

Penguin International Ltd

Waddling is normal



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SINGAPORE | OIL & GAS | 1Q19 RESULTS

17 May 2019

- Revenue is historically volatile and lumpy. No changes to our earnings forecast.
- Jump in inventories, non-financial liabilities and asset held for sale point to a healthy outlook.
- Balance sheet still in net cash position of S\$43.8mn, or 45% of the market capitalisation.
- Our BUY recommendation and target price of S\$0.61 remain unchanged.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.440
FORECAST DIV	SGD 0.0125
TARGET PRICE	SGD 0.610
TOTAL RETURN	41.5%

Results at a glance

S\$ 000	1Q19	1Q18	YoY	Comment
Revenue	15,809	25,953	-39.1%	Drop in vessel sales and charter income
Gross profit	5,484	6,845	-19.9%	
Other income	1,062	242	338.8%	
PATMI	910	2,099	-56.6%	
Inventories	32,712	11,273	190.2%	Surge in vessels held as stock
Assets classified as held for sale	6,289	12,754	-50.7%	Conversion of crew boats to security vessels
Other payables and accruals	30,969	14,818	109.0%	Likely rise in unrefundable deposits from client

COMPANY DATA

BLOOMBERG CODE	PBS SP
O/S SHARES (MN)	220.2
MARKET CAP (USD mn / SGD mn)	70 / 97
52 - WK HI/LO (SGD)	0.47 / 0.26
3M Average Daily T/O (mn)	0.60

MAJOR SHAREHOLDERS (%)

Hing Yih Pier	19.7%
Keppel Corp Ltd	6.2%

Source: Company, PSR

The Positives

+ Inventory is up 3x YoY, and assets for sale of S\$6.3mn emerges. This was because the company builds vessels to stock; there are two ways to interpret the spike in inventories. It is either the company is now burdened with unordered vessels, or there will be significant recognition of sales in coming quarters. We take the later view due to the rebound in sales last year and improvement in offshore oil and gas activity. Assets for sale was S\$6.3mn compared to nil as at end December. It implies the company is converting its crewboat vessel(s) into security vessels for sale. The company does not disclose its order-book. Movements in the balance-sheet will provide a guide to the near term outlook.

+ Net cash of S\$43.8mn with the rise in operating cash-flows. The company exited end-March 2019 with net cash of S\$43.8mn, a marginal improvement from S\$41.6mn as at end 2018. In 1Q19, cash from operations jumped by S\$11.6mn due to better working capital.

+ Other payables and accruals doubled YoY and rose S\$7.1mn QoQ. Another indicator on the balance sheet that can be an indicator of the future outlook will be the rise in other payables and accruals. Part of the liabilities inside this line item includes advance payments and deposits received from the customer that are not refundable. While not separately disclosed, we believe the S\$7mn rise QoQ is in part from deposits received.

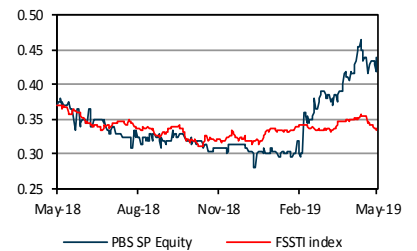
The Negatives

- Less charter income in the near-term. Revenue was down 39% YoY in 1Q19. Charter income was not disclosed. However, the earlier mentioned conversion of crewboats to security vessels would have reduced the number of vessels available for charter. Separately, there was a large \$9.3mn capex this quarter. The company mentioned this was to expand its operating fleet. As a result, we expect charter income to recover in the following quarters.

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.7	35.1	25.3
STI RETURN	(1.6)	1.4	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	79.8	107.3	122.4	129.7
EBITDA (SGD mn)	6.2	16.7	27.7	38.0
NPAT (SGD mn)	2.3	13.6	17.2	25.1
EPS (Cents)	1.0	6.2	7.8	11.4
PER (x)	42.5	7.1	5.6	3.9
P/BV (x)	0.7	0.6	0.6	0.5
Div. Yield	1.0%	2.8%	2.8%	2.8%
ROE	1.6%	9.3%	10.8%	14.1%

Source: Company, PSR

VALUATION METHOD

5x PE FY19x (excluding net cash)

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Outlook

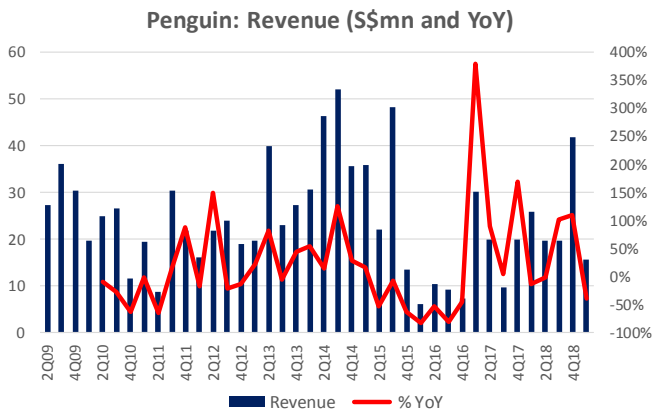
Historically, revenue is very lumpy and volatile for the company (Figure 1). Over the past three years, revenues have swung from S\$6mn to \$41mn per quarter. Sale of vessels in the inventory and progress recognition of vessels under contract will not be not even every quarter.

There is no change in our positive outlook for the company. As per our [initiation report](#), the three drivers to growth are the revival in offshore oil and gas activities, increased market share and the successful diversification outside the core crewboat and security vessels.

Maintain BUY with an unchanged target price of S\$0.61

We have kept our earnings forecast and target price unchanged.

Figure 1: Over the past three years, revenues have swung from S\$6mn to \$41mn per quarter



Source: PSR, Company

Financials

Income Statement

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
Revenue	33,405	79,761	107,268	122,449	129,674
Gross profits	14,727	19,457	33,707	43,482	55,222
Operating expenses	-25,203	-22,226	-25,871	-25,200	-27,200
EBITDA	-1,794	6,164	16,724	27,688	37,987
Depreciation & Amortisation	-8,682	-8,933	-8,888	-9,406	-9,965
EBIT	-10,476	-2,769	7,836	18,282	28,022
Other income/(loss)	3,248	4,304	6,711	1,000	1,000
Net finance income/(expense)	-249	563	950	900	900
Profit/(loss) before tax	-7,477	2,098	15,497	20,182	29,922
Income tax credit/(expense)	1,046	180	-1,915	-3,027	-4,788
Profit/(loss) after tax	-6,431	2,278	13,582	17,155	25,135
Minority interest	0	-1	-1	0	0
Net Income, reported	-6,431	2,277	13,581	17,155	25,135

Per share data

Y/E Dec, SG cents	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	(2.9)	1.0	6.2	7.8	11.4
EPS, adj.	(2.9)	1.0	6.2	7.8	11.4
DPS	0.0	0.45	1.25	1.25	1.25
BVPS	68.2	64.0	69.1	75.7	85.8

Cash Flows

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	-7,477	2,098	15,497	20,182	29,922
Adjustments	14,293	4,891	2,532	8,506	9,065
WC changes	(14,266)	10,567	(5,657)	221	(2,832)
Taxes paid, others	(5,883)	576	1,052	(2,127)	(3,888)
Net cash flows used in ops	(13,333)	18,132	13,424	26,781	32,268
CFI					
CAPEX, net	(5,738)	(2,988)	(19,222)	(15,000)	(15,000)
Proceeds from disposal	5,312	12,778	20,052	-	-
Others	-	-	(8,000)	-	-
Net cash flows from/(used in) investing	(426)	9,790	(7,170)	(15,000)	(15,000)
CFF					
Proceeds from issuance of shares	-	-	-	-	-
Loans, net of repayments	(3,360)	(6,647)	(2,250)	-	-
Dividends	(1,651)	-	(991)	(2,752)	(2,752)
Others	-	(836)	(472)	-	-
Net cash flow generated from financing	(5,011)	(7,483)	(3,713)	(2,752)	(2,752)
Net change in cash and cash equivalents	(18,770)	20,439	2,541	9,029	14,516
Foreign exchange	148	(873)	512	-	-
CCE, end	18,675	38,241	41,294	50,323	64,839

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Intangible asset	78	78	78	78	78
PPE	104,405	74,100	86,559	92,153	97,188
Other investments	-	-	5,157	5,157	5,157
Trade receivables	1,876	1,542	-	-	-
Other receivables	2,708	9,348	8,471	8,471	8,471
Non-current assets	109,067	85,068	100,265	105,859	110,894
Cash and bank balances	18,675	39,077	42,619	51,648	66,164
Trade receivables	8,058	10,352	20,200	11,179	21,564
Inventory	40,187	18,906	20,608	22,662	18,134
Others	10,819	23,723	8,078	8,078	8,078
Current assets	77,739	93,070	106,480	108,542	128,914
Total assets	186,806	178,138	206,745	214,401	239,808
LIABILITIES					
Borrowings	3,360	2,250	1,000	1,000	1,000
Trade payables	8,523	8,422	18,085	11,338	14,363
Other payables	17,147	11,630	23,790	23,790	23,790
Others	1,246	9,698	7,695	7,695	7,695
Current liabilities	30,276	32,026	50,570	43,823	46,848
Borrowings	6,620	1,083	83	83	83
Others	3,871	4,164	3,877	3,877	3,877
Non-current liabilities	10,491	5,247	3,960	3,960	3,960
EQUITY					
Share capital	94,943	94,943	94,943	94,943	94,943
Reserves	55,174	45,923	57,274	71,677	94,059
Minority interest	(4,078)	(1)	(2)	(2)	(2)
Total equity	146,039	140,865	152,215	166,618	189,000

Valuation Ratios

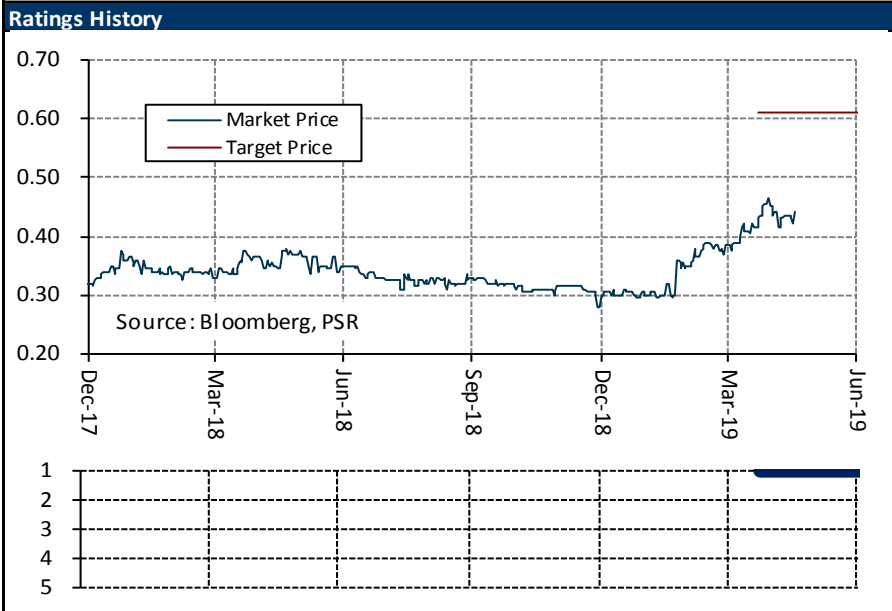
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X)	n.m.	42.5	7.1	5.6	3.9
P/B (X)	0.6	0.7	0.6	0.6	0.5
EV/EBITDA (X)	-49.2	9.9	3.3	1.7	0.8
Dividend Yield (%)	0.0%	1.0%	2.8%	2.8%	2.8%

Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	-72.1%	138.8%	34.5%	14.2%	5.9%
EBITDA	-117.4%	-443.6%	171.3%	65.6%	37.2%
EBIT	-149.9%	-73.6%	-383.0%	133.3%	53.3%
Net Income	-130.3%	-135.4%	496.4%	26.3%	46.5%
Margins					
EBITDA margin	-5.4%	7.7%	15.6%	22.6%	29.3%
EBIT margin	-31.4%	-3.5%	7.3%	14.9%	21.6%
Net Profit Margin	-19.3%	2.9%	12.7%	14.0%	19.4%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE	-4.3%	1.6%	9.3%	10.8%	14.1%
ROA	-3.3%	1.2%	7.1%	8.1%	11.1%
Interest coverage (X)	(1.2)	(0.3)	0.9	1.9	2.8
Net gearing (X)	Net cash	Net cash	Net cash	Net cash	Net cash



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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