

## Investment summary

Annualized Q108 net profit was 35% below HLG forecast and 45% below market estimate due to timing differences surrounding the delivery of engineering equipments and new vessel deliveries. We are maintaining our EPS forecast for FY08-09E and believe net profit in subsequent quarters will be stronger due to: (1) delivery of 3 vessels in FY08E and 2 in FY09E (2) booking of engineering equipment sales in H208.

We remain positive on the O&G vessel chartering segment: (1) increase exploration and production (E&P) activities will support strong demand for offshore support vessels. Petronas H108 capex for E&P activities is up +68% to USD2.5bn (2) lagging vessel new-builds vs. replacement market will hold daily charter rates at current level till 2010.

Price target RM3.45

Share price at 23 May RM2.37

### Watch for strong H208

Despite falling below market expectation, Q108 EPS grew an impressive +36% yoy. EPS should pick-up in subsequent quarters once: (1) engineering equipments are delivered to end clients (2) new vessels are commissioned. Valuation at 9x FY09E EPS is 15% discount to domestic peers.

## Poor Q108, expect better H208

Q108 results below expectation despite +36% growth

Q108 net profit of RM6m (+36% yoy) was 16% of our full year forecast. Key takeaway from the results: (1) revenue decline -13% due to timing differences surrounding the delivery of engineering equipments (2) net profit grew 36% due to vessel fleet expansion from 4 vessels in Q107 to 7 in Q108. We maintain our EPS forecast, as we expect subsequent quarterly earnings to catch-up with our full year forecast, due to earnings accretion from near-term vessel deliveries and delivery of engineering equipment orders to its end customer.

New developments: Plans to order 3 newbuilds in Q308

Following our meeting with management, we gathered that: (1) TOFF plans to order 3 new vessels in Q308 for delivery in 2010. Assuming the 3 new vessels are in the 5000-6000bhp range, we estimate the newbuilds to boost net profit by RM8-10m pa (2) recently signed an agreement with Proserv to explore decommissioning and abandonment projects in Malaysia (3) current tender book is RM2bn with expected win-rate of 20-30%. Outstanding order book for equipment division stands at RM250m (4) marketing two additional Hercules rigs for Malaysian waters.

### Peer comparison

	B'berg ticker	FYE	Mkt Cap (RMm)	PE hist (x)	PE pros 1 (x)	PE pros 2 (x)	P/BV hist (x)	DY hist (%)
SapCrest	SCRES	Jan	1744	22.2	14.1	11.5	1.6	1.3
Petra Perdana	PETR	Dec	1309	14.8	12.4	10.8	2.4	0.6
Alam Maritim	AMRB	Dec	1010	19.8	14.1	10.5	3.3	0.4
<b>TOFF (BUY, PT RM3.45)</b>	<b>TOFF</b>	<b>Dec</b>	<b>485</b>	<b>20.8</b>	<b>14.1</b>	<b>8.6</b>	<b>3.5</b>	<b>1.3</b>
<b>Average</b>				<b>19.4</b>	<b>13.7</b>	<b>10.4</b>	<b>2.7</b>	<b>0.9</b>

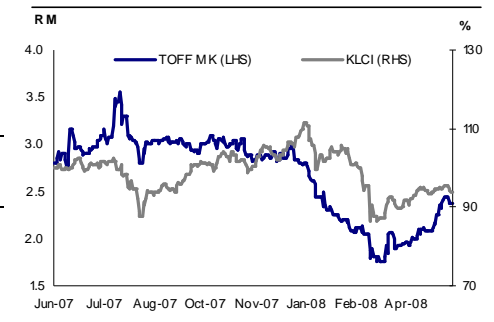
### Financial & valuation summary

31 Dec (RMm)	2007A	2008E	2009E	2010E
Revenue	423	428	568	563
Reported net profit	23	34	56	59
Normalized net profit	23	34	56	59
Normalized EPS (sen)	11.4	16.9	27.5	29.0
EPS growth (%)	24	48	63	5
Normalized PER (x)	21	14	9	8
Fully-diluted PER (x)	24	17	10	10
EV/ EBITDA (x)	16	12	8	9
Net DPS (sen)	1.5	1.5	1.5	1.5
Net dividend yield (%)	1	1	1	1
FCF yield (%)	-15	-6	-3	-25

### Earnings revisions

Previous net profit	-	34	55	53
Current net profit	23	34	56	59
Consensus net profit	-	41	54	55
Variance (%)	-	-17	3	6

### Share price relative to KLCI



	1M	3M	12M
Absolute	13	14	-16
Rel to KLCI	14	22	-11
52-week range (RM)			1.75-3.70
Issued shares (m)			203
Market cap (RMm)			481
Free float (%)			44
3-mth avg daily volume ('000)			92

### Derivatives

-

### Major shareholders

Omar Khalid	42
Abdullah Hashim	14

Income statement

FYE 31 Dec (RMm)	2006A	2007A	2008E	2009E	2010E
Revenue	293	423	428	568	563
Operating cost	-272	-379	-366	-469	-460
<b>EBITDA</b>	<b>22</b>	<b>44</b>	<b>63</b>	<b>99</b>	<b>102</b>
Depreciation	-4	-12	-15	-18	-23
Interest income	1	0	0	1	1
Interest expense	-3	-9	-11	-17	-23
Associates	2	0	1	1	1
Exceptionals	0	1	2	3	4
<b>Pretax profit</b>	<b>18</b>	<b>24</b>	<b>38</b>	<b>67</b>	<b>58</b>
Taxation	1	-1	-4	-11	0
Minorities	0	0	0	0	0
<b>Net profit</b>	<b>18</b>	<b>23</b>	<b>34</b>	<b>56</b>	<b>59</b>
Basic shares (m)	198	203	203	203	203
<b>Basic EPS (sen)</b>	<b>9</b>	<b>11</b>	<b>17</b>	<b>27</b>	<b>29</b>

Balance sheet

FYE 31 Dec	2006A	2007A	2008E	2009E	2010E
Fixed assets	211	311	373	432	609
Other long-term assets	7	8	9	11	12
Other short-term assets	0	0	0	0	0
<b>Working capital</b>	<b>219</b>	<b>284</b>	<b>287</b>	<b>380</b>	<b>376</b>
Receivables	129	157	158	210	208
Payables	88	124	126	167	165
Inventory	2	3	3	3	3
<b>Net cash</b>	<b>190</b>	<b>258</b>	<b>326</b>	<b>407</b>	<b>385</b>
Cash	20	20	38	69	-3
ST debt	22	13	63	113	163
LT debt	147	225	225	225	225
<b>Shareholders' funds</b>	<b>113</b>	<b>136</b>	<b>168</b>	<b>220</b>	<b>276</b>
Share capital	70	101	101	101	101
Reserves	42	35	66	119	174
Minorities	0	1	2	3	4
Other liabilities	0	1	1	1	1

Operating statistics

FYE 31 Dec	2006A	2007A	2008E	2009E	2010E
Revenue	293	423	428	568	563
Vessel charter	44	na	76	132	139
Drilling platform charter	120	na	102	186	174
Equipment agency	51	na	200	200	200
Maintenance services	78	na	50	50	50
<b>No of Vessels</b>					
Start-year	3	7	7	11	12
New deliveries	4	1	4	1	0
Disposed	0	1	0	0	0
Year-end	7	7	11	12	12
Vessel BHP (Yr End)	36,760	34,204	56,054	59,654	59,654

Cashflow

FYE 31 Dec	2006A	2007A	2008E	2009E	2010E
EBITDA	22	44	63	99	102
Working cap changes	-62	2	0	-12	0
Non-cash adjustments	0	0	0	0	0
Taxation	0	0	-4	-11	0
Net interest received	-1	-8	-11	-16	-22
<b>Operating cashflow</b>	<b>-42</b>	<b>37</b>	<b>48</b>	<b>61</b>	<b>81</b>
Capex & acquisitions	-94	-111	-77	-77	-200
<b>Free cashflow</b>	<b>-136</b>	<b>-74</b>	<b>-29</b>	<b>-16</b>	<b>-119</b>
Other inv cashflow	8	0	0	0	0
New borrowings	121	85	50	50	50
Share issuance	19	4	0	0	0
Dividends paid	-2	-3	-3	-3	-3
Other fin cashflow	0	0	0	0	0
<b>Net cashflow</b>	<b>10</b>	<b>12</b>	<b>18</b>	<b>31</b>	<b>-72</b>

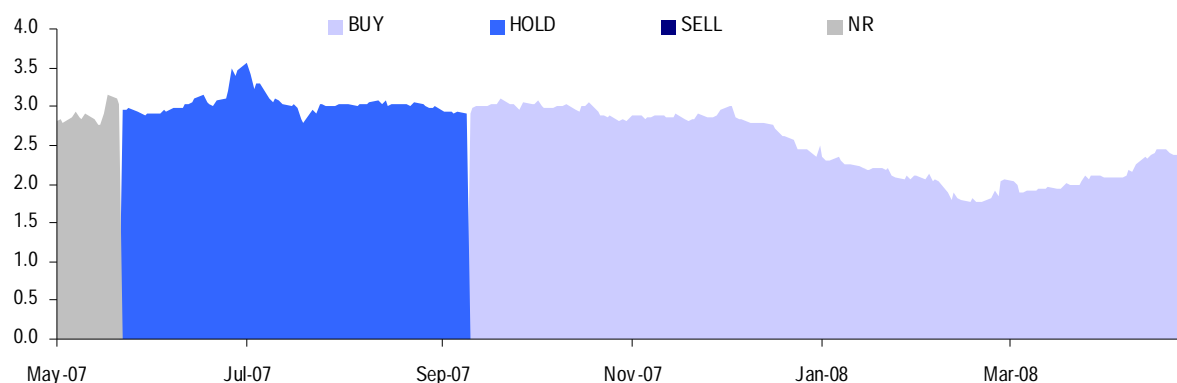
Financial statistics

FYE 31 Dec	2006A	2007A	2008E	2009E	2010E
Reported basic EPS (sen)	9	11	17	27	29
Normalized basic EPS (sen)	9	11	17	27	29
Normalized FD EPS (sen)	9	11	17	27	29
PER (x)	26	21	14	9	8
FD PER (x)	26	21	14	9	8
Net DPS (sen)	1.5	1.5	1.5	1.5	1.5
Net DY (%)	1	1	1	1	1
NTA/share (sen)	57	67	83	109	136
P/NTA (x)	4	4	3	2	2
FCF/share (sen)	-68	-36	-14	-8	-59
FCF yield (%)	-29	-15	-6	-3	-25
Market capitalization	470	481	481	481	481
Net cash	-149	-217	-249	-269	-391
Enterprise value	619	698	730	750	872
EV/EBITDA (x)	29	16	12	8	9
ROE (%)	16	17	20	25	21

Quarterly financial summary

FYE 31 Dec (RMm)	Q107	Q207	Q307	Q407	Q108
Revenue	107	96	124	97	93
Operating cost	-102	-88	-115	-85	-84
EBIT	4	8	9	12	9
Net interest income	0	-3	-2	-3	-3
Associates	0	0	0	0	0
Exceptionals	1	2	3	4	5
Pretax profit	4	5	7	8	6
<b>Net profit</b>	<b>4</b>	<b>5</b>	<b>7</b>	<b>8</b>	<b>6</b>
Basic shares (m)	198	198	198	198	198
Basic EPS (sen)	2	3	3	4	3
DPS (sen)	1	2	3	4	5
FCF/share (sen)	0	0	0	0	0
Net cash/share (sen)	-71	-67	-110	-110	-123

Share price performance vs. HLG investment rating



Bloomberg, HLG

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of +15% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -15% and +15% over 12-months, with low risk of sustained downside.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.