RH Petrogas Limited. (T13)

Figure 2.0: A RH Petrogas Daily Chart showing trend lines, support and resistance levels, moving average and Fibonacci retracement analyses.

Chart Data by:

RH Petrogas Limited. (T13)

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Background

RH Petrogas Limited (RHP) is a company which deals with exploration, development and production of oil and gas resources. The business stretches across ASIA including Malaysia, Indonesia and China and has been moving forward to expand into the robust ASEAN oil and gas market.

Technical Analysis

Major Trend

Price has been on a downtrend since July as news of an oversupply of oil was released. This downtrend is characterized and explainable by chart patterns, Wyckoff phases and Volume Spread Analysis (VSA).

Chart Patterns

A Symmetrical Triangle was formed from June to September and price subsequently broke down after the consolidation period as seen in Figure 2.1.
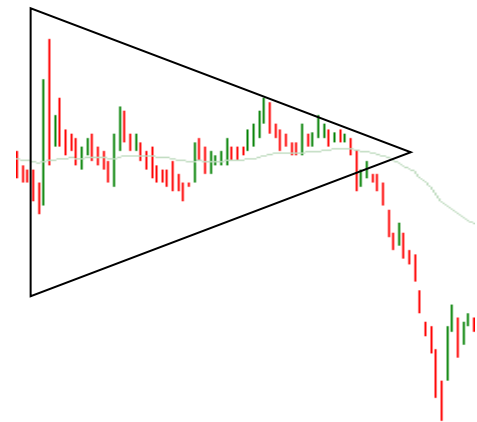

Figure 2.1: Symmetrical Triangle break down

Price continued to plunge and tested the $0.515 support level before retracing. However, it was unable to break past 78.6% Fibonacci retracement level (with reference to Figure 1.0) and returned to hover at $0.515 .

Price consolidated in a Descending Triangle before crashing down to form a new low at 0.315 as seen in Figure 2.2 and Figure 2.0.
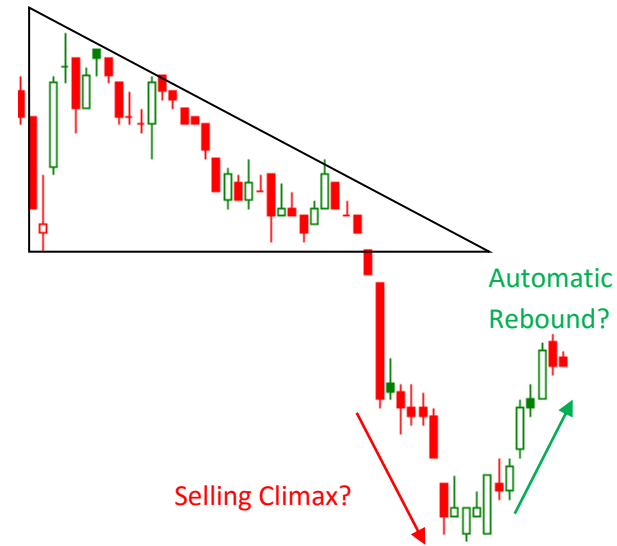

Figure 2.2: Descending Triangle break down

60-Day Moving Average

On the 22nd of September 2014, at the end of the Symmetrical Triangle consolidation, as the price broke down, it crossed the 60-Day moving average from above at the same time. When price crosses the moving average from above, it is usually a bearish sign, even more so in this case, as 60-Day MA is a midterm moving average. On hindsight, we can observe that price point was actually the start of a strong downtrend. Price continued to stay below 60MA line for more than 2 months with no sign of reversal.

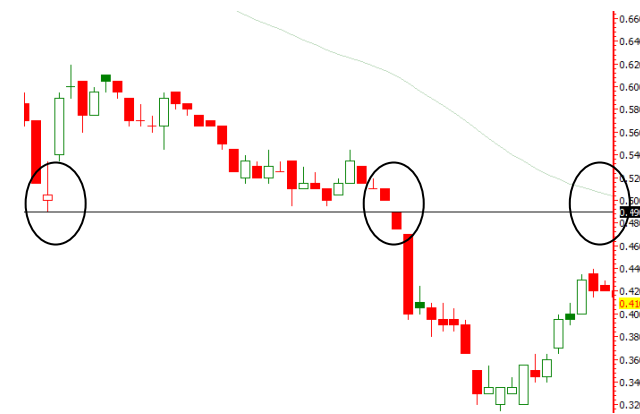### Confluence of Factors

Figure 2.3: Confluence of TA resistance factors

Based on Figure 2.3, price is likely to be resisted at $0.49 level, which is a previous support turned resistance level as shown by the ovals. This particular level coincides with gaps in prices and a possible 60 MA test, as well as Fibonacci Retracement Level resistance which makes this level even more significant and hard to break.

Wyckoff Phases

As we have established previously that the stock has been on a major downtrend, it is actually in conjunction with the Wyckoff phase, markdown after distribution. Usually, when the stock is on a markdown phase, the free fall of the stock is very much caused by short selling intentions. As the stock price falls on short sales, the rapid falling share prices also prompts selling of the stock by various traders and investors out of panic caused by the uncertainty.

After the identification of a markdown phase, the next prominent phase that we expect that will signal the weakness in preexisting trend and a potential change in major trend will be a Selling Climax followed by an Automatic Rebound. These phases are more recognizable

on hindsight, but we believe a possible reversal is very much in sight. While this reversal will not be very significant, it may signal the start of the next phase, Accumulation at the bottom.

Before we substantiate why we expect a possible sideways trend accumulation phase to follow, let us refer to an earlier failed selling climax and rebound.

Figure 2.3: Confluence of TA resistance factors

On the 17th of October, we saw price rebounded on strong volume after a steep retracement. At that point in time, speculators might be alerted of this abnormality and suspect a selling climax. On hindsight, it is easy to tell that such a speculation was wrong. But what exactly invalidated this as a selling climax?

Firstly, with reference to Figure 2.3, the strength of rebound was relatively weak as prices rebounded less than half of the selling wave.

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Secondly, there was only 1 bullish reversal bar that retraced almost immediately after the subsequent formation of a Doji with high volume. Above average volume spikes were also missing compared to a typical accumulation phase.

The accumulation phase was invalidated with the descending triangle consolidation and a gap down of price on the 28th of November 2014 following the confirmation from OPEC that output of oil will not be reduced.
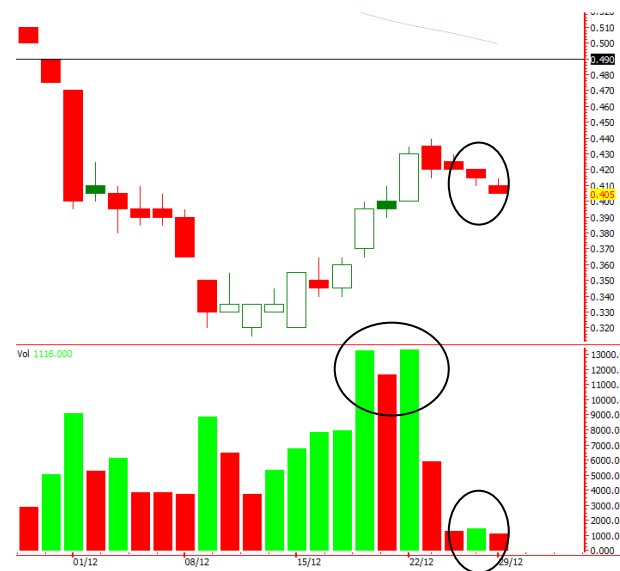
Volume Spread Analysis (VSA)

Figure 2.4: VSA that shows possible Selling Climax

Looking at Figure 2.4, we can observe that there are consistent healthy long spread bars on the way up supported by high volumes. The rebound wave in this case is also made up of more than 1 bullish bar, showing a continual interest for buying and short covering. The mild retracement as highlighted by the ovals show prices retracing on small spreads and low volume. These are signs of strengths and collectively paint a mildy bullish sentiment. It is important to note however that should the retracement continue beyond 5 daily bars, we

might see price of the stock test 0.315 again, even before it tests the next resistance of 0.490.

Technical Analysis Conclusion

Based on the collective outlook from the various technical signs, we conclude that from a Technical Analysis basis, we expect prices to test 0.490 in the coming days as oil prices stabilizes. Price will very likely fail to clear the 0.49 resistance, and will retrace back to 0.315. Such price behavior will then set the accumulation range between 0.315 and 0.490. In another scenario, should global oil prices continue to weaken, we expect a retracement back to 0.315 even before 0.490 is retested. If oil prices fail to stabilize, price may not hold at 0.315 and the failure of the establishment of an accumulation range will be observed again.

Order Flow Analysis

i) Market Depth Analysis

Figure 2.5: VSA that shows possible Selling Climax

Over a period of time, strong resistance is observed at price levels of $0.435 to $0.45.

The queue sizes as seen in Figure 2.5 suggest that this stocks require much financial

ammunition to clear the queue of significant price levels, therefore suggesting that this stock may not be very volatile. However, based on the chart, the frequency of large spread bars paints a contrasting picture. We conclude that more observation is required and we adjust our expectations on volatility accordingly.

ii) Time & Sales Queue track Analysis:

Figure 2.6: TNS on 18th December 2014

Time and Sales shows the transactions done on the stock exchange for the day. S represents done at sell price (Buy Up) while B represents done at buy price (Sell Down). The Data in this report are sorted mainly by the largest volume done, however, we can see a good representation of the different hours of the day in these examples.

Figure 2.7: TNS on 22nd December 2014

Figure 2.6 and 2.7 shows the summaries of transactions done sorted by the largest size for the day for both 18th and 22nd December, the largest volume bars on the rebound as highlighted in Figure 2.4. From the screenshots, we can infer that there was a net buy up of the shares for various possible reasons such as short covering and genuine buying. Based on what we can observe, the rebound actually spiked above the resistance level of 0.400.

In this case, 0.400 is not only a support turned resistance, it is also a whole number resistance. Under normal rebound circumstances, price will not surpass such price levels since retracements are a result of short covering than buying. So the rebound above 0.4 suggest the start of some long positions and genuine buying.

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Figure 2.8: TNS on 26th December 2014

Figure 2.7 shows a very contrasting picture as compared to the previous two Time and Sales Data. Looking at the Figure 2.0, we can see that the volume on 26th December is relatively low as confirmed by the screenshot above. This shows weak selling pressures although the low trading volume may also be due to the holiday season.

iii) Short Seller Report Analysis

With reference to the Marking of Sell orders from SGX website, see Figure 2.9a, based on the available data at the point of analysis, we gathered that since late October to end December, there have been consistent short selling pressures weekly. We also notice an extraordinary average of 1 million shares short on the stock during this period. These figures do not include the actual sale of stocks. When compared to the chart, this data implied that an increase or consistent short sale volume will result in falling prices.

Short sell orders:

1) Week of 27th - 31st Oct 2014

Short sell orders: 1 087 000

2) Week of 3rd -7th November 2014

Short sell orders: 381 000

3) Week of 10th -14th November 2014

Short sell orders: 196 000

4) Week of 17th -21st November 2014

Short sell orders: 1 477 000

5) Week of 24th -28th November 2014

Short sell orders: 602 000

6) Week of 1st- 5th December 2014

Short sell orders: 945 000

7) Week of 8th- 12th December 2014

Short sell orders: 1 112 000

8) Week of 15th- 19th December 2014

Short sell orders: 2 755 000

9) Week of 22nd -26th December 2014

Short sell orders: 982 000

Figure 2.9a: Marking of Sell Orders from SGX

The marking of sell orders above reveals an interesting pattern. There were fewer short sales at the start of this nine week period when prices were higher, quite unusual for an operated stock. The consistent large short selling orders in the last 5 weeks can be attributed to the news where OPEC decided not to reduce output on oil production. That was a trend defining news and prompted a further continuation in downtrend, breaking the significant 0.490 support level. During the decline from 0.490 to 0.315, we saw Crude Oil prices fell to the depths of $55.

While we concluded earlier from Technical Analysis that there are bullishness in the existing price behavior, the short selling report suggest an opposing view as short selling volumes continue to pile up week after week.

However, the signals of short selling volume in our opinion does not carry a heavy weight. This is because as quoted from SGX web page, " Information on short sale volume may not reflect the outstanding short position in those securities. Volume of short sales may include trades which have since been squared off by offsetting buy trades."

Fundamental Analysis

	FY2011	FY2012	FY2013
EPS	0.00519	0.01016	-0.11353
ROE	2.670%	3.371%	n.a
ROA	0.990%	1.910%	-19.694%
EBIT (,000)	18.8	17.3	-29.6
LT Debt (,000)	78.6	37.0	33.5

Figure 2.9b: Summary of Key Financial Data

Since 2011, RH Petrogas Limited has been experiencing sustained increments in its EPS and ROE until year FY2013, it had a significant drop to -0.11353 as seen in Figure 2.9b. This drop can be attributed to the write-off from its goodwill arising from its acquisition of the working interests in the Kepala Burung Production Sharing Contract and Salawati Kepala Burung Production Sharing Contract.

For share prices to pick up in the medium and long term, on a fundamental basis, there must be EPS growth. Even with commencement of drilling at Fuyu 1 block, and assuming the operations are successful, operating costs and profit margins are another worry as the current oil prices are breaking new lows. This hurts the company profit margin drastically. The company is also prone to failure in exploration or acquisitions which would greatly affect their income stream.

We will need to look towards the next OPEC meeting in June before any significant price movement may occur. Barring any unforeseen circumstances, we do not expect cashflow to be strongly positive in short term.

Speculative

We cannot stress enough the impact of global oil prices on the share price of RH Petrogas. The major price movements were a result of oil price changes instead of company specific news. Therefore, we will weigh changes in oil prices above all other factors in our analysis.

On the 20th of May 2014, the company responded to SGX query about a potential takeover offer by private investor when its share price was trading near 0.800 levels. Now that price is trading below half that price level, a similar proposition could occur that might cause a spike in price in the short term.

Conclusion

In conclusion, based on the collective analysis using the S.O.F.T approach, we have a mixed opinion and expect prices to range with slight bias on the downside as we believe oil prices will remain weak in the near to midterm.

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