

Perdana Petroleum

Vessel Disposal to Make Way for New Additions?

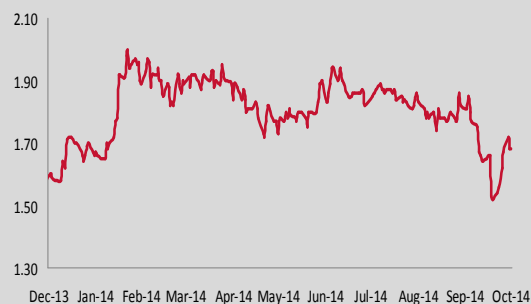
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OUTPERFORM ↔

Price: **RM1.68**
Target Price: **RM2.13** ↓

- News**
- Yesterday, Perdana Petroleum (PERDANA) announced that it entered into a Memorandum of Agreement (MoA) to dispose of one offshore support vessel (OSV) to Houston Limited for a total consideration of USD28.5m (RM93.5m).
 - The expected completion time for the transaction is before end Nov-14.
 - USD1.0m would be paid as deposit and the balance of USD27.5m shall be paid within five banking days before the scheduled closing meeting or not later than one banking day after delivery of the vessel.
- Comments**
- We were surprised by the sale as we have assumed that PERDANA would hold on to any workbarges as such vessels are in high demand. This vessel is likely to be the Petra Superior; a 300-men workbarge that is currently still chartered out until Nov-14.
 - We suspect the sale is to make way for more vessels. Recall, in Jun-14 PERDANA ordered two 500-men accommodation work barges for a cumulative price-tag of USD84m. There was a further option for two more units and assuming similar costs; the sale consideration of USD28.5m would cover the 20% upfront deposit (c.USD16.8m) for the new vessels. The alternative funds application would be to pare down its borrowings (which at 2Q14 stood at RM594.4m)
 - In any case; we believe this is a signal that the company is taking necessary short-term pains to enhance its longer-term prospects.
- Outlook**
- Improvement in earnings from 2Q14 onwards is expected as it features full-quarter contribution of vessels chartered to DAYANG. PERDANA awaits another vessel delivery in 4Q14 which we understand is targeted for Chemical Enhanced Oil Recovery (CEOR) work.
 - Medium-to-longer-term prospect is stable on the back of PERDANA's long-term contracts (14 OSVs). Currently, only two vessels (two 5k BHP AHTSs) are on spot charters.
 - Longer-term outlook will hinge on demand for PERDANA's 500-men workbarges that will be delivered in 1-2Q16, which should enjoy strong demand.
- Forecast**
- We are tweaking our FY15 forecasts down by 7.9% to RM106.7m as we had already forecasted contract renewal for the vessel at RM75k/day.
 - We have not imputed any cost savings pending management's confirmation on the rationale of the sale.
- Rating** **Maintain OUTPERFORM**
- Valuation**
- Our target price is thus reduced to RM2.13 (from RM2.31 previously) based on an unchanged target PER of 14.5x.
 - We are inclined to cut our sector PERs further (we did one round of PER trims during the 4Q14 Oil and Gas Sector roundup in Oct) pending reconfirmation of macro contract flows outlook for 1H15 which we suspect could still be sluggish.
 - Nevertheless, PERDANA will remain our favourite within the OSV space given the long-term nature of its contracts and its fleet-mix that is skewed towards brownfield activities; which should be relatively unscathed by crude oil price downtrends.
- Risks to Our Call**
- (i) Lower-than-expected daily charter rates and utilisation rates and (ii) sudden downturn in crude oil prices that could adversely impact the offshore oil and gas services industry.

Share Price Performance



KLCI	1839.55
YTD KLCI chg	-1.5%
YTD stock price chg	5.7%

Stock Information

Bloomberg Ticker	PETR MK
Market Cap (RM m)	1,240.6
Issued shares	738.4
52-week range (H)	2.01
52-week range (L)	1.38
3-mth avg daily vol:	2,163,339
Free Float	60%
Beta	1.7

Major Shareholders

DAYANG ENTERPRISE	26.0%
LEMBAGA TABUNG	8.6%
EPF	5.3%

Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	274.7	413.5	415.2
EBIT	86.0	137.6	143.8
PBT	65.6	106.7	113.4
Net Profit (NP)	61.1	100.4	106.7
Core Net Profit	61.1	100.4	106.7
Consensus (NP)	-	96.9	114.1
Earnings Revision (%)	-	-	-7.9
Core EPS (sen)	8.4	13.8	14.7
Core EPS growth (%)	152.9	64.4	6.3
NDPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.7	0.9	1.0
BV/Share (RM)	0.8	0.9	1.1
Core PER	20.0	12.2	11.4
Price/NTA (x)	2.3	1.9	1.6
Gearing (%)	0.9	1.0	0.8
Dividend Yield (%)	0.0	0.0	0.0

30 October 2014

Malaysian Oil & Gas Sector Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY13	CY14	CY15				CY14	CY15		
ALAM	1.10	1,016.9	11.2	13.1	10.6	0.0	14.8	1.7	-14.3	23.5	1.45	MP
BARAKAH	1.27	796.8	16.1	9.5	6.8	0.0	26.7	4.3	70.6	38.2	1.74	OP
COASTAL	4.00	2,124.8	14.0	10.7	9.4	2.0	15.0	2.1	30.7	13.8	5.94	OP
DAYANG	2.95	2,586.6	21.5	13.3	10.4	2.5	18.0	3.9	61.8	27.8	4.25	OP
DIALOG	1.64	8,069.4	39.4	32.7	28.7	2.6	14.5	5.7	20.6	14.1	1.83	MP
GASMSIA	3.52	4,519.7	25.6	23.0	21.2	3.0	17.1	4.5	11.6	8.4	3.54	MP
MHB	2.29	3,664.0	20.2	22.3	12.7	4.4	7.0	1.4	-9.6	75.5	3.06	UP
PANTECH	0.98	582.5	10.4	9.8	8.2	4.1	15.1	1.6	6.6	18.6	1.23	OP
PCHEM	6.14	49,120.0	15.6	14.5	12.8	3.4	14.5	2.3	7.4	13.5	7.19	OP
PERDANA	1.68	1,240.6	20.3	12.4	11.6	0.0	10.9	2.2	64.3	6.3	2.13	OP
PERISAI	1.10	1,312.0	17.5	39.4	8.8	0.0	6.2	1.3	-46.3	349.5	1.88	OP
PETGAS	20.42	20,286.3	25.0	27.0	23.6	2.6	16.9	4.2	-7.5	14.6	19.64	MP
PETDAG	22.00	43,532.1	29.3	24.2	22.9	2.9	14.5	4.2	20.8	5.8	21.54	MP
SKPETRO	3.43	20,553.1	20.7	15.3	12.9	0.0	10.0	2.1	35.3	18.1	5.31	OP
UZMA	3.45	910.8	27.1	19.5	12.9	0.0	26.0	7.1	39.3	51.3	4.30	OP
WASEONG	1.62	1,251.0	38.7	12.5	9.5	3.1	3.3	1.3	208.7	32.4	2.23	OP
YINSON	2.75	2,840.2	47.9	23.4	20.2	0.0	11.9	5.7	104.6	15.7	2.31	UP
Simple Average			23.6	19.0	14.3							
Weighted Average			23.2	19.3	16.9							

Source: Kenanga Research

30 October 2014

Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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