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**Research Team**

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**Rating** Not Rated

**Target Price** N/A

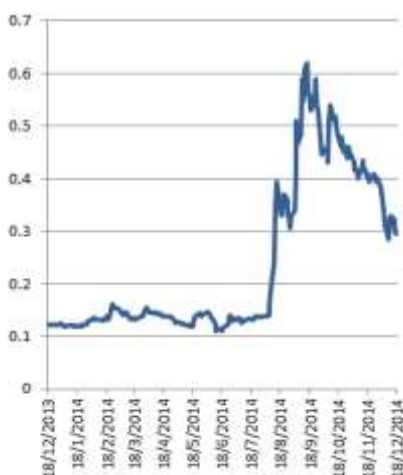
Upside Potential N/A

**Company Data (as of 18Dec mkt close)**

Ticker		91HK
Share Price	(HK\$)	0.30
Market Cap	(HK\$ mn)	1,221
Outstanding Shares	(mn)	4,069
52wk Low	(HK\$)	0.11
52wk High	(HK\$)	0.66
P/E	(x)	n.a.
P/B	(x)	0.85
EV/EBITDA	(x)	n.a.
Div yld	(%)	0.00
ROE	(%)	(26.27)
Gearing	(%)	46.37
Auditor		Crowe Horwath

**Major Shareholders**

Smart Dragon Global	17.52%
Leung Yuk Kit	14.20%
Che Weng Kei	9.98%

**Share Price Chart (HK\$)**


Sources: Bloomberg, CIS(HK)

**International Standard Resources 91HK**
**NOTE**
**Stepping into Coal Bed Methane Business**

- Stepping into Coal Bed Methane (CBM) Business.** International Standard Resources (ISR) is principally engaged in 1) exploration and exploitation of coal bed methane gas, 2) sales of electronic components, and 3) treasury which includes securities trading and money lending. While the sales of electronic components segment contributed the most revenue in 1H14, it is believed that the company is shifting their focus purely on the coal bed methane gas business in the future. Coal bed methane is simply methane (CH<sub>4</sub>) found in coal seams, which can be used as a clean burning fuel.
- Production Sharing Contract Settled.** Can-Elite Energy, a wholly subsidiary of ISR, entered into an exclusive production sharing contract that valid until April 2038 with China United Coal Bed Methane (CUCBM) in a Contract Area in Anhui Province. The Contract Area includes two production districts namely Lu Ling and Su Nan with an area of 211.041km<sup>2</sup> and 356.802km<sup>2</sup>, respectively. Can-Elite Energy has a controlling stake of 70% of the production sharing contract and is fully in-charge of the project's capital investment and technology & engineering deployment. The NDRC approved reserve report indicated that Lu Ling district has a proven CBM reserves of 3.16b m<sup>3</sup> with 1.49b m<sup>3</sup> are classified as commercially recoverable. Using a current CBM wholesale price of RMB3.3/m<sup>3</sup> as reference, the potential revenue derivable from production in Lu Ling is expected to be RMB5.0b over the production phase.
- Putting the final piece of puzzle together.** ISR is on track to setup a small scale CBM test-well group before Jun 2015 in Lu Ling district. The goal is to reach a preliminary production level of 10,000m<sup>3</sup>/day. In addition, the company is actively seeking to secure long-term gas supply and sales agreements with regional prospective buyers.
- Huge potential and await operating figures to trigger revaluation.** The Chinese government issued a policy guideline in Sept 2013 encouraging investment in CBM exploration and development and more pipeline infrastructure through financial incentives and tax breaks to producers and reform of local price controls. We believe technical challenges remain to be the biggest barrier, yet current policies welcome foreign investors with technical expertise to exploit them. We believe the market will trigger a revaluation of ISR once the CBM can become commercialized.

**Financial Data**

Financial Data	Unit	FY2010	FY2011	FY2012	FY2013
Turnover	HK\$ (mn)	46	36	38	98
Growth y-o-y (%)		0%	-22%	5%	160%
Net Profit	HK\$ (mn)	10	(393)	(202)	(353)
Growth y-o-y (%)		n.m.	n.m.	n.m.	n.m.
Gross Margin	(%)	16.5	36.0	22.9	9.5
Net Margin	(%)	22.6	n.m.	n.m.	n.m.
NAV per share	(HK\$)	0.99	0.59	0.53	0.41
Enterprise Value	(HK\$)	1,360	1,161	1,153	1,085

Source: Bloomberg, CIS(HK)

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