

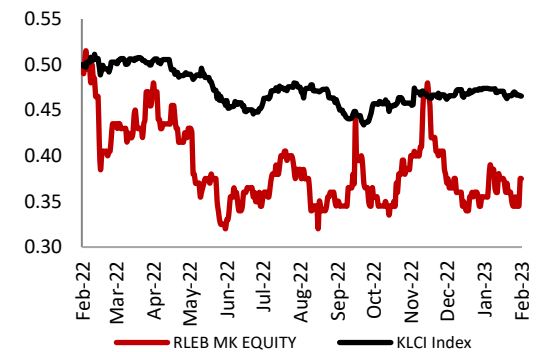
Reservoir Link Energy (RLEB MK) **Below**

BUY

Share Price **RM0.375**
Target Price **RM0.52 +38.6%**

Notable Recovery in O&G Well Services

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	5.6	(2.6)	(28.6)
vs FBM KLCI	7.6	(7.9)	(19.4)

Stock Data

Mkt Cap (RM)	108.4
Free float (%)	57.7
Issued shares (m)	289.05
52w H/L (RM)	0.54 / 0.31
3m avg daily volume (m)	4,556,199

Major Shareholders (%)

Reservoir Link Holding	26.4
Pansar Holdings	10.1
Thien Chiet Chai	5.9

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- Overview.** Reservoir Link Energy (RL) posted a core PATAMI of RM0.7mn in 4Q22 mainly driven by recovery in O&G's well testing services. Revenue declined by 22% QoQ and 4% YoY to RM32.4mn however due to slower activities in RE solar projects. O&G segment's contribution to the company's top line improved to 39% (3Q22: 21%). This led to an improvement in EBITDA margin to 11.7% (3Q22: 8.2%) as O&G well services generally carries higher margin than RE solar projects.
- Key highlights.** Despite some recovery in earnings in 2H22, RL still ended FY22 with a core LATAMI of RM8mn. Revenue declined by 13.3% YoY to RM98mn no thanks to the completion of perforation, wash and cement (PWC) project in Mauritania in October 2021.
- Against estimates: Below.** The FY22 performance was below our estimate with revenue of RM98mn making up only 70% of our full year forecast. The deviation was due to the timing differential between our estimate and actual work done.
- Orderbook.** RL's orderbook grew by 15% QoQ to RM219mn (3Q22: RM190mn) mainly driven by new contract awards in the RE space which currently made up c.35% or RM76mn of the total orderbook. Its tenderbook stood at RM723.8mn as at end FY22.
- Outlook.** Based on the recovery achieved in 2H22, we are cautiously optimistic that RL will return to profitability in 2023. This will be driven by higher demand for well-related services. According to Petronas Activity Outlook 2023-2025, it expects to drill 96 wells (25 exploration, 2 appraisal and 69 development wells) in 2023. In addition, 21 producing wells are planned for workover activities (i.e., to increase production) whereas 28 wells are identified for decommissioning.
- Our call.** Maintain a **BUY** call on RL with unchanged TP of RM0.52 which offers a 35% potential upside. Our TP is based 13x PER that is pegged to FY23F EPS of 4 sen. We believe RL will benefit from strong solar RE project that is gaining momentum amidst LSS4 project roll-out.

Table 1: Quarterly figures

Reservoir Link Energy FYE 31 Dec (RM m)	Quarterly			Change (%)		Cumulative		YTD	BIMB	
	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	%	2022F	12M/F
Revenue	33.8	41.4	32.4	-21.7%	-4.2%	112.4	97.5	-13.3%	139.4	69.9%
GP	7.2	6.4	6.2	-2.3%	-13.6%	29.2	14.8	-49.4%	31.7	46.7%
EBITDA	4.9	3.4	3.8	12.2%	-22.3%	22.3	0.5	-97.7%	17.7	2.9%
Core PBT	2.3	2.0	2.1	4.0%	-9.0%	17.2	(5.1)	n.m.	13.2	-39.0%
Core PATAMI	1.0	(0.1)	0.7	-815.8%	-33.6%	10.9	(8.0)	n.m.	5.9	n.m.
EPS (sen)	0.4	(0.0)	0.2			3.8	(2.8)			
EBITDA margin (%)	14.4%	8.2%	11.7%			19.8%	0.5%			
PBT margin (%)	6.9%	4.9%	6.5%			15.3%	-5.3%			
Core profit margin (%)	3.0%	-0.2%	2.1%			9.7%	-8.2%			
Effective tax rate	-25.8%	-34.9%	-17.4%			-28.9%	-484.8%			
Net gearing (x)	net cash	9%	1%			net cash	1%			

Source: BIMB Securities, Company

Table 2: Quarterly segments breakdown

Segments	3Q21	2Q22	3Q22	QoQ	YoY Chg	Comments
Revenue (RM mn)						
O&G	15.0	8.7	12.8	46.5%	-15.2%	Well testing underpinning the recovery QoQ
RE	18.5	32.5	19.5	-40.2%	5.1%	Slower project progress QoQ
Total	33.8	41.4	32.4	-21.7%	-4.1%	
GP (RM mn)						
O&G	4.9	1.8	4.1	125.0%	-15.0%	
RE	2.4	4.6	2.6	-43.9%	9.5%	
Total	7.2	6.4	6.2	(0.0)	(0.1)	

Source: BIMB Securities, Company

Table 3: SOP Breakdown

Items	Equity	RM m	RM/share	Remarks
Oil and gas	100%	98.4	0.34	8x P/E on FY23F PAT of RM10.3m
Solar	51%	52.9	0.18	14x P/E on FY23F PATAMI of RM3.8m
Total Equity value		151.3		
No. of shares (m)		290.0		
Equity value per share (RM)		0.522		Implies 13x FY23F PE

Source: BIMB Securities, Company

Table 4: Earnings forecast

FYE Dec (RM mn)	2020	2021	2022F	2023F	2024F
Turnover	87.5	112.4	139.4	161.3	178.5
EBITDA	19.9	22.1	17.7	24.3	29.9
Pretax profit	16.4	17.0	13.2	19.9	25.9
Core Net Profit	11.8	10.8	5.9	11.7	16.1
Consensus			10	13	14.0
EPS (sen)	4.1	3.7	2.0	4.0	5.5
PER (x)	8.7	9.7	17.7	8.9	6.5
DPS (sen)	0.0	0.5	0.0	0.0	0.0
Div. Yield (%)	0.0	1.4	0.0	0.0	0.0
P/B (x)	1.7	1.3	1.2	1.1	0.9
Key Ratios (%)					
ROE	25.2	14.9	6.9	11.9	13.9
EBITDA margin	22.7	19.7	12.7	15.1	16.7
Pretax margin	18.8	15.1	9.5	12.4	14.5
Net margin	13.4	9.6	4.2	7.2	9.0

Source: Bloomberg, BIMB Securities

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BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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A handwritten signature in black ink, appearing to read "Dr Rosnani Rasul".

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