COMPANY UPDATE

Technology ▪ Singapore

GSS Energy Limited

(GSSE SP/GSSE.SI)

Precision engineering firm with an energy boost

Not Rated

Price as of 30 Mar 2017	0.19
12M target price (S$)	na
Previous target price (S$)	na
Upside (%)	na

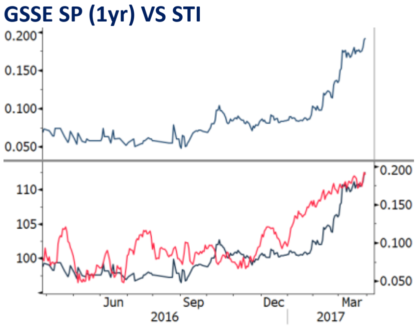
Trading data

Mkt Cap (S$m) / (US$m)	95 / 68
Issued Shares (m)	496
Ave Daily Traded (3-Month) Vol / Val	21.1m / $3.2m
52 week lo / hi	$0.04 / $0.20
Free Float	80.2%

Major Shareholders

Sydney Yeung	18.0%
Sundan Pacific	13.4%

GSSE SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

GSS Energy (GSS), previously known as Giken Sakata, is a precision engineering (PE) firm with operations in Singapore, China and Indonesia. We recently visited GSS's PE facilities in Batam, Indonesia and were impressed by the scale of its operations. Its PE business is picking up momentum while we believe markets may not be pricing in GSS's oil and gas (O&G) business that is expected to begin producing oil in 2H17.

Valuations may be pricing in growth but excluding upside from O&G. GSS is currently trading at 8.9x FY16 P/E vs 11.4x peer average. However, stripping out one-off gains of S$3.2 mn from the disposal of an O&G subsidiary and S$2.4 mn for land compensation in China would imply a core P/E of 18.8x; this may improve based on the various growth initiatives undertaken by the group for both its business segments. GSS has S$14 mn of net cash that it can tap on to fund inorganic growth.

Growing PE business. PE sales reached a new three-year high in FY16 of S$75.7 mn (+12% YoY) on the back of favourable product mix and higher value engineering efforts. Revenue growth may be expected to pick up this year as GSS plans to begin operations at its new factory in China by mid-2017 while also expanding its Electronic Manufacturing Services (EMS) business in the country.

Upside from O&G. GSS is expected to begin producing oil in 2H17 from its Operation Cooperation Agreement with Indonesia's national oil company, PT Pertamina EP (Pertamina). The 49:51 joint venture between GSS and a commercial vehicle by the Central Java provincial government runs for 15 years. The area contains 24.3 mn barrels of contingent resources up to a depth of 800 metres, according to a Qualified Person's Report (QPR). GSS is expected to spend around US$8 mn over three years, but the actual amount may be <50% when it starts producing oil and cash flows allow it to be self-sustaining.

Playing safe after the first failure. GSS took a S$33 mn write-down in FY15 from its first entry into Indonesia's O&G gas sector, which was due to its partner's non-compliance with contract terms resulting in the contract's cancellation. Nevertheless, it is pressing ahead with its latest investment given the low cost of production (<US$20/bbl) and contract terms that allow it to recover most of its costs before profits are split with Pertamina.

Key Risks: Competition in PE may erode its margins. Indonesian regulatory risks.

Financials & Key Operating Statistics

YE Dec S$m	2012	2013	2014	2015	2016
Revenue	89.5	126.8	69.0	67.6	75.7
PATMI	0.4	0.4	2.1	-18.8	10.6
Core PATMI	0.4	0.4	2.1	14.1	5.0
Core EPS	0.3	0.3	0.7	3.0	1.0
Core EPS grth (%)	-116.5	22.6	97.4	347.7	-66.2
Core P/E (x)	69.6	56.7	28.7	6.4	19.0
DPS (SGCents)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Net Margin (%)	0.4	0.4	3.0	-27.7	14.0
Gearing (%)	0.0	nc	nc	nc	nc
ROE (%)	4.7	5.4	13.8	nm	28.0

Source: Company Data, KGI Research

Figure 1: Peer Comparison

BBG TICKER	Company	PRICE (SGD)	MKT CAP (SGDm)	P/E (HIST)	P/E (FWD)	P/B	EV/EBITDA (TTM)	ROE (HIST)	CASH (SGDm)	MKT CAP/CASH	1 YR TOTAL RETURN (%)
AEM SP EQUITY	AEM Holdings Ltd	2.12	91	19.8	7.6	3.5	3.5	37.0	10.4	8.7	402
AVIT SP EQUITY	Avi-Tech Electronics Ltd	0.43	73	12.1	10.6	1.6	1.6	13.3	26.3	2.8	98
INNOT SP EQUITY	InnoTek Ltd	0.38	85	7.4	na	0.7	0.7	1.3	40.3	2.1	168
ELL SP EQUITY	Ellipsiz Ltd	0.60	100	12.0	na	0.8	0.8	6.6	40.0	2.5	117
VALUE SP EQUITY	Valuetronics Holdings Lt	0.74	282	11.2	11.5	1.8	1.8	16.3	121.5	2.3	76
SUNN SP EQUITY	Sunningdale Tech Ltd	1.67	314	8.0	10.8	0.9	0.9	11.5	115.3	2.7	56
FUYU SP EQUITY	Fu Yu Corp Ltd	0.24	177	16.9	12.4	1.0	1.0	6.0	105.3	1.7	32
FISC SP EQUITY	Fischer Tech Ltd	2.00	112	8.8	na	1.1	1.1	12.5	39.0	2.9	108
GSSE SP EQUITY	GSS Energy Ltd	0.19	95	9.0	na	2.5	2.5	41.4	18.9	5.0	163
SPE SP EQUITY	Spindex Industries Ltd	0.86	99	9.4	na	1.1	1.1	11.7	29.8	3.3	18
Average				**11.4**	**10.6**	**1.5**	**1.5**	**15.7**	**54.7**	**3.4**	**124**

Source: Bloomberg, KGI Research

Plant visit – Batam, Indonesia

GSS's PE business is split between EMS at its Batam, Indonesia facilities, manufacturing of precision shafts at its Ang Mo Kio, Singapore facilities and machining at Changzhou, China. During our plant visit to GSS's Batam facilities, we were able to observe operations ranging from plastic injection molding (e.g., Lego blocks) and PCB assembly. It will be expanding its EMS business, which is currently based in Batam, to China in 2017.

Figure 2: Company profile

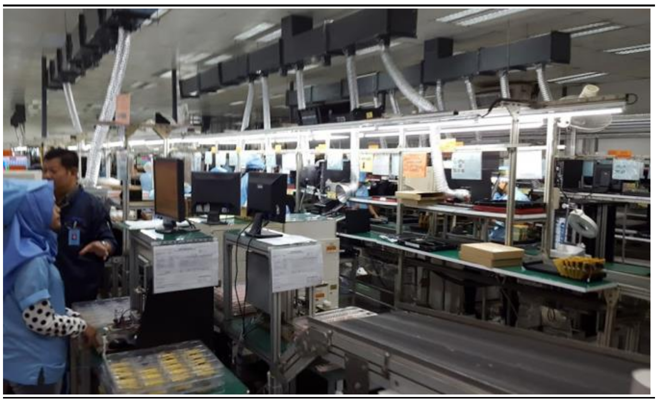
GSS Energy Limited (GSS Energy) operates in the precision engineering business and the oilfield operations service businesses. It has five factories across Singapore, China and Indonesia. GSS Energy was previously known as Giken Sakata (S) Limited.

Source: KGI Research

Figure 3: GSS makes Lego blocks at its Batam factory

Source: KGI Research

Figure 4: Printed Circuit Board (PCB) manufacturing line



Source: KGI Research

Figure 5: Plastic injection moulding assembly

Source: KGI Research

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Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
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HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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