EQUITY FOCUS

Aseambankers (15938-H)

MALAYSIA EQUITY RESEARCH

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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**	

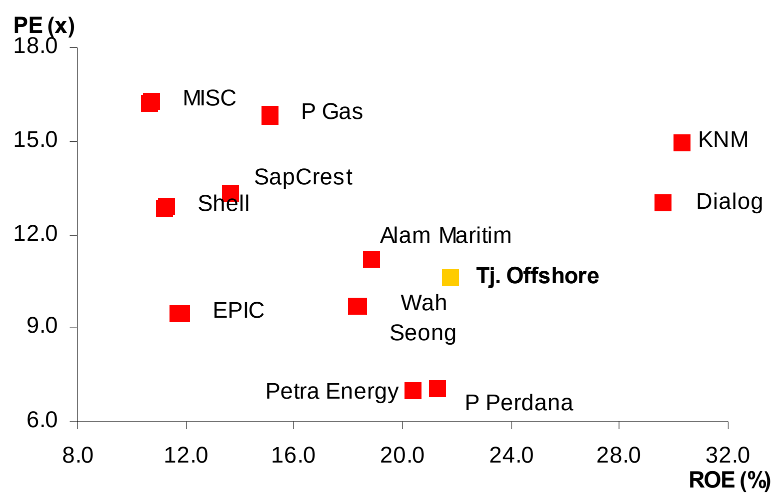
Source: Aseambankers

Local peer comparison

Company	Rec	Price	TP	EPS (sen)		EPS Grth (%)		PE (x)		DPS (sen)		Yield (%)		PBV
		(RM)	(RM)	08F	09F	08F	09F	08F	09F	08F	09F	08F	09F	08F
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

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

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

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