

Perdana Petroleum (BUY ↔, EPS ↔)

NEWSBREAK

INDUSTRY: OVERWEIGHT

October 30, 2014

Price Target: RM1.87 (↔)

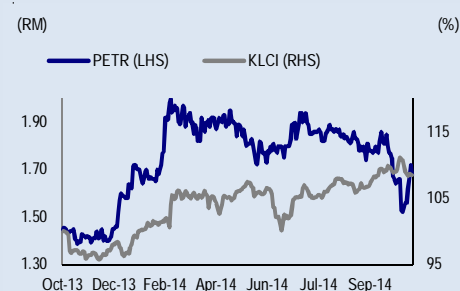
Share Price: RM1.68

Take a breath and ready for FY16.

News	<ul style="list-style-type: none"> Entered into MOA to dispose one unit of accommodation work barge (Petra Superior) to Houston for a total consideration of US\$28.5m or RM93.5m. The net book value of vessel as at 31 Oct 14 is RM92m and the original cost of investment was RM108m, resulting a gain of RM1m. The expected time of delivery of the vessel to buyer is before end Nov 14.
Financial Impact	<ul style="list-style-type: none"> We estimate the Petra Superior to contribute about RM6m (~6% of FY14 PAT) to bottomline. We expect no impact to FY14 as the existing contract will expired in Nov 14 and contributes about RM6m or ~5% on FY15's PAT. However, the proceeds raise will be used to fund new acquisition of assets which will help to mitigate the impact.
Comments	<ul style="list-style-type: none"> We are positive on the disposal as it will be part of the fleet renewal plan to upgrade existing vessel to higher specification coupled with favourable selling price with RM1m gain. We also understand that by selling Petra Superior, it will save about US\$2m on drydocking expenses which was supposed to take place by end of year after existing contract expire in Nov. We understand that the proceeds will be used to fund new assets acquisition with higher specification which will help to differentiate it from other competitors. 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 company bottomline. The new work barge, Perdana Emerald was delivered recently and sailing away to Labuan. We believe it will be used to tender EOR job at St Joseph field. Perdana is one of our top pick for brownfield development play with strong earning visibility amidst weak oil price. 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 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 pending completion of the deal.
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 RM1.87 pegged at an unchanged 12x (HLIB's small cap O&G targeted multiple) FY15 EPS of 15.5 sen/share.

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KLCI	1,839.6
Expected share price return	11.3%
Expected dividend return	0.0%
Expected total return	11.3%

Share price

Information

Bloomberg Ticker	PETR MK
Bursa Code	495
Market cap (RMm)	1,241
3-mth avg volume ('000)	2,151

Price Performance	1M	3M	12M
Absolute %	-7.2	-9.2	16.4
Relative %	-6.8	-7.3	15.0

Major shareholders (%)

DAYANG	26.0
LEMBAGA TABUNG HAJI	8.6
POH ENG KHO	5.3
EPF	4.9
PHO WAT KOH	4.0

Summary Earnings Table

FYE Dec (RM m)	2012	2013	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	21.2	13.5	10.8
P/BV (x)	2.85	2.54	2.14	1.78
ROA (%)	-0.5	7.1	9.9	11.5
ROE (%)	5.5	12.7	17.6	18.3

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

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	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	(6)	(1)	10
Market capitalization (m)	1,309	1,309	1,309	1,309	1,309
Net cash (m)	-252	-232	-286	-295	-167
Enterprise value	1,560	1,540	1,594	1,604	1,476
EV/EBITDA (x)	62.6	24.3	13.9	9.3	7.7
P/E (x)	NA	NA	21.2	13.5	10.8
BV/Share (sen)	0.66	0.59	0.66	0.79	0.94
P/BV (x)	2.56	2.85	2.54	2.14	1.78
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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(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.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

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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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