

SAPEX Group Limited

Laying foundations in South East Asia

SAPEX Group Ltd listed on the NSX on 15th September as a compliance listing, having acquired, through the issue of 11.6m shares and \$3.00, SAPEX Oilfield Services Ltd (SOS) which holds the exclusive licence and is the sole distributor of the DURA-BASE[®] Composite Mat System in Indonesia, Myanmar and the Philippines. DURA-BASE, which is owned by NYSE-listed company Newpark (NYSE:NR), is a patented, durable, all weather, interlocking composite product used extensively in the establishment of working platforms and road infrastructure for the military, oil and gas, mining and civil construction industries. SAPEX intends to expand SOS's current footprint in the oil and gas sector in Indonesia to new sectors and regions.

Business model

SAPEX Group, through SAPEX Oilfield Services, intends to generate income through local agent arrangements to deploy the Dura-Base product in third party projects. In Indonesia, SAPEX has entered into a licensing agreement with PT SAPEX Servis Indonesia, a locally owned company, to provide access to Dura-Base in exchange for US\$100,000 per month and 10% of the value of any Dura-Base contract that PT Sapex enters into. This agreement commenced from the date of SAPEX Group's listing.

The company, in its information memorandum, highlights that prior to their agreement, PT Sapex in joint venture with PT SAS International, had won a contract with Talisman Energy for the supply and service of Dura-Base. SAPEX noted that the gross value of the contract was IDR28.17b or A\$2.8m.

The company plans to extend beyond the Indonesian oil and gas sector, which had been the focus of SAPEX Oilfield Services, to other industries and sectors including infrastructure development, in particular roads in underdeveloped regions of South East Asia, electricity city and power transmission infrastructure; construction, military, disaster relief, and timber plantation and forestry road and work infrastructure. It also intends to extend into Myanmar and the Philippines through joint venture arrangements.

SAPEX noted in its Information Memorandum that its current exclusive licence agreement with Newpark will expire on 31 December 2018 and that directors intended to seek a five-year extension of the licence ahead of that expiry.

Historical Earnings

SAPEX Group was incorporated on 18th May 2017 and therefore has no trading history. Its subsidiary, SAPEX Oilfield Services, which has been in operation since 2001, posted net sales of IDR8.72b (A\$0.9m) in the year ending 31 December 2015, up from net sales of IDR5.1b (A\$0.5m) the prior year. Sales were based on earning 3% of revenues generated from Dura-Base sales by PT SAS International. NPAT in FY15 was IDR4.5b (A\$0.04m) versus IDR1.6b (A\$0.02m) in FY14. No data has been provided for SOS's FY16 accounts.

Shares Summary

Share Code	SAA
Share Price	\$1.00
Market Capitalisation	\$19.29M
Number of Shares	19.29M
Net Cash (Debt) at 27 Jun 2017*	Nil
Share Registry	Automic Pty Ltd

*Company had an undrawn \$1.5m working capital facility at 27 June 2017

5-Point Score = N/A as no trading history

Revenue increasing; EPS increasing, Return on Capital Employed [ROCE]; EBIT interest cover >3x
Gross Operating cash flow/EBITDA >90%

Upside Case

- Long-established position in Indonesia with 85% of the composite matting market
- Potential new revenue sources from extending the product both geographically and into new sectors
- Board and management have long standing involvement in the industry

Downside Case

- Liquidity risk as 75.52% held by directors and related parties
- Currency risk as contracts denominated in USD translated from Indonesian Rupiah
- Company needs to seek renewal of current licence for DURA-BASE which expires on 31 December 2018

Board of Directors

Chairman	Peter Chambers
Director	Arran Marshall
Director	Peter Van Ratingen
Director	Kyle Larson
Director	Ronald Larson

Catalysts

- Evidence of further contract wins in Indonesia
- Creation of JVs in Myanmar and the Philippines and evidence of contract wins

Comparative Companies

NYSE:NR, JIP.AX, SND.AX

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 11th May 2017

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities

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