

RESERVOIR LINK ENERGY BERHAD

INITIAL PUBLIC OFFERING

NON RATED

Target Price **RM 0.52**

IPO Price **RM 0.41**

IPO Calendar

Opening Date of Application	25/6/2020
Closing Date of Application	1/7/2020
Balloting of Application	3/7/2020
Notice of Allotment	13/7/2020
Listing Date	15/7/2020

Listing

Syariah Compliant	NA
Market Cap	RM117m
Outstanding Shares	285m
New IPO Shares	57.1m
Offer For Sales	31m
Eligible Person	4m
Malaysian Public	14.5m
Private Placement	41.3m
Bumi Investors	28.5m

Major Shareholding (%)

RSL Holdings	36.8
Thien Ciet Chai	13.4
Pansar	10.4

Analyst: Lai Yoon Hui, David

Email: davidlai@interpac.com.my

A START TO FINISH OIL WELL SERVICE PROVIDER

Background

Reservoir Link Energy (RLE) is primarily involved in O&G well services that support operators in the upstream sector of the O&G industry, including leak repair, perforation, testing, perforate, wash and cement, wireline services and O&G production enhancement services.

Main Competitive Strengths

- Proven track record in providing well services
- Petronas licensed company
- Services cover all stages of an O&G well's lifecycle
- Beneficiary of "Malaysianisation Plan"

Valuation

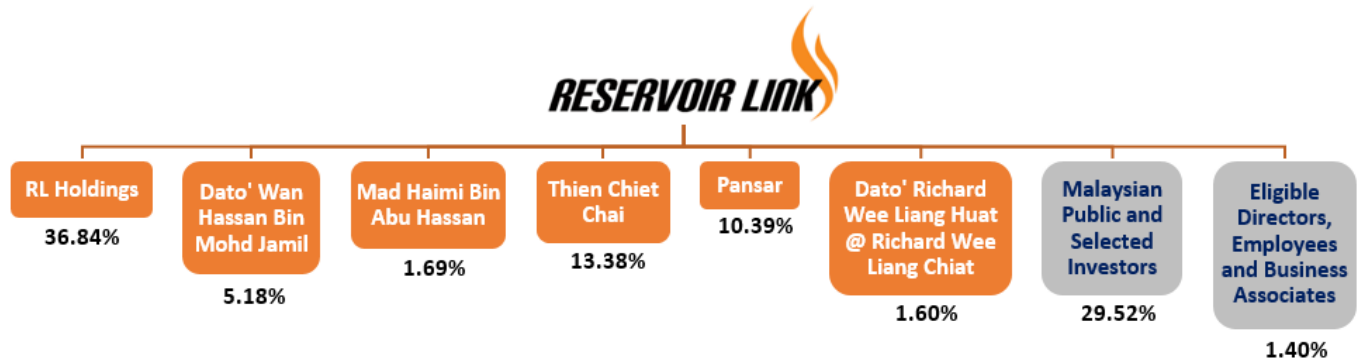
As at IPO Price of RM0.41, after excluding listing expenses and recognition of tax adjustments, RLE is priced at a historical PER of 12.1x CY19 earnings. We value the RLE at a 10x target PER on FY21 EPS and arriving at a fair value of RM0.52. Our PER valuation of 10x is based on the five-year PE mean of Uzma and Deleum, whose activities are similar to RLE's.

Table 1: Investment Highlights & Earnings Forecasts

CYE Dec (RM m)	FY17	FY18	FY19	FY20(F)	FY21(F)
Revenue	20.9	45.1	80.0	103.4	108.4
EBITDA	4.29	7.0	13.5	16.1	19.7
PATMI	0.3	4.0	9.7	12.1	14.8
EPS (sen)	0.1	1.4	3.4	4.2	5.2
Earnings Growth (%)	NA	1,169.3	141.3	24.6	22.6
PATAMI Margin (%)	1.5%	8.9	12.1	11.7	13.6
EBITDA Margin (%)	20.6%	15.6	16.8	15.6	18.2
PER (x)	369.8	29.1	12.1	9.7	7.9
ROE (%)	3%	24.5	36.7	25.3	21.8
ROA (%)	2.0%	13.7	14.1	14.4	14.1
Net Gearing Ratio (%)	32.5%	20.1	29.6	NET CASH	NET CASH
Price/Book Ratio (x)	6.5	5.5	3.8	1.9	1.6

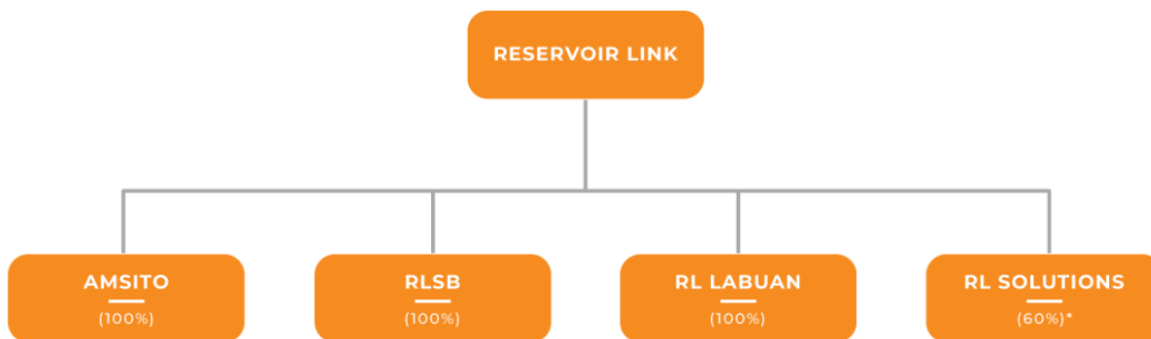
Source: Inter-Pacific, Prospectus

Illustration 1: Post-IPO shareholding structure



Source: Company

Illustration 2: Group Structure



*the remaining 40% stake is held by RL Solutions, owned by Anwarudin Bin Saidu Mohamed (RLE's Chief Technology Officer).

Source: Company

Table 2: Utilisation of proceeds

Description	Estimated Timeframe for Utilisation	(RM'm)	Percentage (%)
Purchase of well testing equipment	Within 24 months	10.0	42.7
Working capital	Within 12 months	4.9	21.0
Repayment of bank borrowings	Within 6 months	5.0	21.4
Estimated listing expenses	Immediate	3.5	14.9
Total Public Issue Proceeds		23.4	100

Source: Company

Purchase of Well Testing Equipment. RM10m will be used to finance the purchase of well testing equipment. One set of well testing equipment is expected to cost approximately RM17.3m. RLE will spend RM10.0 for burner system, pumps, three-phase horizontal test

separator, safety systems, sand filter system, instrumentation, data acquisition and process control systems, as well as other equipment including baskets, electric centrifuges, and sandbox. RLE has paid a total of RM5.7m for the portable cabin, dataport, flow line pipes, surge tank, choke manifold with data header, safety systems, instrumentation, data acquisition and process control systems, pumps and other equipment, as well as RM0.24m deposit has been paid for an order placed for air compressors, safety systems and other equipment for a total of RM1.5m.

By possessing its own set of well testing equipment, RLE will be able to independently tender for well testing services jobs and will not be relying on its partner, Petrotechnical to provide the well testing equipment. The group currently jointly bid for projects with Petrotechnical. The purchase of the well testing equipment is part of the terms of the agreement with Petrotechnical where RLE will be developed to replace the role of Petrotechnical in performing well testing services over the next 5 years from the date of the agreement in terms of investment for both personnel and equipment (“Malaysianisation Plan”).

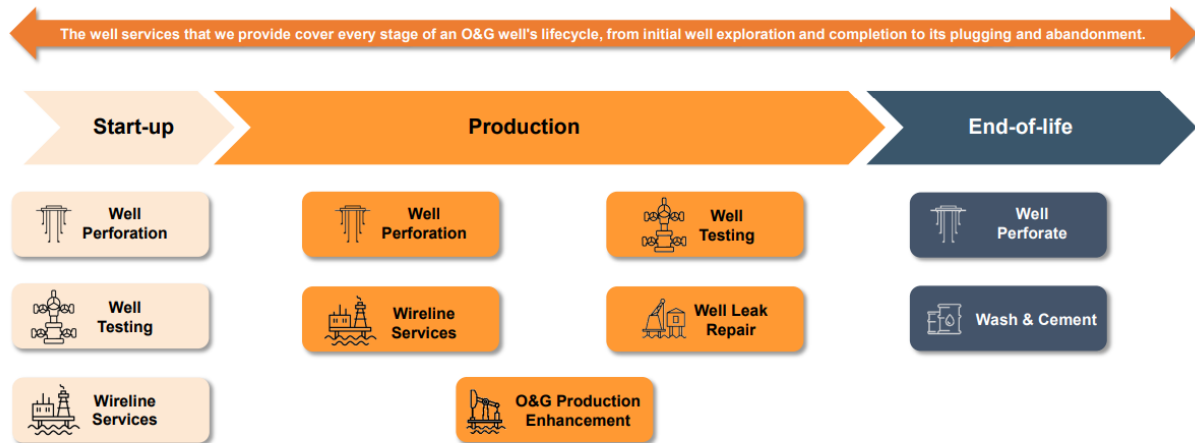
Working Capital. RM4.9m is allocated to finance and support the group’s day-to-day operations. The proceeds will be utilised to be fund its growth and increase in operational capacity, in line with the group objective to be a full-service provider. RLE’s working capital requirement will increase in tandem with its full involvement as a full-service provider for the well testing activities in conjunction with its purchase of well testing equipment. Hence, the group will be less reliant on external funding to finance its business activities.

Repayment of Bank Borrowings. RM5.0m will be used to repay the bank borrowings and to partially finance the purchase of well testing equipment.

Business Overview

The main revenue stream of Reservoir Link is in providing a range of O&G well services to support the exploration, appraisal, development and production segment of the upstream O&G industry.

Illustration 3: RSE services in the O&G well’s lifecycle



Source: Company

Well Perforation Services. The services involve creating perforation tunnels in the well to create a channel that connects the reservoir into the wellbore.

Well Leak Repair Services. The services involve conducting tests to determine if a well has a leak, identifying the location and nature of the leak, and sealing the leak.

Well Testing Services. The well testing services involve collecting data, such as pressure and temperature measurement, flow rates and fluid samples, which are used to predict the characteristics of well and O&G reservoirs. The services are intended to support customers in the exploration, appraisal, development and production segments of the O&G industry.

Well Perforate, Wash and Cement Services. These services are provided as part of the well plugging and abandonment services. Operators in the O&G industry are required to plug and abandon wells that are no longer in use to prevent environmental contamination.

Wireline Services. Wireline services are performed by sending wireline tools down wells to carry out well intervention and collect data. The group also perform slickline services where the wireline tool is connected to the surface by a steel cable.

O&G Production enhancement Services. These services are intended to increase the rate of crude O&G production from a reservoir and/or increase the total amount of crude O&G that is extracted from reservoir over the course of its productive life. The services are categorised into supplying IOR chemicals and providing sand management solutions.

Table 3: Top 5 customers

	Service Supplied	No. of Years	FY19	
			Revenue (RM'm)	Pct of Total Revenue
Petronas group of companies	Well perforation, leak repair and testing	7	48.4	60.5%
Archer Malaysia	Well perforation	2	6.5	8.1%
ExxonMobil Exploration and Production Malaysia Inc	Well leak repair	3	5.0	6.2%
Dowell (M) Schlumberger Sdn Bhd	Well testing	1	4.6	5.8%
Roc Oil Sarawak	Well perforation and perforate, wash and cement	5	4.0	5.0%
			68.5	85.6%

Source: Company

Competitors

The group competitors are (Weatherford) Malaysia (S/B), **Uzma Berhad**, Halliburton Energy Services, Expro Oilfield Services, Schlumberger (WTA Malaysia) S/B and Bakers Atlas.

Risk

Dependent on 3 Major Suppliers. RLE is dependent on three suppliers, namely AGS International, Petrotechnical and Archer Malaysia for the supply of some of the products and services.

Dependent on 2 Major Customers. RLE is dependent on Roc Oil Sarawak and the Petronas group of companies which accounted for a significant proportion of its revenue from CY16 to CY19, accounting more than 65% of its revenue.

Pandemic woes. Challengers arising from Covid-19 are restricted movement by the government to curb infection has adversely affected RLE operation to meet customer needs. The low crude oil price will also affect timing of PETRONAS CAPEX deployment.

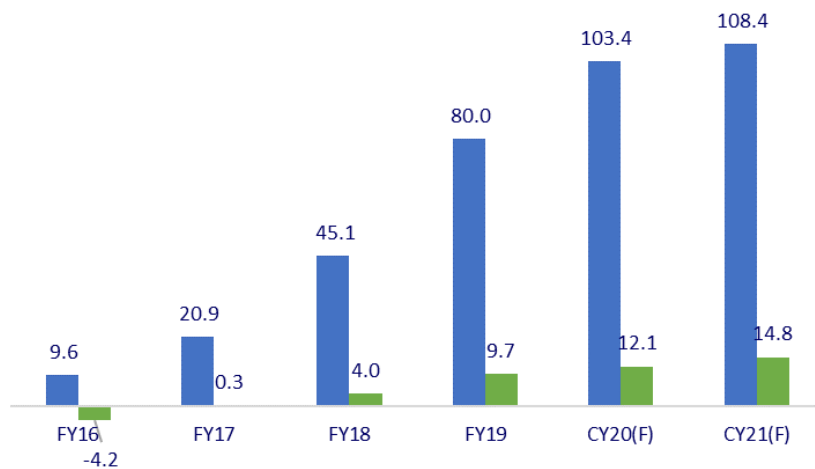
Financial Highlights

Financial review. The group registered a CAGR revenue growth of 70% from RM9.1m in CY16 to RM80m in CY19 - the boost in revenue was driven by introduction of new services (well leak repair, well testing, wash and cement, wireline and O&G production enhancement services) and increased in umbrella/callout contracts. The group’s CY17-CY19 GP margin ranged between 23.5% to 25.8%. The increase in PBT/PAT and PBT/PAT margins are line with the increase in its GP and GP margin.

Gearing and dividend policy. Upon completion of the IPO, the group will be in a net cash position. RLE does not a fix dividend policy.

Earnings Forecast. We envisage earnings to grow 24%/22% Y-o-Y in FY20 and FY21, driven by current work orders on hand. However, the group may experience flattish earnings growth in CY20 if the work contract in Mauritania remains suspended. Future growth catalyst lies on RLE’s revenue and GP margin expansion, underpinned as a full-service provider for the well testing activities in conjunction with its purchase of well testing equipment. Moreover, RLE is a beneficiary of the “Malaysianisation Plan” where Petronas intends to groom more local vendors.

Illustration 4: Revenue and PAT Performance and forecast (RM m)



Source: Company, Inter-Pacific

Valuation

We ascribe 10x target PER pegged to its FY21 EPS of 5.2 sen, thus establishing a fair value of RM0.52, and translating into a potential return of 26% from its IPO price. Our PER valuation of 10x is based on the five years PER mean of Uzma and Deleum, both of whom are its closest listed peer.

Table 4:Peers Comparison

	Price (RM)	Market Cap (RM'm)	Fwd PE(x)	5 years PE Range (x)	ROE	ROA	Dividend Yield	P/B (x)
Reservoir Link	0.41	116.9	9.7	NA	19.1%	14.1%	NA	1.9
Dialog	3.61	20,4	35.3	23-44x	15.7%	8.7%	0.1%	4.9
Uzma	0.595	190.0	6.6	4-19x	6.5%	2.5%	NA	0.4
Deleum	0.62	248.9	6.3	4-22x	9.7%	4.8%	7.1%	0.7

Source: Company, Inter-Pacific

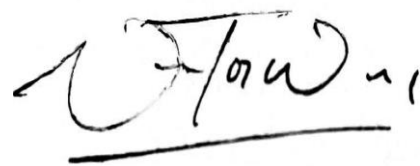
Declaration of Independence of Opinions and of Interest in Securities

The analyst(s) responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. Inter-Pacific Research Sdn Bhd prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular group. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of group(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the business. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

(i) As of 1 July, 2020, Inter-Pacific Research Sdn Bhd has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following group or companies mentioned or recommended in this report: (a) Reservoir Link Energy- nil,

(ii) As of 1 July, 2020, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following group or companies covered or recommended in this report: (a) Lai Yoon Hui - nil.

Signed



Wan Kum Seng
Director
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:

Description:

SUBSCRIBE	Total return is expected to exceed 15% in the next 12 months
UNSUBSCRIBE	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation

Definition

PER	Price Earnings Ratio
PEG	PER to Growth
EPS	Earnings per Share
FYE	Financial Year End
FY	Financial Year
CY	Calendar Year
MoM	Month-on-Month
QoQ	Quarter-on-Quarter
YoY	Year-on-Year
YTD	Year-to-Date
p.a.	Per Annum
DCF	Discounted Cash Flow
FCF	Free Cash Flow
NAV	Net Asset Value

Abbreviation

Definition

CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
DPS	Dividend per Share
ROA	Return on Asset
ROE	Return on Equity
PBT	Profit Before Tax
PAT	Profit After Tax
EV	Enterprise Value
EBIT	Earnings Before Interest And Tax
EBITDA	EBIT Depreciation & Amortisation
WACC	Weighted Average Cost of Capital
NTA	Net Tangible Asset
BV	Book Value

IMPORTANT: This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. **Inter-Pacific Research Sdn Bhd** and or its associates may from time to time have interest and/or underwriting commitments in the group being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

Published and Printed by:

Inter-Pacific Research Sdn Bhd (449005-X)

West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur
General Line : 03-2117 1888 Fax : 03-2142 7678