

Company Focus

Tanjung Offshore

Bloomberg: TOFF MK | Reuters: TJGO.KL

Malaysia Equity Research PP 11272/7/2008

18 Jun 2008

BUY RM2.35 KLCI : 1,227.76

Price Target : 12-Month RM 2.95

Reason for Report : Company update

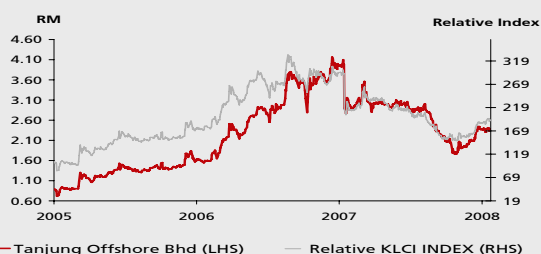
Potential Catalyst: Current sustained crude oil prices; expanded fleet size; strong oil & gas vessel charter rates

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2007A	2008F	2009F	2010F
Turnover	423	518	547	583
EBITDA	45	58	68	75
Pre-tax Profit	24	41	46	50
Net Profit	23	39	44	48
Net Pft (Pre Ex.)	23	39	44	48
EPS (sen)	10.5	17.7	19.6	20.1
EPS Pre Ex. (sen)	10.5	17.7	19.6	20.1
EPS Gth Pre Ex (%)	16	68	11	3
Diluted EPS (sen)	10.5	17.7	19.6	20.1
Net DPS (sen)	2.2	3.0	3.0	3.0
BV Per Share (sen)	66.1	83.6	102.7	123.3
PE (X)	22.3	13.3	12.0	11.7
PE Pre Ex. (X)	22.3	13.3	12.0	11.7
P/Cash Flow (X)	15.0	10.7	10.0	9.4
EV/EBITDA (X)	14.3	12.8	15.0	13.4
Net Div Yield (%)	0.9	1.3	1.3	1.3
P/Book Value (X)	3.6	2.8	2.3	1.9
Net Debt/Equity (X)	0.9	1.3	2.4	1.8
ROAE (%)	18.9	26.2	23.7	20.9

Earnings Rev (%):	0.0	0.0	0.0
Consensus EPS (sen):	17.3	22.9	25.4

Sector : Oil & Gas

Principal Business: Oil & gas offshore service vessel provider

Rights issue to fund expansions

Story: Tanjung Offshore (Toff) has proposed 50.5m renounceable rights with up to 50.5m free new detachable warrants, on the basis of 1 rights share with 1 free warrant for every 5 existing shares, at an entitlement date and issue price to be determined later. Assuming rights issue price of RM1.50, the exercise will raise RM75.8m.

Point: Under the maximum scenario (full conversion of ESOS and existing warrants), Toff's share cap will increase by 20% to 303.3m after the proposed rights issue, and 24% to 331.4m assuming 20% warrant conversion in FY09. With the increased share base, we estimate there would be c.19% EPS dilution in FY09 (refer to Fig.1), assuming no earnings enhancement from the proceeds. We expect Toff to use the proceeds to reduce debt and finance the acquisition of offshore support vessels, production platforms, lift barges and oil rigs. Assuming full debt repayment, the proceeds will reduce Toff's estimated FY09 net gearing from 2.4x currently to 1.7x after the rights issue, and 1.1x upon full conversion of the 5-year warrants.

Relevance: We believe that the rights issue is timely for TOFF to reduce gearing and expand its fleet size. TOFF's current 7-vessel fleet is modestly sized, but the 5 new additions to the fleet and sustained high charter rates will be the main growth drivers. These vessels are well-poised to benefit from the growing oil & gas sector, given the high crude oil price. Maintain Buy with target price of RM2.95 based on 13.5x FY09F EPS, a 10% discount to our oil & gas sector CY06-08 average PE of 15x. Our fully diluted target price of RM2.75 (refer to Fig.2) is based on PE of 13.5x on FY09 earnings and factoring in ROE of 15% on proceeds from rights and warrant conversion.

At A Glance

Issued Capital (m shrs)	205
Mkt. Cap (RMm/US\$m)	481 / 148
Major Shareholders	
Omar bin Khalid (%)	41.6
Abdullah bin Hashim (%)	13.7
Free Float (%)	40.9
Avg. Daily Vol. ('000)	92

Fig 1: Impact of rights and warrants assuming no enhancement

	Minimum	Maximum*
Before Proposal		
TOFF's FY09 net profit (RMm)	44.3	44.3
Share cap after full ESOS and outstanding warrant conversion (m)	204.6	252.7
EPS (sen)	21.7	17.5
PER (x) @ RM2.35	10.9	13.4
After Proposal		
Net profit (RMm)	44.3	44.3
Enlarged shr cap after rights (m)	245.0	303.3
Enlarge share cap after rights and full warrants conversion (m)	286.4	353.8
Enlarge share cap after rights and 20% warrants conversion (m)	253.7	313.4
EPS after rights and full warrant conversion (sen)	15.5	12.5
EPS after rights and 20% warrant conversion (sen)	17.5	14.1
Fully diluted PER (x) @ RM2.25 ex-rights price	14.5	18.0
Diluted PER – 20% warrant (x) @ RM2.25 ex-rights price	12.9	16.0
Full EPS dilution (%)	(28.6)	(28.6)
EPS dilution – assuming 20% warrant conversion in FY09 (%)	(19.4)	(19.4)

Source: DBS Vickers

* assumes full conversion of existing ESOS and warrants

Fig 2: Calculation of fully diluted target price

13.5x FY09 net profit (RMm)	598.1
Proceeds from rights (RMm)	75.8
Proceeds from warrant conversion (RMm)- assuming RM2.20 conversion price	111.1
Assumes 15% ROE on proceeds of rights and warrants (RMm)	28.0
13.5x earnings on rights and warrants proceeds (RMm)	378.4
Revised FY09 net profit @ 13.5x PE (RMm)	976.4
Diluted share cap (m)	353.8
Fully diluted target price (RM)	2.76

Source: DBS Vickers

Income Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	423	518	547	583
Cost of Goods Sold	(354)	(457)	(474)	(506)
Gross Profit	69	61	73	77
Other Opng (Exp)/Inc	(37)	(16)	(17)	(17)
Operating Profit	33	46	56	60
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	3	4	4
Net Interest (Exp)/Inc	(9)	(7)	(13)	(14)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	24	41	46	50
Tax	(1)	(2)	(2)	(2)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	23	39	44	48
Net Profit before Except.	23	39	44	48
EBITDA	45	58	68	75
Sales Gth (%)	44.2	22.6	5.5	6.6
EBITDA Gth (%)	93.6	30.4	17.3	10.1
Opg Profit Gth (%)	76.7	39.1	22.1	7.5
Net Profit Gth (%)	26.6	70.6	12.3	7.2
Effective Tax Rate (%)	4.2	4.2	4.2	4.2

Cash Flow Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	24	41	46	50
Dep. & Amort.	12	13	13	15
Tax Paid	(1)	(2)	(2)	(2)
Assoc. & JV Inc/(loss)	0	(3)	(4)	(4)
Chg in Wkg.Cap.	12	(4)	(1)	(2)
Other Operating CF	0	0	0	0
Net Operating CF	46	45	52	57
Capital Exp.(net)	(15)	(140)	(320)	(20)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	3	4	4
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	(15)	(137)	(316)	(16)
Div Paid	(3)	(4)	(6)	(6)
Chg in Gross Debt	(9)	145	330	(35)
Capital Issues	0	0	0	0
Other Financing CF	0	0	0	0
Net Financing CF	(12)	141	324	(41)
Net Cashflow	20	48	60	0

Quarterly / Interim Income Statement (RM m)

FY Dec	2Q2007	3Q2007	4Q2007	1Q2008
Turnover	96	124	97	93
Cost of Goods Sold	(79)	(105)	(76)	(71)
Gross Profit	17	19	21	22
Other Oper. (Exp)/Inc	(9)	(10)	(9)	(13)
Operating Profit	8	9	12	9
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(3)	(2)	(3)	(3)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	5	7	8	6
Tax	0	0	(1)	0
Minority Interest	0	0	0	0
Net Profit	5	7	7	6
Net profit bef Except.	5	7	7	6
Sales Gth (%)	(10.4)	29.8	(21.8)	(4.1)
Opg Profit Gth (%)	82.0	11.8	30.3	(25.0)
Net Profit Gth (%)	22.1	30.9	12.0	14.3
Gross Margins (%)	17.6	15.1	21.7	23.7
Opg Profit Margins (%)	8.3	7.2	11.9	9.7
Net Profit Margins (%)	5.3	5.3	7.6	6.5

Balance Sheet (RM m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	215	342	650	654
Invts in Associates & JVs	2	2	2	2
Other LT Assets	6	5	5	5
Cash & ST Invts	40	88	148	148
Other Current Assets	163	195	205	217
Total Assets	425	633	1,010	1,027
ST Debt	15	20	30	15
Other Current Liab	132	159	168	178
LT Debt	146	286	606	586
Other LT Liabilities	0	0	0	0
Shareholder's Equity	133	168	206	248
Minority Interests	0	0	0	0
Total Cap. & Liab.	425	633	1,010	1,027
Non-Cash Wkg. Capital	31	36	37	39
Net Cash/(Debt)	(121)	(217)	(488)	(452)

Rates & Ratio

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	16.4	11.9	13.3	13.2
Opg Profit Margin (%)	7.7	8.8	10.2	10.3
Net Profit Margin (%)	5.5	7.6	8.1	8.2
ROAE (%)	18.9	26.2	23.7	20.9
ROA (%)	5.8	7.5	5.4	4.7
ROCE (%)	12.2	13.7	9.9	8.2
Div Payout Ratio (%)	18.8	15.3	13.6	12.7
Net Interest Cover (x)	3.7	6.3	4.3	4.3
Asset Turnover (x)	1.1	1.0	0.7	0.6
Debtors Turn (avg days)	107.6	110.1	118.2	117.5
Creditors Turn (avg days)	98.0	108.9	118.5	118.5
Inventory Turn (avg days)	1.9	1.8	1.9	1.9
Current Ratio (x)	1.4	1.6	1.8	1.9
Quick Ratio (x)	1.4	1.6	1.8	1.9
Net Debt/Equity (X)	0.9	1.3	2.4	1.8
Capex to Debt (%)	9.3	45.8	50.3	3.3
N. Cash/(Debt)PS (sen)	(60.1)	(108.1)	(242.7)	(225.2)
Opg CFPS (sen)	15.8	22.0	23.5	24.9
Free CFPS (sen)	14.3	(42.7)	(118.4)	15.8

Segmental Breakdown

FY Dec	2007A	2008F	2009F	2010F
Revenues (RM m)				
Marine services	76	93	116	122
Rigs & platform services	98	164	156	159
Engineering equipment	171	179	188	207
Maintenance	78	82	86	95
Total	423	518	547	583
Gross Profit (RM m)				
Marine services	22	28	36	37
Rigs & platform services	3	5	5	5
Engineering equipment	12	13	15	17
Maintenance	20	16	17	19
Total	57	61	73	77
Gross Profit Margins (%)				
Marine services	29.5	29.8	30.7	30.0
Rigs & platform services	3.0	3.0	3.0	3.0
Engineering equipment	7.0	7.0	8.0	8.0
Maintenance	20.0	20.0	20.0	20.0
Total	13.4	11.9	13.3	13.2

Source: Company, DBS Vickers

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