

Giken Sakata (S) Limited

New Agreements and Higher Production Figures

This morning, Giken announced that it has won two cooperation agreements with PT Sarana Patra Jateng. The agreements will allow Giken to produce oil from an additional 70 wells which are located around Central Java. We expect the terms of the new agreements to be similar to that of the other three oilfields and the mother agreements (for the two new contracts) with Pertamina will expire in Dec 2016. That said, we also expect Giken to extend the operating rights of these new fields before they commit any capex.

Giken also updated their production figures which stood at 880 barrels per day as of mid-Sep vs 670 barrels as of end June. The figures are largely in-line with our estimates and we expect the rate of increase of output to double with the help of the second rig.

*We are retaining our forecast tentatively and continuing to price the company at S\$0.450 per share. **Potential Gem**.*

Room for Growth: Giken won the two new agreements shortly after they secured the operating rights for the Kawengan field in June 2014. We are impressed by their ability to acquire new agreements at such a quick pace and we anticipate the management to continue searching for potential targets. Such competency may lead to upside risk from our existing valuation.

Drilling Update: Giken is now producing about 880 barrels per day, in line with our estimate of about 18 wells and each producing about 50 barrels of crude oil per day. We are retaining our FY15 target of about 60 operating wells.

Potential Gem

- Potential Price S\$0.450
- Last Price S\$0.345

Main Activities

Giken Sakata (S) Limited (Giken) is an integrated contract manufacturer that provides precision machining and engineering services mainly for the electronic industry. The company intends to diversify into the O&G sector via acquiring 53.7% stake in Cepu Sakti Energy Pte Ltd (Cepu).

Financial Highlights

(Y/E Aug) S\$m	FY12	FY13
Revenue	89.5	127
Gross Profit	8.78	9.49
Profit after Tax	0.37	0.45
EPS (S cts)*	0.28	0.34
Current Assets	24.7	21.4
Non-Current Assets	5.59	5.03
Current Liabilities	20.0	17.2
Non-Current Liabilities	2.35	0.49
Equity	8.0	8.7

Source: Company

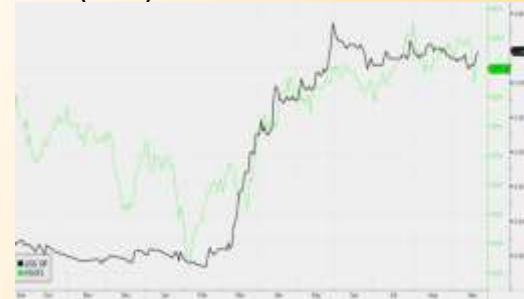
Key ratios (FY13)

P/E	NM
P/BV	18.7
Return on Equity	3.9%
Liabilities / Equity	2.0
Current Ratio	1.24

Source: Company

Indexed Price Chart

Green (FSSTI)
Black (Giken)



Source: Bloomberg

52wks High-Low S\$0.390/S\$0.034
Number of Shares 473 m
Market Capitalization S\$163m

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Rating Definition:

True Gem – This stock is greatly underappreciated by the market, with more than 50% upside opportunity from its current share price.

Convincing Gem – This stock is underappreciated by the market, with more than 30% upside opportunity from its current share price.

Potential Gem – This stock is not fairly valued by the market, with more than 15% upside opportunity from its current share price.

Potential Stone – This stock is overrated by the market, with more than 1% downside risk from its current share price.

Probable Stone – This stock is overvalued by the market, with more than 25% downside risk from its current share price.

Real Stone – This stock is seriously overvalued by the market, with more than 40% downside risk from its current share price.

IMPORTANT DISCLOSURE:

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
