HongLeong Investment Bank

HLIB Research

PP 9484/12/2012 (031413)

Icon Offshore Berhad

IPO NOTE — June 4, 2014

INDUSTRY: OVERWEIGHT — IPO Price: RM1.85

Largest Pure Play OSV Provider

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Highlights

- **Robust local E&P activities drive OSV demand…** Despite softer global E&P spending, the ETP driven RM300bn capex to enhance exploration, EOR and marginal fields required a massive level of drilling activity which will drives demand for OSV. The recent award of 2 RSC contracts to Uzma and Vestigo also indicates the potential of more RSC contracts to roll out in the next 6 months.
- **Riding on asset localisation theme…** According to Infield System, only 56% of AHT/AHTS and 66% of PSV/SSVs currently operating in Malaysia are local flagged. We expect similar asset localization trend that is happening in the Jack up drilling rig segment being replicated in high end OSV in Malaysia.
- **Relative young fleet with higher utilisation…** Icon has a relative young AHT/AHTS fleet of average 5 years vs. SouthEast Asia's average of 7 years and global's average of 10 years. It also enjoys higher than average utilization rate for its AHT/AHTS and PSV/SSV vessels of 86% and 94% vs peers average of 65-82% and 74-75% respectively.
- **Growth story…** Net profit is expected to grow at strong pace with three years CAGR of 32% mainly driven by fleet expansion from 32 vessels in FY13 to 39 vessels in FY16, better margin capture as own vessels delivery has replaced forerunner vessel coupled with higher utilisation rate.
- **Strong balance sheet provides room for expansion…** There is still more room for additional vessel acquisition besides the current 6+1 vessels under construction as its net gearing remain manageable of 0.6x in FY14 and expect to further drop to 0.3x in FY16.
- **Low PEG ratio with PER falling to <11x in FY16…** The company is trading at 20x FY14 P/E and 14x FY15 P/E, premium as compared to its peers in OSV sector which averaged 13x FY14 P/E and 11x FY15 P/E respectively. However, after taking into account the strong earnings growth prospect, the company is trading at 0.5x FY14 PEG which is significant below its peers. We expect P/E to fall to <11x in FY16 and with our assumption of constant charter rate and no additional vessel acquisitions apart from the current 6+1 vessels under construction.

Catalysts

- Announcement to acquire more new OSVs given its strong balance sheet.
- Replacing low specification with high end specification vessels which will result in cost saving and higher utilisation rate.

Risks

- Global recession hitting O&G price; Technology advancement; relaxation of Petronas' domestic Policy.

Valuation

- We arrive fair value of RM2.08 based on 16x FY15 P/E or premium to peers' average target of 14-15x given its strong earnings growth prospect (three-year CAGR of 32%).

Share price

IPO Price (Retail)	**RM1.85**
Institutional	**RM1.80-1.85**

KLCI	1,872.5
Expected share price return	12.4%
Expected dividend return	0%
Expected total return	12.4%

Details of IPO

Offer for sale(m shares)	**510.8**
-MITI	135.4
-Cornerstone	275.0
-Other institutional	49.8
-Retail	50.6

Information

Bloomberg Ticker	ICON MK
Shares (m)	1,177
Market cap (RMm)	2,178

Major shareholders Post-IPO

Hallmark	38.6%
SFSB	2.4%
Dr.Jamal bin Yusof	5.0%
Rahman Bin Yusof	1.2%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E	2016E
Revenue	335	344	421	503
EBITDA	143	218	272	330
PATAMI	90	110	153	205
EPS (sen)	8	9	13	17
P/E (x)	24.3	19.8	14.3	10.6
BV /share	0.74	0.94	1.07	1.25
P/BV (x)	2.51	1.96	1.72	1.48
ROA (%)	5.7	4.9	6.1	7.5
ROE (%)	23.6	9.9	12.1	14.0

COMPANY BACKGROUND

Icon Offshore was incorporated in 2012 as a result of a strategic consolidation of two companies within Ekuinas' portfolio namely ICON Ship (formerly Tanjung Kapal Services Sdn Bhd) and the ICON Fleet Group (formerly Omni Petromaritime Sdn Bhd). Currently, Icon Offshore is the largest pure-play offshore support vessel (OSV) provider in Malaysia and one of the largest in Southeast Asia. It provides wide range of support services throughout the entire offshore oil and gas cycle from exploration and appraisal, field development, operation and maintenance and decommissioning (Refer Figure 1). In addition, the company also provide ship management services to third party vessel owners. There are 32 vessels in the current fleet with 6 vessels under construction and 1 in the final negotiation stage to construct.

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Figure 1: Overview of Group Business:

Offshore oil and gas project life cycle

OSV Deployment Opportunities	Exploration and appraisal	Field development	Operation and maintenance	Decommissioning
	➢ Appraisal wells commissioned to assess the potential of any discovery made during the exploration phase ➢ Flow rates assessment	➢ Pre-FEED[1] and FEED studies ➢ Detailed engineering ➢ Fabrication and procurement	➢ Enhanced oil recovery ➢ Brownfield development and injection wells ➢ Working over existing wells	➢ The decommissioning of end-of-field infrastructure ➢ Re-use/ recycle/ dispose
	OSVs used to support drilling units by performing positioning duties, towing them into place, handling anchors, performing supply runs	OSVs deployed to support installation vessels and the towing and positioning of infrastructure and perform supply runs as well as to provide safety standby and emergency rescue services	OSVs primarily used for support of production infrastructure, supply runs and transport of personnel as well as standby vessels	OSVs are equipped to provide support for removal of infrastructure
AHT/AHTS	√	√	√	√
SSV	√	√	√	√
UV	√	√	√	√
PSV	√	√	√	√

Source: Company, HLIB Research

Figure 2: Fleet Overview

	AHT/AHTS	SSV	UV	PSV	AWB	FCB
Current Fleet	24	4	2	1	1	0
Newbuilds	2	0	0	2	2	1
Average age (years)	4.8	7.5	7.5	1	1	0
Specifications	BHP:3200 to 8000	BHP:5110	BHP:3500	DWT:3500 tonnes	Accomodation: 200 pax	Passenger: 40 pax

Define:

AHT/AHTS: Anchor Handling Tug/Anchor Handling Tug Supply

SSV:Straight Supply Vessel

UV: Utility Vessel

PSV:Platform Supply Vessel

AWB: Accomodation work boat/barge

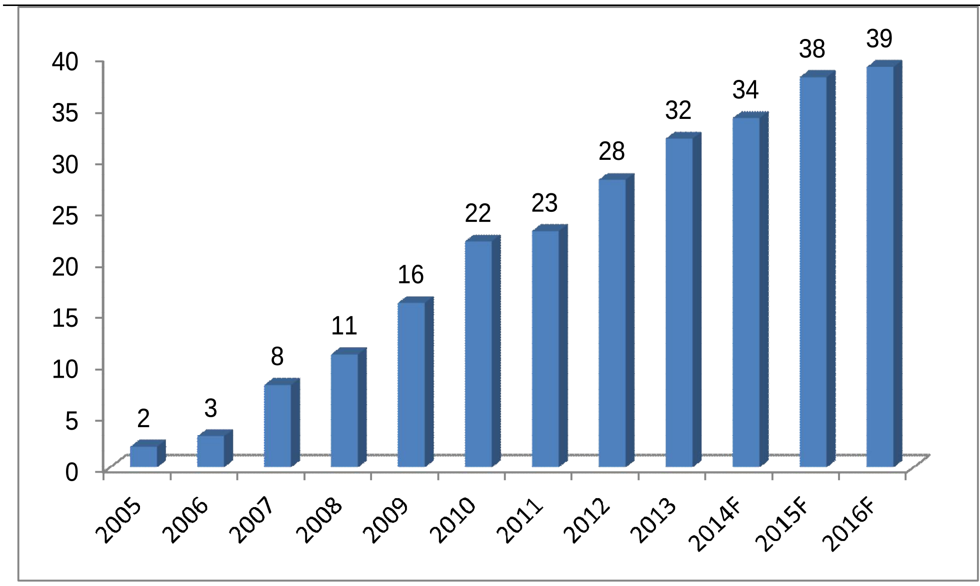
FCB:Fast Crew Boat

Source: Company, HLIB Research

Icon has relative young fleet with average age of 5 years as compared to Southeast Asia average of 11 years. Based on its fleet data, Icon is focusing on the shallow water with brake horsepower (BHP) range from 3200 to 8000 for its AHT and AHTS. However, going forward, Icon is also looking to move into deep water by adding 2 new AHTS with BHP higher than 10k and 2 PSV with 3500 DWT capacity.

Icon has relative young fleet with average age of 5 years as compared to Southeast Asia average of 11 years.

Figure 3: Icon's Fleet Growth



Source: Company, HLIB Research

Icon has grown from 2 to 32 vessels at CAGR of 41% over 8 years with further addition of 6+1 vessels over next 2 years. Refer to Figure 3, the future fleet expansion will be focused on the high power AHTS, PSV, AWB and FWB which are experiencing increasing demand in the market. In the recent OSV seminar 2014, Capt Hanipah Bachok from Petronas Carigali also mentioned there are lack of supply of fast crew boats in the market which is inline with Icon's strategy to joint venture with a Norwegian company to construct and supply of fast crew boats which are able to travel at faster spend as well as enable crew transfers between the boats and offshore platforms in a safer manner as compare to conventional crew boats.

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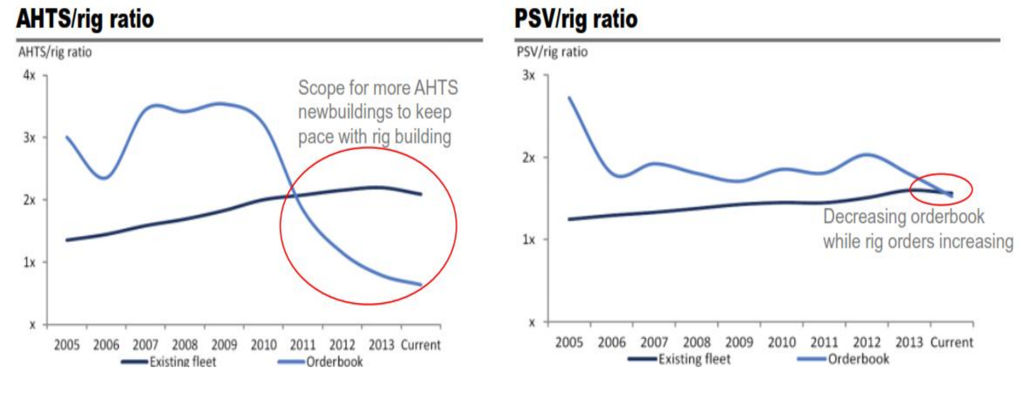
INVESTMENT THESIS:

Local E&P activities drive OSV demand

According to Pareto Securities, global exploration and production spending (E&P) growth is estimated to slow down to 1.7% in 2014 as compared to 9% growth in 2013 as E&P companies are focusing on the free cash flow given the concern on rising costs.

Figure 4: Global AHTS/PSV to Rig Ratio

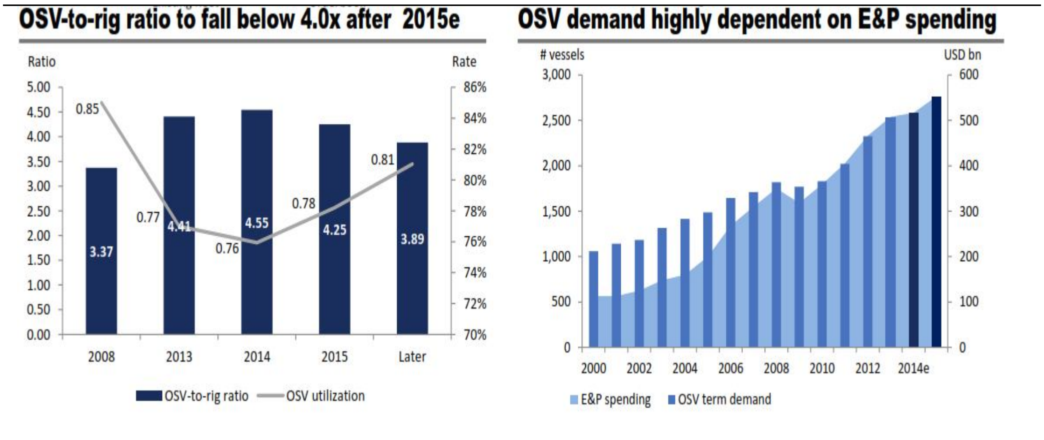


Source: Pareto Securities' Presentation in OSV Seminar Malaysia

The current global OSV orderbook are "in sync" with current rig order book which suggests well balance supply for future.

According to Pareto Securities, global OSV orders have not experienced the same order uplift compared to rig orders as OSV demand is very dependent on E&P spending and rig utilization rather than the actual rig count. As a result, the current global OSV orderbook are "in sync" with current rig order book which suggests well balance supply for future.

Figure 5: Low Global OSV to Rig Ratio and dependent on E&P Spending



Source: Pareto Securities' Presentation in OSV Seminar Malaysia

Despite softer global E&P spending, local E&P activities remain robust for next three years driven by Petronas' RM300bn capex plan to boost oil production.

Despite softer global E&P spending, local E&P activities remain robust for the next three years, driven by Petronas' RM300bn capex plan to boost oil production. We believe high level of local drilling activities will continue due to: i) flattening oil production; ii) expectation of Brent oil price to sustain above US$80; and iii) important measure for national energy security to offset the potential impact of high oil prices.

The ETP driven RM300bn capex to enhance exploration, EOR and marginal fields required massive level of drilling activities which will drive demand for OSV. The recent award of 2 RSC contracts to Uzma and Vestigo also indicates the potential of more RSC contracts to roll out in next 6 month (potential beneficiaries: Scomi Energy, SK Petro, Dialog, Uzma and Petra Energy) as there are 22 marginal oilfields identified to development. In addition, we also expect Shell's US$12bn Baram Delta EOR projects to in 2H14.

Figure 6: Malaysian AHTS Supply

DWT	Malaysia	Singapore	Antigua	Bahamas	Marshall Islands	China	Norway	Panama	Tuwalu	Vanuatu	Unknown
Unknown	7	4							1		1
<=8000	55	21			3			2		1	
8001-12000	8	5		1	4			2		2	
12001-16000	2	4				1					
>16000		2	1				1				
Total	**72**	**36**	**1**	**1**	**7**	**1**	**1**	**4**	**1**	**3**	**1**

Source: Icon's Prospectus

Figure 7: Malaysian PSV/SSV Supply

DWT	Malaysia	Singapore	Brunei	Indonesia	Marshall Islands	Panama	Unknown
Unknown	4			1			
<=1000	11	3	1		1		
1001-2000	19	4					
2001-3000		1					
3001-4000	1	2			1	1	1
>4000		2					
Total	**35**	**12**	**1**	**1**	**2**	**1**	**1**

Source: Icon's Prospectus

There are 181 OSVs identified as operational in Malaysia which consists of 128 AHTS and 53 PSV/SSVs. Icon is the largest player with 14% market share. Malaysia AHTS is skewed towards vessels with power outputs less than 8000BHP (~64% of total fleet) given the focus is on shallow water. However, increase in deepwater activities is likely to drive market for high end vessels in the future.

In term of vessels type analysis, supply for high power AHTS (>8000) and PSV (>3000) look tight for local flagged vessels. We expect future new build for local operator to focus on high end AHTS and PSV given increasing deepwater activities and shortage of local flag vessel. Demand for accommodation barge look promising given the increasing maintenance on aging oil platform and EOR activities. Icon has ordered 2 high end AHTS (10.9k BHP), 2 PSV (3.5k DWT) and 2 accommodation barge to cater for market demand.

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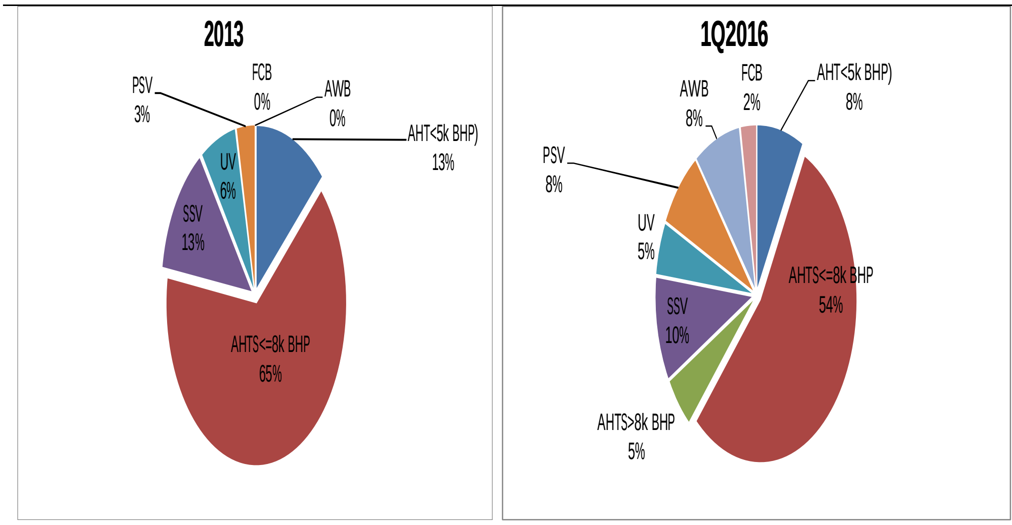
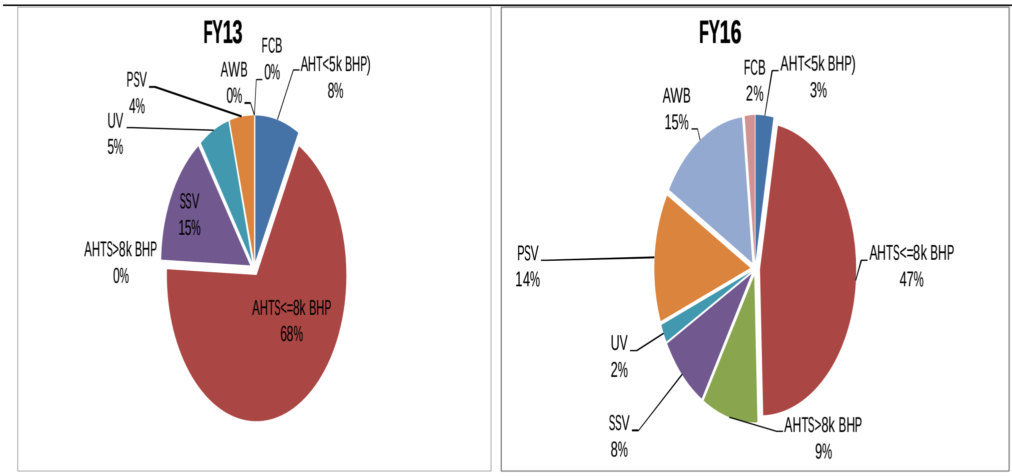
Demand for accommodation barge look promising given increasing maintenance on aging oil platform and EOR activities.

Figure 8: Icon's Fleet Breakdown



Source: Company, HLIB

Figure 9: Icon's Revenue Breakdown



Source: Company, HLIB

There are 32 vessels in Icon's current fleet with 6+1 vessels under construction (2 AHTS> 2 PSV, 2 AWB and 1 FWB). We applaud the company's strategy to build higher end AHTS and PSV, accommodation barge and fast crew boat to cater for market demand. In term of fleet breakdown (Refer Figure 8), high end AHTS, PSV, AWB and FCB will rise from 3% of total fleet in FY13 to 23% in 1Q16. The figure is more prominent in term of revenue breakdown which will rise from 4% in FY13 to 40% in FY16 (Refer Figure 9). In addition, we understand that the company plans to rejuvenate its fleet by targeting to dispose 5 low specification OSVs (3 AHT, 1 UV and 1 AHTS), which will further enhance its competitiveness.

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Asset Localisation

Cabotage policy which is used to protect domestic shipping industry has been adopted by the majority of member states of Asean. Besides Malaysia, Indonesia, Philippines, Myanmar, Thailand and Vietnam have applied restrictions on domestic shipping services. Foreign companies are appointing local agents or form joint ventures with local companies to participate in the bidding. Cabotage policy and Petronas license requirement have created a high barrier of entry for foreign OSV provides. According to Pareto Securities, Malaysia flagged OSV has grown 48% from 2011 to 2014 vs. 32% growth in foreign flagged vessels in Malaysia. We expect local flagged vessel growth will continue to outpace foreign flagged in the future. AHTS and PSV/SSV day rates in Malaysia are typically 6-15% higher than Southeast Asia's average due to the protection policy.

According to Pareto Securities, Malaysia flagged OSV has grown 48% from 2011 to 2014 vs 32% growth in foreign flagged vessels in Malaysia. We expect local flagged vessel growth continue to outpace foreign flagged in future.

According to Infield System, only 56% of AHT/AHTS and 66% of PSV/SSVs currently operating in Malaysia are local flagged. We expect similar asset localization trend that is happening in Jack up drilling rig segment to replicating in high end OSV in Malaysia. Refer figure 6 and 7, we notice the bulk of the internationally flagged vessels occupy the high end AHTS and PSV fleet suggesting an opportunity for domestic vessel operators. With domestic cabotage prioritizing local tonnage over international flagged, domestic operator like ICON has the potential to replace those vessels operating under international flags.

Relative Young Fleet with Higher Utilisation

Generally, younger vessels tend to achieve higher utilization than the conventional aging fleet due to better fuel consumptions and lower opex. Icon has a relative young AHT/AHTS fleet of average 5 years vs SouthEast Asia's average of 7 years and global's

Icon has a relative young AHT/AHTS fleet of average of 10 years (Refer Figure 10).

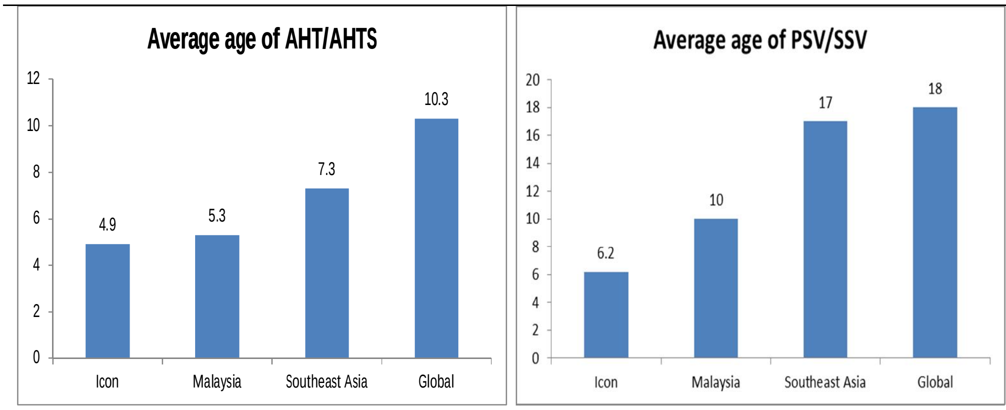
average 5 years vs. SouthEast Asia's average of 7 years and global's average of 10 years

Figure 10 : Major Operators' AHTS & PSV/SSV Fleet Overview

	No. of Vessels			Fleet Age			Power Capacity	
Operator	OSV	AHT/AHTS	PSV/SSV	OSV	AHT/AHTS	PSV/SSV	Avg. AHT/AHTS BHP	Avg. PSV/SSVs DWT
Bourbon	458	87	66	9.5	10.3	8.4	10,300	3,082
Tidewater	328	133	106	12	11.7	12.4	6,100	3,220
Seacor	189	18	16	11.5	10.8	12.3	10,120	2,283
POSH	110	34	10	6.5	5.4	3	10,021	3,107
Swire	101	82	12	7.5	7.5	7.5	8,508	4,010
COSL	75	29	4	8	7.9	8.7	9,543	2,975
EZRA	65	31	8	4.5	4.5	4.5	8,000	3,175
Swiber	62	27	0	4	4	N/A	5,721	N/A
P. Radiance	62	10	4	4	4.2	3.9	6,763	3,683
Hornbeck	61	2	49	10	13	9.9	6,100	3,197
B. Armada	61	19	25	6.5	6.3	6.7	5,116	3,300
Farstad	59	30	26	7.5	8.1	6.8	18,350	4,171
Solstad	50	22	9	12	13.2	9.1	15,835	4,492
A. Maritim	38	16	12	7	6.2	8	4,750	750
ICON	32	25	5	5.1	4.9	6.2	5,237	1,650
Jaya	28	20	2	4	4.3	1	7,298	5,344
Miclyn	22	11	3	4.5	5.6	0.5	5,681	2,000
Jasa Merin	17	14	3	4.8	4.1	8.0	7,700	1,600
Gulf Marine	16	12	4	10	8	16	8,950	2,200
CHO	15	15	0	8	8	N/A	8,462	N/A
Perdana	13	8	0	5	5	N/A	9,635	N/A
Perisai	9	5	0	8.5	8.5	N/A	7,796	N/A

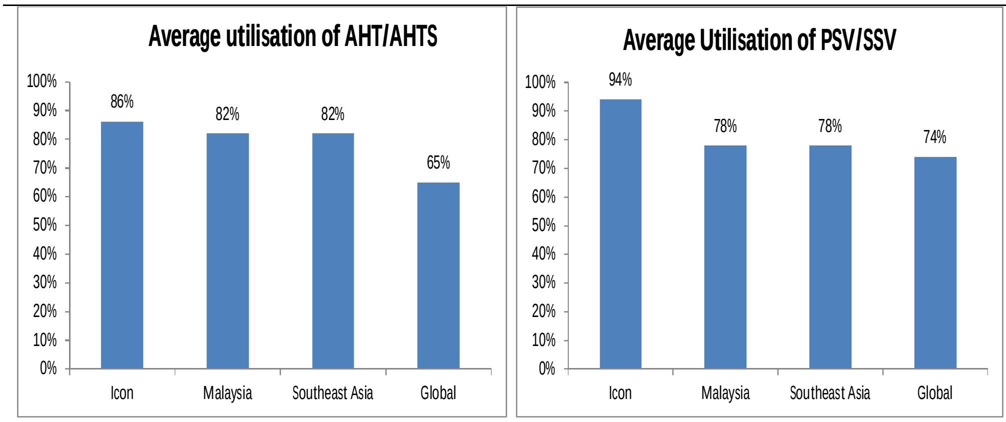
Source: Company, HLIB

Figure 10 : Average Age of Fleet Comparison



Source: Company, HLIB

Figure 11 : Average Utilisation of Fleet Comparison



Source: Company, HLIB

Icon also enjoys higher than average utilization rate for its AHT/AHTS and PSV/SSV vessels compare to its peer (Refer Figure 11). This is further supported by its RM779m orderbook with >90% comprising of long term contract. High utilsiation also partly contribute to its higher EBITDA margin (57%) vs. its peers.

Icon also enjoys higher than average utilization rate for its AHT/AHTS and PSV/SSV vessels compare to its peer.

Utilization of Proceeds

Majority of the IPO proceeds will be used for expansion of vessel fleet and repayment of borrowing. A total of RM166m (41% of total proceed) will be used to fund construction of four new vessels with capex of RM284m. Based on the respective interest rates of the debts, the repayment of advances from Hallmark and a portion of bank borrowing (Refer Figure 12) are expected to save approximately RM10.7m in terms of finance cost per annum.

Majority of the IPO proceeds will be used for expansion of vessel fleet and repayment of borrowing.

Figure 12: Utilisation of IPO Proceeds

Utilisation of IPO proceeds	**Timeframe**	**Amount (RM m)**	**%**
Expansion of vessel fleet	24 mths	166	41%
Repayment of bank borrowings	12 mths	124	30%
Repayment of advances from Hallmark	6 mths	54	13%
Working Capital	24 mths	43	10%
Estimated listing expenses	6 mths	23	6%
Total Gross Proceeds		**410**	**100%**

Company, HLIB

Financial Forecast

As of 28 Feb 14, total orderbook book stand at approximately RM770m, consisting 71% firm period contract and 29% optional extension contract. To note, 90% of firm contracts are long term tenure ofmore than 12 month, further enhancing its earning visibility.

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Figure 13: Contract Backlog

		Firm Period		Optional Period	
Owned Vessels	**Contract Period**	**Contract Expiry**	**Remaining Contract**	**Option Period**	**Potential Contract Sum**
AHT	360 days	2017	15.9		
AHTS	3 mths to 5 yrs	2014-2018	393.8	1 mth to 1yr	144.4
SSV	180 days to 5 yrs	2014-2018	92.7	180 days to 1 yrs	47.3
PSV/UV	90 days to 3 yrs	2014	16.6	60 days to 2 yrs	7.3
Subtotal			**519.0**		**199.0**
Third party vessels *	3 yrs	2015-2018	29.3	1 yrs	22.3
Total			**548.3**		**221.3**

* This represents the entire contract sum the company will only recognise the contract sum net of the charter in cost as revenue.

Company, HLIB

Figure 14: Fleet Expansion Program

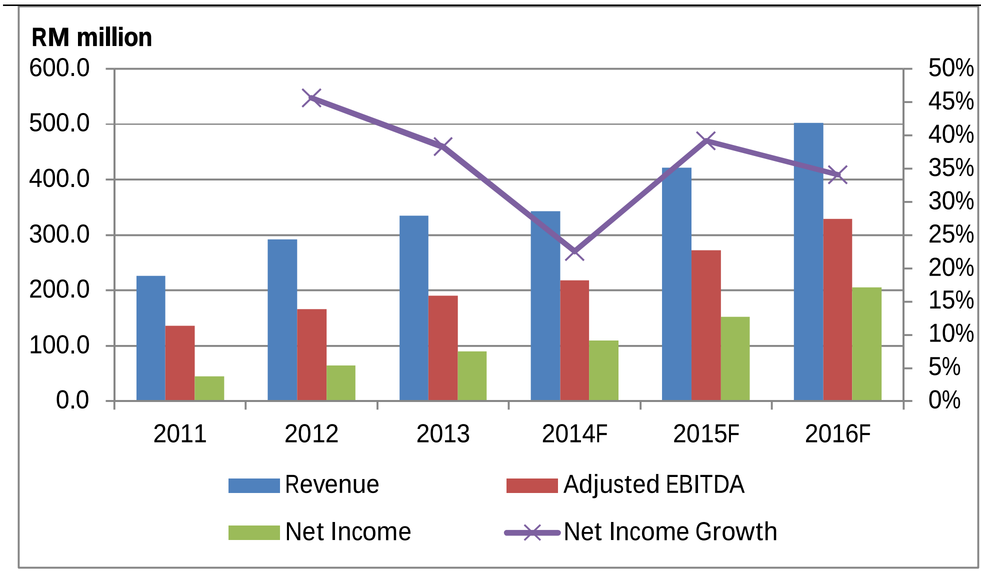
Year	No of new fleet	Vessel Type
2014	3	1 AWB, 1 PSV and 1 FCB
2015	4	2 AWB, 2 AHTS
2016	2	1 PSV

Company, HLIB

Icon has 32 vessels in its current fleet and expect to add another 6+1 vessels and disposal of 1AHT through 2014-1Q2016. Overall, there will be total 39 vessels operating in FY16.

Overall, there will be total 39 vessels operating in FY16.

Figure 15: Financial Figures from 2011-2016.



Company, HLIB

We have forecasted Icon's revenue to grow by CAGR of 14% from FY13 to FY16 mainly driven by fleet expansion from 32 vessels in FY13 to 39 vessels in FY16 partly offset by revenue discontinue from forerunner vessels. Delivery of high end OSVs (2 AHTS with BHP>10k, 2 PSV with DWT>3k and 2 AWB will also help to drive increase in group average charter rate. Net profit is expected to grow at stronger pace with CAGR of 37% from FY13 to FY16 as EBITDA margin is projected to improve from 57% to 65% in the same period due to better margin capture as own vessels delivery has replaced forerunner vessel coupled with higher utilisation rate.

Net profit expects to grow at stronger pace with CAGR of 37% from FY13 to FY16.

Our key assumptions are shown in Figure 16. We have not assumed any charter rate increase through 2014-2016 periods and there is still more room for additional vessel acquisition besides the current 7 vessels under construction as its net gearing remain manageable at 0.6x in FY14 and expected to further drop to 0.3x in FY16. Hence,

Net gearing remain manageable at 0.6x in FY14 and expected to further rising in charter rate and more aggressive OSVs acquisition plan will prompt us to raise our earnings forecast going forward.

further drop to 0.3x in FY16.

Figure 16: Forecast Assumption Summary

Revenue Breakdown (RM m)	FY14F	FY15F	FY16F
AHT<5k BHP)	14.6	14.6	14.6
AHTS<=8k BHP	227.1	227.1	227.1
AHTS>8k BHP	-	7.6	45.3
SSV	40.7	40.7	40.7
UV	9.7	9.7	9.7
PSV	25.2	50.4	69.4
AWB	12.2	49.0	73.4
FCB	-	8.3	8.3
Owned vessel	**329.6**	**407.4**	**488.6**
Forerunner vessels	-	-	-
Third party arrangement	3.0	3.0	3.0
Ship management fee	-	-	-
Others	11.0	11.0	11.0
Total revenue	**343.6**	**421.4**	**502.6**
Avg Daily Charter Rate (US$/day/vessel)			
AHT<5k BHP)	7,151	7,151	7,151
AHTS<=8k BHP	10,432	10,432	10,432
AHTS>8k BHP		21,860	21,860
SSV	9,607	9,607	9,607
UV	6,021	6,021	6,021
PSV	24,326	24,326	24,326
AWB	25,000	25,000	25,000
FCB		8,000	8,000
EBITDA Margin (%)	63.6%	64.6%	65.6%
USDMYR	3.2	3.2	3.2
Financial Ratio (%)			
Gross Gearing (x)	0.95	0.92	0.79
Net Gearing (x)	0.64	0.52	0.30

Company, HLIB

Risks

Global recession and oversupply could cause drop in oil price… A substantial prolonged drop in the price of oil will affect the level of drilling activities in the oil and gas sector which in turn would affect demand for Icon's products and services.

Technology advancement… Development in technology with requirement of higher safety standard (ex. DP2 or higher) for OSVs.

Relaxation of Petronas' domestic Policy… Giving the escalating costs in the upstream sector, relaxation of Petronas' domestic policy to induce more competition by attracting more foreign players could pose challenge to local O&G players like Icon.

Macondo-style incident in SEA… Any blowouts and explosions such as Macondo incident in Gulf of Mexico in April 2010 will cause severe damage and pollution to the environment which may result in substantially stricter government regulation towards oil and gas services providers.

Valuation

Figure 17: Peer comparison – OSV Providers

Company	Price (RM)	Mrk Cap (US$ m)	P/E (x) FY14	P/E (x) FY15	P/E (x) FY16	PEG (x) FY14	CAGR 14-16	P/B (x) FY14	ROE (%) FY14
OSV									
Pacific Radiance Ltd	1.22	705	10.2	9.2	8.1	0.8	12%	1.6	17.0
Ezra Holdings Ltd	1.09	846	16.4	11.8	10.1	0.6	27%	0.8	4.3
Jaya Holdings Ltd	0.80	492	13.6	12.1	9.5	0.7	19%	0.9	7.0
Perdana Petroleum Bhd	1.78	407	13.7	11.5	11.1	1.3	11%	2.1	15.6
Alam Maritim Resources	1.53	380	12.8	10.9	10.6	1.3	10%	1.8	14.3
Average			**13.3**	**11.1**	**9.9**	**0.9**			
Icon Offshore	**1.85**	**681**	**19.8**	**14.3**	**10.6**	**0.5**	**37%**	**2.0**	**9.9**

Bloomberg, HLIB

The company is trading at 20x FY14 P/E and 14x FY15 P/E, premium as compared to its peers in OSV sector which averaged 13x FY14 P/E and 11x FY15 P/E respectively. However, after take into account the strong earnings growth prospect, the company is trading at 0.5x FY14 PEG which is significant below its peers' average of 0.9x (Ref Fig 17).

The company is trading at 0.5 x FY14 PEG which is significant below its peers.

Icon is a high growth company with earning expected to expand at CAGR of 32% from 2013 to 2016. We expects P/E to fall to <11x in FY16 and with our assumption of constant charter rate and no additional vessel acquisitions apart from the current 6+1 vessels which under construction. Net gearing also remains at comfortable level (Figure 18) which signals room to expand further by acquire more revenue generating assets.

Hence, we arrive at fair value of RM2.08 based on 16x FY15 P/E (premium to its peer of average target of 14-15x given its strong earnings growth prospect (CAGR of 32% from FY13-FY16).

Fair value of RM2.08 based on 16x FY15 P/E.

We expects P/E to fall to <11x in FY16 and with our assumption of constant charter rate and no additional vessel acquisition apart from the current 6+1 vessels which under construction.

Figure 18: Growth Story - PER expects to fall from 19x in FY14F to <11x in FY16F.

	FY13	FY14F	FY15F	FY16F
No of vessels	32	34	38	39
PER		19.8	14.3	10.6
Earnings growth (%)		23%	39%	34%
Net gearing (x)		0.64	0.52	0.30

HLIB

Figure 19: PER and PEG Comparison for Malaysia Oil and Gas Companies

Company	Price (RM)	Mrk Cap (US$ m)	P/E (x) FY14	P/E (x) FY15	P/E (x) FY16	PEG (x) FY14	CAGR 14-16	P/B (x) FY14	ROE (%) FY14
Large Cap									
Petronas Chemicals Grou	6.74	16,721	15.1	14.0	12.7	1.7	9%	2.3	15.4
Petronas Dagangan Bhd	25.24	7,776	29.0	24.9	26.0	5.2	6%	4.9	18.1
Sapurakencana Petroleu	4.17	7,749	16.7	14.8	13.4	1.4	12%	2.2	13.9
Bumi Armada Berhad	3.52	3,201	20.0	16.7	14.7	1.2	17%	2.1	11.8
Malaysia Marine And Hea	3.80	1,885	26.4	19.9	18.5	1.4	19%	2.3	9.0
Dialog Group Bhd	3.66	2,761	39.4	30.8	24.4	1.5	27%	6.1	16.6
UMW O&G	4.02	2,695	32.7	21.5	19.1	1.1	31%	3.5	9.9
Average			**25.6**	**20.4**	**18.4**	**1.9**		**3.3**	**13.5**
Mid to Small Cap									
Shell Refining Co (F.O.M.	5.93	552	-	-	-			1.1	(3.5)
Barakah Offshore Petrole	1.61	313	19.9	12.4	10.7	0.6	36%	4.5	24.8
Dayang Enterprise Hldgs	3.72	951	14.6	13.1	12.8	2.2	7%	3.4	26.7
Wah Seong Corp Bhd	1.91	459	13.6	13.6	11.9	2.0	7%	1.4	10.7
Perisai Petroleum Tekno	1.61	595	25.2	12.8	10.4	0.5	56%	1.9	7.2
Coastal Contracts Bhd	4.94	814	13.7	12.0	10.5	1.0	14%	1.8	16.1
Scomi Energy Services	1.05	762	-	-	-			3.4	-
Petron Malaysia Refining	3.18	266	-	-	-			1.0	(1.3)
Perdana Petroleum Bhd	1.78	407	13.7	11.5	11.1	1.3	11%	2.1	15.6
Alam Maritim Resources	1.53	380	12.8	10.9	10.6	1.3	10%	1.8	14.3
Knm Group Bhd	0.75	373	-	-	-			0.5	2.1
Hibiscus Petroleum Bhd	1.58	270	-	-	-			2.7	(1.8)
Yinson Holdings Bhd	5.18	830	15.0	13.0	12.0	1.3	12%	2.0	16.8
Boustead Heavy Industr	2.50	193	12.5	10.4	-			1.9	17.2
Petra Energy Bhd	2.73	272	26.5	17.1	14.4	0.7	36%	1.7	7.0
Favelle Favco Bhd	3.48	232	-	-	-			2.0	17.2
Th Heavy Engineering Bh	0.89	280	21.6	10.8	9.1	0.4	54%	2.3	12.1
Pantech Group Holdings I	1.01	178	10.2	8.9	8.4	1.0	10%	1.1	13.4
Cliq Energy Bhd	0.65	127	-	-	-			-	(0.8)
Deleum Berhad	6.02	280	-	-	-			4.0	22.6
Uzma Bhd	6.00	246	17.0	14.5	13.0	1.2	14%	3.9	27.8
Daya Materials Bhd	0.32	138	9.4	7.8	7.1	0.6	15%	1.6	16.9
Apb Resources Bhd	1.14	39	-	-	-			0.7	7.7
Tanjung Offshore Bhd	0.59	67	-	-	-			1.1	1.4
Tas Offshore Bhd	1.35	74	-	-	-			1.4	15.6
Handal Resources Bhd	0.44	22	13.6	-	-			0.7	5.0
Average			**15.9**	**12.1**	**10.9**	**1.1**		**2.0**	**11.6**
Icon Offshore	**1.85**	**681**	**19.8**	**14.3**	**10.6**	**0.5**	**37%**	**2.0**	**9.9**

Source: HLIB and Bloomberg

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue	**292**	**335**	**344**	**421**	**503**
Operating cost	-128	-191	-125	-149	-173
EBITDA	**164**	**143**	**218**	**272**	**330**
D&A	-57	-68	-55	-65	-66
Net Interest	-54	-58	-50	-50	-52
Associates	-	-	-	-	-
Jointly controlled entities	-	-	-	-	-
Exceptionals	-	-	-	-	-
Pretax profit	**52**	**18**	**113**	**158**	**211**
Taxation	**(15)**	**96**	**(3)**	**(5)**	**(6)**
Minority Interest	-	-	-	-	-
PATAMI	**38**	**114**	**110**	**153**	**205**
Core Earning	**65**	**90**	**110**	**153**	**205**
Basic shares (m)	1,177	1,177	1,177	1,177	1,177
Basic EPS (sen)	**5.5**	**7.6**	**9.3**	**13.0**	**17.4**

Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
EBIT	106	75	163	207	263
D&A	57	68	55	65	66
Working capital change	(30)	2	31	(5)	(5)
Taxation	(15)	96	(3)	(5)	(6)
Others	(102)	51	(50)	(50)	(52)
Operating cashflow	**30**	**192**	**197**	**212**	**266**
Capex & acquisitions	-62	-275	-420	-159	-50
Free cashflow	**-32**	**-82**	**-223**	**53**	**215**
Others	**-222**	**60**	**0**	**0**	**0**
Investing cashflow	-285	-215	-420	-159	-50
Equity Raised	0	0	410	0	0
Others	0	0	0	0	0
Net Borrowing	0	0	-97	100	0
Financing cashflow	**301**	**16**	**523**	**100**	**0**
Net cashflow	**46**	**(7)**	**300**	**153**	**215**

Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Fixed assets	1,037	1,204	1,568	1,663	1,647
Other long-term assets	255	237	237	237	237
Other short-term assets	0	0	0	0	0
Working capital	**180**	**122**	**158**	**194**	**231**
Receivables	122	87	89	109	130
Payables	57	34	68	83	99
Inventory	0	1	1	2	2
Net cash / (debt)	**-1,024**	**-1,109**	**-711**	**-658**	**-443**
Cash	54	47	347	500	716
ST debt	189	455	123	123	123
LT debt	889	701	935	1,035	1,035
Shareholders' funds	**266**	**379**	**1,110**	**1,263**	**1,467**
Share capital	258	258	589	589	589
Reserves	8	122	521	674	879
Minorities	-	-	-	-	-
Other liabilities	182	74	142	172	204

Valuation ratios

	2012A	2013A	2014E	2015E	2016E
Net DPS (sen)	0.00	0.00	0.00	0.00	1.00
FCF/ share (sen)	-2.73	-6.98	-18.97	4.50	18.30
FCF yield (%)	-1.5%	-3.8%	-10.3%	2.4%	9.9%
Market capitalization (m	2,178	2,178	2,178	2,178	2,178
Net cash (m)	-1,024	-1,109	-711	-658	-443
Enterprise value	3,201	3,286	2,889	2,836	2,621
EV/ EBITDA (x)	19.6	22.9	13.2	10.4	8.0

Growth margins ratios

Growth (%)	2012A	2013A	2014E	2015E	2016E
Sales Growth	28.8	14.8	2.6	22.6	19.3
Operating expenses	41.4	49.5	-34.6	19.3	15.9
EBITDA Growth	20.4	-12.3	52.3	24.5	21.1
PBT Growth	103.4	-66.4	544.8	39.2	34.1
PATMI	45.6	38.3	22.5	39.2	34.1
Basic EPS Growth	45.6	38.3	22.5	39.2	34.1

Summary Earnings Table

	2012A	2013A	2014E	2015E	2016E
Revenue	292	335	344	421	503
EBITDA	164	143	218	272	330
Net profit	65	90	110	153	205
P/E (x)	33.6	24.3	19.8	14.3	10.6
BV/ share	0.5	0.7	0.9	1.1	1.2
P/BV (x)	3.6	2.5	2.0	1.7	1.5
ROA (%)	4.4	5.7	4.9	6.1	7.5
ROE (%)	24.4	23.6	9.9	12.1	14.0

Margins (%)	2012A	2013A	2014E	2015E	2016E
EBITDA Margin	56.1	42.8	63.6	64.6	65.6
PBT Margin	17.9	5.2	32.9	37.4	42.0
PATMI	22.2	26.8	32.0	36.3	40.8

Disclaimer

1. As of 4 June 2014, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 4 June 2014, the analysts, Jason Tan Yat Teng who prepared this report, has interest in the following securities covered in this report:
(a) -.

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.