

CHINA
DEVELOPMENT
FINANCIAL

Geo Energy Resources Ltd

(GERL SP/RE4.SI)

A good time to enter

Alyssa Tee / 65 6202 1193 / alyssa.tee@kgi.com

- Dividend policy remained intact.** Geo Energy's FY23 results saw a 62% decline in net profit to US\$62.7mn, reflecting the normalization of coal prices after a significant rise in FY22. Despite this decline, the company upheld its dividend policy by declaring a full-year dividend of S\$0.02 per share, maintaining a total payout ratio of 33.7%. Production surpassed the initial target of 8Mt, reaching 8.4Mt, with the majority coming from the SDJ and TBR mines. The newly acquired TRA mine contributed 0.2Mt. While the reported net profit figure may be influenced by a one-off gain, the company demonstrated its commitment to shareholder value through its dividend policy.
- Production to rise.** The acquisition of an 85% stake in the TRA mine significantly bolstered Geo Energy's 2P reserves by over 275Mt. This expansion, combined with the mine's low-ash, low-sulfur coal characteristics that command premium pricing, presents opportunities for increased production volume and potential revenue growth.
- Maintain OUTPERFORM.** We maintain our **OUTPERFORM** rating on Geo Energy with a lowered TP of **S\$0.72** due to realisation of FY23 earnings and fully diluted number of shares.

Financials & Key Operating Statistics

YE Dec (US\$)	2022	2023	2024F	2025F	2026F
Revenue	733.5	489.0	761.0	859.6	1052.1
Gross Profit	272.1	79.2	96.0	272.2	388.4
PATMI	163.6	62.7	81.0	185.6	267.4
Core PATMI	163.6	62.7	81.0	185.6	267.4
Core EPS (Cents)	11.5	4.5	5.8	13.3	19.2
Core EPS grth (%)	-9.5	-61.2	30.9	129.2	44.1
Core P/E (x)	3.1	8.1	6.2	2.7	1.9
DPS (SGCents)	9.0	2.0	4.1	9.3	11.5
Div Yield (%)	25.0	5.6	11.3	25.9	32.0
Net Margin (%)	22.3	12.8	10.6	21.6	25.4
Gearing (%)	NC	60.4	53.9	29.5	8.3
Price / Book (x)	3.7	2.1	2.1	2.1	2.1
ROE (%)	40.1	12.6	14.6	27.5	31.4

Source: Company Data, KGI Research *Net Cash (NC)

FY23 financials update: EPS exceeded expectations. Revenue declined 33% YoY from US\$733.5mn to US\$489.0mn in FY23. This decline was due to the normalisation of coal prices, whereby the average ICI4 prices fell from US\$86.06 in FY22 to US\$70.46 in 1H23. 2H23 revenue also fell 32% YoY to US\$249.2mn and net profit declined 40% YoY to US\$34.7mn. Net profit tumbled 62% YoY to US\$62.7mn from the previous year high of US\$163.6mn, beating our estimates of US\$49.4mn. The net profit delivered was better than we anticipated due to a one-off gain on a bargain purchase line item. In 4Q23, Geo Energy proposed a final dividend of S\$0.006 per share which results in a full-year dividend of S\$0.02 per share. From the 9M23 results, we noticed a downward trend of revenue figures due to the declining coal prices, hence, we factored this in our valuation. For FY23, the average ICI4 price fell to US\$62.96 per tonne, in line with our expectations.

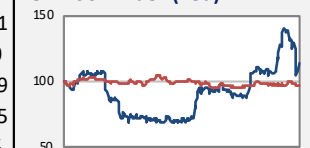
Outperform - Maintained

Price as of 4 Mar 24 (SGD)	0.36	Performance (Absolute)	
12M TP (\$)	0.72	1 Month (%)	-5.3
Previous TP (\$)	0.80	3 Month (%)	21.4
Upside, incl div (%)	105.6	12 Month (%)	35.2

Trading data

Mkt Cap (\$mn)	501
Issued Shares (mn)	1,390
Vol - 3M Daily avg (mn)	11.9
Val - 3M Daily avg (\$mn)	4.5
Free Float (%)	52.8%

Perf. vs STI Index (Red)



Major Shareholders

Melati Charles Antony	18.2%
Master Resources Ltd	15.7%
Heah Theare Haw	7.3%

Previous Recommendations

26-Jan-24 OP S\$0.80

Continued demand for coal. In the coming years, we anticipate continued demand for coal, particularly in developing countries facing the dual challenge of energy affordability and economic growth. While renewable energy sources are rapidly expanding, they require infrastructure development that may initially involve some temporary reliance on fossil fuels. Additionally, extreme weather events can trigger surges in coal demand, as witnessed in China during recent winters, highlighting the need for reliable energy sources during such periods. While significant advancements are being made in renewable energy storage solutions, coal will likely remain a critical, albeit diminishing, source of energy in the near future.

Offtake agreement. Geo Energy recently entered into a life-of-mine offtake agreement for the TRA coal with EP Resources, bringing in a strategic partner to invest in Geo Energy for a substantial equity stake to align for long-term growth.

Coal prices to normalise. With demand and supply currently maintaining a fine balance, we expect coal prices to remain relatively consistent at the current price range for FY24. Thus, the only way Geo Energy will be able to boost its topline is through an incline in the production volume.

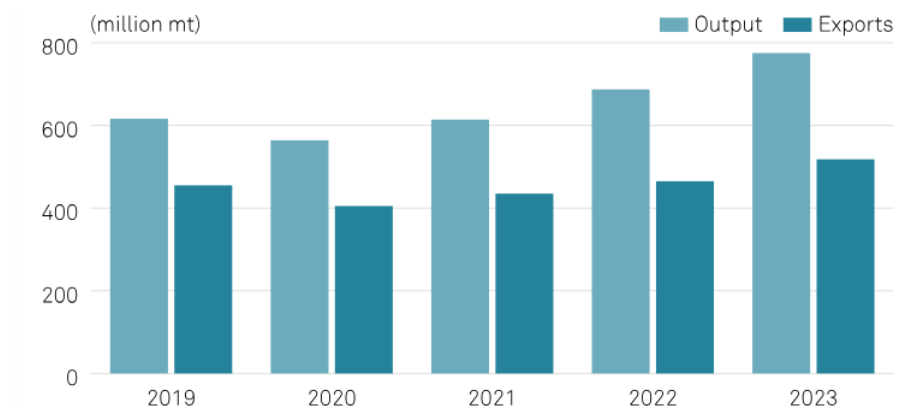
Valuation & Action: We maintain an **OUTPERFORM** recommendation with a TP of S\$0.72, based on a DCF valuation method with a WACC of 13.5%.

Risks: Coal prices are susceptible to global demand and supply fluctuations. The shifting energy landscape might pose long-term challenges for the coal industry. Weather uncertainties and execution risks may also impact production.

Secured life-of-mine coal offtake and long-term multi-million dollar equity investment. On 7 February, Geo Energy signed a life-of-mine coal offtake agreement with EP Resources, a subsidiary of a major European energy group. This deal guarantees sales of 75-85% of export volume from Geo Energy's recently acquired TRA coal mine, reaching up to 12Mt annually with market-linked pricing. Additionally, EP Resources will establish a prepayment facility of up to US\$20mn, enhancing Geo Energy's cash flow. Alongside the offtake deal, Resource Invest AG is committing US\$35mn for at least a 5.5% equity stake, including a premium purchase of Geo Energy's treasury shares and warrants, providing both immediate capital (S\$13.4mn) and potential for future investment. The sale of its treasury shares and secured sales will enable Geo Energy to improve liquidity, providing additional capital for its ongoing growth.

Production volume to grow and cash to remain high. Geo Energy's future is promising, characterized by increased production volume of up to 25Mt within the next 5 to 6 years and a strong cash position. The acquisition of the TRA mine, boasting 275Mt of 2P coal reserves, a 262% increase in reserves post-acquisition, is expected to significantly boost production alongside existing mines. Strong financial management during the FY22 high coal prices resulted in a substantial cash reserve, enabling continued dividend distribution and providing financial flexibility. Additionally, operating in Indonesia, the world's top coal exporter, offers further advantages. Despite challenges, Indonesia is expected to maintain its leading position in 2024, supported by an ambitious production target of 710 million tonnes and its competitive edge for major importers like China and India. This combination of Geo Energy's internal growth and Indonesia's strong export outlook paints a positive picture for the company's future.

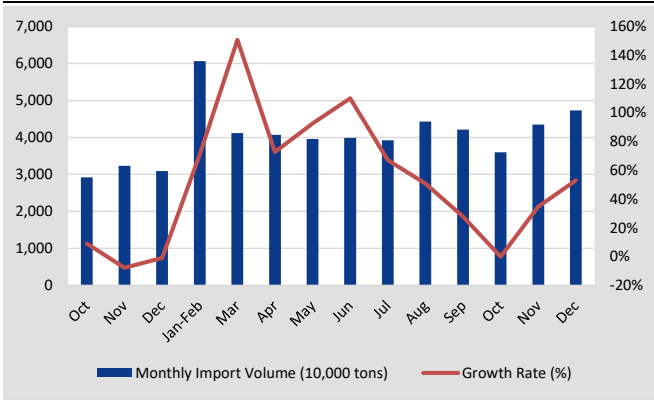
Figure 1: Indonesia coal output and exports



Source: [S&P Global Commodity Insights](#)

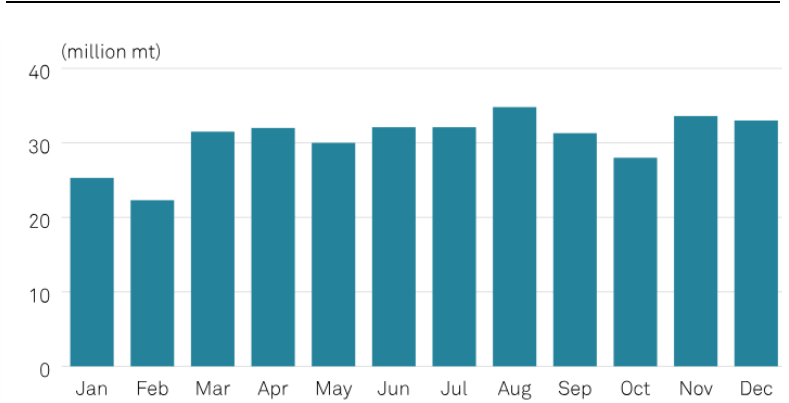
The importance of energy security. Energy security has become a top priority due to recent global disruptions. While the world transitions towards cleaner energy sources, coal remains a crucial element for many countries, particularly developing nations. Its reliable supply and ability to act as a backup fuel during periods of market volatility offer a layer of security. China and India, despite facing challenges with coal emissions, have even increased production to ensure stable energy supplies. Major producers like China, India, and Indonesia are expanding capacity, highlighting coal's continued importance in the short to medium term. Although production is declining in some developed countries, coal remains significant in China and has even seen growth in regions like Indonesia. While the long-term goal is a renewable future, coal currently plays a pragmatic role in mitigating energy security risks during the transition to cleaner alternatives.

Figure 2: China Monthly Coal Imports



Source: [National Bureau of Statistics of China](#), KGI Research

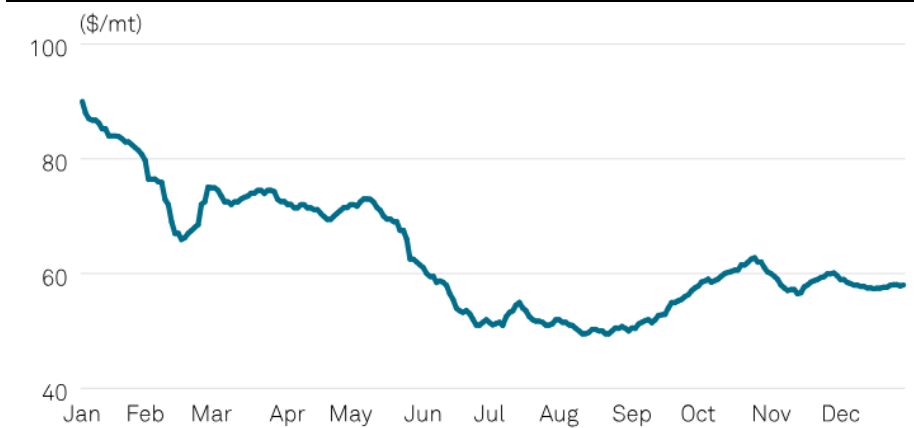
Figure 3: China thermal coal imports



Source: [S&P Global Commodity Insights](#)

Steady coal prices. Despite the significant price swings in 2021-2022, several factors point towards a new normal of relatively stable coal prices. Increased production from major players like China, India, and Indonesia is meeting market needs, reducing the chances of significant price hikes. Lower global gas prices have lessened the dependence on coal for power generation, further alleviating demand pressure. Additionally, China's strategic buying approach, despite record-high imports in 2023, ensured price stability due to their negotiation power and economic considerations. While regional variations and unforeseen events can still cause fluctuations, the current market suggests a shift towards less volatile and more predictable coal prices compared to the past two years.

Figure 4: Indonesian 4,200 kcal/kg GAR Thermal Coal FOB Prices 2023



Source: S&P Global Platts Price Point Data

Source: [S&P Global Commodity Insights](#)

Valuation

We reiterate our OUTPERFORM recommendation for Geo Energy, but with a revised target price of S\$0.72 per share due to the realization of FY23 results and fully diluted number of shares. This adjusted target price reflects our updated assessment using a discounted cash flow (DCF) model. The DCF model incorporates the expected life and coal production of each mine (as outlined in the IQPR report) and considers potential fluctuations in coal supply and demand that could impact prices. With a weighted average cost of capital (WACC) of 13.5%, this analysis yields a target price of S\$0.72 that represents a potential upside of 100%.

Figure 5: Discounted Cash Flow

(US\$m)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Production (mn tonnes)												
SDP (SDJ +TBR)	11.0	10.7	11.0	11.2	10.1	1.5						
BEK	1.0	1.0	1.0	1.0	1.0	1.0						
Total - 4,200 kcal/kg	12.0	11.7	12.0	12.2	11.1	2.5						
TRA - 3,800 kcal/kg	1.7	4.1	7.8	9.9	11.8	13.1	14.3					
Average Selling Price (US\$/t) - 4,200												
	57	57	56	56	53	52						
Average Selling Price (US\$/t) - 3,800												
	49	49	50	50	46	45	45					
Total Revenue (US\$m)	771	870	1,062	1,182	1,133	719	643					
Operating cost (US\$/tonne)												
SDP	54.4	43.8	41.4	39.2	36.8	37.3						
BEK	19.5	21.2	24.0	25.7	25.3	26.7						
TRA	26.7	23.6	23.6	23.6	23.6	23.6	23.6				23.6	
Total	665	587	664	700	677	392	338					
EBITDA	106	282	398	482	456	327	305					
Dep & Amt	36	38	44	48	47	48	48					
EBIT	70	244	354	433	409	279	257					
EBIT (1-22% tax)	55	190	276	338	319	218	201					
Capex	4	4	4	4	4	4	4					
Working capital	2	13	20	24	23	17	16					
FCF	49	173	253	310	292	196	181					
PV (FCF)	43	135	173	187	155	92	74					
PV (FCF)	858.5											
Plus Net Borrowing (US\$m)	-68.4											
FCF to equity (US\$m)	790.1											
FCF to equity (S\$m)	1027.1											
Cost of equity	13.5%											
Number of shares outstanding ('mn)	1390.4											
Fully diluted shares outstanding - full exercise of warrants ('mn)	1431.8											
Equity/share (S\$)*	0.72											

*As of 31 December 2022, from IQPR released on Feb 2023, STT mine had no material activity at the site. Hence, it has not been factored into our valuation.

*Our target price is based on the fully diluted number of shares.

Source: KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (US\$)	2022	2023	2024F	2025F	2026F
Revenue	733,474,967.0	488,974,701.0	760,970,882.0	859,582,079.0	1,052,076,875.0
Cost of sales	(461,418,818.0)	(409,741,264.0)	(664,944,370.2)	(587,376,994.6)	(663,696,155.0)
Gross Profit	272,056,149.0	79,233,437.0	96,026,511.8	272,205,084.4	388,380,720.0
Other income	8,347,216.0	34,345,456.0	53,267,961.7	35,079,591.7	42,935,314.9
General and administrative expenses	(17,958,123.0)	(22,092,955.0)	(22,829,126.5)	(25,787,462.4)	(31,562,306.3)
Other expenses	(24,548,851.0)	3,277,752.0	1,956,261.4	(4,356,646.8)	(6,281,594.8)
Profit from Operations	237,896,391.0	94,763,690.0	128,421,608.4	277,140,566.9	393,472,133.9
Finance income/(expenses)	(53,340.0)	(5,556,033.0)	(12,007,036.1)	(10,372,277.1)	(9,084,498.5)
Profit before Tax	237,843,051.0	89,207,657.0	116,414,572.4	266,768,289.8	384,387,635.5
Income tax	(74,256,155.0)	(26,464,458.0)	(35,440,543.4)	(81,213,313.4)	(117,020,630.6)
PATMI	163,586,896.0	62,743,199.0	80,974,029.0	185,554,976.4	267,367,004.8
BALANCE SHEET (US\$)	2022	2023	2024F	2025F	2026F
Cash and cash equivalents	234,082,769.0	135,804,104.0	248,497,661.3	289,791,176.1	411,852,514.1
Trade and other receivables	61,777,283.0	75,731,896.0	93,884,348.9	106,050,449.1	129,799,384.9
Inventory	30,969,092.0	46,362,342.0	49,622,123.8	43,833,582.5	49,528,974.5
Other current assets	48,257,707.0	65,327,752.6	73,793,316.8	90,318,591.0	0.0
Current Assets	338,828,315.0	306,156,049.0	457,331,886.6	513,468,524.7	681,499,464.4
Property, plant and equipment	115,667,998.0	444,292,288.0	422,517,526.9	397,921,061.0	367,816,462.9
Other non-current assets	186,919,386.0	219,675,173.2	251,978,016.7	283,396,688.0	0.0
Non-current Assets	224,197,806.0	631,211,674.0	642,192,700.1	649,899,077.7	651,213,150.9
Total assets	563,026,121.0	937,367,723.0	1,099,524,586.7	1,163,367,602.4	1,332,712,615.3
Trade and other payables	120,998,414.0	95,173,713.0	190,632,716.3	168,394,947.0	190,274,865.9
Borrowings (current)	15,533.0	15,512,186.0	4,123,243.5	20,187,171.3	28,219,135.1
Other current liabilities	11,942,784.0	73,125,966.3	50,311,433.2	35,249,208.0	0.0
Current Liabilities	135,642,541.0	122,628,683.0	267,881,926.2	238,893,551.4	253,743,208.9
Borrowings (non-current)	13,038.0	8,246,487.0	40,374,342.5	56,438,270.3	64,470,234.1
Other non-current liabilities	180,944,363.0	30,578,668.1	-23,921,329.8	-54,183,910.2	0.0
Non-current liabilities	-10,378,706.0	189,190,850.0	70,953,010.6	32,516,940.5	10,286,323.9
Shareholders equity	115,649,915.0	202,389,629.0	202,389,629.0	202,389,629.0	202,389,629.0
Non-controlling interests	292,635,544.0	297,214,794.0	350,434,158.5	472,388,296.8	648,112,566.3
Total Equity	408,285,459.0	499,604,423.0	552,823,787.5	674,777,925.8	850,502,195.3
Total Liabilities and Equity	563,026,121.0	937,367,723.0	1,099,524,586.7	1,163,367,602.4	1,332,712,615.3
CASH FLOW STATEMENT (US\$)	2022	2023	2024F	2025F	2026F
Net income before tax	237,843,051.0	89,207,657.0	116,414,572.4	266,768,289.8	384,387,635.5
Depreciation & non cash adjustments	(47,738,268.0)	(65,566,577.0)	8,664,319.2	(34,583,779.8)	(63,559,426.3)
Change in Working Capital	63,257,626.0	(19,320,001.0)	80,410,230.3	33,760,143.7	83,846,449.2
Income Tax Paid	(83,524,642.0)	(55,020,738.0)	(35,440,543.4)	(81,213,313.4)	(117,020,630.6)
Interest Paid	53,340.0	5,102,175.0	12,007,036.1	10,372,277.1	9,084,498.5
CF from operating activities	169,891,107.0	(45,597,484.0)	182,055,614.6	195,103,617.5	296,738,526.2
Purchase/Disposal of PPE	(2,917,709.0)	(7,083,901.0)	(6,827,753.6)	(7,712,535.1)	(9,439,680.1)
Other CFI	670,395.0	(180,883,906.0)	0.0	0.0	0.0
CF from investing activities	(2,247,314.0)	(187,967,807.0)	(6,827,753.6)	(7,712,535.1)	(9,439,680.1)
Dividends Paid	(101,730,439.0)	(56,406,315.0)	(27,754,664.5)	(63,600,838.1)	(91,642,735.3)
Debt Raised / (Repaid)	(426,060.0)	205,035,893.0	(34,779,639.3)	(82,496,729.4)	(73,594,772.8)
Equity Raised / (Bought Back)	(2,622,283.0)	(2,029,833.0)	0.0	0.0	0.0
Other Cash from Financing	(14,869,388.0)	(9,478,556.0)	0.0	0.0	0.0
CF from financing activities	(119,648,170.0)	137,121,189.0	(62,534,303.7)	(146,097,567.5)	(165,237,508.2)
Net increase in cash & cash equiv.	47,995,623.0	(96,444,102.0)	112,693,557.3	41,293,514.9	122,061,337.9
FX effects	(1,613,745.0)	263,857.0	0.0	0.0	0.0
Beginning Cash	185,594,921.0	231,976,799.0	135,804,104.0	248,497,661.3	289,791,176.1
Ending Cash	231,976,799.0	135,796,554.0	248,497,661.3	289,791,176.1	411,852,514.1
KEY RATIOS	2022	2023	2024F	2025F	2026F
Profitability					
Core EPS	11.5	4.5	5.8	13.3	19.2
Core EPS Growth (%)	(9.5)	(61.2)	30.9	129.2	44.1
DPS (SGD Cents)	9.0	2.0	4.1	9.3	11.5
Dividend Yield (%)	25.0	5.6	11.3	25.9	32.0
Profitability					
EBITDA margin	29.8%	15.3%	12.4%	27.8%	33.1%
Net margin	22.3%	12.8%	10.6%	21.6%	25.4%
ROE	40.1%	12.6%	14.6%	27.5%	31.4%
ROA	29.1%	6.7%	7.4%	15.9%	20.1%
Financial Structure (x)					
Total Debt/Equity	0.4	0.9	1.0	0.7	0.6
Net Gearing	-0.2	0.6	0.5	0.3	0.1
Market Valuation (x)					
Price / Earnings	3.1	8.1	6.2	2.7	1.9
Price / Book	3.7	2.1	2.1	2.1	2.1
Price / Sales	0.6	0.9	0.5	0.5	0.4
EV / EBITDA	1.0	2.9	2.3	0.9	0.6

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
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