

Perdana Petroleum (BUY ↔, EPS ↔)

 EARNINGS EVALUATION
 INDUSTRY: OVERWEIGHT

 August 20, 2014
 Price Target: RM2.18 (↔)
 Share Price: RM1.83

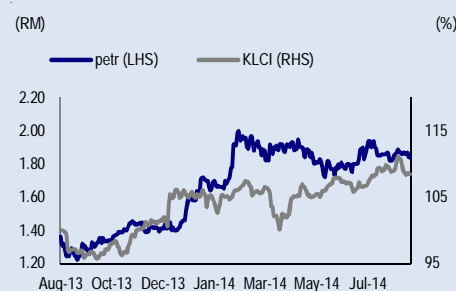
Sustainable Growth...

- | | |
|------------|--|
| Results | <ul style="list-style-type: none"> ▪ Inline Expectation: 1HFY14 PATAMI increased 90% YoY to a profit of RM46m, making up 47% of HLIB and consensus core earnings estimates, respectively. |
| Deviations | <ul style="list-style-type: none"> ▪ We deemed the result inline as we expect stronger 2H due to full contribution from Perdana Protector and Perdana Resolute. |
| Highlights | <ul style="list-style-type: none"> ▪ 2Q14 revenue increase 24% yoy and 2% QoQ due to improvement in vessel utilisation, charter rates and income generated from Perdana Protector and Perdana Resolute. YoY, PBT margin improved from 21% to 27% due to cost cutting measures and saving from the acquisition of 3 sales and leaseback vessels. ▪ Currently, the company has 15 out of 18 vessels under long term contacts, which represents 83% of total fleet. We understand the 2 AHTS that are currently on spot charters have extended the contract to end of FY14, further enhancing its earning visibility. ▪ The new work barge, Perdana Emerald which will be delivered in Oct 14 is bidding for the EOR job at St Joseph field with contract duration of 2 years. In addition, Perdana has ordered 2 units of 500 men barges with an option for a further 2 units with deliveries in 1H16. We estimate one vessel to contribute RM15m (~15% of FY14 earnings) to company bottomline. It is our top pick for brownfield development play. It stand to benefit from the maintenance job on aging platform and upcoming EOR projects due to increasing demand for accommodation barge. ▪ 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 utilisation 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"> ▪ Unchanged. |
| 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 unchanged TP of RM2.18 pegged at an unchanged 14x FY15 EPS of 15.5 sen/share based on our small cap O&G multiple. |

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KLCI	1,872.2
Expected share price return	19.1%
Expected dividend return	0.0%
Expected total return	19.1%

Share price

Information

Bloomberg Ticker	PETRM MK
Bursa Code	495
Market cap (RMm)	1,351
3-mth avg volume ('000)	2,506

Price Performance	1M	3M	12M
Absolute %	-0.5	6.9	35.6
Relative %	-1.6	6.6	27.4

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	399
EBITDA	63	115	173	191
PATAMI	-4	62	97	121
Core Earnings	24	62	97	121
EPS	-0.5	7.9	12.5	15.5
P/E (x)	NA	23.1	14.7	11.8
P/BV (x)	3.11	2.77	2.33	1.94
ROA (%)	-0.5	7.1	9.9	11.5
ROE (%)	5.5	12.7	17.6	18.3

HLIB

Figure #1 Quarter results comparison

FYE Dec (RM m)	2Q13	1Q14	2Q14	QoQ (%)	YoY (%)	Comments
Revenue	71.7	87.3	88.6	1.5	23.6	Increase due to higher vessel utilisation, increase in number of vessels and charter rates.
COGS	-49.9	-46.7	-48.8	4.5	-2.2	Due to cost cutting measures and saving from the acquisition of 3 sales and leaseback vessels.
Gross Profit	21.7	40.5	39.7	-2.0	83.0	
Other Income	3.6	2.3	1.6	-30.0	-55.2	
Operating expenses	-6.9	-11.5	-10.0	-13.4	44.9	QoQ dropped due to better cost control.
Operating Income	18.4	31.3	31.3	0.2	70.6	Improved due to the increase in number of vessels in use, higher utilization rate and savings from operating costs of old vessels.
Finance costs	-3.1	-8.9	-7.2	-19.3	134.5	QOQ fell due to repayment of bank borrowing.
Associates						
PBT	15.3	22.4	24.1	8.0	57.7	
Tax	-1.8	-0.3	-0.1	-62.4	-92.5	Lower tax due to utilisation of unabsorbed capital allowances in subsidiary companies and lower tax rates for offshore subsidiary companies.
PAT ex-Extraordinary Items	13.6	22.0	24.0	9.1	77.2	
MI	0.4	0.0	0.0	0.0	-100.3	
Core Earnings	13.2	22.0	24.0	9.1	82.4	
Extraordinary items	0.0	0.0	0.0			
PATAMI	13.2	22.0	24.0	9.1	82.4	
Core Basic EPS	2.7	3.0	3.3	8.3	22.4	
Core Diluted EPS	2.4	2.9	3.2	8.6	34.2	
Profit Margin (%)						
Operating	25.6	35.9	35.4			
PBT	21.4	25.6	27.3			
PAT	18.9	25.2	27.1			
Core Earnings	18.4	25.2	27.1			

HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	1HFY13	1HFY14	YoY (%)	Comments
Revenue	128.4	175.8	36.9	Increase due to higher vessel utilisation, increase in number of vessels and charter rates.
COGS	-89.0	-95.6	7.4	
Gross Profit	39.4	80.3	103.7	Due to cost cutting measures and saving from the acquisition of 3 sales and leaseback vessels.
Other Income	10.2	3.9	-62.0	
Operating expenses	-14.8	-21.5	45.6	
Operating Income	34.8	62.6	79.8	Due to higher vessels utilization and savings from operating costs.
Finance costs	-6.4	-16.1	153.4	
Associates				
PBT	28.5	46.5	63.3	Filtered down from above.
Income Taxes	-3.7	-0.5	-86.9	
PAT ex-Extraordinary Items	24.8	46.0	85.5	
MI	0.6	0.0	-100.4	
Core Earnings	24.3	46.0	89.7	
Extraordinary items				
PATAMI	24.3	46.0	89.7	
Core Basic EPS	4.9	6.3	28.7	
Core Diluted EPS	4.4	6.1	39.9	
Profit Margin (%)				
Operating	27.1	35.6		
PBT	22.2	26.4		

PAT	19.3	26.2
Core Earnings	18.9	26.2

 HLIB

Figure #2 HLIB & Consensus Estimates

FYE Dec (RM m)	FY14E			FY15E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	360.6	428.3	-15.8	399.0	469.9	-15.1
Core Earnings	97.0	97.1	-0.1	121.1	114.5	5.8

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	399
Operating cost	-231	-196	84	-188	-208
EBITDA	25	63	115	173	191
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	134
Taxation	-1	-1	-3	-10	-12
Minority Interest	0	0	0	-1	-1
Core Earnings	-28	24	62	97	121
Extraordinary Items	-41	-28	0	0	0
PATAMI	-69	-4	62	97	121
Basic shares (m)	715	779	779	779	779
Core EPS (sen)	(4)	3	8	12	15.5
Basic EPS (sen)	(10)	(0)	8	12	16

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	56
Receivables	82	89	94	104	113
Payables	-60	-42	-50	-55	-62
Inventory	4	4	5	6	6
Net cash / debt	-252	-232	-286	-295	-167
Cash	23	19	14	14	84
ST debt	-100	-85	-133	-143	-85
LT debt	-175	-166	-166	-166	-166
Shareholders' funds	470	459	514	611	732
Share capital	248	248	248	248	248
Reserves	223	212	267	364	485
Minorities	-0.2	-0.2	0.2	1.0	2.1
Other liabilities	-6	-6	-6	-6	-6

Assuption 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	134
Depreciation	36	25	38	45	44
Working capital changes	45	(25)	2	(6)	(2)
Taxation	(1)	(1)	(3)	(10)	(12)
Others	(15)	9	(6)	-	-
Operating cashflow	38	34	96	137	164
Capex & acquisitions	-72	9	-172	-146	-37
Free cashflow	-35	43	-76	-9	128
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)	-	70

Valuation ratios

Net DPS (sen)	0.00	0.00	0.00	0.00	0.00
FCF/ share (sen)	-5	6	-10	-1	16
FCF yield (%)	(3)	3	(5)	(1)	9
Market capitalization (m)	1,426	1,426	1,426	1,426	1,426
Net cash (m)	-252	-232	-286	-295	-167
Enterprise value	1,677	1,657	1,711	1,720	1,593
EV/ EBITDA (x)	67.3	26.2	14.9	10.0	8.3
P/E (x)	NA	NA	23.1	14.7	11.8
BV/Share (sen)	0.66	0.59	0.66	0.79	0.94
P/BV (x)	2.78	3.11	2.77	2.33	1.94
ROA (%)	-8.5	-0.5	7.1	9.9	11.5
ROE (%)	-5.8	5.5	12.7	17.6	18.3

Growth margins ratios (%)

Sales Growth	0	1	6	31	11
Operating expenses	-15	-15	-143	-324	10
EBITDA Growth	-240	154	82	50	11
PBT Growth	NA	NA	157	64	25
PAT MI	NA	NA	-1,781	57	25
Basic EPS Growth	NA	NA	-1,781	57	25

Margin ratios (%)

EBITDA	10	24	42	48	48
PBT	-11	10	24	30	34
PAT MI	-27	-1	22	27	30

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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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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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