



Rating
Hold

Asia
Hong Kong

Energy
Oil & Gas

Company
MIE Holdings Corp

Reuters 1555.HK Bloomberg 1555 HK Exchange HSI Ticker 1555

Date
23 March 2015

Forecast Change

Price at 20 Mar 2015 (HKD)	0.74
Price target - 12mth (HKD)	0.73
52-week range (HKD)	1.54 - 0.74
HANG SENG INDEX	24,375

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2015 - a year for survival

Full year 2014 earnings

MIE reported 2014 earnings of Rmb 22.5 mln (Rmb 0.009/ shr) vs. our 125.5 mln (0.048/ shr.). Revenue was Rmb 2.98bn vs. our 3.05bn. Adjusted Op. Income was Rmb 646 mln vs. our 551.2 mln. Most expense line items came in under our estimates - MIE is cutting costs. One-off items were multiple: bond redemption premium paid; gain on sale of assets; and an asset impairment charge. The income tax rate / charge was ugly at 90.4% / Rmb 214 mln vs. our 30% / 53.2 mln. Maintain Hold rating with 2015e looking to be a difficult year.

Surprises: for the good and not so good

For the good in 2014: 1) MIE reduced headcount by 17.7% or 457 people; 2) MIE reduced unit service costs by 12.7%. And for the not so good: 1) production at both Kaz and China will continue to decline high double-digit through 2015; and 2) gas volumes for SGE are coming in lower than we initially anticipated due to processing constraints. The income tax situation is a mess; although there was recent relief on Kazakh operating taxes in March.

Investment thesis – a survivor:

We see MIE as a survivor of this nasty oil price shake out. "Breaching" the debt covenant, means no more bank loans but the US\$ 400mln "credit facility" from a bank remains fair game. For 2015e, MIE has US\$ 35 mln in bank debt to repay in November, US\$ 115 mln cash on hand (YE14), 2015e operating cash of US\$ 100 mln and capex of about the same. DB has higher oil prices 2016/ 2015e. Management continues to take the right steps.

Valuation and risks

We value MIE from a DCF model. Our WACC is 11.2% with a CoE of 9.5% a China Rfr of 3.9% and an Erp of 5.6%. Our China Rfr and Erp are standardized and set by DB Strategy Group. We use a 3% terminal growth (TG) rate for MIE to reflect what we believe is MIE's LT sustainable BOE production growth rate. Risks include 1) higher / lower than anticipated oil prices; 2) higher / lower than anticipated debt prices; and 3) execution risk for the better or worse at SGE.

Key changes

Price target	0.84 to 0.73	↓	-13.1%
Sales (FYE)	1,641 to 1,260	↓	-23.3%
Op prof margin (FYE)	-17.0 to -4.0	↑	-76.3%
Net profit (FYE)	-338.1 to -211.8	↑	-37.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-17.8	-15.9	-44.8
HANG SENG INDEX	-1.8	5.4	15.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	3,256.1	2,982.9	1,259.5	1,522.1	1,785.2
EBITDA (CNYm)	1,774.2	1,701.9	581.9	740.6	854.4
DB Net Profit (CNY)	279.8	22.5	-211.8	-30.4	141.7
DB EPS FD(CNY)	0.11	0.01	-0.08	-0.01	0.05
OLD DB EPS FD(CNY)	0.11	0.03	-0.13	0.03	-
PER (x)	14.0	120.2	-	-	10.9
EV/EBITDA (x)	4.1	3.8	9.0	7.0	5.6
DPS (net) (CNY)	0.02	0.00	0.00	0.00	0.00
Yield (net) (%)	1.5	0.0	0.0	0.0	0.0

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples & yld calculations use avg historical prices for past years & spot prices for current & future years.

Deutsche Bank AG/Hong Kong

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Model updated: 23 March 2015

Running the numbers

Asia

Hong Kong

Oil & Gas

MIE Holdings Corp

Reuters: 1555.HK

Bloomberg: 1555 HK

Hold

Price (20 Mar 15) HKD 0.74

Target Price HKD 0.73

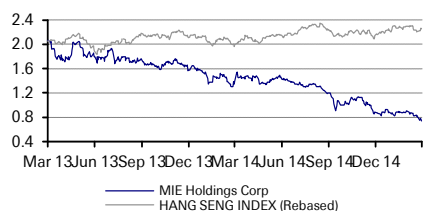
52 Week range HKD 0.74 - 1.54

Market Cap (m) HKDm 1,954
USDm 252

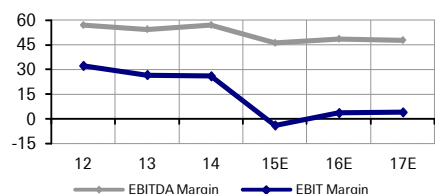
Company Profile

MIE Holdings Corporation (MIE) is one of the leading independent oil production companies operating onshore in China.

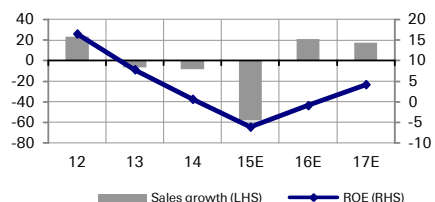
Price Performance



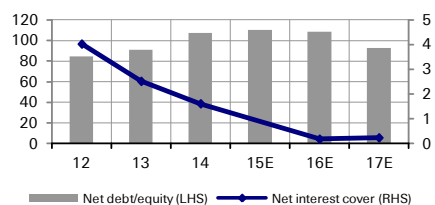
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	0.21	0.11	0.01	-0.08	-0.01	0.05
Reported EPS (CNY)	0.20	0.11	0.01	-0.08	-0.01	0.05
DPS (CNY)	0.03	0.02	0.00	0.00	0.00	0.00
BVPS (CNY)	1.3	1.4	1.4	1.3	1.3	1.3
Weighted average shares (m)	2,643	2,625	2,625	2,625	2,625	2,625
Average market cap (CNYm)	4,871	3,913	2,709	1,561	1,561	1,561
Enterprise value (CNYm)	7,792	7,288	6,535	5,249	5,174	4,773

Valuation Metrics

P/E (DB) (x)	8.9	14.0	120.2	nm	nm	10.9
P/E (Reported) (x)	9.0	14.0	120.2	nm	nm	10.9
P/BV (x)	1.51	0.92	0.48	0.46	0.47	0.45
FCF Yield (%)	nm	nm	0.6	nm	nm	1.3
Dividend Yield (%)	1.7	1.5	0.0	0.0	0.0	0.0
EV/Sales (x)	2.2	2.2	2.2	4.2	3.4	2.7
EV/EBITDA (x)	3.9	4.1	3.8	9.0	7.0	5.6
EV/EBIT (x)	6.9	8.4	8.4	nm	96.0	67.9

Income Statement (CNYm)

Sales revenue	3,486	3,256	2,983	1,260	1,522	1,785
Gross profit	3,207	2,886	2,646	1,054	1,299	1,530
EBITDA	1,986	1,774	1,702	582	741	854
Depreciation	861	905	928	633	687	784
Amortisation	0	0	0	0	0	0
EBIT	1,125	869	773	-51	54	70
Net interest income/(expense)	-280	-346	-481	-307	-306	-305
Associates/affiliates	0	-69	-55	56	159	318
Exceptionals/extraordinary	-8	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	837	455	237	-301	-93	83
Income tax expense	296	175	214	-89	-63	-59
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	541	280	23	-212	-30	142
DB adjustments (including dilution)	5	0	0	0	0	0
DB Net profit	547	280	23	-212	-30	142

Cash Flow (CNYm)

Cash flow from operations	1,435	1,125	691	629	631	926
Net Capex	-1,974	-1,407	-676	-644	-769	-906
Free cash flow	-539	-282	15	-14	-138	20
Equity raised/(bought back)	0	89	0	0	0	0
Dividends paid	-95	-84	-59	0	0	0
Net inc/(dec) in borrowings	865	262	619	17	17	0
Other investing/financing cash flows	-312	-87	-405	96	54	64
Net cash flow	-80	-103	171	98	-68	84
Change in working capital	32	-60	-260	209	-26	1

Balance Sheet (CNYm)

Cash and other liquid assets	466	275	723	878	969	1,371
Tangible fixed assets	6,633	7,160	6,630	6,641	6,723	6,845
Goodwill/intangible assets	604	544	495	441	388	335
Associates/investments	0	0	0	0	0	0
Other assets	1,208	1,323	1,780	1,184	1,275	1,366
Total assets	8,911	9,303	9,628	9,144	9,355	9,916
Interest bearing debt	3,388	3,650	4,548	4,565	4,582	4,582
Other liabilities	2,060	1,949	1,515	1,226	1,450	1,870
Total liabilities	5,448	5,598	6,063	5,791	6,032	6,452
Shareholders' equity	3,463	3,704	3,565	3,353	3,322	3,464
Minorities	0	0	0	0	0	0
Total shareholders' equity	3,463	3,704	3,565	3,353	3,322	3,464
Net debt	2,922	3,375	3,825	3,687	3,613	3,212

Key Company Metrics

Sales growth (%)	23.3	-6.6	-8.4	-57.8	20.8	17.3
DB EPS growth (%)	-26.3	-48.5	-91.9	na	85.7	na
EBITDA Margin (%)	57.0	54.5	57.1	46.2	48.7	47.9
EBIT Margin (%)	32.3	26.7	25.9	-4.0	3.5	3.9
Payout ratio (%)	15.5	21.1	0.0	nm	nm	0.0
ROE (%)	16.5	7.8	0.6	-6.1	-0.9	4.2
Capex/sales (%)	56.6	43.2	22.7	51.1	50.5	50.8
Capex/depreciation (x)	2.3	1.6	0.7	1.0	1.1	1.2
Net debt/equity (%)	84.4	91.1	107.3	110.0	108.8	92.7
Net interest cover (x)	4.0	2.5	1.6	nm	0.2	0.2

Source: Company data, Deutsche Bank estimates



Operations 2014/ 2015

Difficult times

We were surprised (to the downside) at production guidance for 2015e, both in China and Kazakhstan. On SGE, we were likewise surprised (to the downside) on production guidance, but for further out 2016-18e rather than 2015. We suspect that this is more out of our ignorance on E&P operations in general rather than any prior discussions with management. We were surprised at the magnitude of 2015e decline rates as indicated by management's 2015e production guidance: 1) from China 6,850 bpd (-32%) vs. 10,033 bpd 2014; and 2) from Kazakhstan 3,500 bpd (-33%) vs. 5,201 bpd in 2014. Look what happens when there is not much cash capex into EOR (enhanced oil recovery) operations. Let's adjust: 1,500 bpd of the China operation is lost y/y due to the 2014 sale of Pan-China Resources (PCR) and MIE's smallest of their 3 fields in China, Miao3. Notwithstanding, we are also now of the opinion that production should also come back quickly once management has a bit more capex to inject back into the business (2016-18e). Our MIE consolidated production estimates are in Figure 1.

In an MIE research note that we published 03-March 2014, "2013 Operations – Results preview – SGE preview", we attempted to size up MIE's natural gas opportunity in China, known as SGE. We concluded that once up and operating, SGE plateau production should be something like 274 mmcf/d (45,662 BOE/ day) of which MIE would take 51%. This is a lot of oil equivalent (BOEs) for a company that was producing a maximum 15-16k BOE/day. We still believe that this is the case. However, in our new estimates, we do not get there until 2023e; while in our previous estimates we were there by 2016-2017e. We suspect that half of this "delay" is not having the needed cash to capex and the other half is just our ignorance on how long these types of big projects take to bring on-line. Natural gas must be "processed" or cleaned prior to being sold to end consumers. SGE will have 24 mln cf/d of gas processing capacity installed end-2015e and potentially not much more installed by end-2016e. This suggests two things to us: 1) MIE's natural gas sales will be no more than 12 mln cf/d (51% of 24 mln cf/d) exiting 2015, which is a long way off from 140 mm cf/d plateau production; and 2) more capex will be needed at SGE for gas processing units before production can ramp up. We suspect that this will take a while, which we are now reflecting in our SGE estimates (Figure 1).

The economics look good on the SGE project. MIE continues to talk about a sales price of US\$ 9.50 to 9.60 / mcf on an all-in cost of US\$ 1.50/ mcf of which capital costs are US\$ 1.00 / mcf and operating costs US\$ 0.50 – 0.60/ mcf. MIE has two, signed gas sales contracts in hand and both with natural gas distributors: 1) Jia Hao, is a whole sale distributor of gas in China that also holds power asserts; and 2) a company called SX Guohua which is also a whole sale gas distributor in China and partially owned by Sinopec Corp. We are not so sure why MIE management has signed only 1-year contracts with both companies; we would have been more impressed with 15-20 year off-take contracts. We suspect that any gas sales / purchase contracts being signed 2013-15e, would have price adjustment clauses relative to NDRC prices.



Figure 1: DB production estimates for MIE - we have slowed production growth vs. previous estimates

CONSOLIDATED PRODUCTION MIE + KAZ	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
Consolidated PRODUCTION (BOE / day):	11,169	14,662	15,501	16,306	11,056	12,000	13,702	15,787	16,940
Consolidated PRODUCTION (m BOE / yr)	4,077	5,351	5,703	5,952	4,036	4,380	5,001	5,762	6,183
		31.3%	6.6%	4.4%	-32.2%	8.5%	14.2%	15.2%	7.3%
Consolidated OIL PRODUCTION (Bbls / day):	11,097	13,965	14,673	15,326	10,403	11,088	12,470	14,201	15,152
Consolidated OIL PRODUCTION (m bbls / yr)	4,050	5,097	5,401	5,594	3,797	4,047	4,552	5,183	5,531
		25.8%	6.0%	3.6%	-32.1%	6.6%	12.5%	13.9%	6.7%
CHINA (Includes MIE's 51% of SGE)									
- Production (BOE / day)	10,520	11,178	10,208	10,033	7,686	8,532	10,604	11,946	13,081
- Production (m BOE / yr)	3,840	4,080	3,771	3,662	2,805	3,114	3,871	4,360	4,775
- JILIN OIL production (bbls / day):	10,520	11,178	9,234	9,088	6,836	6,152	5,844	5,698	5,584
- JILIN OIL production (m bbls / yr)	3,840	4,080	3,418	3,317	2,495	2,245	2,133	2,080	2,038
		6.3%	-16.2%	-3.0%	-24.8%	-10.0%	-5.0%	-2.5%	-2.0%
- PCR OIL Production (bbls / day)		0.0	974	945	0	0	0	0	0
- PRC OIL Production ('000 bbls / year)		0.0	353	345	0	0	0	0	0
- MIE's 51% of SGE GAS Production (mcf / day)		0.0	0.0	0	14,280	28,560	37,485	44,982	52,479
- MIE's 51% of SGE GAS Production (mmcf / Yr)		0.0	0.0	0	5,212	10,424	13,682	16,418	19,155
- MIE's 51% of SGE GAS production (Boe / day):		0.0	0.0	0	850	2,380	4,760	6,248	7,497
- MIE's 51% of SGE GAS production (m Boe / yr)		0.0	0.0	0	310	869	1,737	2,280	2,736
KAZAKHSTAN									
- Production (BOE / day)	649	3,483	5,148	6,181	4,121	5,753	7,768	10,003	11,274
- Production (m BOE / yr)	237	1,271	1,879	2,256	1,504	2,100	2,835	3,651	4,115
		nm	47.8%	20.1%	-33.3%	39.6%	35.0%	28.8%	12.7%
- OIL production (bbls / day):	577	2,787	4,320	5,201	3,467	4,841	6,536	8,417	9,487
- OIL production (m bbls / yr)	211	1,017	1,577	1,898	1,266	1,767	2,386	3,072	3,463
		nm	55.0%	20.4%	-33.3%	39.6%	35.0%	28.8%	12.7%
- OIL Production for Export Sales (Bpd)		2,491	3,517	3,953	2,774	3,873	5,229	6,733	7,589
- OIL Production for Export Sales ('000 Bpd)		909	1,284	1,424	962	1,343	1,813	2,335	2,632
- OIL Production for Domestic Sales (Bpd)		295	804	1,248	693	968	1,307	1,683	1,897
- Oil Production for Domestic Sales ('000 Bpd)		108	276	475	304	424	573	737	831
- GAS Production (mcf / day)	1,729	4,180	4,966	5,881	3,921	5,474	7,390	9,517	10,726
- GAS Production (mmcf / Yr)	631	1,526	1,813	2,146	1,431	1,998	2,697	3,474	3,915
- GAS production (Boe / day):	72	697	828	980	653	912	1,232	1,586	1,788
- GAS production (m Boe / yr)	26	254	302	358	239	333	450	579	653
USA									
- OIL production (bbls / day):		0	145	92	100	95	90	86	81
- OIL production (m bbls / yr)		0	53	34	37	35	33	31	30

Notes:

- MIE's 51% stake in SGE Ltd. is accounted for by the Equity Method and does not Consolidate into MIE Holdings
- We sized up MIE's SGE Ltd gas project in a research note dated 03-March 2014: "2013 Operations - Results Preview - SGE Preview"

Source: Company specific data; Deutsche Bank



It is all about the language

In our last MIE research note dated 16-Feb 2015, "Riding close to the edge" we took a deep look into MIE's debt and debt covenants (Figure 2). Our read at the time on the debt covenant was that: "MIE must keep an "Adjusted" EBITDA / Debt Expense of 2.5x or greater to avoid ... not being able to issue up to another US\$ 400 mln of debt". This statement is almost 100% correct. However, to be 100% correct we need to make minor adjustments to the language, see if you can spot the differences:

- "MIE must keep an "Adjusted" EBITDA / Debt Expense of 2.5x or greater to avoid ... not being able to take out another US\$ 400 mln of bank loans".

MIE holds an open credit line for US\$ 400 mln from a particular bank. Management rightly pointed out to us that a "credit line" is not the same thing as a bank loan. MIE's US\$ 400 mln credit line is outside the scope of the debt covenant. A breach of the debt covenant does not eliminate MIE's open bank credit line as per management, which is a good thing given our 2015 estimate of MIE's "Adjusted EBITDA / Interest expense" (Figure 2). Whether breaching the covenant causes the cost of MIE's credit line to increase, we do not know, but we would assume – yes.

MIE has US\$ 35 mln in bank debt to repay November 2015. This is the company's only (bank) debt due in 2015. MIE has issued US\$ 500 mln in public bonds maturing 25-April 2019 and another US\$ 200 mln in public bonds maturing 06-Feb 2018. It looks to us that both of these debt issues can be viewed as being backstopped by MIE's US\$ 400 mln credit line from a particular bank. We suspect that MIE will survive this wicked and temporary decline in oil prices.

Just for the sake of closing this circle, the definition of "Adjusted Ebitda" can be seen on page 50, of MIE's 2014 Results announcement as filed to the Hong Kong Stock Exchange on 20-March 2015. Adjustments include:

- Share based compensation expenses;
- Impairment charges;
- Gain / (loss) on oil hedge options;
- Geological and geophysical operating expenses;
- Gains / losses on asset disposals; and
- Withholding tax on intercompany loans.

As an aside and further to our "language" comment above:

- Interest expense on an intercompany loan extended by MIE Holding to an MIE subsidiary is not tax deductible; whereas
- Interest expense on "restricted cash lending" from a bank to an MIE subsidiary and backed by "Restricted cash" deposited by MIE to the lending bank is deductible from income tax paid.

How simple – place restricted cash balances with a bank and receive a tax breaks; it all counts.



Figure 2: MIE's debt covenant – slap on the wrist

MIE Holdings (Rmb '000)	2012	2013	2014	2015E	2016E	2017E
- Adjusted EBITDA	2,144,365	1,802,761	1,501,545	677,253	829,887	942,519
- Interest Expense	279,534	330,972	335,521	315,662	315,662	315,662
- Adjusted EBITDA / Interest Expense"	7.67	5.45	4.48	2.15	2.63	2.99

Source: Company specific data; Deutsche Bank

Clarification on the sale of TPG's 8.05% equity stake in MIE

TPG Star Energy did sell its 8.05% stake in MIE in November 2014; this deal did close end-November 2014. We got this transaction a bit wrong in our previous MIE research note, "Riding close to the edge" dated 16-February. In essence:

- TPG sold 8.05% of MIE shares to Celestial Energy Ltd. at a price of HK\$ 1.25/ share on 09-November 2014;
- MIE's Chairman and CEO, Mr. ZHANG Ruilin holds a call option on 3.2% of Celestial's MIE shares through November 2016, with a call price of HK\$ 1.25 / share plus interest of 15% pa;
- Celestial holds a put option exercisable at a price of HK\$ 1.25/ share plus interest of 15% pa anytime after end-November 2016 through May 2017.

The put option held by Celestial is put-able back to Chairman Zhang's personal holding company FEEL. Similarly, the Call option held by Chairman Zhang on 3.2% of Celestial's MIE shares is call-able by FEEL. As we correctly pointed out in our previous research note, and really what matters about these potential transactions, is that none of these transactions should have any impact on MIE and or the shareholders of MIE.

MIE's income tax

After all of the one-off adjustments in 2014, bottom line results as reported (Rmb 22.5 mln) vs. our estimate (Rmb 125.5 mln) can be fully explained by the difference between our estimated income tax liability of Rmb 53.1 mln and MIE's actual income tax paid of Rmb 214.1 mln. For full year 2014, MIE's effective income tax rate was 90.5% vs. our estimated tax rate of 29.7%. Why the huge tax bill for full year 2014? Management noted that the following items were not tax deductible under PRC and / or HK accounting standards:

- Impairment losses – Rmb 154.4 mln in 2014;
- Bond redemption fees – Rmb 154.9 mln in 2014;
- The US\$ 18-20/ bbl that MIE-Kaz pays Titan Oil (now known as Euro-Asian Oil SA) – Rmb 187.2 mln in 2014;



- Interest on intercompany loans;
- Interest on loans held at the Holding Company level due to lack of operating income generated at the Holding company; and of course
- Equity losses are not tax deductible.

The above non-tax-deductible items go a long way in explaining MIE's 90.5% tax rate for 2014. It also goes a long way in explaining why MIE's tax rate has forever seemed to be way-high of China's 25% statutory tax rate.

Which leads us to a question we had recently from an astute watcher of MIE and that was, why in our MIE model are we showing a tax credit for MIE, as far as the eye can see?

As noted above, equity income / loss are not taxable at the corporate level, but rather at the partner level. As pointed out in an earlier MIE research note ("Tale of two cities" 03-Nov 2014), with US\$ 60-70/ bbl oil, MIE does not generate enough operating earnings to offset its interest expense, which leads to a pre-tax earnings loss. This is the case. Forecasted equity income from SGE is driving reported earnings at MIE Consolidated. Deducting MIE's equity earnings from pre-tax earnings brings us to a loss in pre-tax earnings and hence the tax credit. Also as noted in earlier research reports, MIE management plans to pay SGE equity earnings as dividends back up to MIE Holding. As a result, we have included SGE's equity earnings as a cash flow line item in our DCF model (Figure 3).

[A few other bits and pieces:](#)

On 20-March 2015, the government of Kazakhstan lowered its "Customs Export Duty" on domestically produced oil to US\$ 60/ ton from US\$ 80/ ton effective immediately. This will lower MIE's "Taxes other than Income Tax" by roughly Rmb 16-17 mln in 2015 and beyond.

In our MIE report dated 16-February, "Riding close to the edge" we tongue in cheek commented on MIE's claim to have reduced its US\$ 20/ bbl transport fee (in Kazakhstan) by US\$ 2-3 bbls; but renegotiated a new price for its Kazack oil exports using Urals rather than Brent crude. The irony being that Urals is priced US\$ 1.50 to US\$ 2.00 / bbl cheaper than Brent. We apologize to our friends at MIE. In its recent 2014 Results Presentation, Slide 34, fully details MIE's new oil transport contract with Euro-Asian Oil as well as the US\$ 2-3/ bbl in transport cost savings.

[Valuation and risks](#)

Theory is theory and not necessarily, what we see in developing markets. We are told that MIE's cost of debt cannot exceed its (theoretical) cost of equity, which makes good sense. In Asia, our cost of equity is set by a DB Quant group that has standardized our Risk Free Rate and Equity Risk Premium by country. As such, the DB Asia, China Risk Free Rate is 3.9% and the China Equity Premium is 5.6%. To calculate cost of equity, we are only missing MIE's Beta, the longer the better (in theory), and that is provided by Bloomberg. MIE's 3-year adjusted Beta to the HSI is 1.00 – which gives us a cost of equity of 9.5%. Notwithstanding:

- MIE's shorter dated bonds (MIEHOL 6.875% of 06-Feb 2018) are quoted at a yield of 22.5% bid and 21% ask; and



- MIE's longer dated bonds (MIEHOL 7.5% of 25-April 2019) are quoted at a yield of 21% bid and 22% ask. These bonds last traded on 25-February at a yield of 18.29%.

Either the bonds are cheap or the equity expensive; but it is what it is. We use the actual street prices of MIE's debt as the input into our DCF model. We also use DB's standardized China Risk = Free Rate and Equity Risk Premium.

We value MIE from a DCF model (Figure 3). Our WACC is 11.2% with a CoE of 9.5%, a China Rfr of 3.9% and an Erp of 5.6%. Our China Rfr and Erp are standardized and set by DB Strategy Group. We use a 3% terminal growth (TG) rate for MIE to reflect what we believe is MIE's LT sustainable BOE production growth rate. We lowered our TG rate for MIE in November 2014 from 4% to 3% based on lower capex forecasts due to the decline in oil prices.

It has always been difficult to obtain insight from analyzing MIE's traditional valuations vs. global peers (Figure 4). DB does cover a half-dozen small cap E&P names out of the US and UK. Consistently however, these small cap E&P valuation metrics seem to be all over the board: 1) MIE is in good company with a "NM" (not meaningful) PE valuation for 2015, which does not provide much insight; and 2) MIE's 2015e EV/ EBITDA of 9.0x seems slightly expensive relative to average global peers' 7.0x.

The principal risks to our Hold rating on MIE include 1) higher / lower than anticipated oil prices; 2) higher / lower than anticipated debt prices; and 3) execution risk for the better or worse at SGE.

Figure 4: MIE – traditional valuations relative to global peers

Prices clo Compan y	23-Mar-15							P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE %		Net Debt / Equity
	Ticker	Currency	Price	Rating	Price Target	% to target	Mkt. Cap US\$bn	14F	15F	14F	15F	14F	15F	14F	15F	2015F
	Small Cap E&P:															
Premier O	PMO.L	GBP	149.6	Buy	230.00	53.7	1.14	NM	10.1	3.0	4.0	0.6	0.5	(10.5)	6.1	116.3
Concho R	CXO.N	USD	108.2	Buy	123.00	13.7	12.98	26.8	69.7	7.4	9.1	2.2	2.1	9.8	3.2	52.7
Cimarex E	XEC.N	USD	110.6	Buy	135.00	22.0	9.69	19.2	355.5	6.6	11.6	2.1	2.2	11.8	0.6	28.7
SM Energ	SM.N	USD	47.1	Hold	45.00	(4.4)	3.18	8.0	74.3	3.6	5.1	1.6	1.5	22.0	2.1	124.0
Whiting P	WLL.N	USD	39.0	Hold	38.00	(2.6)	6.52	9.6	19.2	5.0	7.2	1.2	1.4	13.3	(5.0)	145.4
Oasis Peti	OAS.N	USD	13.8	Hold	16.00	15.9	1.86	6.2	16.0	4.6	5.3	0.7	0.7	13.8	4.5	139.9
MIE	1555.HK	HKD	0.74	Hold	0.84	13.5	0.25	120.0	NM	3.8	9.0	0.48	0.48	0.6	(6.1)	98.4
Mean*								14.0	15.1	5.0	7.0	1.4	1.4	10.0	1.9	101.2
Median*								9.6	16.0	4.8	6.3	1.4	1.4	12.5	2.7	120.2
CNOOC L	0883.HK	HKD	10.5	Hold	11.03	4.6	60.7	7.4	24.9	3.4	5.1	1.0	1.0	14.1	4.0	21.4

Notes:- Numbers in **RED** are excluded from averages as outliers

Source: Bloomberg Finance LP; Deutsche Bank





Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
MIE Holdings Corp	1555.HK	0.74 (HKD) 20 Mar 15	1,7,14

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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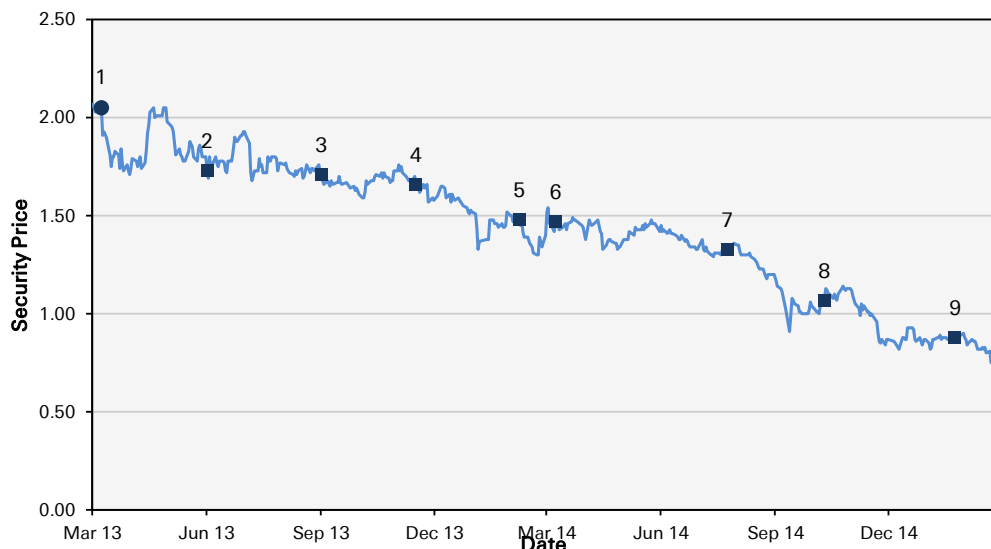
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Historical recommendations and target price: MIE Holdings Corp (1555.HK)
(as of 3/20/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	01/04/2013:	Downgrade to Hold, Target Price Change HKD2.15	6.	01/04/2014:	Hold, Target Price Change HKD1.46
2.	25/06/2013:	Hold, Target Price Change HKD2.00	7.	17/08/2014:	Hold, Target Price Change HKD1.38
3.	25/09/2013:	Hold, Target Price Change HKD1.95	8.	03/11/2014:	Hold, Target Price Change HKD1.18
4.	10/12/2013:	Hold, Target Price Change HKD1.77	9.	16/02/2015:	Hold, Target Price Change HKD0.84
5.	03/03/2014:	Hold, Target Price Change HKD1.57			

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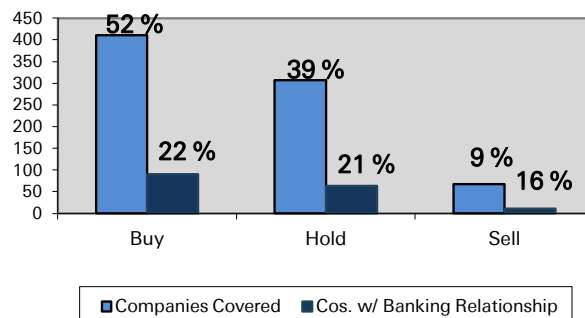
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