


**AmResearch**
**Company Report**

# TANJUNG OFFSHORE

(TOFF.MK, TJGO.KL)

3 December 2007

*Results below expectations*
**UNDER REVIEW**

RM2.88

Target Price: Under review

AmResearch Sdn Bhd

603 2078 2788 / 99

*Rationale for report : Results review*

YE to Dec	FY06	FY07F	FY08F	FY09F
EPS (sen)	9.2	12.8	22.0	30.2
PE (x)	33.4	24.0	14.0	10.1

*Source : AmResearch*

Quick Take

- Tanjung Offshore Bhd's ("TOffs") net profit for 9MFY07 came in below ours and street estimates. Net profit and pretax profit only accounted for 60% of our full year forecast of RM25.8m and RM26.6m respectively.
- Although we expect TOffs' results for 4QFY07 to improve from 3QFY07, we believe full year results will still fall short of our estimates. The stronger earnings expected in 4QFY07 is on the back of a drilling rig contract commenced in November and provision & supply of self-elevating relocatable facility in December 2007.
- The lower-than-expected 9MFY07 results were largely due to weak margins and higher-than-expected financing cost. EBIT margins for 9MFY07 was 5.9% against our estimates of 8.3% while financing cost was RM0.5m higher than our forecast.
- We reckon the weak margins is due to higher one-off cost incurred for refurbishments for TOffs' 1st mobile operating production unit ("MOPU") and lower-than-expected margins derived from supply of engineering equipment division.
- Despite the weaker-than-expected results, TOffs registered strong net profit (+31%) and turnover (+30%) growth sequentially.
- We would be reviewing our earnings forecast (pending clarification with management) with a downside bias given weaker-than-expected margins. TOffs' current outstanding order book amounts to about RM1bn, this will secure its earnings stream (based on our forecast) up to mid-2009.
- We understand that TOffs is currently working to tie-up with fabricators in Pasir Gudang for supply of engineering equipment and maintenance services. If the tie-up is realised, TOffs would likely benefit from huge projects secured and to be secured by these companies. TOffs will be able to complement the fabricators' projects with after-sales - maintenance services, hence allowing the latter to provide a more complete one-stop-service.
- Despite the potential catalyst, we will be reviewing our recommendation and target price on TOffs, given the potential cut in earnings.

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For AmResearch Sdn Bhd

 Azharuddin Nordin  
 Executive Director

**TABLE 1 : RESULTS SUMMARY (RMm)**

YE 31 Dec	9MFY06	9MFY07	% YoY	2Q07	3Q07	%QoQ
<b>Turnover</b>	<b>185.9</b>	<b>326.0</b>	<b>75.3</b>	<b>95.5</b>	<b>123.9</b>	<b>29.8</b>
<b>EBIT</b>	<b>12.3</b>	<b>19.1</b>	<b>54.7</b>	<b>7.9</b>	<b>8.9</b>	<b>11.8</b>
Net interest inc / (exp)	(1.5)	(3.2)		(2.9)	(2.2)	
Pre-exceptional profit	10.8	15.9		5.0	6.7	
Exceptionals	0.0	0.0		0.0	0.0	
Associates & JV	1.3	0.1		0.1	0.1	
<b>Pretax Profit</b>	<b>12.1</b>	<b>16.0</b>	<b>31.7</b>	<b>5.1</b>	<b>6.8</b>	<b>33.7</b>
Taxation	(0.4)	(0.2)		(0.1)	(0.2)	
Minorities	0.0	0.0		0.0	0.0	
Pre-acq profit	0.0	0.0		0.0	0.0	
<b>Net Profit</b>	<b>11.8</b>	<b>15.8</b>	<b>34.0</b>	<b>5.0</b>	<b>6.5</b>	<b>31.2</b>
EPS (sen)	6.1	7.9	30.1	2.5	3.2	30.5
Gross DPS (sen)	0.0	0.0		3.0	0.0	
NTA/Share (RM)	0.75	0.63		0.60	0.63	
Margins (%)						
EBITDA margin	8.4	7.2		8.3	7.2	
EBIT margin	6.6	5.9		8.3	7.2	
Pretax margin	6.5	4.9		5.3	5.5	
Effective tax rate	3.0	1.2		1.8	3.6	

Source: AmResearch