

7 September 2022

Industrials | Shipbuilding

## Coastal Contracts (COCO MK)

### Buy (Maintained)

### Expecting Another Stellar Year; Stay BUY

- BUY, new MYR2.40 TP from MYR2.35, 26% upside.** Post yesterday's briefing where its net zero roadmap was unveiled, we upgrade the ESG score to 3.0 from 2.9. We continue to like Coastal Contracts for its recurring income business model post its pivot into gas processing, alongside potential upsides from more project wins. We should also see FY23 (Jun) earnings growth on the completion and commissioning of the Papan plant.
- ESG roadmap.** Coastal has unveiled its sustainability goals to reach net zero by 2050. The group is focusing on investments into production-related infrastructure projects, with a preference for natural gas – it is a cleaner energy source with lesser greenhouse gas emissions. Coastal is also establishing a medium- to long-term plan for diversification into the renewable energy sector.
- Potential contract extensions.** Management is optimistic on possible extensions for contracts due to expire in 2024. The firm period for the jack-up gas compression service unit (JUGCSU) is until Feb 2024. The group is looking to seal a first extension of up to three years and possible subsequent extensions of up to 5-7 years on the basis of the JUGCSU being a key asset for Pemex's oil enhancement recovery process. The contract for the Perdiz plant is also expected to extend at a minimum of three years following the Ixachi field's forecasted gas production peak level (c.1,100mmscfd), which is projected to be in 2026-2028. Meanwhile, the Teras Conquest 7 vessel recently obtained an extension for a firm period of two years with two years annual extension options.
- Papan plant progress.** Commissioning for the plant is projected to start in 2QFY23, with the overall construction progress at 83% (permanent primary infrastructure at 74% and plant at 87%). As of FY22, Coastal has billed in USD18.2m for the permanent primary infrastructure – the remaining c.USD201.8m will be billed in FY23. All payments are expected to be received by 3QFY23, which should ease the group's gearing.
- JV prospects.** Coastal is tendering for an oil processing plant project, which could be awarded in 4QCY22. For the third Ixachi gas conditioning plant, tendering is believed to be open at either end 2022 or early next year. Other longer-term projects include a gas dehydration plant and gas storage project. We believe there is a good chance for Coastal's JV company to win these projects, given its track record with Pemex.
- Stay BUY.** We maintain our earnings estimates, but lift TP to MYR2.40 (pegged to an unchanged 9x FY23F P/E, at its 5-year mean) as we ascribe a 0% ESG premium/discount. Given that the group now has a net zero roadmap, its new ESG score of 3.0 (2.9 previously) stands at the country median, based on our proprietary methodology. Key risks to our call include contract termination by Pemex, slower-than-expected progress billings, and higher-than-expected operating costs.

Target Price (Return):	MYR2.40 (25.7%)
Price (Market Cap):	MYR1.91 (USD224m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	0.89m/0.20m

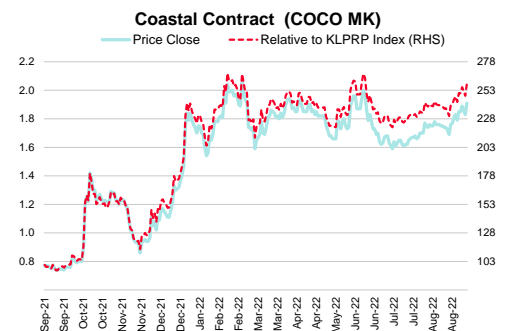
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	39.4	9.1	2.1	9.8	148.1
Relative	47.0	7.4	6.5	19.1	158.7
52-wk Price low/high (MYR)	0.74 – 2.06				



Source: Bloomberg

#### Overall ESG Score: 3.00 (out of 4)

##### E: MODERATE

One of Coastal's initiatives to minimise greenhouse gas footprint is to switch to more environmentally friendly alternatives by sourcing from suppliers' fuel-efficient marine engines that comply with the nitrogen oxide emission level requirements set by the governing International Maritime Organisation (IMO). However, we do note that the Group does not disclose its GHG emissions.

##### S: EXCELLENT

Efforts on employee relations, health & safety, and community engagement are well-organised, with good disclosure. Coastal strives to provide equal opportunity employment through its recruitment programmes. The group is also involved in the local community where it made monetary donations to Taiwan Buddhist Tzu-Chi Foundation Malaysia.

##### G: GOOD

Board characteristics are within the requirements stipulated by Bursa Malaysia with half of the board consists of independent directors. However, there is no female representation on the board. Coastal provides clear, timely and reliable information that is compliant with Malaysia's regulatory framework. Shareholder rights are well protected.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	162	239	234	219	208
Recurring net profit (MYRm)	47	126	140	121	122
Recurring net profit growth (%)	(17.3)	170.4	11.3	(14.0)	1.0
Recurring P/E (x)	21.52	7.96	7.15	8.31	8.23
P/B (x)	0.9	0.7	0.7	0.6	0.6
P/CF (x)	8.74	12.32	7.02	7.57	8.70
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	5.75	4.08	3.29	2.75	2.28
Return on average equity (%)	3.0	14.7	9.8	7.7	5.9
Net debt to equity (%)	net cash	16.2	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.09	0.24	0.27	0.23	0.23
Industrials	BVPS	2.10	2.59	2.85	3.08	3.32
<b>Coastal Contracts</b>	Return on average equity (%)	3.0	14.7	9.8	7.7	5.9
COCO MK / 5,071						
Buy						
	<b>Valuation metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Recurring P/E (x)	21.52	7.96	7.15	8.31	8.23
	P/B (x)	0.9	0.7	0.7	0.6	0.6
	FCF Yield (%)	(6.2)	4.5	13.2	12.2	10.5
	EV/EBITDA (x)	5.75	4.08	3.29	2.75	2.28
	EV/EBIT (x)	14.41	6.28	5.96	5.02	4.52
	<b>Income statement (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Total turnover	162	239	234	219	208
	Gross profit	50	94	94	88	81
	EBITDA	140	273	217	189	152
	Depreciation and amortisation	(84)	(96)	(97)	(85)	(75)
	Operating profit	56	177	120	104	77
	Net interest	(3)	(15)	8	14	14
	Pre-tax profit	52	215	199	166	140
	Taxation	(19)	(30)	(56)	(45)	(40)
	Reported net profit	32	181	140	121	99
	Recurring net profit	47	126	140	121	122
	<b>Cash flow (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Change in working capital	(0)	178	(7)	(3)	(13)
	Cash flow from operations	115	81	143	132	115
	Capex	(177)	(36)	(10)	(10)	(10)
	Cash flow from investing activities	(30)	(399)	10	13	11
	Cash flow from financing activities	(179)	356	80	(80)	(80)
	Cash at beginning of period	264	164	223	456	521
	Net change in cash	(94)	38	233	65	46
	Ending balance cash	164	223	456	521	567
	<b>Balance sheet (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Total cash and equivalents	275	239	471	537	583
	Tangible fixed assets	774	715	628	552	487
	Total investments	15	113	184	233	282
	Total assets	1,396	2,015	2,064	2,094	2,116
	Short-term debt	43	344	269	209	149
	Total long-term debt	49	116	91	71	50
	Total liabilities	291	653	560	468	367
	Total equity	1,105	1,361	1,504	1,626	1,749
	Total liabilities & equity	1,396	2,015	2,064	2,094	2,116
	<b>Key metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Revenue growth (%)	(23.5)	47.9	(2.1)	(6.3)	(5.2)
	Recurrent EPS growth (%)	(17.3)	170.4	11.3	(14.0)	1.0
	Gross margin (%)	31.0	39.3	40.2	40.1	39.0
	Operating EBITDA margin (%)	86.7	114.3	92.7	86.2	73.1
	Net profit margin (%)	20.0	75.8	59.9	55.0	47.5
	Capex/sales (%)	109.6	15.2	4.3	4.6	4.8
	Interest cover (x)	8.48	11.69	10.09	11.24	11.65

Source: Company data, RHB

## Recommendation Chart

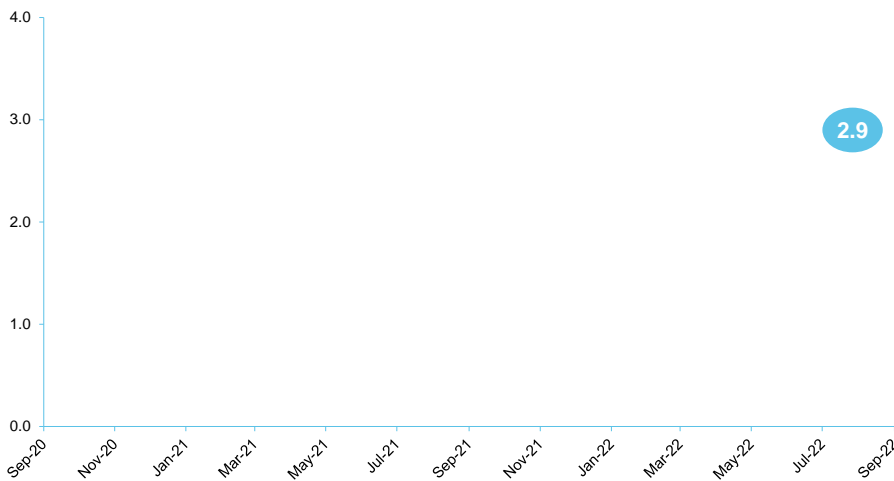


Date	Recommendation	Target Price	Price
2022-09-01	Buy	2.35	1.89
2022-08-01	Buy	2.14	1.77

Source: RHB, Bloomberg

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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-	-

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