

Company Rating:

Unrated

Target Price: NA

Key Data

H-Share price (HK\$)	1.04
52Wk H/L(HK\$)	1.46/1.01
Issued shares (mn)	13,040.5
Market cap (HK\$mn)	13,562.1
3-mth avg daily turnover (HK\$mn)	1.78
Major shareholder (%):	
Zhang Hong Wei	71.01%

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY12 (%)

Oil & Liquids	66
Gas	31
Oilfield Support Services	3
Total revenue	100

Source: Company

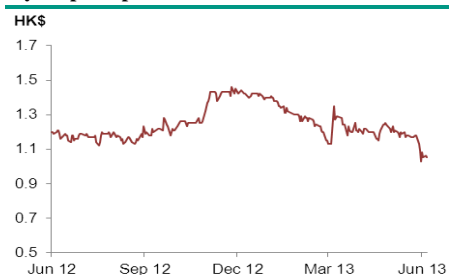
Share performance (%)

	Absolute	Relative*
1-mth performance	(13.2)	(1.0)
3-mth performance	(18.0)	(6.4)
6-mth performance	(27.1)	(15.2)

*Relative to HSI Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Mark Chen

Tel: (852) 2147 8819

Email: markchen@abci.com.hk

United Energy GP (467 HK) – Unrated Energy

A rapid-growing mid-cap oil & gas producer

UEG's bottom line this year will be boosted by 41-49% increase in crude output and 2.5-12.3% decline in unit lifting cost. Further upside swing is from the possible 28-54% increase in selling price of gas in its Pakistan's oilfield. However, we concern on its financial position as the group's capex is budgeted to surge 73-97% to US\$295-337mn in FY13 but its net debt/equity was 102% at end FY12. Potential cash calls in debt and/or equity markets are expected.

A fast-growing mid-cap oil & gas producer. UEG is an independent upstream oil and gas producer. The group has transformed from an oilfield service provider into an international oil & gas producer since 2007. Its oilfields in Pakistan and Liaohe (China) has proved reserves of 60.34mnboe (barrel of oil equivalent) at end of FY12.

UEG achieved rapid growth last two years as output in Pakistan oilfield was surging. Approx. 86% of its total revenue was derived from the Pakistan market in FY12. In FY13, the group plans to boost the total average daily output by 41.1-49.5%. As operation efficiency is improving, the group expects unit lifting cost to fall by 3.5-12.3% in Pakistan and 2.5-10.9% in Liaohe oilfield.

In talk with Pakistan government to raise gas selling price. Approx. 70% of the output in Pakistan is gas, which contributed 31% of the revenue in FY12. The proportion of gas sales in total revenue is expected to increase in coming years. Its top line in the future will become more sensitive to int'l gas prices. In FY12, all its gas output in Pakistan was sold to local SOEs at about US\$3.9/mcf at FY12. The group is negotiating with the Pakistan government to raise the selling price to approx. US\$5~6/mcf, especially for its newly produced gas. The potential upward revision of gas price is an upside swing on its bottom line in second half of FY13.

Risk factors: 1) oil price volatility; 2) Pakistan energy pricing policy; 3) regulatory changes; 4) safety issues; 5) high gearing and possible cash calls

Financial Summary

FY ended Dec 31	2009A	2010A	2011A	2012A
Turnover (HKD mn)	5.2	22.4	876.8	3213.8
Chg (% YoY)	5.8	332.1	3819.1	266.5
Net Income (HKD mn)	(550)	112	532	786
Chg (% YoY)	-	-	373.8	47.9
EPS (HKD)	(0.04)	0.009	0.042	0.061
Chg (% YoY)	-	-	366.67	45.24
BVPS (HKD)	0.195	0.401	0.445	0.513
Chg (% YoY)	-	105.6	10.9	15.2
P/E (x)	-	-	-	17.05
P/B (x)	-	-	-	2.03
ROAE (%)	-	2.9	9.8	12.7
ROAA (%)	-	2.3	5.3	5.6

Source: Company PPT, Bloomberg, ABCI Securities

Operating Performance Update and Target in 2013

	2012	Q1 2013	Chg (YoY)	Target 2013
Pakistan's oilfield Output	24,681	34,374 boe/day	59.5%	35,000-37,000boe/day (+41.8 ~ +49.9%YoY)
ASP (gross)		US\$51.7/boe	26.1%	
Net proved reserve replacement ratio	142%			300-350%
Capex	US\$151mn			US\$280-320mn
# of exploration wells to drill	11			25
# of development wells	20			36
# of rig workovers	31			40-50
Lifting cost	US\$5.7/boe			US\$5.0-5.5/boe (-12.3 ~ -3.5% YoY)
Finding & development cost	US\$10.6/boe			US\$6.9-7.5/boe (-34.9 ~ -29.3% YoY)
China's Liaohe oilfield Output	1,334	1,590bbl/day	40.5%	1,700-1,900bbl/day (+27.4~42.4%YoY)
Capex	US\$19.9mn			US\$15.0-17.0mn
# of fireflood units to be installed	8			15
# of development wells to be drilled	20			8
Lifting cost	US\$35.9/boe			US\$32-35/boe (-10.9 ~ -2.5% YoY)
Total output	26,015boe/day	35,964boe/day	58.6%	36,700-38,900boe/day (+41.1~49.5%YoY)
Total capex (two oilfields)	US\$170.9mn			US\$295-337mn (+72.6 ~ 97.2%YoY)

Note: boe: Barrels or equivalent; bbl: barrels
Source: UEG

The group has two major crude production assets locating in Pakistan and Liaohe, China, planning to increase its average daily output by 41.1-49.5% YoY to 36,700-38,900boe/day in FY13. We expect the top line growth this year will be mainly driven by output growth this year. Bottom line growth will be driven by top line volume growth and the expected decline in unit production cost.

Unit lifting cost and finding cost in Pakistan's oilfield are budgeted to decline by in average of 7.9% and 32.1% in 2013 respectively. Unit lifting cost in Liaohe's oilfield is budgeted to fall by 6.7% in average. The decline in unit cost is due to improvement of operating efficiency in these two oilfields.

To boost the output this year, the group budgets its capex at US\$295-337mn (up72.6-97.2%YoY) in FY13 and plans to achieve net proved reserve replacement ratio of 300-350% in Pakistan.



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Recently, the group has placed two procurement orders to purchase two high power onshore drilling rigs from Hilong (1623 HK). We anticipate these two new drilling rigs are for wells development in Pakistan.

In view of its capex plan this year, we anticipate its gearing ratio to surge. Its net debt/equity ratio was 102% at end of FY12. The group needs to constrain its dividend payment or make cash calls in debt or/and equity markets in the future.



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183