

## 1Q FY Dec 2008 results

# Tanjung Offshore

- Within expectations, 1Q usually seasonally weak
- Much stronger 2H08 from new ships, rig contracts
- Growth driven by fleet expansion, rigs and MOPU
- Outlook remains robust. Maintain BUY

**BUY**

Price  
**RM2.37**

Market capitalization  
**RM479 million**

Board  
**Main**

Sector  
**Trading / Services**

Stock code  
**7228**

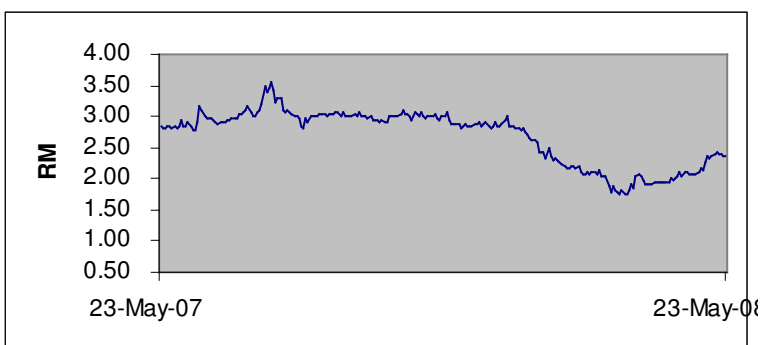
Analyst  
**Kevin Khoo**

Key stock statistics	FY Dec07	FY Dec08E
Basic EPS (sen)	11.5	18.2
FD EPS (sen)	10.3	16.4
Basic P/E (x)	20.7	12.8
FD P/E (x)	23.0	14.5
DPS (sen)	3.0	2.0
NTA/share (RM)	0.65	0.82
Issued capital (mil)	202 (50 sen par)	
52-week price range (RM)	1.53-3.56	

### Major shareholders (%)

Omar bin Khalid	43.1%
Abdullah bin Hashim	14.5%

### Share Price Chart



### 1Q FY Dec 2008 results highlights:

Year end Dec (RMm)	1Q2008	1Q2007	% chg
Turnover	92.8	106.6	(12.9)
Pre-tax profit	5.8	4.1	43.3
Tax	(0.2)	0.1	NM
Minorities	(0.1)	-	NM
Net profit	5.6	4.1	36.2
EPS (sen)	2.75	2.07	
Pre-tax margin (%)	6.3	3.8	
Net margin (%)	6.1	3.9	

At first glance, Tanjung Offshore's 1Q FY Dec 2008 results may appear weak, accounting for 15% of our full year net profit forecast. However, they are within expectations as Tanjung traditionally has a weak first half, followed by a strong second half that contributes around 65-70% of full year earnings.

The second half will also see the delivery of three new ships and the start of two rig contracts delayed from late last year.

For 1Q2008, revenue declined 13% y-y from RM106.6 million to RM92.8 million. This was mainly due to lower engineering equipment contracts, which tend to be lumpy and carry low single-digit margins.

Pre-tax profit for 1Q2008 rose 18.8% y-y to RM5.8 million, while net profit increased 36.2% to RM5.6 million, or 2.8 sen per share.

The strong y-y growth in profits and margins reflect the expansion of its high-margin marine vessel business, as the number of vessels increased from four to seven. The seventh vessel, the 5,444 bhp MV Tanjung Dawai was delivered in Oct 2007 and has contributed fully in 1Q2008.

Tanjung now has a fleet of seven vessels in operation, with another five presently under construction, comprising three anchor handling tug & supply vessels, a well testing vessel and a tug & utility vessel.

The company is also benefiting from higher charter rates for its vessels, now averaging US\$1.90 per bhp. It is in negotiations for long-term charters to lock in current prices for several of its new ships.

Tanjung's net debt increased from RM215.3 million in 4Q2007 to RM243.5 million in 1Q2008, with gearing of 170%.

Although this appears high, we are not concerned as 93% of gross debts are long-term in nature and are being used to fund its vessel expansion exercise, which have matching cash flows from long-term charters.

## Outlook & recommendation

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Tanjung is set to chart strong earnings growth over the next two years, driven by the aggressive expansion of its marine vessels, its two rig contracts, a recovery in MOPU earnings, and a number of maintenance and engineering contracts secured over the past year.

We expect a strong pick-up in earnings in the second half, and more so in the final quarter, as Tanjung's new vessels will be in operation by then. By the end of this year, its fleet size will rise from 7 to 10 vessels, and to 12 by 1Q2009.

We understand the company is looking at acquiring another four vessels after the current phase of expansion is completed. This will cement growth going forward beyond next year. As this will entail further borrowings, we do not preclude the possibility of a cash call further down the road.

Tanjung had earlier proposed to raise up to RM400 million of long-term financing in the form of 15-year Islamic Medium Term Notes, or IMTN (2007/2022). These facilities can be drawn down as and when needed, and will be used to finance the vessel purchases.

The company is also looking to lock in four-year leases for its new vessels, which is positive as we estimate the payback period for a typical vessel is 6-7 years under the current the charter rate environment. The vessels can last around 20 years.

2008 should see full-year earnings from MV Tanjung Dawai, higher rates from the long-term charters of MV Tanjung Pinang 3 & 4 (which were leased out in 3Q2007 on new 4-year contracts to Petronas Carigali), and new charter arrangements on other ships.

The second half should also benefit from the commencement of its two rig contracts which were earlier delayed from 4Q2007, namely: (1) THE 208, a jack-up drilling rig supplied to Murphy Oil for a 3+2 year duration for RM430 million and (2) SERF – a Self Elevating Relocatable Facility supplied for RM90 million to Murphy Oil Sarawak for 18 months with a 2-year extension.

Commissioning of the two rig contracts were delayed to end-2Q2008, due to fabrication delays beyond Tanjung's control. The THE 208 rig was originally scheduled to be operational from Nov 2007 and the SERF was earlier scheduled to start in Oct 2007.

We also expect a recovery in earnings from its MOPU (Mobile Offshore Production Unit) this year, as contributions were negligible last year due to unexpected cost increases and repairs.

We are maintaining our forecasts and **BUY** recommendation. We like Tanjung's strong growth prospects and its strategy of building up a large base of recurring and sustainable income. The current high price of oil will continue to buoy exploration activities and demand for Tanjung's services.

We expect net profit to rise 61.8% to RM37.5 million in 2008 and 28% to RM47.9 million in 2009. The stock's basic P/Es are very reasonable at 12.8 and 10 times 2008-09 earnings. Fully diluted P/Es are slightly higher at 14.5 times and 11.4 times, respectively, but still reasonable.

**Table 1: Current marine vessel fleet**

Vessel	Type	Size	Delivered	Charter status
MV Tg Manis	Utility	3,484 bhp, 45m	3Q05	Spot charter
MV Tg Huma	AHTS	5,428 bhp, 60m	3Q05	LT to Petronas Carigali
MV Tg Pinang 1	Straight Supply	4,962 bhp, 60m	3Q06	LT to Petronas Carigali
MV Tg Pinang 2	Straight Supply	4,962 bhp, 60m	3Q06	LT to Petronas Carigali
MV Tg Pinang 3	Straight Supply	4,962 bhp, 60m	4Q06	LT to Truong San, Talisman
MV Tg Pinang 4	Straight Supply	4,962 bhp, 60m	4Q06	LT to Petronas Carigali
MV Tg Dawai	AHTS	5,444 bhp, 60m	4Q07	LT to Petronas Carigali

**Table 2: New vessels under construction**

Vessel	Type	Size	Expected delivery
MV Tg Sari	AHTS	5,450 bhp, 60m	Jan 2009
MV Tg Puteri 1	AHTS	5,450 bhp, 60m	Sept 2008
MV Tg Puteri 2	AHTS	5,450 bhp, 60m	Sept 2008
MV Tg Gelang	Well Testing	5,500 bhp, 60m	Nov 2008
MV Tg Gaya	Tug & Utility	3,600 bhp, 49m	Feb 2009

### Profit & Loss Analysis

Year end Dec (RM mil)	2006	2007	2008E	2009E
Turnover	293.3	422.9	600.8	656.7
Operating profit	23.0	41.0	74.2	95.3
Depreciation	(4.3)	(8.3)	(11.0)	(18.0)
Associated co	1.9	0.4	5.0	5.0
Interest income/(exp)	(3.1)	(8.8)	(27.0)	(29.0)
Pre-tax profit	17.5	24.3	41.2	53.3
Tax	0.8	(1.0)	(3.7)	(5.3)
Minority interests	-	(0.1)	(0.0)	-
Net profit	18.3	23.1	37.5	47.9
Operating margin (%)	7.8	9.7	12.4	14.5
Pre-tax margin (%)	6.0	5.8	6.9	8.1
Net margin (%)	6.2	5.5	6.2	7.3
Effective tax rate (%)	NM	4.2	9.0	10.0

### Per Share Data

Year end Dec	2006	2007	2008E	2009E
Basic EPS (sen)	9.3	11.5	18.5	23.7
Basic P/E (x)	25.6	20.7	12.8	10.0
FD EPS (sen)	8.5	10.3	16.4	20.8
FD P/E (x)	28.0	23.0	14.5	11.4
Dividend (sen)	3.0	3.0	2.0	2.0
Gross yield (%)	1.3	1.3	0.8	0.8
Payout (%)	23.3	18.8	10.8	8.4
Book value (RM)	0.57	0.65	0.82	1.03
Price/Book value (x)	4.2	3.6	2.9	2.3
Cashflow/share (sen)	10.5	15.5	21.5	30.2
Price/Cashflow (x)	22.6	15.3	11.0	7.9
Gearing ratio (%)	130.7	193.6	206.3	151.2
ROE (%)	16.2	17.6	22.7	23.0



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