

Perdana Petroleum (BUY ↔, EPS ↓)

 EARNINGS EVALUATION
 INDUSTRY: OVERWEIGHT

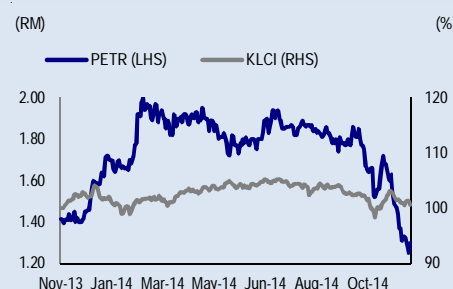
 November 26, 2014
 Price Target: RM1.68 (↓)
 Share Price: RM1.31

Surprise Dividend...

Results	<ul style="list-style-type: none"> In line QoQ, 3QFY14 Core profit increased by 12.5% bringing 9MFY14 to RM73m, making up 75% of HLIB and consensus full-year estimates, respectively.
Deviations	<ul style="list-style-type: none"> None.
Dividends	<ul style="list-style-type: none"> Declared interim dividend of 2 sen/share.
Highlights	<ul style="list-style-type: none"> 2Q14 earnings surged by 74% yoy and 12% QoQ due to improvement in vessel utilisation and charter rates. QoQ, EBIT margin continue to improve from 35% to 37% due to cost control measures. YoY, 9MFY14 average vessel utilisation increased from 78% to 93%. We are positive and surprise by the dividend declared. To note, this is the first dividend payout since FY08. We applauded the move to reward shareholder and do not rule out more dividend in the future given its consistent earnings delivery. The new work barge, Perdana Emerald was delivered recently and sailing away to Labuan. We believe it will be used to tender for EOR job at St Joseph field. To recap, Perdana has announced the acquisition of additional 2 units of 500-men accommodation work barges at US\$84m with an option for a further 2 units. The deliveries of the workbarges are expected in the 1Q and 2Q of 2016. We estimate one vessel to contribute RM15m (~15% of FY14 earnings) 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. 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. Perdana could potentially be removed from SC Shariah compliant list in the Nov review. Any share price weakness from this issue is a good buying opportunity given that its solid fundamental remains intact. 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"> Despite in line 9MFY14 result, we reduced our FY15 earnings by 10% mainly to reflect disposal of Petra Superior.
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 reduced from RM1.87 to RM1.68 pegged at an unchanged 12x FY15 P/E post earnings adjustment.

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KLCI	1,838.6
Expected share price return	28.2%
Expected dividend return	0.0%
Expected total return	28.2%

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)	2012	2013E	2014E	2015E
Revenue	260	275	361	375
EBITDA	63	115	173	178
PATAMI	-4	62	97	109
Core Earnings	24	62	97	109
EPS	-0.5	7.9	12.5	14.0
P/E (x)	NA	16.6	10.5	9.4
P/BV (x)	2.22	1.98	1.67	1.41
ROA (%)	-0.5	7.1	9.9	10.5
ROE (%)	5.5	12.7	17.6	16.7
HLIB				

Figure #1 Quarter results comparison

FYE Dec (RM m)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	Comments
Revenue	68.2	88.6	93.8	5.9	37.6	Increase due to higher vessel utilisation, increase in number of vessels and charter rates.
COGS	-45.9	-48.8	-46.2	-5.3	0.8	Due to continuous cost cutting measures and savings from the acquisition of 3 sales and leaseback vessels.
Gross Profit	22.3	39.7	47.6	19.7	113.4	
Other Income	6.5	1.6	1.0	-38.5	-84.8	
Operating expenses	-8.7	-10.0	-13.8	38.1	57.8	
Operating Income	20.0	31.3	34.8	10.9	73.7	Improved due to the increase in number of vessels in use, and higher utilization rate.
Finance costs	-4.2	-7.2	-7.1	-2.1	66.5	QOQ fell due to repayment of bank borrowing.
Associates						
PBT	15.8	24.1	27.7	14.8	75.6	
Tax	0.1	-0.1	-0.7	438.9	-920.9	Lower tax due to utilisation of unabsorbed capital allowances in subsidiary companies and lower tax rates for offshore subsidiary companies.
PAT ex-Extraordinary Items	15.9	24.0	27.0	12.5	70.2	
MI	0.4	0.0	0.0	0.0	-100.3	
Core Earnings	15.5	24.0	27.0	12.5	74.1	
Extraordinary items	0.0	0.0	0.0			
PATAMI	15.5	24.0	27.0	12.5	74.1	
Core Basic EPS	3.0	3.3	3.7	12.4	20.5	
Core Diluted EPS	2.9	3.2	3.6	12.4	22.5	
Profit Margin (%)						
Operating	29.4	35.4	37.1			
PBT	23.2	27.3	29.5			
PAT	23.3	27.1	28.8			
Core Earnings	22.8	27.1	28.8			

HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	9MFY13	9MFY14	YoY (%)	Comments
Revenue	196.6	269.7	37.2	Due to average utilisation for vessels has improved significantly from 78% to 93%, increase in number of vessels and charter rates.
COGS	-134.9	-141.8	5.1	
Gross Profit	61.7	127.9	107.2	Due to cost cutting measures and saving from the acquisition of 3 sales and leaseback vessels.
Other Income	16.7	4.8	-70.9	
Operating expenses	-23.5	-35.3	50.2	
Operating Income	54.9	97.4	77.5	Due to higher vessels utilization.
Finance costs	-10.6	-23.2	118.7	
Associates				
PBT	44.3	74.2	67.7	Filtered down from above.
Income Taxes	-3.6	-1.2	-66.9	
PAT ex-Extraordinary Items	40.7	73.0	79.5	
MI	0.9	0.0	-100.3	
Core Earnings	39.8	73.0	83.6	
Extraordinary items				
PATAMI	39.8	73.0	83.6	
Core Basic EPS	7.9	9.9	25.0	
Core Diluted EPS	7.3	9.7	32.9	
Profit Margin (%)				
Operating	27.9	36.1		
PBT	22.5	27.5		

PAT	20.7	27.1
Core Earnings	20.2	27.1

 HLIB

Figure #2 HLIB & Consensus Estimates

FYE Dec (RM m)	FY14E			FY15E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	360.6	424.6	-15.1	374.9	448.4	-16.4
Core Earnings	97.0	97.0	0.0	109.0	113.3	-3.8

Bloomberg, HLIB

Financial Projections for Perdana Petroleum Bhd

Income statement

FYE 31 Dec (RM m)	2011A	2012	2013A	2014E	2015E
Revenue	256	260	275	361	375
Operating cost	-231	-196	84	-188	-196
EBITDA	25	63	115	173	178
Depreciation	-36	-25	-31	-45	-44
Net Interest	-17	-17	-19	-20	-13
Associates	1	4	0	0	0
Pretax profit	-27	25	65	108	121
Taxation	-1	-1	-3	-10	-11
Minority Interest	0	0	0	-1	-1
Core Earnings	-28	24	62	97	109
Extraordinary Items	-41	-28	0	0	0
PATAMI	-69	-4	62	97	109
Basic shares (m)	715	779	779	779	779
Core EPS (sen)	(4)	3	8	12	14.0
Basic EPS (sen)	(10)	(0)	8	12	14

Balance sheet

FYE 31 Dec (RM m)	2011A	2012	2013A	2014E	2015E
Fixed assets	428	474	608	709	701
Other long-term assets	213	136	136	136	136
Other short-term assets	60	35	14	14	14
Working capital	26	51	49	54	55
Receivables	82	89	94	104	107
Payables	-60	-42	-50	-55	-58
Inventory	4	4	5	6	6
Net cash / debt	-252	-232	-286	-295	-178
Cash	23	19	14	14	73
ST debt	-100	-85	-133	-143	-85
LT debt	-175	-166	-166	-166	-166
Shareholders' funds	470	459	514	611	720
Share capital	248	248	248	248	248
Reserves	223	212	267	364	473
Minorities	-0.2	-0.2	0.2	1.0	2.0
Other liabilities	-6	-6	-6	-6	-6

Assumption Metrics

Average Utilisation Rate %	81.2	88.8	86.4	86.0
Average Rate AHTS (US\$/bhp)	1.98	1.98	2.03	2.03
Average Rate Work Vessels (Unit)	21,250	25,000	25,000	25,000

Cashflow

FYE 31 Dec (RM m)	2011A	2012	2013A	2014E	2015E
Pre-tax profit	(27)	25	65	108	121
Depreciation	36	25	38	45	44
Working capital changes	45	(25)	2	(6)	(0)
Taxation	(1)	(1)	(3)	(10)	(11)
Others	(15)	9	(6)	-	-
Operating cashflow	38	34	96	137	154
Capex & acquisitions	-72	9	-172	-146	-37
Free cashflow	-35	43	-76	-9	117
Other inv cashflow	0	0	0	0	0
Net borrowings	29	-24	49	9	-58
Share/convt bond issue	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other fin cashflow	7	-22	0	0	0
Net cashflow	2	(3)	(27)	-	59

Valuation ratios

Net DPS (sen)	0.00	0.00	0.00	2.00	0.00
FCF / share (sen)	-5	6	-10	-1	15
FCF yield (%)	(4)	4	(7)	(1)	11
Market capitalization (m)	1,020	1,020	1,020	1,020	1,020
Net cash (m)	-252	-232	-286	-295	-178
Enterprise value	1,272	1,252	1,306	1,315	1,198
EV/EBITDA (x)	51.1	19.8	11.4	7.6	6.7
P/E (x)	NA	NA	16.6	10.5	9.4
BV/Share (sen)	0.66	0.59	0.66	0.79	0.93
P/BV (x)	1.99	2.22	1.98	1.67	1.41
ROA (%)	-8.5	-0.5	7.1	9.9	10.5
ROE (%)	-5.8	5.5	12.7	17.6	16.7

Growth margins ratios (%)

Sales Growth	0	1	6	31	4
Operating expenses	-15	-15	-143	-324	4
EBITDA Growth	-240	154	82	50	3
PBT Growth	NA	NA	157	64	12
PAT MI	NA	NA	-1,781	57	12
Basic EPS Growth	NA	NA	-1,781	57	12

Margin ratios (%)

EBITDA	10	24	42	48	48
PBT	-11	10	24	30	32
PAT MI	-27	-1	22	27	29

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(a) -

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Equity rating definitions

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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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.

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