

### Equity Focus

Bloomberg Code TOFF.MK

#### INVESTMENT DATA

<b>Recommendation</b>	<b>Outperform</b>
Price	RM2.38
Target price	RM2.85
Expected capital gain	19.7%
Expected yield	1.3%
<b>Expected return</b>	<b>21.0%</b>

Market capitalisation	RM484.7m
Shares in issue @ 0.50par	204.5m
52 week high/low	RM3.70/RM1.75
3m average daily volume	0.1m shares

**KLCI** **1,274.78 pts**

#### Major shareholders :

Omar Khalid	44.2%
Abdullah Hashim	14.1%
Estimated Free Float	41.7%

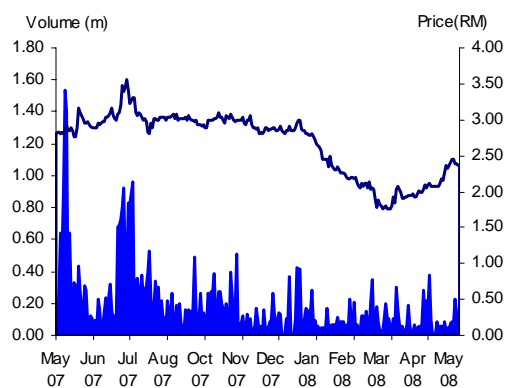
#### 12-month consensus

Buys	6
Holds	2
Sells	0
FY08 Estimate (EPS sen)	17.4
FY09 Estimate (EPS sen)	23.0

### Earnings To Gain Momentum In Subsequent Quarters

- Tanjung Offshore (TOFF) 1QFY12/08 net profit of RM5.6m (+36% y-o-y, -23% q-o-q) is 16% of ours and consensus full-year net profit forecasts. We are not perturbed and consider the results to be within our expectation as 1Q is seasonally the slowest due to the poor weather condition. Subsequent quarters earnings will be driven by vessels renewal contract at higher rates and commissioning of its two rigs which was delayed.
- **Earnings driver going forward.** Looking ahead, TOFF's growth driver will be underpinned by 1) delivery of 5 new vessels over the next 18 months; 2) full-year contribution from the MV Tanjung Pinang 4 and MV Tanjung Dawai; and 3) Renewal of vessels charter contracts at higher rates. As an indication, management highlighted that vessel charter contracts for Tanjung Pinang 1 and 2 are expiring next month and expected to be renewed at RM30,500/day (compared to RM24,100/day previously) or 26.5% higher.
- **Boosting vessel fleet.** TOFF has plans to add two more new vessels to be delivered by 2010 that will increase its fleet size from 12 vessels currently to 14 vessels. TOFF currently has seven vessels being chartered out. The remaining balance five is expected to be delivered between mid 2008 and early 2009. The acquisition makes sense considering that crux or 80% of TOFF's earnings is from offshore support vessels division as well as the sustained high charter rates.
- **Share price up 18% since our upgrade a month ago.** In terms of PER valuation, the stock is now trading at 13.3x FY12/08 and 10.4x FY12/09 EPS as compared to its hefty historical 16x-23x PER valuation. Reiterate our Outperform recommendation with a target price of RM2.85 based on 14x fully-diluted FY12/09 EPS.

### DAILY CHART



Source: Bloomberg

### INVESTMENT STATISTICS

FY Dec (RM m)	2006	2007	2008F	2009F
Turnover	293.3	422.9	558.0	680.9
EBITDA	20.7	44.0	57.6	67.0
Pretax Profit	17.5	24.3	38.7	49.4
Net Profit	18.3	23.2	35.6	45.4
Net Profit Gth (%)	13.8	26.8	53.3	27.6
EPS (Sen)	9.2	11.7	17.9	22.8
FD EPS (Sen)	8.4	10.3	16.0	20.4
PER (x)	25.6	18.8	13.3	10.4
FD PER (x)	28.3	23.1	14.8	11.7
EV/EBITDA (x)	27.0	15.6	10.8	9.3
Gross DPS (sen)	1.0	3.0	3.0	3.0
Div Yield (%)	0.5	1.3	1.3	1.3
Net Gearing (x)	1.3	1.6	2.1	2.1
P/NTA (x)	2.5	2.3	2.0	1.7

**Table 1 : Earnings Review**

FY Dec (RMm)	2007 1Q	2007 4Q	2008 1Q	Y-o-Y Chg (%)	Q-o-Q Chg (%)	Comments
Turnover	106.6	96.9	92.8	(12.9)	(4.2)	Y-o-Y – lower due largely to timing differences in recognition on various engineering equipment contracts.
EBIT	4.4	11.6	9.1	>100	(21.1)	Y-o-Y – higher largely due to contribution from seven vessels as compared to four previously.  Q-o-Q – lower largely due to the implementation of various engineering equipment contracts at initial phases which are only schedule for completion by 2H 2008.
Interest expense	(0.3)	(3.4)	(3.3)	NM	(4.5)	Y-o-Y - higher due to borrowings to finance the acquisition of new vessels. Net debt increased to RM240m from RM141.1m.
Associates	0.0	0.2	0.0	(150.0)	(100.5)	
Pretax profit	4.1	8.4	5.8	43.3	(30.1)	
Taxation	0.1	(0.8)	(0.2)	NM	(74.1)	
Minorities	0.0	(0.1)	0.0	NM	NM	
Net profit	4.1	7.4	5.6	36.3	(23.8)	Filtered down from pre-tax but negated but a higher effective tax rate.
EPS (sen)	2.1	3.7	2.8	29.8	(26.1)	
EBIT margin (%)	4.1	11.9	9.8			
Pretax margin (%)	3.8	8.6	6.3			
Effective tax rate (%)	NM	9.8	3.6			

Source: Alliance Research, Bursa Malaysia

## Recommendation Framework

### STOCK RECOMMENDATIONS

**OUTPERFORM** : The stock's total return is expected to exceed KLCI's total return by 5% or more in the next 12 months.

**MARKET PERFORM** : The stock's total return is expected to be within +5% or – 5% of KLCI's total return.

**UNDER PERFORM** : The stock's total return is expected to be below KLCI's total return by 5% or more in the next 12 months.

**TRADING BUY** : The stock's total return is expected to exceed KLCI's total return by 5% or more within the next 3 months. Fundamentals are not strong enough to call an Outperform rating and investors are willing to assume higher risks.

**TRADING SELL** : The stock's total return is expected to be below KLCI's total return by 5% or more within the next 3 months.

**NOT RATED** : Stock is not within our regular coverage

### SECTOR RECOMMENDATIONS

**OVERWEIGHT** : The industry as defined by the analyst is expected to outperform the KLCI over the 12 months.

**NEUTRAL** : The industry as defined by the analyst is expected to perform in line with KLCI over the 12 months.

**UNDERWEIGHT** : The industry as defined by the analyst is expected to underperform the KLCI over the next 12 months.

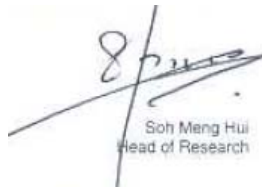
total return = capital gain + dividend yield

### Common Abbreviation

Adex = Advertising Expenditure	1QFY12/07 = 1 <sup>st</sup> Quarter for FY Dec 07	PE = Price Earnings Ratio
bn = billion	2HFY12/07 = 2 <sup>nd</sup> Half for FY Dec 07	PEG = PE ratio to growth
BV = Book Value	FCF = Free Cashflow	PER = PE ratio
CF = Cashflow	FV = Fair Value	QoQ = Quarter on Quarter
CAGR = Compounded Annual Growth rate	FY = Financial Year	RM = Ringgit
Capex = Capital Expenditure	KLCI = Kuala Lumpur Composite Index	RM bn = RM billion
CY = Calendar Year	m = million	RM m = RM million
Div yld = Dividend Yield	MoM = month on month	ROA = Return on Assets
DCF = Discounted Cashflow	NAV = Net Assets Value	ROE = Return on Equity
DPS = Dividend Per Share	NTA = Net Tangible Assets	ROSF = Return on shareholders funds
EBIT = Earnings Before Interest & Tax	NR = Not Rated	TP = Target Price
EBITDA = EBIT before Depreciation and Amortisation	p.a. = per annum	WACC = Weighted Average Cost of Capital
EPS = Earnings per share	PAT = Profit after tax	YoY = Year on Year
EV = Enterprise Value	Pretax profit = Profit before tax	YTD = Year to date

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