

New Times Energy

From exploration towards production in 2013

to summarize...

- Active in oil & gas industry upstream since 2009 and downstream since 2012
- Chow Tai Fook as substantial shareholder at 21.82% upon warrants conversion
- Upstream oil and gas projects from exploration towards production in 2013
- Multiple approaches for downstream natural gas business in China
- Further CAPEX to speedily ramp-up projects on hand

Active in oil & gas industry upstream since 2009 and downstream since 2012.

New Times Energy ("NTE") is an oil & gas company focused on upstream oil & gas production and exploration in the Americas, and downstream gas distribution in China. In 2009, NTE acquired 60% interest of the Tartagal Oriental & Morillo concessions in Argentina. In 2011, Petrobras made a major discovery 2.5km from the Morillo block, where NTE intends to drill 3 new wells in 2013. In addition, NTE intends to acquire additional concessions in the Noreste basin, enhancing NTE's position in Northern Argentina. Prospective attributable resources are 276m BOE, and contingent attributable resources are 552k BOE, as evaluated by Netherland and Sewell.

Table 1. NTE upstream portfolio summary – attributable

	Prospective	Contingent	3P reserves
Argentina			
Oil (m barrels)	112.5	0.55	-
Gas (m cubic feet)	978,000	-	-
US			
Oil (m barrels)	76.8	-	2.3
Gas (m cubic feet)	87,400	-	-

Table 2. NTE downstream exposure in China

	Province	Project size (F)
Gas to household	Guizhou	73,500 connectable population
	Jiangsu	5,000 connectable population
Gas to industrial parks	Guizhou	6 industrial parks
Gas refueling stations	Guizhou	20 LNG / CNG refueling stations
	Jiangsu	5 LNG / CNG refueling stations

Source: SBI E2-Capital

Chow Tai Fook as substantial shareholder at 21.82% upon warrant conversion.

Table 2 shows shareholders of NTE. Chow Tai Fook is the major substantial shareholder with 10.83% shareholdings according to HKEx data. In July 2012, it received unlisted warrants with exercise price at HK\$1.05. Upon full conversion, shareholding of Chow Tai Fook would be further raised to 21.82%

Table 3. New Times Energy shareholders

	Shareholding before warrants	Shareholding upon enlargement
Chow Tai Fook	10.83%	21.82%
ED Cheng Ming Kit	0.0001%	0.0001%
INED Fung Siu To	0.004%	0.004%
Others and public	89.17%	78.18%
Total	100%	100%

Source: SBI E2-Capital

Ticker	0166 HK
Rating	Not Rated
Price (HK\$)	0.97
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.61 - 2.22
Market cap. (US\$m)	88.5
Daily t/o (US\$m)	1.1
Free float (%)	89.2

Financial summary

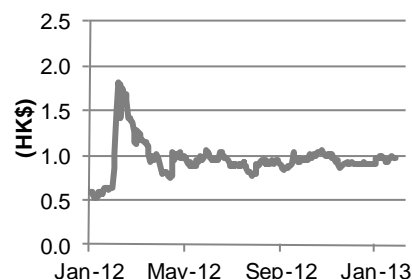
Year to Dec	09A	10A	11A
Turnover (HK\$m)	9.2	57.3	128.9
Net Profit (HK\$m)	(31.9)	(66.1)	(87.4)
EPS (HK\$)	(0.081)	(0.162)	(0.194)
P/E (x)	n.a.	n.a.	n.a.
P/B (x)	0.16	0.15	0.15
EV/EBITDA (x)	n.a.	n.a.	n.a.
Yield (%)	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.
ROCE (%)	n.a.	n.a.	n.a.
N. Gear. (%)	N.cash	1.25	3.34

Source: SBI E2-Capital

	12F	13F	14F
Consensus EPS (HK\$)	-	-	-
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	3.2	(13.4)	33.3
Actual price changes (%)	7.8	(4.9)	54.0



Source: Bloomberg

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Operation and investment in upstream oil and gas field in US. In US, NTE intends to acquire and operate over 40 wells in Uinta Basin based in Utah. The project involves the re-work and possible fracking of new zones to achieve production from the existing wells. The workover program is already under way and a number of wells are already producing. NTE expects to reach over 1000+ BOPD by beginning of 2014 from these proven wells. The total proven reserves attributable to NTE in this basin is 2.5m BOE. Furthermore, NTE has invested in SynPetro Engineering Technology Company Limited ("SynPetro"), which is a company that produces specialized equipment with a focus on EOR (Enhanced Oil Recovery). SynPetro will apply its technology on older wells for Liaohe Oilfield as well as other oilfields owned by NTE, increase production, and participate in the offtake.

Oil and gas upstream projects from exploration towards production stage. Table 4 shows NTE upstream attributable oil and gas portfolio. In the table, reserves and resources are expressed as barrel of oil equivalent (BOE), where 6 mcf gas is equivalent to 1 barrel of oil. As in Argentina, NTE had attributable interests in various projects with prospective resources and contingent resources up to 275.5m BOE as well as 0.55m BOE respectively. As in US, NTE had attributable 3P reserves of 2.3m BOE, which some of them can be potentially disposed for profit upon progressing towards production stage. The management expects substantial output in both areas since 2013F. On overall basis, if gross profit margins of US\$0.5, US\$2.0 and US\$5.0 per barrel is applied for NTE prospective resources, contingent resources and 3P reserves, current valuation of NTE reserves and resources can be up to US\$196m, which roughly translates to HK\$2.76 per share.

Table 4. NTE upstream portfolio – attributable

BOE k	Prospective resources	Contingent resources	3P reserves
<u>Argentina</u>			
Existing portfolio			
Tartagal & Morillo – 60%; oil	112,500	-	-
Tartagal & Morillo – 60%; gas	163,000	-	-
Valle de Lerma (Salta) – 30%; oil (best estimate)	-	181	-
Selva Maria – 30%; oil (best estimate)	-	371	-
Argentina total	275,500	552	-
<u>US</u>			
Grey Hawk (Utah) – 35%; oil	-	-	195
Duck Creek (30 wells, Utah) – 75%; oil	-	-	1,998
NordAq (Alaska) – 8%; oil	76,800	-	-
NordAq (Alaska) – 8%; gas	14,573	-	-
Louisiana	-	-	119
US total	91,373	-	2,312

Source: SBI E2-Capital

Multiple approaches for downstream natural gas business in China. For LNG and natural gas business, NTE 1) supplies natural gas to residential households to earn connection fees and receive recurrent gas sales income; 2) supplies natural gas to industrial parks at stable and high volume; 3) runs LNG/CNG refueling gas stations to sell gas to vehicles and vessels. In terms of gas stations for vehicles, NTE plans to build series of point-to-point LNG/CNG refueling gas stations to meet resources and industrial logistics needs. As for vessels, NTE targets to secure important coastal lines in key ports in Beijing-Hangzhou Grand Canal, Yangtze River and in the Bohai Region. Table 5 illustrates the existing plan and assets of NTE's downstream business in China. An independent valuation of the projects is valued at HK\$500m, which is approximately HK\$0.70 per share

Table 5. Existing plan and asset of downstream gas distribution business in China

<u>Gas to household</u>		(no. of households)	(no. of households)	(no. of households)	(no. of households)
Province	City	Connectable population	To commence 2012F	To commence 2013F	To commence 2014F
Guizhou	Liupanshui	49,500		29,500	20,000
	Xingren	24,000			24,000
Jiangsu	Huai'an	3,000	500	2,500	
	Xuzhou	2,000		2,000	
	Total Coverage	78,500	500	34,000	44,000
<u>Gas to industrial parks</u>				(no. of industrial parks)	
Province	City	Industrial parks		To commence 2013F	
Guizhou	Liupanshui	Shuiyue industrial park		1	
	Liupanshui	Shuicheng development zone		1	
	Liupanshui	Liuzhi Tequ Mugang industrial park		1	
	Xingren	Xingren industrial park		2	
	Zunyi	Xiangjiang Industrial park		1	
	Total			6	

High-Pressure Pipeline System

City	High pressure pipeline	Commence operation 2014F
Zunyi	1	1

<u>Gas refueling stations</u>		(no. of stations)	(no. of stations)	(no. of stations)	(no. of stations)
Province	City	LNG/CNG stations	To commence 2012F	To commence 2013F	To commence 2014F
Guizhou	Liupanshui	11	1	7	3
	Zunyi	5		4	1
	Xingren	2			2
	Guiyang	1		1	
	Xingyi	1			1
Jiangsu	Huai'an	1		1	
	Xuzhou	4		4	
	Total	25	1	17	7

Source: SBI E2-Capital

Further CAPEX to speedily ramp-up projects on hand. NTE is in the progress of rapid ramp-up and expects to see upstream output and downstream volume in 2013F. CAPEX of around HK\$200m was spent annually in the last 2-3 years, which may be continued to be required in short-to-medium term. As of Jun 2012, majority of NTE asset was exploration and evaluation asset, which itself was equivalent to 97% of total equity. Cash and cash equivalent was HK\$40m by then, which was partly replenished by recent placement completed in the last few months. Out of the net proceed, 33% would be for financing of upstream exploration projects, 25% was for upstream M&A, 22% was for downstream projects and the remaining 20% was for general working capital purpose. Further external financing is necessary to support rapid growth in capital demanding upstream and downstream oil and gas businesses.

Table 6. Profit and loss summary

HK\$m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Revenue	9.2	57.3	128.9	127.2
Cost of goods sold	(9.2)	(56.8)	(127.6)	(125.7)
Gross profit	0.0	0.5	1.3	1.5
Operating expenses	(28.5)	(64.4)	(73.3)	(31.3)
Other net gain / expenses	(0.2)	1.3	(36.0)	32.3
EBIT	(28.6)	(62.7)	(108.1)	2.6
Share of profit / loss of a JV	(5.5)	(2.7)	(2.6)	(1.3)
Financial costs	(1.8)	(8.5)	(10.8)	(3.5)
Profit before tax	(36.0)	(73.8)	(121.5)	(2.2)
Income tax expenses	0.0	(6.5)	(0.6)	(0.2)
Total net profit / loss	(36.0)	(80.4)	(122.1)	(2.4)
Shareholders' profit	(31.9)	(66.1)	(87.4)	(5.8)

Table 7. Balance sheet summary at period end

HK\$m	FY12/09A	FY12/10A	FY12/11A	1H FY12/12A
Non-current assets				
Exploration and evaluation assets	3,248	3,501	3,640	3,637
Other non-current assets	45	141	240	187
Current assets				
Trade and other receivables	42	83	24	21
Cash and cash equivalents	164	114	41	40
Other current assets	38	70	3	4
Non-current liabilities				
Borrowings	0	0	0	10
Other non-current liabilities	0	0	6	7
Current liabilities				
Trade and bills payables	14	74	55	60
Bank and other borrowings	85	160	165	49
Other current liabilities	8	5	11	0.4
Equity	3,432	3,688	3,758	3,805
Total equity	3,430	3,671	3,711	3,763

Source: SBI E2-Capital

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