

Perdana Petroleum (BUY ↔, EPS ↓)

EARNINGS EVALUATION

INDUSTRY: NEUTRAL

February 24, 2015

Price Target: RM1.44

Share Price: RM1.19

Consolidation Year...

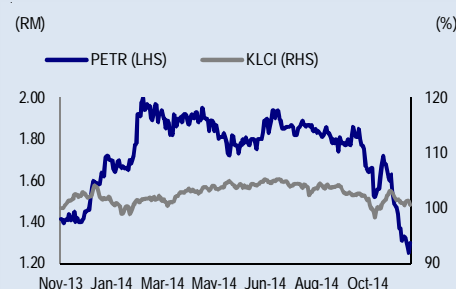
Results	<ul style="list-style-type: none"> FY14 revenue was broadly inline with expectation but core PAT only making up 91% of HLIB and consensus full-year estimates.
Deviations	<ul style="list-style-type: none"> Mainly due to earlier dry-docking for three vessels in 4Q14 (Expedition, Liberty and Sovereign) and two vessels off-hire.
Dividends	<ul style="list-style-type: none"> None.
Highlights	<ul style="list-style-type: none"> 4Q14 earnings fell by 32% yoy due to earlier dry-docking (from 1H15 to 4Q14) for 1 AHTS (Expedition) and 2 workboats (Liberty and Sovereign) coupled with lower utilisation as 2 OSVs were off-hire (Liberty and Horizon). With the earlier dry-docking for 3 vessels above, Marathon will be the only vessel scheduled for dry docking in July15. The new work barge, Perdana Emerald was delivered in 4Q14 and will be used to replace an existing barge (Enterprise) instead of tender for EOR job at St Joseph field. We expect FY15 as a consolidation year for Perdana with lesser number of OSV (after disposal of Superior) in operation before rebounding in FY16 given the delivery of 2 new units of 500-men work barges in 1Q and 2Q of FY16. We estimate one vessel to contribute RM15m to the company's bottomline. Latest orderbook stand at RM1.1bn (circa 3x FY14 revenue) which will continue to provide earnings visibility amidst declining oil price environment. More than 70% of vessels are under long term contract and only 2 vessels are on spot charter. Perdana is one of our top pick for brownfield development play. It stands to benefit from maintenance job on aging platform and upcoming EOR projects. We are still positive on the stock in view of additional catalysts of: capacity expansion, higher utilization from the HUCC contracts; M&A or even privatization.
Risks	<ul style="list-style-type: none"> Global recession hitting O&G price; Business and restructuring execution failure; and Increase in OSV supply
Forecasts	<ul style="list-style-type: none"> FY15 earnings reduced by 18% due to lower utilisation and lesser number of vessels in operation.
Rating	BUY (↔) <ul style="list-style-type: none"> Positives – <ul style="list-style-type: none"> Demand drivers improving. OSV supply relatively inelastic. Negatives – <ul style="list-style-type: none"> Increased competition for growth markets.
Valuation	<ul style="list-style-type: none"> We maintained our BUY call with TP adjusted from RM1.30 to RM1.44 with valuation rolled forward to FY16 by pegged at an unchanged 10x P/E.

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KLCI	1,809.4
Expected share price return	21.0%
Expected dividend return	0.0%
Expected total return	21.0%

Share price

Information

Bloomberg Ticker	PETR MK
Bursa Code	495
Market cap (RMm)	967
3-mth avg volume ('000)	2,463

Price Performance	1M	3M	12M
Absolute %	-21.6	-28.0	-7.4
Relative %	-22.4	-27.1	-9.4

Major shareholders (%)

DAYANG	26.1
LEMBAGA TABUNG HAJI	9.6
ACHIEVER DEVELOPMENT	7.4
POH ENG KHO	5.0
PHO WAT KOH	4.2
ASB	3.7

Summary Earnings Table

FYE Dec (RM m)	2013	2014	2015E	2016E
Revenue	275	347	336	394
EBITDA	115	174	151	177
PATAMI	50	88	83	112
Core Earnings	62	88	83	112
EPS	6.4	11.2	10.7	14.4
P/E (x)	18.7	10.6	11.2	8.3
P/BV (x)	1.80	1.51	1.33	1.15
ROA (%)	5.7	8.9	8.2	9.9
ROE (%)	12.7	14.6	13.2	15.4

HLIB

Figure #1 Quarter results comparison

FYE Dec (RM m)	4Q13	3Q14	4Q14	QoQ (%)	YoY (%)	Comments
Revenue	78.1	93.8	77.5	-17.3	-0.6	Fell due to lower utilisation resulted from earlier dry-docking for 3 vessels in 4Q14 coupled with 2 vessels off-hire.
COGS	-47.6	-46.2	-46.7	1.0	-1.9	
Gross Profit	30.4	47.6	30.8	-35.2	1.4	
Other Income	10.5	1.0	32.1	3,177.2	205.9	Forex gain of RM18.9m in 4Q14.
Operating expenses	-11.7	-13.8	-38.8	181.5	232.0	Impairment loss of RM17m on goodwill and RM2m loss on disposal in 4Q14.
Operating Income	29.2	34.8	24.1	-30.7	-17.5	
Finance costs	-8.0	-7.1	-8.8	24.9	9.8	
Associates						
PBT	21.2	27.7	15.3	-44.8	-27.9	
Tax	0.1	-0.7	-0.3	-59.8	-426.4	Lower tax due to utilisation of unabsorbed capital allowances in subsidiary companies and lower tax rates for offshore subsidiary companies.
PAT	21.3	27.0	15.0	-44.4	-29.5	
MI	-0.6	0.0	0.0	-100.0	-100.0	
PATAMI	21.9	27.0	15.0	-44.4	-31.4	
Extraordinary items	0.0	0.0	-0.1			
Core earnings	21.9	27.0	15.0	-44.7	-31.7	
Core Basic EPS	2.9	3.7	2.0	-44.4	-29.6	
Core Diluted EPS	2.9	3.6	2.0	-44.5	-31.4	
Profit Margin (%)						
Operating	37.4	37.1	31.1			
PBT	27.2	29.5	19.7			
PAT	27.3	28.8	19.4			
Core Earnings	28.0	28.8	19.3			

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY13	FY14	YoY (%)	Comments
Revenue	274.7	347.2	26.4	Due to higher utilisation for vessels which has improved from 80% to 92% and increase in number of vessels.
COGS	-182.5	-188.5	3.3	
Gross Profit	92.1	158.7	72.2	Due to cost cutting measures and saving from the acquisition of 3 sales and leaseback vessels.
Other Income	27.1	36.9	36.1	Due to forex gain.
Operating expenses	-35.2	-74.1	110.6	
Operating Income	84.1	121.5	44.5	
Finance costs	-18.6	-32.0	71.8	
Associates				
PBT	65.5	89.5	36.7	Filtered down from above.
Income Taxes	-3.5	-1.5	-57.9	
PAT ex-Extraordinary Items	62.0	88.0	42.1	
MI	0.3	0.0	-100.9	
PATAMI	61.7	88.0	42.8	
Extraordinary items	-12.0	-0.5	-95.9	
Core earnings	49.7	87.6	76.2	
Core Basic EPS	10.8	12.0	10.5	
Core Diluted EPS	10.2	11.6	14.6	
Profit Margin (%)				
Operating	30.6	35.0		
PBT	23.8	25.8		
PAT	22.6	25.4		

Core Earnings	18.1	25.2
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HLIB

Figure #2 HLIB & Consensus Estimates

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	335.9	418.4	-19.7	393.7	477.8	-17.6
Core Earnings	83.0	102.4	-18.9	112.2	116.7	-3.9

Bloomberg, HLIB

Financial Projections for Perdana Petroleum Bhd

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	260	275	347	336	394
Operating cost	-196	-160	-174	-185	-217
EBITDA	63	115	174	151	177
Depreciation	-25	-31	-52	-44	-44
Net Interest	-17	-19	-32	-14	-9
Associates	4	0	0	0	0
Pretax profit	25	65	90	92	125
Taxation	-1	-3	-1	-8	-11
Minority Interest	0	0	0	-1	-1
PATAMI	24	62	88	83	112
Extraordinary Items	-28	-12	0	0	0
Core Earnings	-4	50	88	83	112
Basic shares (m)	779	779	779	779	779
Core EPS (sen)	3	8	11	10.7	14.4
Basic EPS (sen)	(0)	6	11	11	14

Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed assets	474	608	709	701	694
Other long-term assets	136	136	136	136	136
Other short-term assets	35	14	14	14	14
Working capital	51	49	54	50	52
Receivables	89	94	104	99	112
Payables	-42	-50	-55	-54	-66
Inventory	4	5	6	5	6
Net cash / debt	-232	-286	-295	-199	-81
Cash	19	14	14	52	170
ST debt	-85	-133	-143	-85	-85
LT debt	-166	-166	-166	-166	-166
Shareholders' funds	459	514	611	694	807
Share capital	248	248	248	248	248
Reserves	212	267	364	447	559
Minorities	-0.2	0.2	1.0	1.7	2.7
Other liabilities	-6	-6	-6	-6	-6

Assumption Metrics

Average Utilisation Rate %	81.2	88.8	86.4	86.0	86.0
Average Rate AHT S (US\$)	1.98	1.98	2.03	2.03	2.14
Average Rate Work Vesse	21,250	25,000	25,000	25,000	25,000

Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Pre-tax profit	25	65	90	92	125
Depreciation	25	38	45	44	44
Working capital changes	(25)	2	(6)	5	(2)
Taxation	(1)	(3)	(1)	(8)	(11)
Others	9	(6)	10	-	-
Operating cashflow	34	96	137	133	155
Capex & acquisitions	9	-172	-146	-37	-37
Free cashflow	43	-76	-9	96	118
Other inv cashflow	0	0	0	0	0
Net borrowings	-24	49	9	-58	0
Share/convt bond issue	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other fin cashflow	-22	0	0	0	0
Net cashflow	(3)	(27)	-	38	118

Valuation ratios

Net DPS (sen)	0.00	0.00	2.00	0.00	0.00
FCF / share (sen)	6	-10	-1	12	15
FCF yield (%)	5	(8)	(1)	10	13
Market capitalization (m)	927	927	927	927	927
Net cash (m)	-232	-286	-295	-199	-81
Enterprise value	1,159	1,213	1,222	1,126	1,008
EV/ EBIT DA (x)	18.3	10.6	7.0	7.5	5.7
P/E (x)	NA	18.7	10.6	11.2	8.3
BV/Share (sen)	0.59	0.66	0.79	0.89	1.04
P/BV (x)	2.02	1.80	1.51	1.33	1.15
ROA (%)	-0.5	5.7	8.9	8.2	9.9
ROE (%)	5.5	12.7	14.6	13.2	15.4

Growth margins ratios (%)

Sales Growth	1	6	26	(3)	17
Operating expenses	-15	-18	8	7	17
EBIT DA Growth	154	81	51	-13	17
PBT Growth	NA	157	37	3	35
PAT MI	NA	-1,455	76	-5	35
Basic EPS Growth	NA	-1,455	76	-5	35

Margin ratios (%)

EBIT DA	24	42	50	45	45
PBT	10	24	26	27	32
PAT MI	-1	18	25	25	28

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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.
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