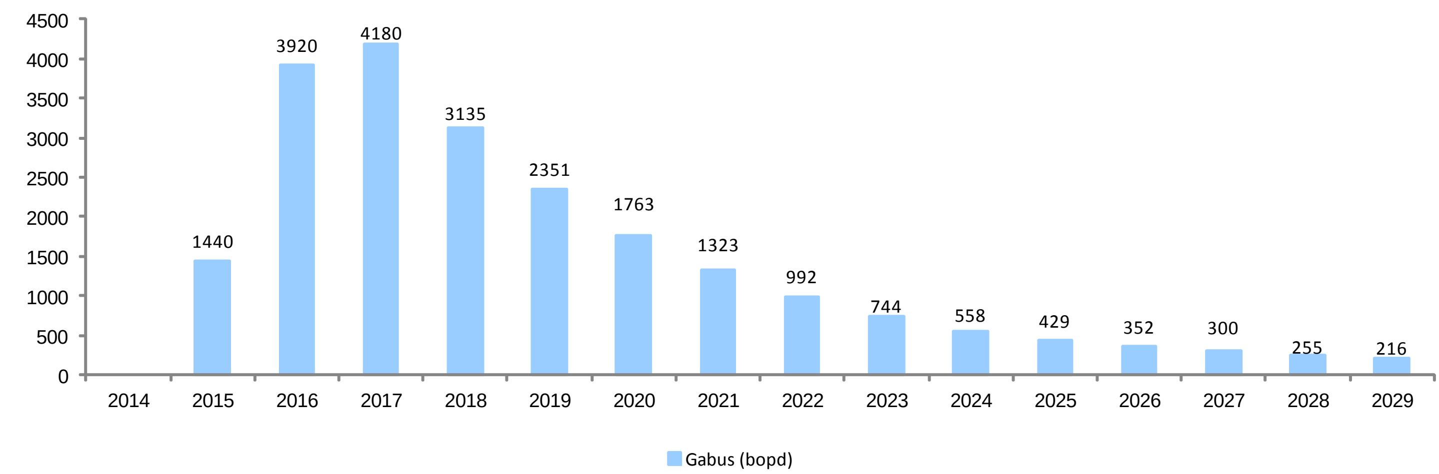
Capex plans for Gabus. Similar to Trembul field, these wells will be twin-drilled and we expect CSE to drill six wells per quarter. Under the Gabus contract, CSE has the rights to drill 46 wells, with the drilling plan concluding by FY16. The contract expires on 15 Sep 2024, with a potential extension for another 5 years.

Figure 46: Expansion plan for Gabus field

No. of wells	2015	2016	2017
Gabus	24	22	-
Total capex (USDm)	**3.6**	**3.3**	**-**

Source: OSK-DMG

Figure 47: Expansion plan for the Gabus field



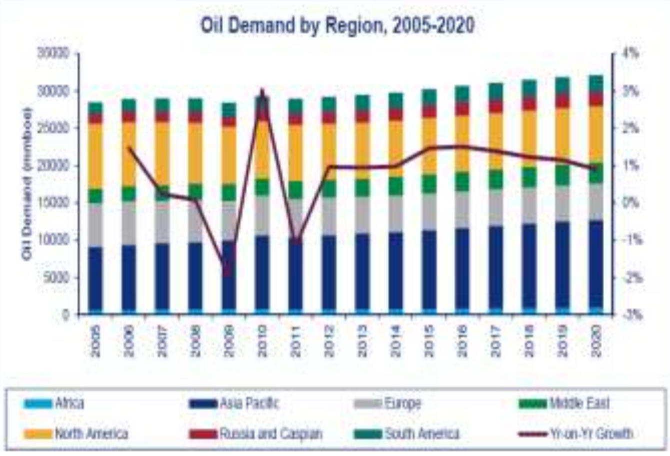
Source: OSK-DMG

Energy: The Growth Industry In Indonesia

Growing global supply-demand gap to emerge. Research consultancy Wood Mackenzie projects global oil demand to grow at 1.2% annually to 32,030mmboe in 2020 from 29,693mmboe in 2014. It expects increased demand to come from the Asia-Pacific against a backdrop of declining demand from Europe and North America. In the Asia-Pacific region, Wood Mackenzie expects oil demand to surpass the total increase in demand from the rest of the world, with an additional demand of 1,434mmboe expected in 2014-2020.

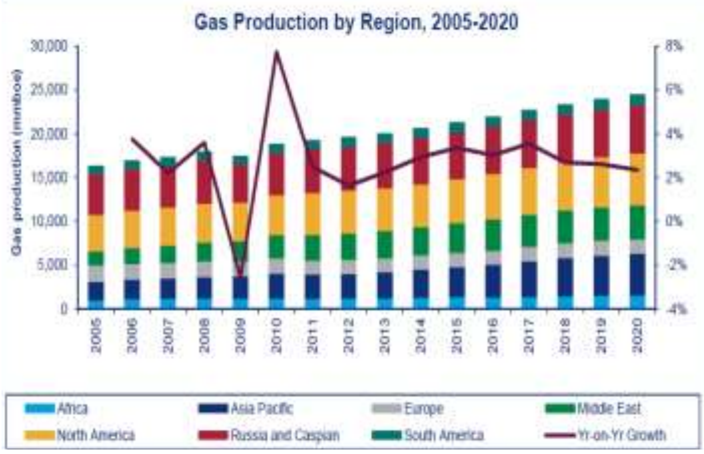
However, Wood Mackenzie does not expect oil supply in the Asia-Pacific region to keep up with the increasing oil demand. Oil production is expected to remain steady between 2014 and 2020.

Figure 48: Global oil demand



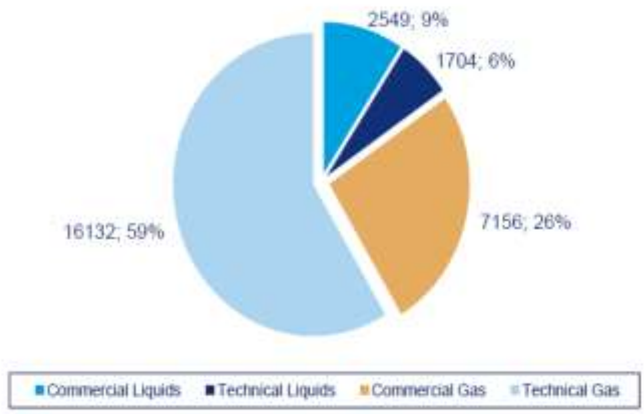
Source: Wood Mackenzie

Figure 49: Global oil supply



Source: Wood Mackenzie

Figure 50: Indonesia's commercial and technical oil and gas reserves (mmboe) in 2013



Source: Wood Mackenzie

Energy demand in Indonesia is growing. As the fourth largest country in the world by population that has a growing economy and annual urbanisation growth rate of 2.45% (between 2010 and 2015, according to the *CIA World Factbook*), Indonesia is consuming ever higher amounts of electricity. Wood Mackenzie expects energy demand to grow to nearly 2bn boe by 2020 – with the industrial sector becoming one of the largest consumers of energy.

Figure 51: Indonesia energy consumption by fuel type

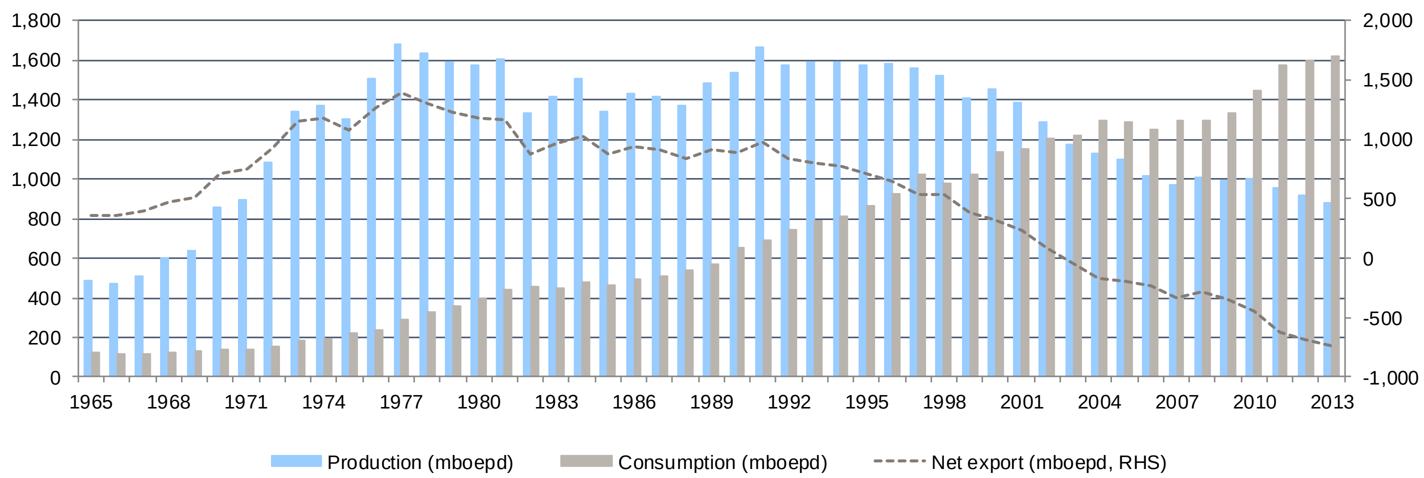
Source: Wood Mackenzie

Figure 52: Indonesia energy consumption by sector

Source: Wood Mackenzie

Indonesia needs to increase oil production to address growing oil imports. Indonesia became a net importer of oil in 2004 when its steadily-growing consumption outpaced flagging production levels. In 2013, net imports averaged a record 740mbopd, or 270.1m barrels for the year. At c.USD105/bbl, the country spent about USD28.4bn on oil imports alone, contributing to the budget deficit, with the problem compounded by the weakening currency amid a fuel-subsidy economic environment. To break out of this vicious cycle, Indonesia urgently needs to arrest the declining production levels.

Figure 53: Indonesia is becoming a bigger net oil importer



Source: BP, OSK-DMG

Appendix I: Glossary of Technical Terms

1P: Proved reserves

2P: Proven plus probable reserves

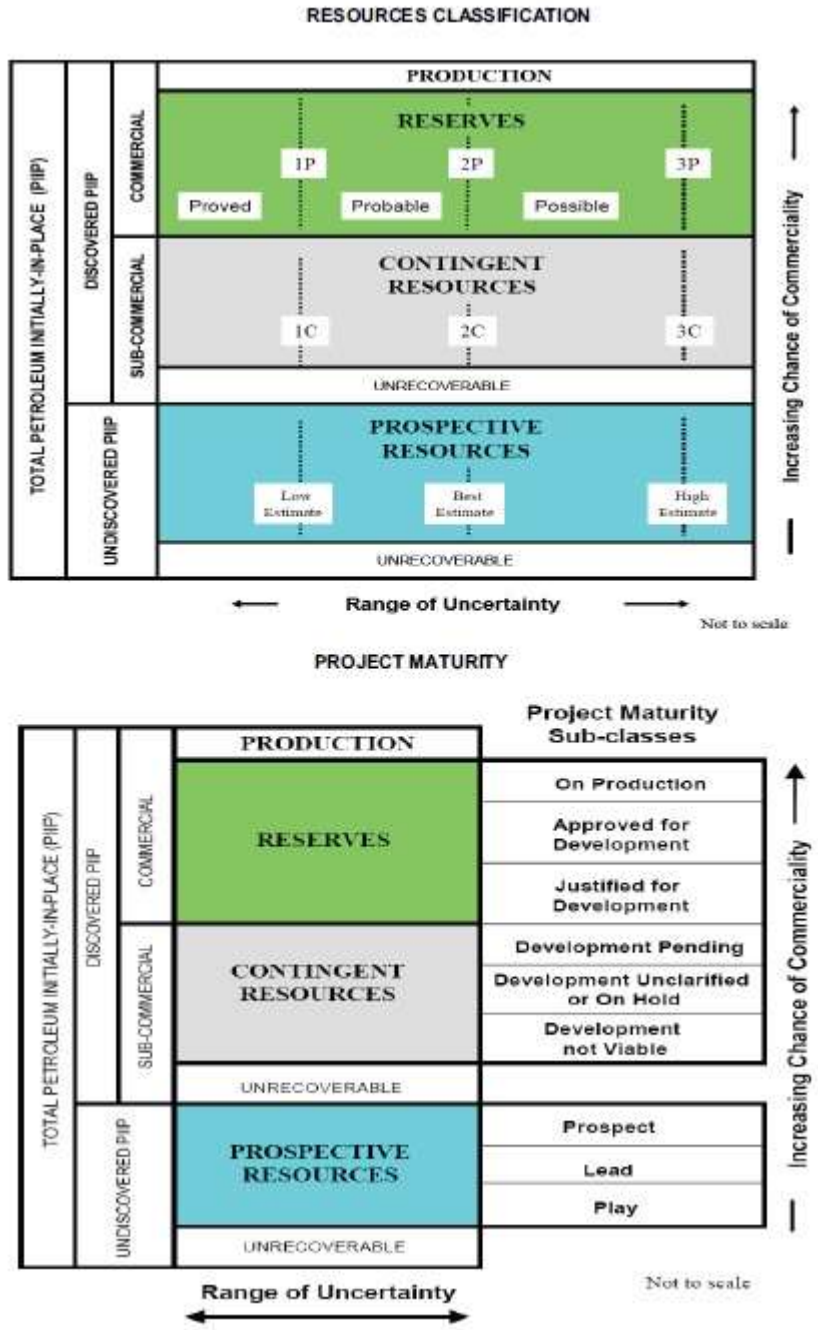
3P: Proved, probable plus possible reserves

1C: Contingent resources with low estimates

2C: Contingent resources with best estimates

3C: Contingent resources with high estimates

Figure 54: Resources classification system



Source: Society of Petroleum Engineers

bbl: barrel – a unit of volume for crude oil and petroleum products

bopd: barrels of oil per day

KUDs: local village cooperatives

Mboe: Thousands of barrels of oil equivalent

Mmboe/MMboe/mmboe: Millions of barrels of oil equivalent

mmcf/MMcf: million cu ft

mmcfd/MMcfd/mmscfd/MMscfd: Million (standard) cu ft per day

Probable reserves: These are additional reserves that analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves.

Prospective resources: Quantities of petroleum, which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Proved reserves: Quantities of petroleum, which by analysis of geoscience and engineering data, that can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under-defined economic conditions, operating methods, and government regulations.

Reserves: Quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Resources: All quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the earth’s crust, discovered and undiscovered, plus those quantities already produced.

Working Interest: As the context requires: i) with respect to production, reserves and/or resources, the contractor's entitlement without taking into account the applicable fiscal terms and government share, and ii) with respect to costs and liabilities, the contractor’s share of total costs and liabilities.

WTI: West Texas Intermediate. Another benchmark price for crude oil.

Financial Exhibits

Profit & Loss (SGDm)	Aug-12	Aug-13	Aug-14	Aug-15F	Aug-16F
Total turnover	90	127	69	126	285
Cost of sales	(81)	(117)	(57)	(40)	(57)
Gross profit	**9**	**9**	**12**	**85**	**228**
Gen & admin expenses	(3)	(4)	(4)	-	-
Selling expenses	(5)	(6)	(6)	-	-
Other operating costs	0	1	0	-	-
Operating profit	**1**	**1**	**2**	**85**	**228**
Operating EBITDA	3	2	4	95	236
Depreciation of fixed assets	(2)	(1)	(1)	(10)	(9)
Operating EBIT	**1**	**1**	**2**	**85**	**228**
Interest expense	(0)	(0)	(0)	-	-
Pre-tax profit	**1**	**1**	**2**	**85**	**228**
Taxation	(0)	(0)	(0)	(21)	(57)
Minority interests	(0)	(0)	(0)	(31)	(84)
Profit after tax & minorities	**0**	**0**	**2**	**33**	**87**
Reported net profit	**0**	**0**	**2**	**33**	**87**
Recurring net profit	**0**	**0**	**2**	**33**	**87**

Source: Company, OSK-DMG

Cash flow (SGDm)	Aug-12	Aug-13	Aug-14	Aug-15F	Aug-16F
Operating profit	**1**	**1**	**2**	**85**	**228**
Depreciation & amortisation	**2**	**1**	**1**	**10**	**9**
Change in working capital	**0**	**1**	**(5)**	**2**	**(15)**
Other operating cash flow	0	0	0	-	-
Operating cash flow	**3**	**3**	**(1)**	**97**	**221**
Interest received	0	0	0	-	-
Interest paid	(0)	(0)	(0)	-	-
Tax paid	(0)	(0)	(0)	(21)	(57)
Cash flow from operations	**3**	**3**	**(1)**	**75**	**164**
Capex	(1)	(1)	(1)	(0)	(34)
Other investing cash flow	-	0	0	5	-
Cash flow from investing activities	**(1)**	**(1)**	**(1)**	**4**	**(34)**
Dividends paid	-	-	(1)	(0)	(34)
Proceeds from issue of shares	-	-	5	23	-
Increase in debt	(1)	(1)	(3)	(0)	(34)
Other financing cash flow	(1)	(1)	(0)	(16)	(50)
Cash flow from financing activities	**(2)**	**(2)**	**0**	**6**	**(117)**
Cash at beginning of period	5	4	4	4	43
Total cash generated	**(0)**	**0**	**(1)**	**86**	**13**
Forex effects	(0)	(0)	(0)	-	-
Implied cash at end of period	**4**	**4**	**3**	**90**	**56**

Source: Company, OSK-DMG

Financial Exhibits

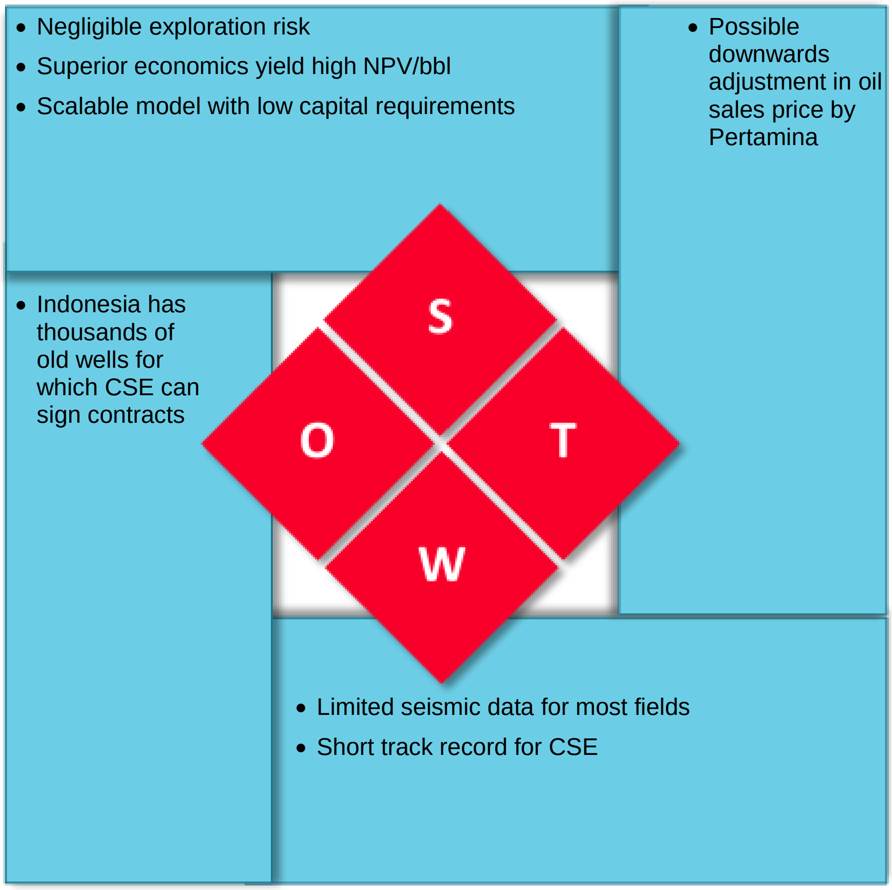
Balance Sheet (SGDm)	Aug-12	Aug-13	Aug-14	Aug-15F	Aug-16F
Total cash and equivalents	4	4	4	43	124
Inventories	4	5	5	0	3
Accounts receivable	16	12	14	11	26
Other current assets	0	1	0	0	0
Total current assets	**25**	**21**	**24**	**55**	**153**
Tangible fixed assets	5	5	5	11	36
Intangible assets	0	0	0	5	5
Total other assets	-	-	-	23	23
Total non-current assets	6	5	5	39	64
Total assets	**30**	**26**	**29**	**94**	**217**
Short-term debt	2	2	0	0	0
Accounts payable	15	12	9	4	6
Other current liabilities	3	3	3	3	3
Total current liabilities	**20**	**17**	**13**	**7**	**9**
Total long-term debt	2	-	-	-	-
Other liabilities	0	0	0	0	0
Total non-current liabilities	**2**	**0**	**0**	**0**	**0**
Total liabilities	**22**	**18**	**13**	**8**	**9**
Share capital	21	21	26	49	49
Retained earnings reserve	(14)	(13)	(11)	22	101
Shareholders' equity	**8**	**8**	**15**	**71**	**150**
Minority interests	0	0	0	16	58
Other equity	-	-	0	-	-
Total equity	**8**	**9**	**16**	**87**	**208**
Total liabilities & equity	**30**	**26**	**29**	**94**	**217**

Source: Company, OSK-DMG

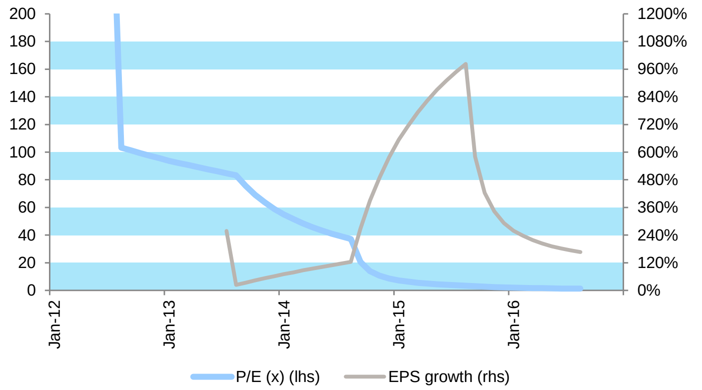
Key Ratios (SGD)	Aug-12	Aug-13	Aug-14	Aug-15F	Aug-16F
Revenue growth (%)	129.3	41.6	(45.6)	81.9	127.1
Operating profit growth (%)	0.0	(18.0)	264.6	3398.8	166.7
Net profit growth (%)	0.0	24.0	357.1	1486.8	166.7
EPS growth (%)	0.0	24.0	123.8	982.2	166.7
Bv per share growth (%)	8.9	8.8	(23.9)	208.7	112.1
Operating margin (%)	0.9	0.5	3.5	68.0	79.8
Net profit margin (%)	0.4	0.4	3.0	26.0	30.5
Return on average assets (%)	1.4	1.6	7.5	53.1	55.9
Return on average equity (%)	4.9	5.6	17.4	75.9	78.9
Net debt to equity (%)	2.1	(19.0)	(28.4)	(49.9)	(59.6)
DPS	0.00	0.00	0.00	0.02	0.04
Recurrent cash flow per share	0.02	0.02	(0.00)	0.19	0.42

Source: Company, OSK-DMG

SWOT Analysis

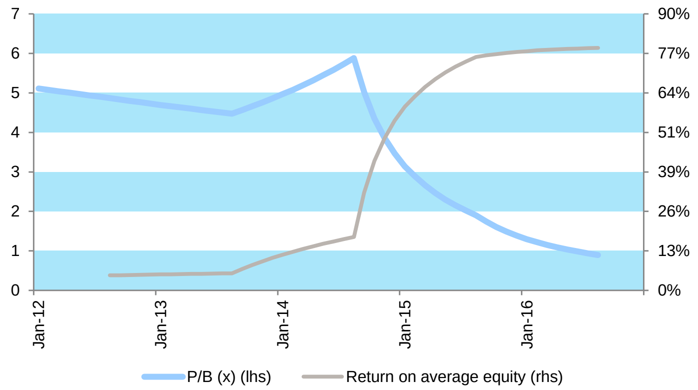


P/E (x) vs EPS growth



Source: Company, OSK-DMG

P/BV (x) vs ROAE

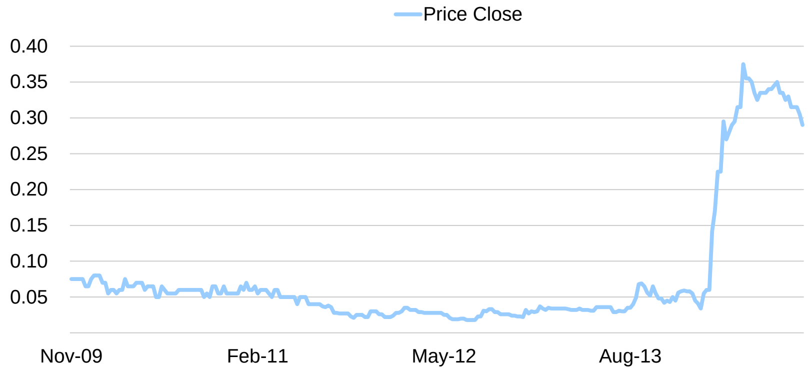


Source: Company, OSK-DMG

Company Profile

Giken Sakata (Giken) owns 51% of Cepu Sakti Pte Ltd, an oil & gas player focusing on the old well programme in Indonesia. It is a junior independent oil exploration & production (E&P) company. All of its concessions are in Indonesia.

Recommendation Chart



Source: OSK-DMG, Bloomberg

Date	Recommendation	Target Price	Price
2014-11-03			

Source: OSK-DMG, Bloomberg

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