

Tanjung Offshore Bhd

04 Jul 2008

KDN: PP/10837/3/2009 (020904)

BUY

| | |
|-------------------------|--------|
| Current Price | RM2.08 |
| New Target Price | RM3.25 |
| Previous Target Price | RM3.25 |
| Previous Recommendation | BUY |
| Upside To Target | +56% |

Stock Codes

| | |
|-----------|-------------|
| Masa | TGOFFS/7228 |
| Bloomberg | TOFF MK |

Stock & Market Data

| | |
|------------------------|-------------------------|
| KLCI | 1,153.70 |
| Listing | MAIN BOARD |
| Sector | OIL & GAS |
| Syariah Compliance | YES |
| Par Value | RM0.50 |
| Issued Shares | 204.6mn |
| Market Capitalisation | RM425.6mn |
| YTD Chg In Share Price | -30.7% |
| 52-week Hi/Lo | RM3.70/RM1.75 |
| 3M Average Volume | 90,648 shares |
| Estimated Free Float | 30% |
| Majority Shareholders | |
| | Omar Khalid (43.1%) |
| | Abdullah Hashim (14.5%) |

Key Indicators @ FY08

| | |
|-----------------|-------|
| ROA | 10.1% |
| ROE | 27.7% |
| Net Debt/Equity | 2.07x |
| Price/NTA | 2.54x |

Share Performance

| | | | |
|----------|--------|--------|--------|
| | 1mth | 3mth | 12mth |
| Absolute | -10.0% | +9.5% | -29.5% |
| vs. KLCI | -1.8% | +16.3% | -16.1% |

Share Price Performance Chart



Sealing RM185mn Vessel Contracts

- Securing RM185mn contracts.** Yesterday, Tanjung Offshore announced that its wholly-owned subsidiary, Tanjung Offshore Services Sdn Bhd has been awarded contracts by Petronas Carigali Sdn Bhd for the provision of four units of offshore support vessels for a total charter value of circa RM185mn.
- 4-year long-term contracts.** These contracts are for a duration of up to four years effective from the months of Aug and Sept 2008. Vessels that are involved in these contracts are two existing 4,962bhp Straight Supply Vessels, namely *MV Tanjung Pinang 1* and *2*, and two new AHTS vessels, namely *MV Puteri 1* and *2*, which were launched in Jun-08 and Jul-08 respectively.
- Charter rates are fair.** Based on the RM185mn contracts and assuming RM3.20:USD1.00, average daily charter rates for these vessels are USD1.90/bhp which is higher than our assumption of USD1.44/bhp and USD1.47/bhp respectively. Compared to recent contracts awarded to its peers by oil majors, the charter rates for these contracts seem to be fair.
- Expecting an engineering contract soon.** We have learnt that Tanjung Offshore is expecting to seal an engineering contract soon worth about RM40mn from an oil major. There are two more new built vessels, namely *MV Tanjung Gelang* and *MV Tanjung Gaya*, are expected to be delivered by November this year. In fact, *MV Tanjung Gelang* has been secured a 1+1 year charter contract from Carigali-PTTEPI in Sept-07 with a very good rate of USD4.30/bhp. It is a specialised Well Testing and Servicing vessel.
- BUY maintained.** We are keeping our estimates unchanged for now. We continue to like Tanjung Offshore for its good earnings visibility, backed by recurrent chartering contracts and robust charter rates. **BUY reaffirmed at price target of RM3.25/share**, based on 12x CY09 PER.

Investment Statistics

| YE 31 Dec (RM mn) | 2005 | 2006 | 2007 | 2008F | 2009F |
|-------------------|-------|--------|--------|--------|--------|
| Net Profit | 16.0 | 18.3 | 18.4 | 41.0 | 55.3 |
| Growth | 93% | 14% | 0% | 124% | 35% |
| Consensus | | | | 38.1 | 51.3 |
| EPS (sen) | 7.9 | 9.0 | 9.0 | 20.1 | 27.1 |
| DPS (sen) | 3.0 | 3.0 | 0.0 | 3.0 | 3.0 |
| NTA/Share (RM) | 0.86 | 0.80 | 0.67 | 0.82 | 1.07 |
| Net Cash/(Debt) | -40.8 | -149.0 | -217.5 | -346.7 | -328.4 |
| Net Debt/Equity | 0.56x | 1.32x | 1.59x | 2.07x | 1.51x |
| PER | 26.4x | 23.2x | 23.1x | 10.3x | 7.7x |
| Dividend Yield | 1.4% | 1.4% | 0.0% | 1.4% | 1.4% |
| ROE | 24.9% | 19.7% | 18.6% | 27.7% | 28.7% |
| ROA | 10.2% | 7.3% | 7.4% | 10.1% | 9.5% |
| P/NTA | 2.41x | 2.61x | 3.09x | 2.54x | 1.95x |
| EV/EBITDA | 35.8x | 33.4x | 13.0x | 13.1x | 5.5x |

Table 1: Malaysian Offshore Marine Vessels Companies Comparative Valuations

| Company | Price (RM) | Mkt Cap (RMmn) | PER | | 3-Yr EPS CAGR | Div. Yield | | NTA (RM) | P/NTA | ROE | Rating |
|-----------------------|---------------|-------------------|--------------|-------------|------------------|-------------|-------------|-------------|-------|-------|--------|
| | | | CY08 | CY09 | | FY08 | FY09 | | | | |
| Alam Maritim | 1.99 | 965.7 | 14.3x | 11.0x | 42.7% | 0.8% | 0.8% | 0.62 | 3.21x | 18.9% | BUY |
| Petra Perdana | 3.76 | 1,119.0 | 12.3x | 6.8x | 46.3% | 0.7% | 1.2% | 1.40 | 2.69x | 27.5% | BUY |
| Tanjung Offshore | 2.08 | 425.4 | 10.4x | 7.7x | 54.1% | 1.4% | 1.4% | 0.70 | 2.97x | 19.7% | BUY |
| Simple Average | | | 12.3x | 8.5x | | 1.0% | 1.1% | | | | |

Source: MIMB estimates

Table 2: Tanjung Offshore's Marine Vessels

| No | Vessel | Type | Year Built | bph | Client |
|----|------------------|----------------|------------|-------|-------------------|
| 1 | Tanjung Manis | Utility Vessel | Jul-05 | 3,484 | Spot |
| 2 | Tanjung Huma | AHTS | Aug-05 | 5,428 | Petronas Carigali |
| 3 | Tanjung Pinang 1 | SSV | Jul-06 | 4,962 | Petronas Carigali |
| 4 | Tanjung Pinang 2 | SSV | Sept-06 | 4,962 | Petronas Carigali |
| 5 | Tanjung Pinang 3 | SSV | Mar-07 | 4,962 | Talisman Malaysia |
| 6 | Tanjung Pinang 4 | SSV | May-07 | 4,962 | Petronas Carigali |
| 7 | Tanjung Dawai | AHTS | Oct-07 | 5,444 | Petronas Carigali |
| 8 | Tanjung Puteri 1 | AHTS | Jun-08 | 5,450 | Petronas Carigali |
| 9 | Tanjung Puteri 2 | AHTS | Jul-08 | 5,450 | Petronas Carigali |

Source: Company

Table 3: Tanjung Offshore's Upcoming Marine Vessels

| No | Vessel | Type | bph | Value | Expected Delivery |
|----|----------------|------|-------|------------------|-------------------|
| 1 | Tanjung Gelang | WTS | 5,444 | RM48.0mn | Nov-08 |
| 2 | Tanjung Gaya | TUV | 3,600 | RM30.3mn | Nov-08 |
| 3 | Tanjung Sari | AHTS | 5,450 | RM41.0mn | Aug-09 |
| 4 | - | AHTS | 5,500 | RM50.0mn | 1Q11 |
| 5 | - | AHTS | 5,500 | RM50.0mn | 1Q11 |
| | | | | RM219.3mn | |

Source: Company

Balance Sheet

| YE 31 Dec (RM mn) | 2005 | 2006 | 2007 | 2008F | 2009F |
|---------------------------|------------|------------|------------|------------|------------|
| Fixed Assets | 122 | 211 | 311 | 418 | 429 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Other Fixed Assets | 8 | 7 | 8 | 14 | 17 |
| Inventories | 1 | 2 | 3 | 3 | 3 |
| Receivables | 74 | 129 | 157 | 237 | 286 |
| Other Current Assets | 3 | 0 | 0 | 0 | 0 |
| Cash | 11 | 20 | 20 | 26 | 25 |
| Total Assets | 219 | 370 | 499 | 697 | 760 |
| Payables | 95 | 88 | 124 | 157 | 188 |
| ST Borrowings | 10 | 22 | 13 | 40 | 40 |
| Other ST Liability | 0 | 0 | 1 | 1 | 1 |
| LT Borrowings | 40 | 146 | 223 | 330 | 310 |
| Other LT Liability | 1 | 2 | 2 | 2 | 3 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Net Assets | 73 | 113 | 136 | 167 | 218 |
| Share Capital | 42 | 71 | 101 | 102 | 102 |
| Reserves | 31 | 42 | 35 | 65 | 116 |
| Shareholders' Fund | 73 | 113 | 136 | 167 | 218 |

Cash-flow Statement

| YE 31 Dec (RM mn) | 2005 | 2006 | 2007 | 2008F | 2009F |
|---------------------------|------------|-------------|-------------|-------------|------------|
| PBT | 12 | 18 | 24 | 42 | 61 |
| Depreciation | 2 | 4 | 5 | 9 | 9 |
| Associates | -1 | -2 | 0 | -7 | -7 |
| Exceptional | 0 | 0 | 0 | 0 | 0 |
| Taxation | -4 | -1 | 1 | 1 | 6 |
| Chg In Working Capital | -13 | -62 | 4 | -36 | -26 |
| Others | -39 | 16 | 0 | 0 | 0 |
| Operating Cashflow | -44 | -27 | 33 | 9 | 43 |
| Capex | -47 | -86 | -111 | -200 | -20 |
| Investment | 0 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Investing Cashflow | -47 | -86 | -111 | -200 | -20 |
| Chg In Debts | 25 | -44 | 85 | 200 | -20 |
| Dividends Paid | 0 | -2 | -3 | -5 | -5 |
| Share Issue | 40 | 19 | -4 | 1 | 0 |
| Other | -2 | 150 | 0 | 0 | 0 |
| Financing Cashflow | 62 | 123 | 78 | 197 | -25 |
| Net Cashflow | -29 | 10 | 0 | 6 | -1 |
| Beginning Cash | 40 | 11 | 20 | 20 | 26 |
| Ending Cash | 11 | 20 | 20 | 26 | 25 |
| Free Cashflow | -91 | -113 | -78 | -191 | 23 |

Source: MIMB estimates

Income Statement

| YE 31 Dec (RM mn) | 2005 | 2006 | 2007 | 2008F | 2009F |
|-------------------------|------------|------------|------------|------------|------------|
| Turnover | 205 | 293 | 423 | 574 | 694 |
| EBITDA | 13 | 23 | 38 | 58 | 77 |
| Depreciation | -2 | -4 | -5 | -9 | -9 |
| Operating Profit | 11 | 19 | 33 | 50 | 68 |
| Interest Expense | -1 | -3 | -9 | -15 | -14 |
| Associate | 1 | 2 | 0 | 7 | 7 |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 |
| PBT | 12 | 18 | 24 | 42 | 61 |
| Taxation | 4 | 1 | -1 | -1 | -6 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 16 | 18 | 23 | 41 | 55 |

Financial Data & Ratios

| YE 31 Dec (RM mn) | 2005 | 2006 | 2007 | 2008F | 2009F |
|------------------------|--------|-------|-------|-------|-------|
| Growth | | | | | |
| Turnover | -8.2% | 42.7% | 44.2% | 35.8% | 20.8% |
| EBITDA | 31.8% | 76.9% | 63.0% | 55.9% | 31.4% |
| Operating Profit | 20.1% | 69.0% | 75.4% | 51.8% | 36.1% |
| PBT | 6.2% | 51.6% | 38.8% | 72.2% | 46.6% |
| Net Profit | 92.5% | 13.9% | 26.6% | 77.4% | 34.7% |
| Profitability | | | | | |
| EBITDA | 6.3% | 7.8% | 8.9% | 10.2% | 11.1% |
| Operating Profit | 5.4% | 6.4% | 7.7% | 8.7% | 9.8% |
| PBT | 5.6% | 6.0% | 5.7% | 7.3% | 8.8% |
| Core Net Profit | 7.8% | 6.2% | 5.5% | 7.1% | 8.0% |
| Effective Tax Rate | -38.6% | -4.4% | 4.2% | 1.9% | 9.9% |
| ROA | 10.2% | 7.3% | 7.4% | 10.1% | 9.5% |
| ROE | 24.9% | 19.7% | 18.6% | 27.7% | 28.7% |
| DuPont Analysis | | | | | |
| Net Margin | 7.8% | 6.2% | 5.5% | 7.1% | 8.0% |
| Total Assets Turnover | 0.94x | 0.79x | 0.85x | 0.82x | 0.91x |
| Leverage Factor | 3.01x | 3.28x | 3.66x | 4.17x | 3.48x |
| ROE | 22.1% | 16.2% | 17.0% | 24.5% | 25.3% |
| Leverage | | | | | |
| Total Debt/Total Asset | 0.23x | 0.45x | 0.47x | 0.53x | 0.46x |
| Total Debt/Equity | 0.69x | 1.49x | 1.73x | 2.21x | 1.60x |
| Net Cash/(Debt) | -41 | -149 | -217 | -347 | -328 |
| Net Debt/Equity | 0.56x | 1.32x | 1.59x | 2.07x | 1.51x |
| Valuations | | | | | |
| EPS (sen) | 8 | 9 | 9 | 20 | 27 |
| GDPS (sen) | 3.0 | 3.0 | 0.0 | 3.0 | 3.0 |
| NTA (RM) | 0.86 | 0.80 | 0.67 | 0.82 | 1.07 |
| PER | 26.4x | 23.2x | 23.1x | 10.3x | 7.7x |
| Gross Yield | 1.4% | 1.4% | 0.0% | 1.4% | 1.4% |
| P/NTA | 2.41x | 2.61x | 3.09x | 2.54x | 1.95x |
| EV/EBITDA | 35.8x | 33.4x | 13.0x | 13.1x | 5.5x |

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

| | |
|--------------------|--|
| BUY | Share price expected to appreciate more than 15% over a 12-month period |
| TRADING BUY | Share price expected to appreciate 10% or more within a 3- to 6-month period |
| NEUTRAL | Share price expected to be within +/- 15% over a 12-month period |
| TAKE PROFIT | Target price reached, may accumulate if share price drops more than 15% below target price |
| SELL | Share price expected to depreciate more than 15% over a 12-month period |
| NOT RATED | MIMB does not provide research coverage or rating for this company |

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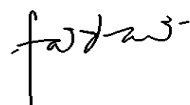
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