

Penguin International Ltd

Cash to ride this cycle



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SINGAPORE | OIL & GAS | UPDATE

3 June 2020

- Penguin provided some business updates in their recent AGM. The outlook is challenging due to Covid-19 and collapse in oil prices.
- Charter rate for crew boats will be under pressure, demand for new vessels is down and ferry customers will suffer from the pandemic.
- We downgrade to ACCUMULATE from BUY. Our FY20e earnings is cut by 52%. The target price is dropped to S\$0.55 (prev. S\$0.88). We change our methodology from 5x PE (excluding cash) to a P/BV of 0.7x FY20e (historical 10-year average). The net cash of S\$60mn (end-Dec19) will allow the company to ride through this turbulence. Net cash is now 52% of market capitalisation.

ACCUMULATE (Downgraded)

LAST CLOSE PRICE	SGD 0.525
FORECAST DIV	SGD 0.0175
TARGET PRICE	SGD 0.550
TOTAL RETURN	8.1%

COMPANY DATA

BLOOMBERG CODE	PBS SP
O/S SHARES (MN)	220.2
MARKET CAP (USD mn / SGD mn)	82 / 116
52 - WK HI/LO (SGD)	0.79 / 0.355
3M Average Daily T/O (mn)	0.44

MAJOR SHAREHOLDERS (%)

Hing Yih Pier	19.7%
Keppel Corp Ltd	6.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	1.0	(21.4)	14.4
STI RETURN	(1.7)	(14.0)	(15.1)

PRICE VS. STI

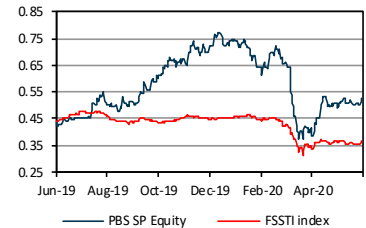


Figure 1: Summary from AGM

Topic	Commentary
Covid-19 / Oil price impact	<ol style="list-style-type: none"> Demand for new vessels is down. Charter rates for crew boats reduced as oil companies slash their cost. Ferry market is the worst affected by the pandemic
Covid-19 Disruption	<ol style="list-style-type: none"> Shipyards in Singapore is designated essential but only half the foreign workers are allowed to work. Batam shipyard is operating at full strength.
Existing orders	No contracts have been terminated. More than half of our stock vessels have been sold, with deposits received.
Others	<ol style="list-style-type: none"> Offshore Wind Farm Support segment is still growing and the company is making progress in this segment. Demand for Penguin Flex Fighter security vessels in Nigeria in the short term will be affected. However, oil represents a critical industry for Nigeria and piracy in the Gulf of Guinea is still rising.

Source: PSR, Company

Downgrade to ACCUMULATE with a lower target price of S\$0.55 (prev. S\$0.88).

The biggest worry will be trade receivables and inventory of vessels built to stock. During such a stressed environment, the risk will be elevated from customers defaulting payments and inventory becoming unsold. In 2016 downturn, Penguin swung into losses and revenues plunged by 72% (Figure 2). The difference in this cycle is the larger net cash on the balance sheet (from S\$24mn end 2015 to S\$60mn end 2019) and a more diverse portfolio of vessels built.

With such an uncertain earnings outlook, we will use price to book as a gauge to valuations. The 10-year price to book average is 0.7x, with a range of 0.5x to 1x. Penguin can ride out the downturn in the industry with their large cash hoard.

Figure 2: Snapshot of financials in the last oil and gas downturn in FY16

Item	Commentary FY16 vs FY15
Revenue	Declined 72% to S\$33.4mn
Allowances	Impairment of fixed assets of S\$3.8mn (3.5% of total) and inventories S\$1.4mn (3.3% of total)
Cost	Employee expenses dropped 40% to S\$12.9mn
PATMI	Swung from S\$21mn PATMI in FY15 to loss of S\$6.4mn in FY16.
Net cash	Net cash of S\$24mn (FY15) and S\$8.7mn (FY16)

Source: PSR, Company

Source: Bloomberg, PSR

KEY FINANCIALS

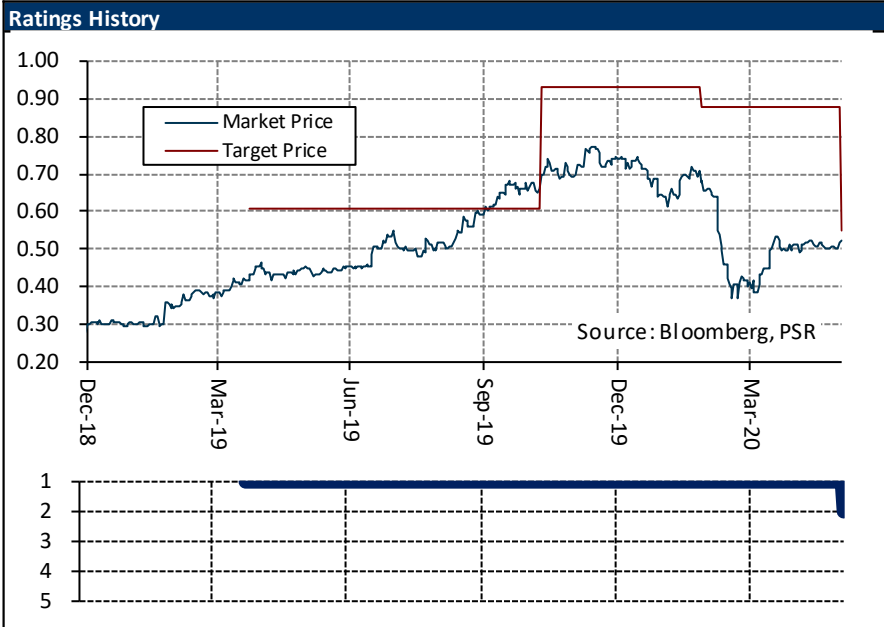
Y/E Dec, SGDmn	FY18	FY19	FY20e	FY21e
Revenue	107.3	136.3	123.5	128.2
EBITDA	16.7	23.1	20.1	21.8
NPAT	13.6	19.4	11.5	12.8
EPS (Cents)	6.2	8.8	5.2	5.8
PER (x)	8.5	6.0	10.1	9.0
P/BV (x)	0.8	0.7	0.7	0.6
Div. Yield	2.4%	3.3%	3.3%	3.3%
ROE	9.3%	12.1%	6.7%	7.1%

Source: Company, PSR

VALUATION METHOD

0.7x P/BV

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PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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