7 April 2014

Offshore & Marine Sector

Offshore sector turning less positive

SINGAPORE | OFFSHORE MARINE | SEASON UPDATE

Sector overview

The Offshore & Marine (O&M) Sector under our coverage consists of Keppel Corp, Sembcorp Marine, Ezion Holdings and Ezra Holdings. Keppel Corp is a conglomerate that also has property and infrastructure divisions whilst Sembcorp Marine, Ezion and Ezra are pure plays to the O&M sector.

- **E&P spending growth showing sign of slowdown.** Global E&P spending is expected to see a lower growth rate in 2014, as oil companies focus on cutting costs and maximizing returns. Spending plans and budget announcements made so far point to ~4% growth YoY, and there could be some downside to this figure if Brent oil prices remain flattish or slightly lower than US$107/bbl, in our view.

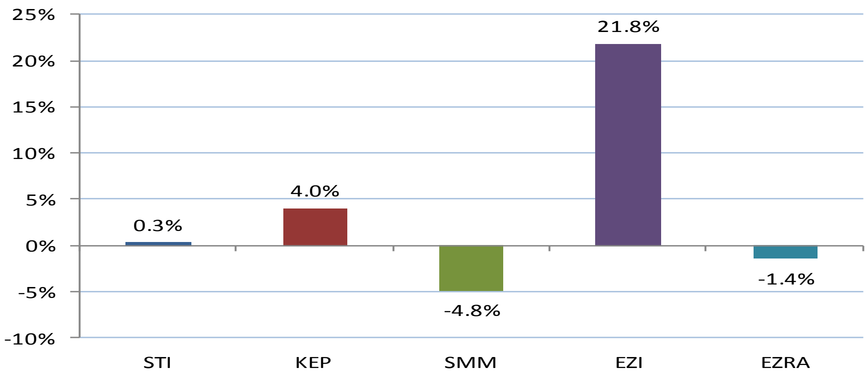
- **Deepwater dayrates trending down on oversupply.** It has become more obvious that the deepwater rig market is oversupplied for 2014 and 2015. Despite high utilization rate, deepwater dayrates have started to trend lower since late 2013. Of the 56 floaters scheduled for delivery by 2015, 31 are still uncontracted.

- **Jack-up rig market remains robust, but supply is increasing as well.** On the shallow-water side, dayrates and utilization remains high, indicating steady demand for jack-up rigs. However, we are concern with the supply side of the equition as new rigs continue to be delivered over the next two years. In fact, there are at least 80 jack-up rigs to be delivered by 2015, but ~70 remain uncontracted currently.

- **Replacement cycle unlikely with high utilization.** It has been widely perceived that aging rigs face higher risk of displacement as customer favors newer rigs with higher specification and greater reliability. Currently, ~46% of global jack-up fleet and ~29% of global floaters are above 30 years old. However, our analysis on rig replacement rate shows that older units are likely to be removed from an active fleet in substantial amount only in a downbeat market environment. With current rig utilization still above 90%, we do not expect replacement cycle to kick in any time soon, unless we see a sharp drop in utilization.

- **Be selective;** we prefer ***Ezion***. We see limited positive catalysts within the offshore sector, given the current trend in market fundamentals. We remain selective and prefer counters which still provide good value, and visible earnings growth. At these levels, we are still Accumulate on Ezion and reiterate our Neutral on ***Ezra***. We downgrade ***Keppel*** and ***Sembcorp Marine*** to Neutral and Reduce respectively, and see the most downside potential in the latter.

Figure 1: 1 year total return for the sector



Source: Bloomberg, Phillip Securities Research

Offshore & Marine Sector

Company	Rating	Price (S$)	TP (S$)	M.Cap. (S$mn)
Rig builder				
Keppel Corp	Neutral	10.93	11.35	19,833
Sembcorp Marine	Reduce	4.03	3.70	8,419
Small/mid cap				
Ezion Holdings	Accumulate	2.14	2.57	2,575
Ezra Holdings	Neutral	1.07	1.18	1,047

Source: Bloomberg, Phillip Securities Research

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E&P spending growth shows strong sign of slowdown

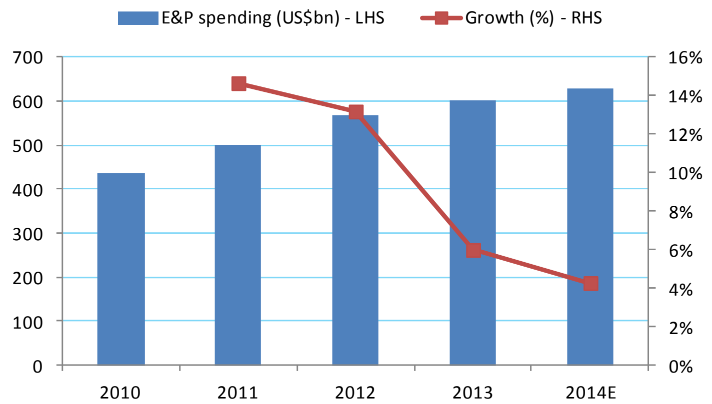
Global E&P spending is expected to see a lower growth rate in 2014, as oil companies focus on cutting costs and maximizing shareholders' returns. Spending plans and budget announcements made so far point to ~4% growth YoY, and there could be some downside to this figure if Brent oil prices remain flattish or slightly lower than US$107/bbl. According to forecast of DNB Markets, global E&P spending is expected to grow by 4% in 2014, which would be the first time in four years with low single digit growth. In addition, offshore E&P spending is forecasted to grow by only 1% in 2014, compared to spending growth CAGR of 18% from 2010 to 2013.

Figure 2: Relevant 2014 spending announcements to date

Type	Company	2012E (US$bn)	2013E (US$bn)	2014E (US$bn)	Δ 2013	Δ 2014
Major	Chevron	30.4	35.4	35.8	16%	1%
Major	ExxonMobil	33.1	32.9	32.0	-1%	-3%
Major	Petrobras	22.0	27.6	27.3	25%	-1%
Major	Total	19.6	22.4	22.5	14%	1%
Major	BP	18.5	19.1	19.6	3%	3%
Major	ConocoPhillips	14.2	15.8	16.7	11%	6%
NOC	Pemex	21.0	21.3	22.7	1%	7%
NOC	CNOOC	10.0	14.8	18.7	48%	27%
NOC	PTTEP	2.9	3.1	3.5	7%	14%
Ind	Hess	8.1	6.2	5.8	-25%	-6%
Ind	Marathon	5.1	5.0	5.5	-4%	11%
Ind	Noble Energy	3.6	4.3	4.8	19%	13%
Ind	Canadian NR	4.4	4.2	4.5	-7%	8%
Ind	Husky	4.1	4.3	4.0	4%	-6%
Ind	Santos	3.4	4.4	3.5	30%	-20%
Ind	Cenovus Energy	3.5	3.3	3.0	-7%	-8%
Ind	Encana	3.5	2.7	2.5	-24%	-6%
Ind	Pacific Rubiales	1.8	0.9	2.2	-52%	156%
Ind	Lundin	0.9	1.7	2.1	95%	23%
Majors & NOCs average		**172**	**192**	**199**	**12%**	**4%**
Total		**210**	**229**	**237**	**9%**	**4%**

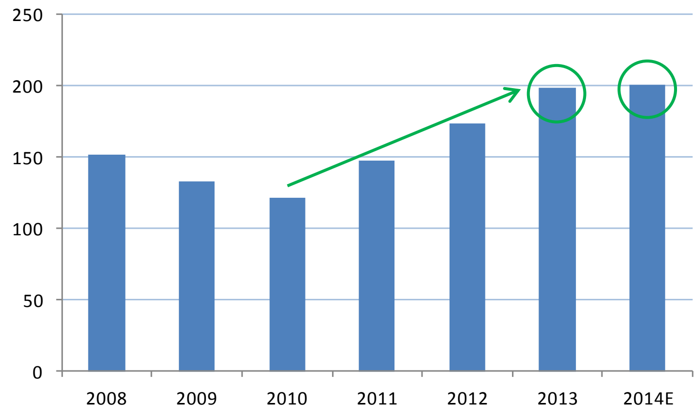
Source: Companies, Phillip Securities Research

Figure 3: Global E&P spending forecast (US$bn) – Lower E&P spending growth going forward



Source: DNB Markets, Phillip Securities Research

Figure 4: Offshore E&P spending forecast (US$bn) – Flattish offshore spending growth in 2014

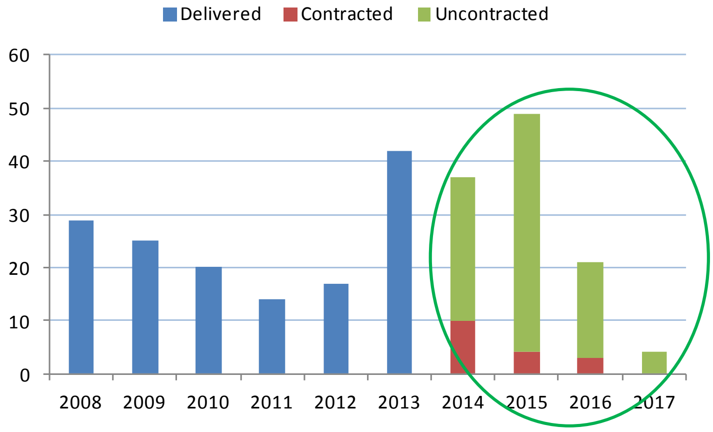


Source: DNB Markets, IHS Petrodata, Phillip Securities Research

Fleet growth continues

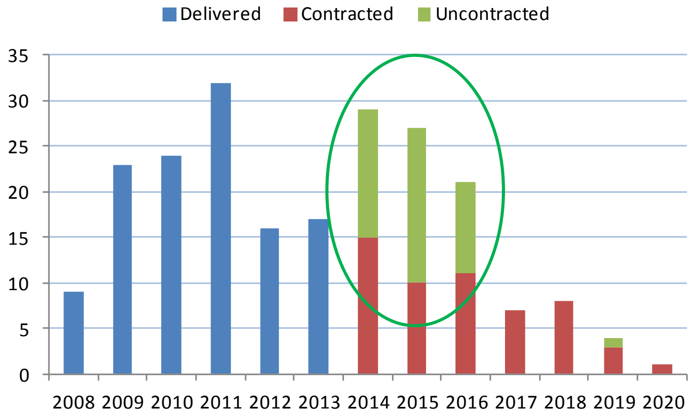
We are now in the midst of the delivery boom for both jack-ups and floaters (semi-subs and drillships). The jack-up fleet will grow over 20% when we factored into all the newbuilds (currently ordered) which are coming into service in 2014 or later (compared to rig count at the end of 2013), while the floater fleet is expected to grow over 30% over the current newbuild cycle. Attractive yard prices through 2011 and 2012 had driven newbuild order appetite – we expect to see total rig deliveries (both jack-ups and floaters combine) for 2014 and 2015 to peak for the first time since the early 1980s.

Figure 5: Global jack-up deliveries and contract status



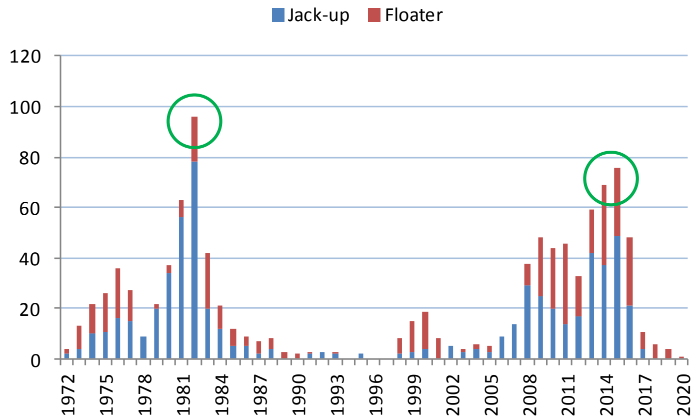
Source: Riglogix, Phillip Securities Research

Figure 6: Global floater (semi-sub and drillship) deliveries and contract status



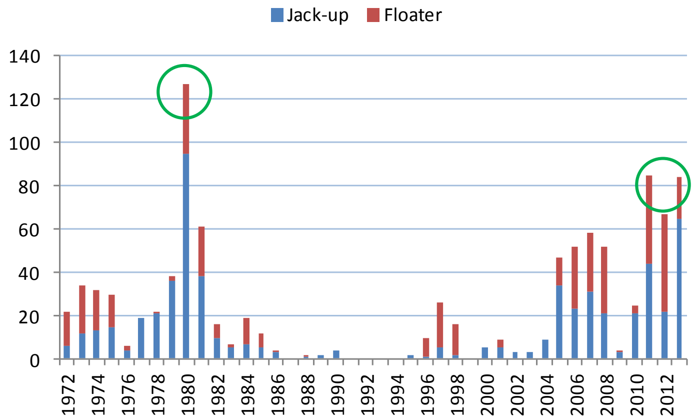
Source: Riglogix, Phillip Securities Research

Figure 7: Global rig deliveries



Source: Riglogix, Phillip Securities Research

Figure 8: Global rig orders

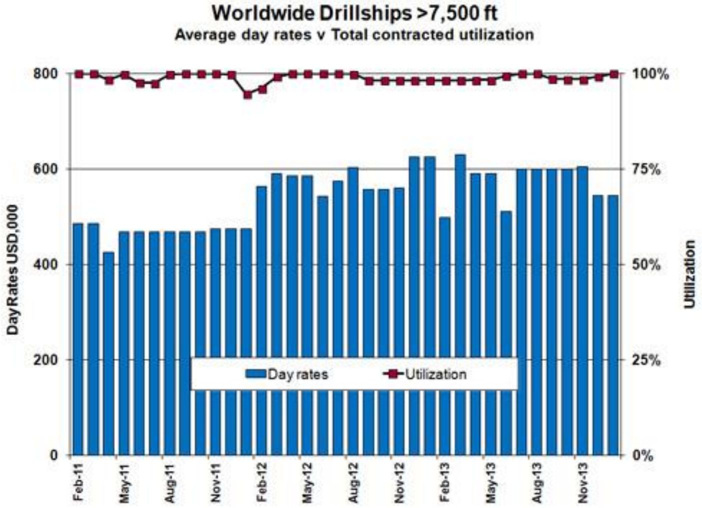


Source: Riglogix, Phillip Securities Research

Deepwater dayrates trending down on oversupply

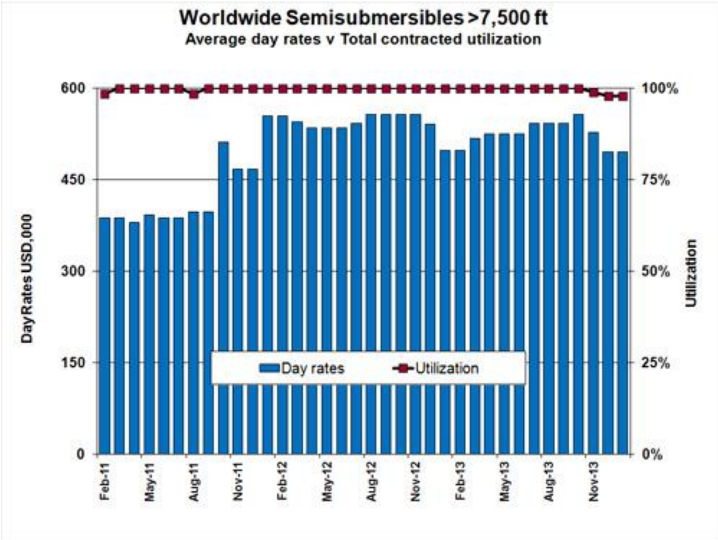
It has become more obvious that the deepwater rig market is oversupplied for 2014 and 2015. Of the 56 floaters scheduled for delivery by 2015, 31 are still uncontracted. Despite high utilization rate, deepwater dayrates have started to trend lower since late 2013, and we see this as an early sign that offshore drillers are prioritizing utilization over rates. With more deepwater rigs coming into the market over the next two years, we believe more newbuilds will struggle to find work and expect deepwater dayrates to continue trending down going forward.

Figure 9: Dayrates and utilization for global drillships



Source: IHS Petrodata

Figure 10: Dayrates and utilization for global semi-subs

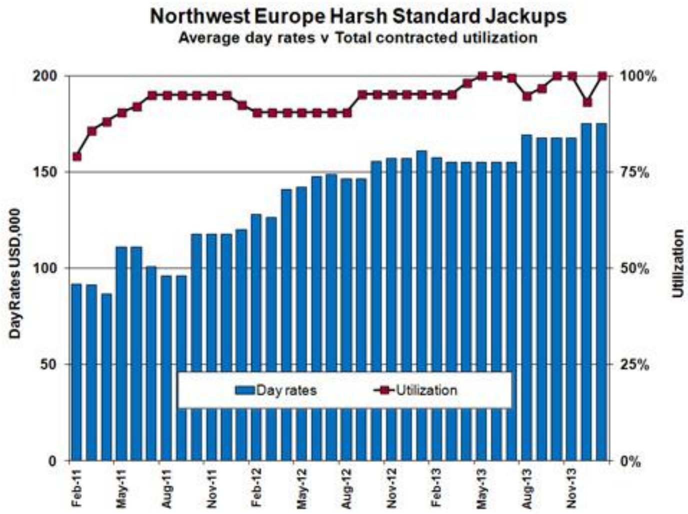


Source: IHS Petrodata

Steady jack-up rig market, but supply is increasing

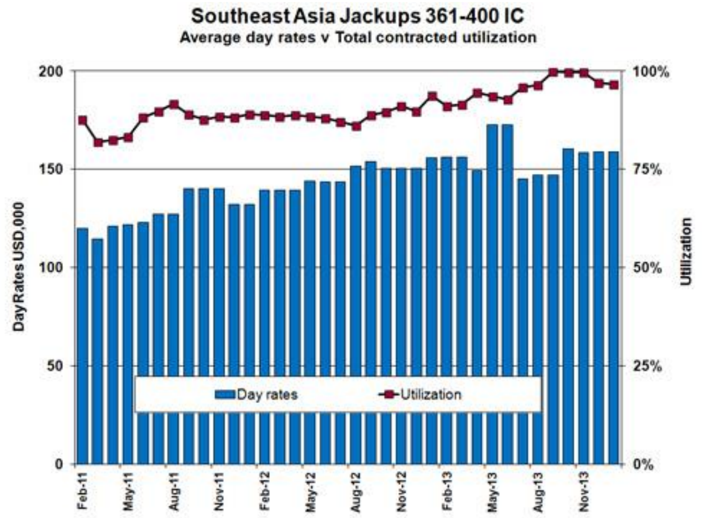
On the shallow-water side, dayrates and utilization remains high, indicating steady demand for jack-up rigs. However, we are concern with oversupply issue as new rigs continue to be delivered over the next two years. In fact, there are at least 80 jack-up rigs to be delivered by 2015, but ~70 remain uncontracted currently.

Figure 11: Dayrates and utilization for Northwest Europe harsh standard jack-ups



Source: IHS Petrodata

Figure 12: Dayrates and utilization for Southeast Asia jack-ups



Source: IHS Petrodata

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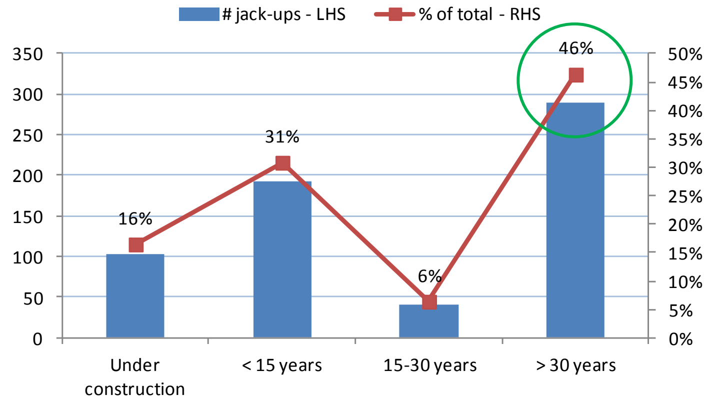
Replacement cycle unlikely with high utilization

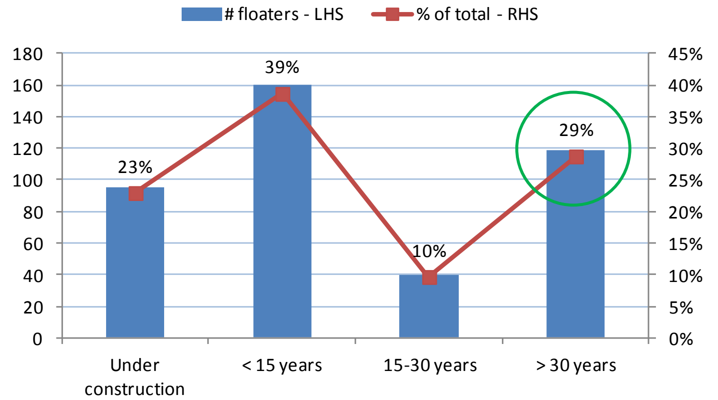
It has been widely perceived that aging rigs face higher risk of displacement as customers favor newer rigs with higher specification and greater reliability. Currently, ~46% of global jack-up fleet and ~29% of global floaters are above 30 years old. This could drive replacement demand going forward, thus countering the effect of supply growth.

Figure 13: Global jack-ups fleet age profile



Source: Riglogix, Phillip Securities Research

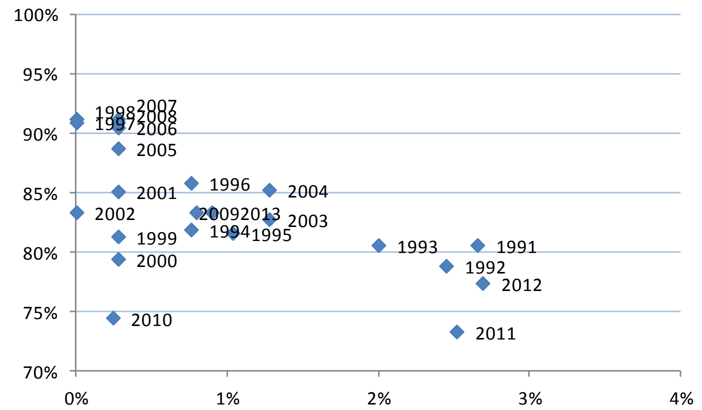
Figure 14: Global floaters fleet age profile



Source: Riglogix, Phillip Securities Research

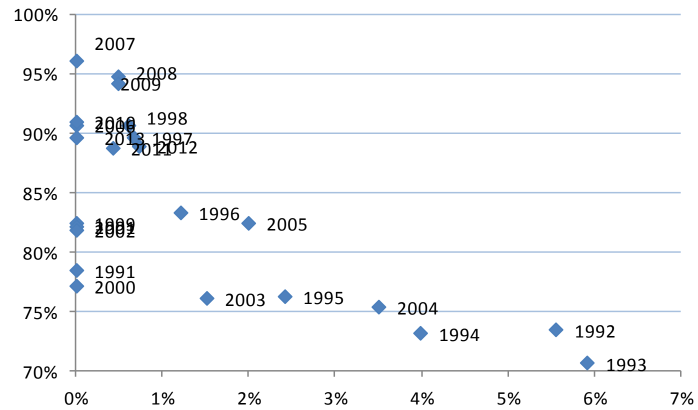
However, our analysis on rig replacement rate shows that older units are likely to be removed from an active fleet in substantial amount only in a downbeat market environment. As shown in the figure 15 and 16, significant scrapping above 2% typically occurs when utilization rate drops below 80%. With current rig utilization still above 90%, we do not expect replacement cycle to kick in any time soon, unless we see a sharp drop in utilization.

Figure 15: Global jack-ups utilization vs. proportion of fleet scrapped



Source: IHS Petrodata, Phillip Securities Research

Figure 16: Global floaters utilization vs. proportion of fleet scrapped

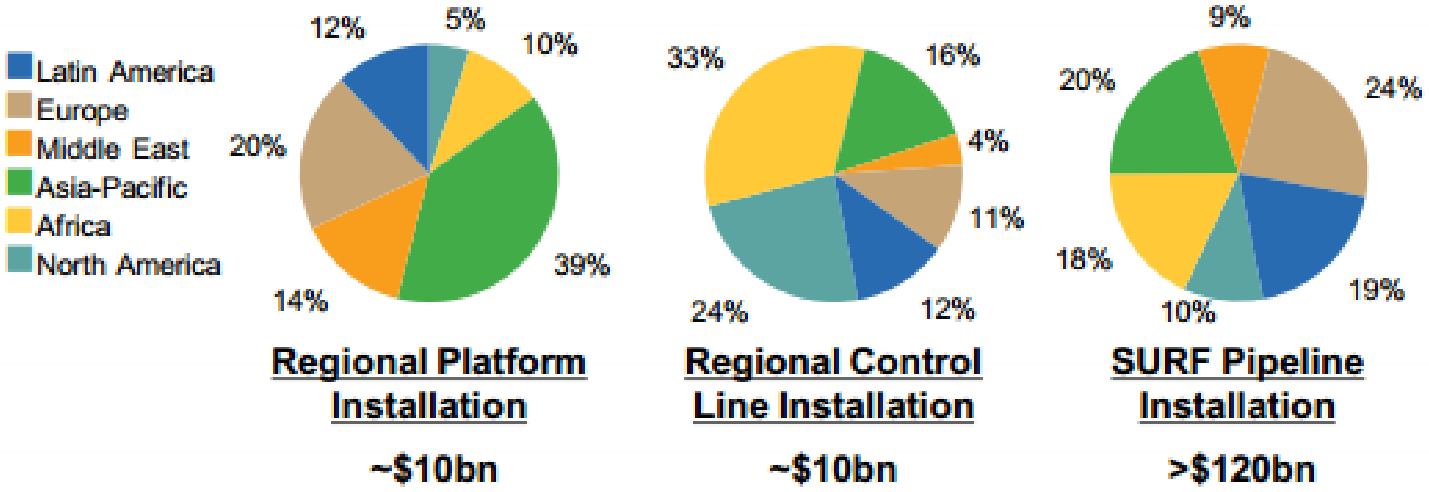


Source: IHS Petrodata, Phillip Securities Research

Subsea – near-term headwind remains

Albeit the long-term fundamental for subsea market remains robust, with significant capital investment in offshore infrastructure worth more than US$140bn expected from 2014 to 2018, the outlook remains muted in the near-term. In fact, in the recent market commentary by Subsea 7 (one of the top 3 subsea players in the industry), it expects delays in project awards to remain a feature of the subsea industry, driven by clients' capex constraints.

Figure 17: Regional platform, control line and SURF pipeline installation by geography



Source: Infield system, Ezra

Be selective – Prefer Ezion

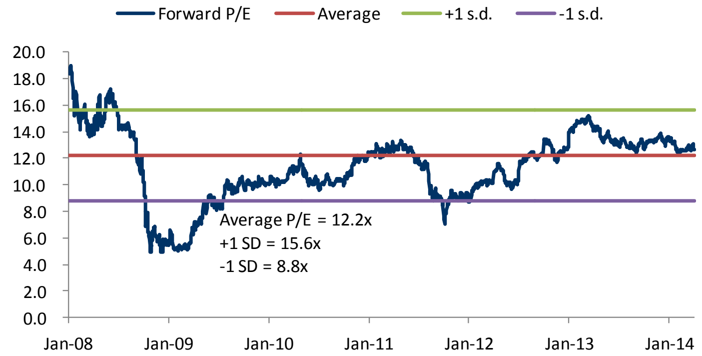
We see limited positive catalysts within the offshore sector, given the current trend in market fundamentals. We remain selective and prefer counters which still provide good value, and visible earnings growth. At these levels, we are still Accumulate on Ezion Holdings and reiterate our Neutral on Ezra Holdings. We downgrade Keppel and Sembcorp Marine to Neutral and Reduce respectively, and see the most downside potential in the latter.

Figure 18: Singapore Offshore & Marine sector valuation table

					Market	Equity Multiple (x)					
			Price	TP	Cap.	Net Income		Book Value		Dividend Yield (%)	
	Rating	FYE	(S$)	(S$)	(S$mn)	14E	15E	14E	15E	14E	15E
Rig builder											
Keppel Corp	Neutral	Dec	10.93	11.35	19,833	13.3	11.8	1.9	1.8	4.0%	4.4%
Sembcorp Marine	Reduce	Dec	4.03	3.7	8,419	14.1	13.5	2.8	2.5	3.5%	3.7%
Small/mid cap											
Ezion Holdings	Accumulate	Dec	2.14	2.57	2,575	9.1	8.2	2.0	1.6	0.0%	0.0%
Ezra Holdings	Neutral	Aug	1.07	1.18	1,047	23.8	11.9	0.7	0.7	0.0%	0.0%

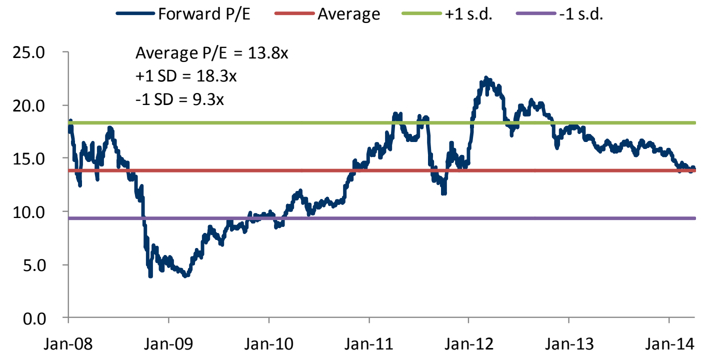
Source: Bloomberg, Phillip Securities Research

Figure 19: Keppel's 12-month forward P/E



Source: Bloomberg, Phillip Securities Research

Figure 20: SembCorp Marine's 12-month forward P/E

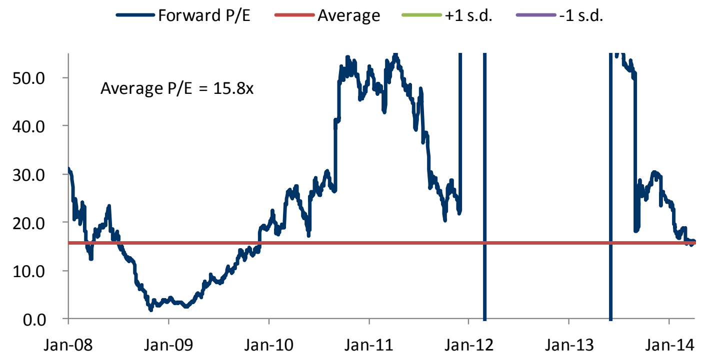


Source: Bloomberg, Phillip Securities Research

Figure 21: Ezion's 12-month forward P/E

Source: Bloomberg, Phillip Securities Research

Figure 22: Ezra's 12-month forward P/E



Source: Bloomberg, Phillip Securities Research

7 April 2014

Keppel Corporation Ltd

O&M margins to remain resilient

SINGAPORE | OFFSHORE MARINE | UPDATES

Rating: Neutral

(Downgraded from Accumulate)

Target Price (SGD)	**11.35**
Forecast Dividend (SGD)	0.44
Closing Price (SGD)	10.93
Potential Upside	**7.9%**

Strong order book shield Keppel from weakness in deepwater rig market.

The deepwater rig market is experiencing further weakness in dayrates as the supply and demand balance continues to worsen. We expect dayrates for all floaters to trend downwards going forward, but the near-term impact for Keppel is limited due to its strong order book with earnings visibility up till 2019. In addition, we expect the jack-up market to be more resilient in the near and medium term.

Keppel has outperformed peer YTD.

Year to date Keppel share price is up 4%, outperforming its Singapore peer Sembcorp Marine by 9%-points.

Downgraded to Neutral (from Accumulate); new target price of S$11.35 (from S$12.34).

We continue to like Keppel for its resilient O&M operating margin over the next two years, and we still believe that for the company is well-positioned to benefit from any increase in E&P spending from NOCs given its 'Near Market, Near Customer' strategy. However, lower growth in global E&P spending as well as increase competition from the Chinese yards are likely to result in lower order wins going forward. We cut our FY14E order forecast from S$7bn to S$5.5bn in view of the less positive sector outlook. We lower our EPS forecasts for FY15E by 3% to factor in the new orders estimate. We trim our target price to S$11.35 (from S$12.34), based on SOTP, valuing the O&M business at 13.0x FY15E P/E (from 14.0x FY15E P/E, to account for the muted offshore fundamentals). Since our target price no longer warrants an Accumulate recommendation, we have downgraded it to Neutral.

Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Revenue ($ mn)	10,082	13,965	12,380	13,143	14,239
NPAT, adj. ($ mn)	1,491	1,914	1,412	1,504	1,692
EPS, adj. ($)	0.83	1.06	0.77	0.82	0.93
P/E (x),adj.	10.8	10.0	14.4	13.3	11.8
BVPS ($)	4.29	5.11	5.32	5.63	5.99
P/B (x)	2.1	2.1	2.1	1.9	1.8
DPS ($)	0.43	0.74	0.50	0.44	0.48
Div. Yield (%)	4.8%	6.9%	4.4%	4.0%	4.4%

Source: Bloomberg, PSR est.

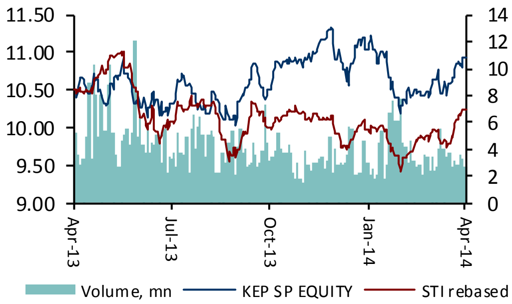
*All multiples & yields based on current market price

Company Description

Keppel Corporation is a diversified conglomerate with four core business segments: Offshore & Marine (O&M), Infrastructure, Property, and Investments. O&M is the greatest earnings contributor, with a global network of 20 yards and offices in Asia Pacifc, Gulf of Mexico, Brazil, Caspian Sea, Middle East and North Sea regions.

Company Data

Raw Beta (Past 2yrs weekly data)	0.96
Market Cap. (USD mn / SGD mn)	15749 / 19833
Ent. Value (USD mn / SGD mn)	19773 / 24911
3M Average Daily T/O (mn)	3.31
Closing Px in 52 wk range	10.01 – 11.38



Major Shareholders	**(%)**
1. Temasek Holdings Pte Ltd	21.2
2. Aberdeen Asset Management	5.9
3. Blackrock Fund Advisors	4.9

Valuation Method

SOTP

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FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Income statement ($ mn)					
Revenue	**10,082**	**13,965**	**12,380**	**13,143**	**14,239**
EBITDA	**2,106**	**2,607**	**2,016**	**2,116**	**2,370**
Depreciation & amortization	-209	-211	-242	-287	-350
EBIT	**1,897**	**2,396**	**1,774**	**1,830**	**2,020**
Net finance (expense)/income	16	26	19	38	58
Other items	1,160	568	645	15	15
Associates & JVs	240	266	355	397	461
Exceptional items	1,135	561	631	0	0
Profit before tax	**3,313**	**3,256**	**2,794**	**2,279**	**2,555**
Taxation	-444	-501	-397	-385	-432
Profit after tax	**2,869**	**2,756**	**2,396**	**1,895**	**2,123**
Non-controlling interest	923	518	551	391	431
Net income, reported	**1,946**	**2,237**	**1,846**	**1,504**	**1,692**
Net income, adj.	**1,491**	**1,914**	**1,412**	**1,504**	**1,692**
Per share data ($)					
EPS, reported	1.08	1.24	1.01	0.82	0.93
EPS, adj.	0.83	1.06	0.77	0.82	0.93
DPS	0.43	0.74	0.50	0.44	0.48
BVPS	4.29	5.11	5.32	5.63	5.99

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Cash flow statement ($ mn)					
CFO					
Operating profit	1,897	2,396	1,774	1,830	2,020
Adjustments	91	244	144	287	350
WC changes	-1,890	-1,448	-734	-157	-231
Cash generated from ops	99	1,192	1,185	1,960	2,139
Others	-323	-186	-560	-346	-374
Cash flow from ops	**-224**	**1,007**	**625**	**1,613**	**1,765**
CFI					
CAPEX, net	-876	-836	-936	-509	-509
Others	-382	-233	258	397	461
Cash flow from investments	**-1,258**	**-1,069**	**-678**	**-112**	**-48**
CFF					
Share issuance	99	82	40	0	0
Loans, net of repayments	809	2,331	2,130	0	0
Dividends	-724	-789	-669	-748	-820
Others	90	-346	26	-198	-217
Cash flow from financing	**275**	**1,277**	**1,528**	**-945**	**-1,038**
Net change in cash	**-1,207**	**1,215**	**1,474**	**556**	**679**
CCE, begin	4,245	3,020	4,055	5,564	6,120
CCE, end	**3,020**	**4,055**	**5,564**	**6,120**	**6,799**

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Balance sheet ($ mn)					
PPE	2,716	3,337	3,798	4,020	4,179
Intangibles	99	110	86	86	86
Associates & JVs	4,462	5,267	5,482	5,482	5,482
Others	5,188	5,824	2,732	2,732	2,732
Total non-current assets	**12,464**	**14,538**	**12,098**	**12,320**	**12,479**
Inventories	6,606	7,661	8,995	9,548	10,345
Accounts receivables	2,028	1,839	1,916	2,034	2,203
Investments	577	417	445	445	445
Cash	3,020	4,055	5,565	6,120	6,799
Others	404	697	1,037	1,037	1,037
Total current assets	**12,635**	**14,669**	**17,957**	**19,184**	**20,830**
Total assets	**25,099**	**29,207**	**30,056**	**31,505**	**33,309**
Short-term loans	808	1,006	517	517	517
Accounts payables	5,710	5,466	5,409	5,742	6,221
Others	2,484	2,593	3,416	3,583	3,824
Total current liabilities	**9,003**	**9,064**	**9,342**	**9,842**	**10,562**
Long-term loans	4,069	6,202	6,583	6,583	6,583
Others	267	362	442	442	442
Total non-current liabilities	**4,335**	**6,564**	**7,025**	**7,025**	**7,025**
Non-controlling interest	4,062	4,332	3,988	4,379	4,810
Shareholder equity	**7,699**	**9,246**	**9,701**	**10,259**	**10,913**

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Valuation ratios					
P/E (x), adj.	10.8	10.0	14.4	13.3	11.8
P/B (x)	2.1	2.1	2.1	1.9	1.8
EV/EBITDA (x), adj.	10.5	10.2	13.9	11.8	10.5
Dividend yield (%)	4.8%	6.9%	4.4%	4.0%	4.4%
Growth & margins (%)					
Growth					
Revenue	10.3%	38.5%	-11.3%	6.2%	8.3%
EBITDA	20.7%	23.8%	-22.6%	5.0%	12.0%
EBIT	21.9%	26.3%	-26.0%	3.1%	10.4%
Net income, adj.	14.1%	28.4%	-26.2%	6.5%	12.5%
Margins					
EBITDA margin	20.9%	18.7%	16.3%	16.1%	16.6%
EBIT margin	18.8%	17.2%	14.3%	13.9%	14.2%
Net profit margin	14.8%	13.7%	11.4%	11.4%	11.9%
Key ratios					
ROE (%)	25.3%	26.4%	19.5%	15.1%	16.0%
ROA (%)	11.4%	10.1%	8.1%	6.2%	6.5%
Net debt/(cash)	1,857	3,153	1,535	980	301
Net gearing (x)	24.1%	34.1%	15.8%	9.6%	2.8%

Source: Company, PSR

7 April 2014

Sembcorp Marine Ltd

Execution risk on new product & new yard

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Rating: Reduce

(Downgraded from Neutral)

Target Price (SGD)	**3.70**
Forecast Dividend (SGD)	0.14
Closing Price (SGD)	4.03
Potential Upside	**-4.7%**

Consensus on the high side.

Consensus is for a ~12% CAGR in net profit from 2013 to 2015. Albeit we acknowledge that higher volumes of repair work at its new Singapore yard could boost repair revenue to S$1.0-S$1.3bn in FY14E (versus S$681mn in FY13), we struggle to see how Sembcorp Marine can continue to grow earnings going forward against a backdrop of lower offshore capex spend, and increased competition in the rig building market. We are 10% below consensus on FY15E net profit.

Valuation not enticing.

In terms of 12-month forward P/E, the stock is trading slightly above historical levels. We believe that investors will continue to focus on Sembcorp Marine's drillship orders for Brazil in 2014-15, and do not expect any upside surprise in margins only until 2H15. This, in turn, will still affect earnings in 2014-15.

Downgraded to Reduce, new target price of S$3.70.

Albeit we acknowledge the strong reputation of its proprietary Pacific Class jack-up rigs and we continue to like the diversification of its product mix and higher ship repair contributions from its new Singapore yard, we have downgraded Sembcorp Marine to Reduce, as we expect the operating margins to remain under downward pressure due to higher execution risk when it starts executing its first drillship order at the new Brazilian yard in 2H14. We lower our FY14E order target from S$4.7bn to S$3.7bn as the sector outlook turns less positive. Our EPS is cut by 7%/13% for FY14E/15E and our target price is adjusted to S$3.70, for a lower FY14E target P/E of 13.0x (previously 14.0x), in line with our Keppel downgrade.

Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Revenue ($ mn)	3,960	4,430	5,526	6,458	6,787
NPAT, adj. ($ mn)	700	500	553	595	613
EPS, adj. ($)	0.34	0.24	0.26	0.29	0.29
P/E (x),adj.	12.0	16.8	15.2	14.1	13.7
BVPS ($)	1.16	1.17	1.28	1.43	1.58
P/B (x)	3.5	3.4	3.1	2.8	2.6
DPS ($)	0.25	0.13	0.13	0.14	0.15
Div. Yield (%)	6.2%	3.2%	3.2%	3.5%	3.7%

Source: Bloomberg, PSR est.

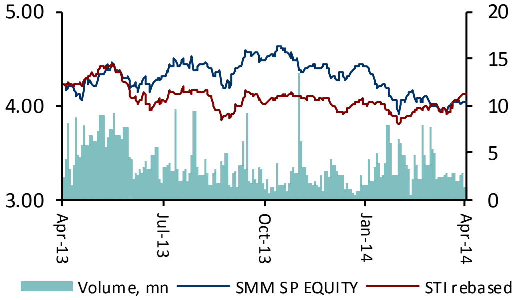
*All multiples & yields based on current market price

Company Description

Sembcorp Marine is a leading global marine and offshore engineering group, specializing in a full spectrum of integrated solutions in ship repair, shipbuilding, ship conversion, rig building and offshore engineering & construction.

Company Data

Raw Beta (Past 2yrs weekly data)	1.01
Market Cap. (USD mn / SGD mn)	6686 / 8419
Ent. Value (USD mn / SGD mn)	6056 / 7623
3M Average Daily T/O (mn)	3.20
Closing Px in 52 wk range	3.90 – 4.63



Major Shareholders	**(%)**
1. Sembcorp Industries	60.6
3. Franklin Resources	1.6
3. Blackrock	0.5

Valuation Method

P/E Mutiple (13x eFY14 EPS)

Analyst

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MCI (P) 046/11/2013

Ref. No.: SG2014_0011

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FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Income statement ($ mn)					
Revenue	**3,960**	**4,430**	**5,526**	**6,458**	**6,787**
EBITDA	**821**	**645**	**742**	**857**	**908**
Depreciation & amortization	-84	-91	-97	-158	-193
EBIT	**737**	**554**	**644**	**699**	**714**
Net finance (expense)/income	-2	-3	-8	-19	-19
Other items	62	22	13	13	10
Associates & JVs	63	56	16	19	28
Exceptional items	52	38	3	0	0
Profit before tax	**860**	**630**	**665**	**712**	**734**
Taxation	-91	-62	-77	-82	-85
Profit after tax	**769**	**567**	**588**	**630**	**649**
Non-controlling interest	17	29	33	35	36
Net income, reported	**752**	**538**	**556**	**595**	**613**
Net income, adj.	**700**	**500**	**553**	**595**	**613**
Per share data ($)					
EPS, reported	0.34	0.24	0.26	0.29	0.29
EPS, adj.	0.34	0.24	0.26	0.29	0.29
DPS	0.25	0.13	0.13	0.14	0.15
BVPS	1.16	1.17	1.28	1.43	1.58

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Cash flow statement ($ mn)					
CFO					
Operating profit	737	554	644	699	714
Adjustments	115	116	104	158	193
WC changes	-418	-396	243	-123	-45
Cash generated from ops	434	275	991	734	862
Others	-108	-67	-54	-88	-93
Cash flow from ops	**326**	**208**	**937**	**646**	**769**
CFI					
CAPEX, net	-437	-516	-797	-700	-350
Others	-40	-10	-1	0	0
Cash flow from investments	**-477**	**-527**	**-798**	**-700**	**-350**
CFF					
Share issuance/(purchased)	-29	-3	-20	0	0
Loans, net of repayments	27	300	438	0	0
Dividends	-763	-529	-283	-283	-305
Others	0	0	0	0	0
Cash flow from financing	**-765**	**-232**	**135**	**-283**	**-305**
Net change in cash	**-916**	**-551**	**275**	**-337**	**114**
Effects of exchange rates	-10	-30	11	0	0
CCE, end	**1,990**	**1,409**	**1,695**	**1,358**	**1,472**

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Balance sheet ($ mn)					
PPE	1,034	1,476	2,394	2,936	3,093
Intangibles	37	34	30	30	30
Associates & JVs	380	417	446	465	493
Others	201	218	159	159	159
Total non-current assets	**1,653**	**2,146**	**3,029**	**3,590**	**3,775**
Inventories	926	1,731	2,084	2,415	2,547
Accounts receivables	480	468	443	517	544
Investments	0	0	0	0	0
Cash	1,990	1,409	1,695	1,358	1,472
Others	3	32	0	0	0
Total current assets	**3,399**	**3,641**	**4,221**	**4,290**	**4,563**
Total assets	**5,052**	**5,786**	**7,250**	**7,881**	**8,338**
Short-term loans	35	33	166	166	166
Accounts payables	1,786	1,687	1,781	2,065	2,178
Others	579	998	1,583	1,583	1,583
Total current liabilities	**2,400**	**2,718**	**3,530**	**3,814**	**3,927**
Long-term loans	0	300	600	600	600
Others	145	221	310	310	310
Total non-current liabilities	**145**	**521**	**910**	**910**	**910**
Non-controlling interest	92	109	132	167	203
Shareholder equity	**2,414**	**2,439**	**2,677**	**2,989**	**3,298**

Source: Company, PSR

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Valuation ratios					
P/E (x), adj.	12.0	16.8	15.2	14.1	13.7
P/B (x)	3.5	3.4	3.1	2.8	2.6
EV/EBITDA (x), adj.	9.3	11.8	10.3	8.9	8.4
Dividend yield (%)	6.2%	3.2%	3.2%	3.5%	3.7%
Growth & margins (%)					
Growth					
Revenue	-13.1%	11.9%	24.7%	16.9%	5.1%
EBITDA	-20.0%	-21.4%	15.0%	15.6%	5.9%
EBIT	-21.8%	-24.8%	16.2%	8.6%	2.2%
Net income, adj.	-13.4%	-28.5%	10.6%	7.7%	3.0%
Margins					
EBITDA margin	20.7%	14.6%	13.4%	13.3%	13.4%
EBIT margin	18.6%	12.5%	11.7%	10.8%	10.5%
Net profit margin	17.7%	11.3%	10.0%	9.2%	9.0%
Key ratios					
ROE (%)	30.0%	22.2%	21.7%	21.0%	19.5%
ROA (%)	14.9%	10.5%	9.0%	8.3%	8.0%
Net debt/(cash)	-1,955	-1,076	-929	-592	-706
Net gearing (x)	Net $	Net $	Net $	Net $	Net $

7 April 2014

Ezion Holdings Ltd

Liftboat value

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Rating: Accumulate

(Maintained at Accumulate)

Target Price (SGD)	**2.57**
Forecast Dividend (SGD)	0.00
Closing Price (SGD)	2.14
Potential Upside	**20.1%**

Company Description

Ezion Holdings Ltd offers provision of offshore marine logistics and support services, and provides development, ownership, and chartering of strategic offshore assets.

Investment case.

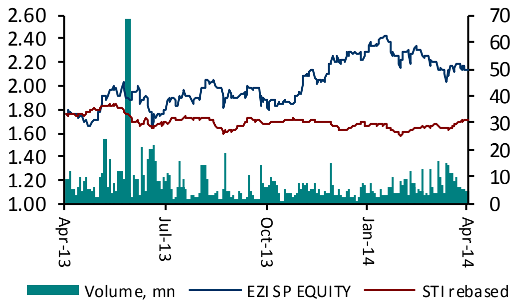
Albeit we see a moderation in E&P spending growth in 2014, we expect oil companies to increase their focus on cutting cost and improve shareholder returns. One of the main value propositions for oil companies in hiring self elevating units (SEUs) is cost-efficiency, as it reduces downtime of production wells and reliance on barges. With a fleet of 31 SEUs (including under-construction), we believe Ezion could emerge as a relative winner in the oil service sector due to its favorable exposure to the under penetrated SEU market outside the US. According to industry specialist Kennedy Marr and Infield Systems, while there are 250 SEUs in the US to support 3,257 offshore platforms, there are only 62 SEUs in Southeast Asia, Middle East and West Africa combined to support similar amount of platforms. In addition, out of its 31 SEU contracts secured for Ezion, only 17 of them have started contributing as of end FY13. With another 9 units beginning operation in FY14, 4 in FY15, and 1 in FY16, we believe earnings momentum will continue over the next 2 years.

Valuation and recommendation.

Ezion Holdings is trading at FY14E/15E P/E of 9.2x/8.3x. Our estimates remain intact. We maintain our Accumulate recommendation and our target price of S$2.57, still based on SOTP valuation.

Company Data

Raw Beta (Past 2yrs weekly data)	1.01
Market Cap. (USD mn / SGD mn)	2045 / 2575
Ent. Value (USD mn / SGD mn)	3086 / 3889
3M Average Daily T/O (mn)	6.26
Closing Px in 52 wk range	1.63 – 2.45



Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Revenue ($ mn)	107	159	282	529	595
NPAT, adj. ($ mn)	47	63	133	227	254
EPS, adj. ($)	0.06	0.06	0.13	0.19	0.21
P/E (x),adj.	7.7	18.4	13.2	9.1	8.2
BVPS ($)	0.38	0.61	0.68	0.85	1.06
P/B (x)	1.2	1.9	2.6	2.0	1.6
DPS ($)	0.00	0.00	0.00	0.00	0.00
Div. Yield (%)	0.2%	0.1%	0.0%	0.0%	0.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Major Shareholders	**(%)**
1. Chew Thiam Keng	15.5
2. Franklin Resources	6.6
3. FMR LLC	5.0

Valuation Method

SOTP

Analyst

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MCI (P) 046/11/2013

Ref. No.: SG2014_0011

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FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Income statement ($ mn)					
Revenue	**107**	**159**	**282**	**529**	**595**
EBITDA	**51**	**74**	**165**	**351**	**379**
Depreciation & amortization	-10	-17	-45	-99	-109
EBIT	**41**	**57**	**119**	**252**	**270**
Net finance (expense)/income	-1	-5	-7	-34	-28
Other items	11	13	20	0	0
Associates & JVs	10	17	31	29	34
Exceptional items	n/a	n/a	n/a	n/a	n/a
Profit before tax	**61**	**83**	**163**	**247**	**276**
Taxation	-3	-4	-3	-12	-14
Profit after tax	**58**	**79**	**160**	**235**	**262**
Non-controlling interest	0	0	0	0	0
Net income, reported	**58**	**79**	**160**	**235**	**262**
Net income, adj.	**47**	**63**	**133**	**227**	**254**
Per share data ($)					
EPS, reported	0.08	0.08	0.16	0.20	0.22
EPS, adj.	0.06	0.06	0.13	0.19	0.21
DPS	0.00	0.00	0.00	0.00	0.00
BVPS	0.38	0.61	0.68	0.85	1.06

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Cash flow statement ($ mn)					
CFO					
PBT	61	83	163	247	276
Adjustments	-6	-9	0	104	103
WC changes	-20	19	-5	-39	-3
Cash generated from ops	36	93	158	312	376
Others	-4	-8	-15	-53	-45
Cash flow from ops	**32**	**84**	**143**	**260**	**331**
CFI					
CAPEX, net	-126	-605	-709	-353	-187
Others	55	-47	-24	4	2
Cash flow from investments	**-70**	**-652**	**-733**	**-348**	**-185**
CFF					
Share issuance	0	0	0	0	0
Loans, net of repayments	27	436	530	30	0
Dividends	-1	-1	-1	-1	-1
Others	2	203	99	-8	-8
Cash flow from financing	**28**	**638**	**628**	**21**	**-9**
Net change in cash	**-10**	**70**	**38**	**-67**	**137**
CCE, end	**63**	**135**	**166**	**99**	**236**
Free cash flow	**-95**	**-514**	**-551**	**-53**	**175**

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Balance sheet ($ mn)					
PPE	271	794	1,464	1,718	1,796
Intangibles	0	0	0	0	0
Associates & JVs	71	127	194	222	255
Others	1	4	5	5	5
Total non-current assets	**343**	**925**	**1,663**	**1,945**	**2,056**
Inventories	0	0	0	0	0
Accounts receivables	32	57	107	155	174
Investments	0	0	0	0	0
Cash	63	135	166	101	241
Others	32	80	107	107	107
Total current assets	**127**	**273**	**380**	**362**	**521**
Total assets	**470**	**1,198**	**2,043**	**2,308**	**2,577**
Short-term loans	39	77	223	238	238
Accounts payables	26	33	69	78	94
Others	17	47	84	84	84
Total current liabilities	**82**	**158**	**376**	**400**	**417**
Long-term loans	118	475	863	878	878
Others	2	12	4	4	4
Total non-current liabilities	**120**	**487**	**866**	**881**	**881**
Non-controlling interest	0	0	0	0	0
Shareholder equity	**268**	**553**	**800**	**1,026**	**1,279**

FYE Dec	FY11	FY12	FY13	FY14E	FY15E
Valuation ratios					
P/E (x), adj.	7.7	18.4	13.2	9.1	8.2
P/B (x)	1.2	1.9	2.6	2.0	1.6
EV/EBITDA (x), adj.	10.5	23.7	13.3	8.8	8.2
Dividend yield (%)	0.2%	0.1%	0.0%	0.0%	0.0%
Growth & margins (%)					
Growth					
Revenue	-8.7%	48.4%	77.7%	87.8%	12.3%
EBITDA	37.1%	44.2%	123.2%	113.3%	7.8%
EBIT	46.8%	38.2%	108.6%	111.7%	6.8%
Net income, adj.	58.6%	33.5%	110.6%	70.7%	11.9%
Margins					
EBITDA margin	47.8%	46.5%	58.4%	66.3%	63.7%
EBIT margin	38.7%	36.0%	42.3%	47.7%	45.3%
Net profit margin	44.2%	39.8%	47.1%	42.9%	42.7%
Key ratios					
ROE (%)	24.3%	19.2%	23.7%	25.7%	22.7%
ROA (%)	13.4%	9.5%	9.9%	10.8%	10.7%
Net debt/(cash)	95	418	920	1,015	875
Net gearing (x)	35.2%	75.5%	115.0%	98.9%	68.4%

Source: Company, PSR

Ezra Holdings Ltd

Near-term headwind remains

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Rating: **Neutral**

(Maintained at Neutral)

Target Price (SGD)	**1.18**
Forecast Dividend (SGD)	0.00
Closing Price (SGD)	1.07
Potential Upside	**10.3%**

Unlocking subsea value in-progress.

Management is actively looking for ways to unlock value in its subsea business, EMAS AMC, and a potential listing in the US/Europe is one of the options. This process could take several months, but if the listing of EMAS AMC materializes, we believe it will (i) optimize the firm's competitive position, (ii) improve its international profile and access to capital, and (iii) ultimately unlock value for shareholders.

Long-term prospects intact, but near-term headwind remains.

Albeit the long-term fundamental for subsea market remains robust, with significant capital investment in offshore infrastructure worth more than US$140bn expected from 2014 to 2018, the outlook remains muted in the near-term. In fact, in the recent market commentary by Subsea 7 (one of the top 3 subsea players in the industry), it expects delays in project awards to remain a feature of the subsea industry, driven by clients' capex constraints. With new assets coming into the market within the next few years (McDermott's DLV2000 scheduled for delivery in mid-2015, Petrofac's JSD 6000 scheduled to be delivered by early 2017), we expect increased competition to put downward pressure on tendering price, which could ultimately affects profitability.

Neutral reiterated.

We find the shares fully valued. Albeit Ezra's 1Q14 order backlog stood at ~US$2bn, we remain concern with project execution risk, and its ability to translate strong top-line to earnings growth. We maintain our Neutral recommendation, while we have lowered our target price from S$1.27 to S$1.18, based on 13.0x FY15E P/E (previously 14.0x, to reflect the continued near-term headwinds).

Key Financial Summary

FYE Aug	FY11	FY12	FY13	FY14E	FY15E
Revenue ($ mn)	559	984	1,262	1,459	1,819
NPAT, adj. ($ mn)	21	25	(54)	35	70
EPS, adj. ($)	0.03	0.03	(0.06)	0.04	0.07
P/E (x),adj.	32.3	32.2	n.m.	23.8	11.9
BVPS ($)	0.98	1.04	1.12	1.15	1.22
P/B (x)	0.9	0.8	0.6	0.7	0.7
DPS ($)	0.00	0.00	0.00	0.00	0.00
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg, PSR est.

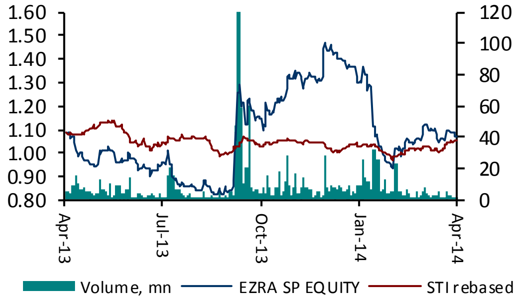
*All multiples & yields based on current market price

Company Description

Ezra Holdings Ltd is an integrated offshore support and marine services company. The company provides seabed-to-surface engineering and construction, marine as well as production services to the offshore oil and gas sector.

Company Data

Raw Beta (Past 2yrs weekly data)	1.37
Market Cap. (USD mn / SGD mn)	832 / 1047
Ent. Value (USD mn / SGD mn)	2184 / 2744
3M Average Daily T/O (mn)	6.22
Closing Px in 52 wk range	0.82 – 1.51



Major Shareholders	(%)
1. Chye Tek Lee	18.9
2. Aker Solutions ASA	7.4
3. Mondrian Investment	7.3

Valuation Method

P/E multiple (13x eFY15 EPS)

Analyst

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MCI (P) 046/11/2013
Ref. No.: SG2014_0001

FYE Aug	FY11	FY12	FY13	FY14E	FY15E
Income statement ($ mn)					
Revenue	**559**	**984**	**1,262**	**1,459**	**1,819**
EBITDA	**75**	**105**	**72**	**155**	**212**
Depreciation & amortization	-29	-48	-60	-67	-72
EBIT	**46**	**57**	**12**	**88**	**140**
Net finance (expense)/income	-24	-35	-39	-42	-46
Other items	18	61	96	0	0
Associates & JVs	11	5	22	25	30
Exceptional items	n/a	n/a	n/a	n/a	n/a
Profit before tax	**52**	**88**	**92**	**70**	**124**
Taxation	-9	-22	-28	-20	-35
Profit after tax	**43**	**66**	**64**	**51**	**90**
Non-controlling interest	0	0	10	5	9
Net income, reported	**43**	**66**	**54**	**46**	**81**
Net income, adj.	**21**	**25**	**-54**	**35**	**70**
Per share data ($)					
EPS, reported	0.05	0.07	0.06	0.05	0.08
EPS, adj.	0.03	0.03	-0.06	0.04	0.07
DPS	0.00	0.00	0.00	0.00	0.00
BVPS	0.98	1.04	1.12	1.15	1.22

FYE Aug	FY11	FY12	FY13	FY14E	FY15E
Cash flow statement ($ mn)					
CFO					
PBT	52	88	92	70	124
Adjustments	22	27	-24	85	88
WC changes	-88	-137	-31	-62	-74
Cash generated from ops	-14	-22	37	93	138
Others	-32	-41	-56	-67	-86
Cash flow from ops	**-46**	**-63**	**-18**	**26**	**53**
CFI					
CAPEX, net	-414	-289	-242	-184	-153
Others	81	25	152	5	5
Cash flow from investments	**-333**	**-263**	**-90**	**-179**	**-148**
CFF					
Share issuance	115	95	0	0	0
Loans, net of repayments	200	251	28	190	0
Dividends	-9	0	0	0	0
Others	-1	-2	117	-11	-11
Cash flow from financing	**305**	**344**	**145**	**179**	**-11**
Net change in cash	**-74**	**18**	**37**	**26**	**-106**
Effects of exchange rates	3	0	5	0	0
CCE, end	**116**	**133**	**176**	**202**	**96**

FYE Aug	FY11	FY12	FY13	FY14E	FY15E
Balance sheet ($ mn)					
PPE	996	1,167	1,346	1,463	1,545
Intangibles	187	237	242	242	242
Associates & JVs	222	145	172	197	227
Others	94	130	76	76	76
Total non-current assets	**1,498**	**1,679**	**1,837**	**1,978**	**2,090**
Inventories	60	89	126	129	158
Accounts receivables	327	478	461	543	677
Investments	0	0	0	0	0
Cash	116	133	176	202	96
Others	152	353	331	331	331
Total current assets	**655**	**1,054**	**1,094**	**1,204**	**1,262**
Total assets	**2,152**	**2,733**	**2,930**	**3,183**	**3,352**
Short-term loans	294	606	501	501	501
Accounts payables	269	342	365	388	478
Others	62	78	98	98	98
Total current liabilities	**625**	**1,026**	**965**	**987**	**1,077**
Long-term loans	636	638	783	973	973
Others	42	56	43	43	43
Total non-current liabilities	**678**	**694**	**826**	**1,016**	**1,016**
Non-controlling interest	1	0	49	54	63
Shareholder equity	**849**	**1,012**	**1,140**	**1,180**	**1,259**

Source: Company, PSR

FYE Aug	FY11	FY12	FY13	FY14E	FY15E
Valuation ratios					
P/E (x), adj.	32.3	32.2	n.m.	23.8	11.9
P/B (x)	0.9	0.8	0.6	0.7	0.7
EV/EBITDA (x), adj.	20.3	18.5	26.5	14.1	10.3
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Growth & margins (%)					
Growth					
Revenue	58.1%	76.0%	28.2%	15.6%	24.7%
EBITDA	10.5%	40.4%	-31.3%	114.6%	36.7%
EBIT	-16.8%	23.6%	-78.2%	605.4%	59.6%
Net income, adj.	-68.8%	16.7%	-319.1%	-165.0%	100.3%
Margins					
EBITDA margin	13.4%	10.7%	5.7%	10.6%	11.7%
EBIT margin	8.3%	5.8%	1.0%	6.0%	7.7%
Net profit margin	3.8%	2.5%	-4.3%	2.4%	3.8%
Key ratios					
ROE (%)	6.0%	7.1%	5.0%	3.9%	6.6%
ROA (%)	2.4%	2.7%	2.3%	1.7%	2.7%
Net debt/(cash)	814	1,111	1,108	1,272	1,379
Net gearing (x)	95.8%	109.7%	97.2%	107.8%	109.5%

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