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PRELIMINARY

Description: Integrated oil & gas service provider.

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Tanjung Offshore**Buy***(unchanged)***New rates, new leg?****TP: RM3.35***Current Price: RM2.03*

- **Secured a contract extension for MV Tanjung Huma until 2011 at higher DCR of RM32,000 (+28%) with 2 similar deals in the pipeline.**
- **May order 3 new vessels and move into the rewarding decommissioning business for growth.**
- **Maintain Buy with an unchanged scenario-based RM3.35 target price.**

Extends MV Tanjung Huma's contract up to 2011 at higher rates. TOFF's vessel contract for MV Tanjung Huma – a 5,428bhp AHTS, currently chartered out to Petronas Carigali (PCSB), has been extended for a further 3 years until 2011 with improved rates. Effective Apr 08, the vessel will command a higher daily charter rate (DCR) of RM32,000 (USD1.84 per bhp) versus RM25,000 (USD1.44 per bhp) previously. The enhanced rates (+28%) will improve TOFF's net profit by 2% p.a. for FY08-09 and cut the vessel's payback period (delivered in Aug 2005, costing RM34m) by a year to 6 now.

MV Tanjung Pinang 1 & 2 will see similar scenario soon. Separately, contracts for its two 4,962bhp straight supply vessels (SSV) – MV Tanjung Pinang 1 & 2, currently chartered out to Jasa Merin at RM25,000 a day and due by Aug 2008, should see similar pact, i.e. 3 year extension with a 20-22% increase in DCR. Consequently, these new rates will add RM0.4m and RM1.2m to TOFF's net profits in FY08 (+1%) and FY09 (+3%) respectively.

Maintain FY08 net earning, raising FY09 forecast by 5%. We are keeping our RM35m net profit forecast for FY08 unchanged (as incremental profits of 3 the mentioned vessels from higher DCRs are negated by further mobilization delays on a jack-up rig; THE 208 – currently docked at MMHE's yard. However, we are raising FY09 forecast by 5% to RM45m, for the higher DCRs. Our FY09 forecast is conservative vis-à-vis TOFF's guided RM52m.

To order 3 new vessels and targets the decommissioning market. TOFF will most likely order 3 new vessels to ride on PETRONAS' domestic vessel requirement, in preparation for its deepwater program. Interestingly, TOFF may extend a new leg of growth by moving into the rewarding offshore decommissioning market. This segment, developed in 2006 will see significant growth from 2008 as the market could grow up to be an e.RM250m by 2011, from e.RM25m in 2007. TOFF will most likely partner a reputable regional player, with a 20-year track record in the abandonment & decommissioning business. We have yet to incorporate these potentials in our forecasts.

Tanjung Offshore – Summary Earnings Table

FYE Dec (RM m)	2006A	2007A	2008F	2009F
Turnover	293.3	422.9	372.1	511.8
EBITDA	20.7	42.9	60.3	78.5
Pretax Profit	17.5	24.3	38.8	50.4
Net Profit ex. EI	18.1	23.1	34.8	45.2
EPS – FD (sen) ex. EI	7.6	9.8	14.7	19.1
Net profit Gth (%)	12.3	28.1	50.5	29.9
PE (x)	26.6	20.8	13.8	10.6
EV/EBITDA (x)	30.4	16.2	12.9	10.4
DPS (sen)	2.1	3.0	3.1	3.5
Div Yield (%)	1.1	1.5	1.5	1.7
Net gearing (%)	130.6	157.5	177.5	162.5
ROE (%)	16.2	16.9	20.8	21.7
Book Value (RM)	0.57	0.69	0.84	1.05
P/Book Value (x)	3.6	2.9	2.4	1.9

Scenario analysis target price for TOFF

Existing operations	Value (RM m)	Total (RM m)	Key assumptions
- Marine services	408.9		Based on 15x FY09 earnings @ 11 vessels.
- Rigs & platform services	91.3		15x earnings multiple for FY08 @ 1 rig, 1 MOPU & 1 SERF.
- Engineering equipment & parts	94.5		Assigned a 14x FY08 earnings @ RM150m revenue, 5% NP margins.
- Maintenance services	126.0		Based on PER of 14x for FY08 @ RM50m sales & 18% NP margins
Sub-total		720.7	SOP = RM3.04
Scenario analysis			
- Winning 2 new TUVs	49.3		15x PER
Sub-total		49.3	SOP = RM0.21
Total		770.0	
Fully diluted share cap (m units)		237.1	
Scenario analysis value (RM)		3.35	

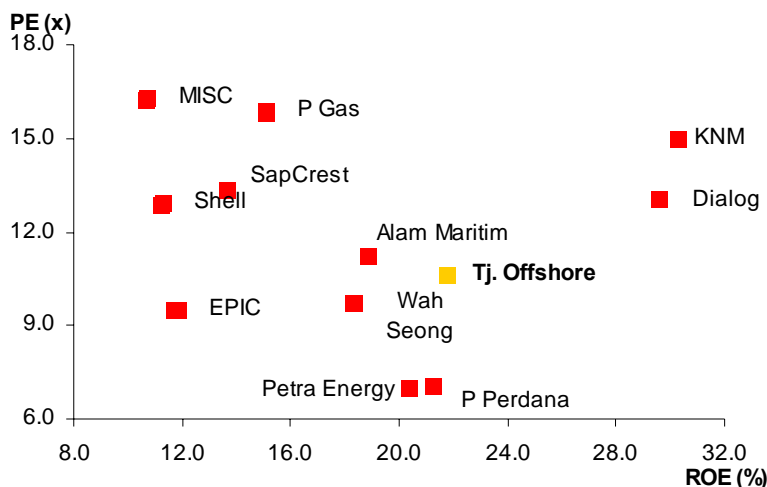
Source: Aseambankers

Local peer comparison

Company	Rec	Price (RM)	TP (RM)	EPS (sen)		EPS Grth (%)		PE (x)		DPS (sen)		Yield (%)		PBV
				08F	09F	08F	09F	08F	09F	08F	09F	08F	09F	
Alam Maritim	Buy	2.10	3.13	14.2	18.6	37.2	31.2	14.8	11.3	0.7	0.7	0.3	0.3	2.9
Dialog	Buy	1.58	2.35	8.7	12.1	56.9	38.2	18.1	13.1	6.1	8.4	3.8	5.3	4.9
EPIC	Hold	1.95	2.80	20.5	20.5	2.7	12.4	9.5	9.5	8.5	9.5	4.4	4.9	1.1
KNM*	Buy	6.85	7.10	31.6	41.9	73.0	32.7	19.9	15.0	4.0	5.0	0.6	0.8	3.9
MISC	Buy**	9.30	8.80	55.6	57.3	-14.5	3.1	16.7	16.2	35.0	35.0	3.8	3.8	1.9
Petra Energy	Trd. Buy	2.27	2.58	29.3	32.3	30.4	9.9	7.7	7.0	4.5	5.0	2.0	2.2	1.5
Petra Perdana	Buy	4.18	5.60	39.4	59.1	73.1	30.4	10.6	7.1	4.6	8.2	1.1	2.0	2.3
P Gas	Hold	9.95	10.50	62.1	62.9	0.1	1.2	16.0	15.8	46.0	47.0	4.6	4.7	2.4
Ramunia	Trd. Buy	1.52	1.70	4.7	7.5	80.4	724.6	32.4	20.3	0.0	0.0	0.0	0.0	1.0
SapCrest	Buy	1.62	1.70	11.0	12.1	46.7	10.1	14.7	13.4	2.0	2.0	1.2	1.2	2.3
Shell**	FV	11.40	9.10	88.7	88.3	-55.1	-0.4	12.8	12.9	50.0	50.0	4.4	4.4	1.4
Tj. Offshore	Buy	2.03	2.50	14.7	19.1	50.5	29.9	13.8	10.6	3.1	3.5	1.5	1.7	2.4
Wah Seong	Buy	2.38	2.65	19.0	24.4	15.5	28.1	12.5	9.8	7.0	8.0	2.9	3.4	2.3

Source: Aseambankers, * ex-1-for 4 rights issue, # cum, ** under review

Local peers comparison PER & ROE matrix



Source: Aseambankers

Definition of Ratings

Aseambankers uses the following rating system:

STRONG BUY	Total return is expected to exceed 20% in the next 12 months; high conviction call
BUY	Total return is expected to be above 10% in the next 12 months
HOLD	Total return is expected to be between above 0% to 10% in the next 12 months
FULLY VALUED	Total return is expected to be between -10% and 0% in the next 12 months
SELL	Total return is expected to be below -10% in the next 12 months
TRADING BUY	Total return is expected to be between 10-20% in the next 6 months arising from positive newsflow e.g. mergers and acquisition, corporate restructuring, and potential of obtaining new projects. However, the upside may or may not be sustainable

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BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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