Singapore Company Focus

Ezra Holdings

Bloomberg: EZRA SP | Reuters: EZRA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Oct 2015

BUY

Last Traded Price: S$0.127 (**STI :** 3,068.46)
Price Target : S$0.30 (136% upside)

Reason for Report : 4QFY15 results
Potential Catalyst: Steps to improve balance sheet, M&A
Where we differ: More conservative earnings

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Result Summary

FY Aug (US$ m)	4Q 2015	4Q 2014	3Q 2015	% chg yoy	% chg qoq
P&L Items					
Turnover	147.4	446.0	390.7	(67.0)	(62.3)
Gross Profit	16.0	63.3	45.6	(74.7)	(64.8)
Opg Profit	(17.9)	24.8	7.9	nm	nm
EBITDA	10.3	46.9	38.1	(78.1)	(73.0)
Net Profit	(7.8)	11.0	(3.0)	nm	(159.5)

* Subsea services division classified as discontinued operations in 4Q15, hence prior period numbers are not comparable

Other Data			
Gross Margin (%)	10.9	14.2	11.7
Opg Margin (%)	(12.2)	5.6	2.0
Net Margin (%)	(5.3)	2.5	(0.8)

Financial Summary

FY Aug (US$ m)	2014A	2015A	2016F	2017F
Turnover	1,488	544	710	762
Operating Profit	61	19	27	28
EBITDA	164	167	110	113
Net Profit	45	44	(20)	(24)
Net (Pre-Ex)	13	(61)	(20)	(24)
EPS (S cts)	6.5	3.2	(0.9)	(1.2)
EPS (Pre-Ex)* (S cts)	1.9	(4.5)	(0.9)	(1.2)
EPS Gth (%)	(16)	(50)	nm	(23)
EPS Gth (Pre-Ex)* (%)	nm	nm	79	(23)
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	143.9	52.5	51.5	50.3
PE (X)	2.0	4.0	nm	nm
PE (Pre-Ex) (X)	6.8	nm	nm	nm
EV/EBITDA (X)	10.0	9.2	15.7	15.6
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.1	0.2	0.2	0.3
Net Debt/Equity (X)	1.2	0.8	0.9	0.9
ROAE (%)	3.5	3.3	(1.8)	(2.3)

* Subsea services classified as discontinued operations from FY15

At A Glance

Issued Capital (m shrs)	2,939
Mkt. Cap (Sm/USm)	373 / 267
3m Avg. Daily Val (US$m)	6.0

ICB Industry : Oil & Gas
ICB Sector: Oil Equipment; Services & Dist
Principal Business: Ezra Holdings is a leading offshore contractor and provider of integrated offshore solutions with three key business divisions - Subsea Services, Offshore Support Services (EMAS Offshore), and Marine Services (Triyards Limited).

Source: Company, DBS Bank, Bloomberg Finance L.P.

Focus on better financials

- **Higher than expected losses in 4QFY15 as both subsea division and OSV division disappoint**
- **FY16/17 could continue to post losses, but this is more than priced in at current levels**
- **Balance sheet has improved; Ezra should be able to tide over the crisis without further cash calls in FY16**
- **Maintain BUY with TP of S$0.30**

Highlights

Subsea division continues to be loss-making. Ezra's accounts in 4QFY15 have been stated to reflect the subsea business - EMAS AMC - as assets held for sale (discontinued operations) following the finalisation of its agreement to sell 50% of the subsea business to Chiyoda Corporation. Including discontinued operations, Ezra's earnings disappointed, recording a net loss of US$7.8m in 4QFY15, compared to US$11m net profit in 4QFY14. This was largely due to losses from both subsea and OSV divisions, as poor performance continued amid falling utilisation and day rates in the industry.

OSV division affected by some one-off higher costs. Ezra's OSV subsidiary EMAS Offshore recorded losses at the gross profit line in 4QFY15, as performance deteriorated further on a q-o-q basis. Fleet utilisation was steady q-o-q at around 70%, but a fall in day rates resulted in higher losses. Gross loss for the quarter was also influenced by the repair and maintenance work that was undertaken on some of the larger vessels added from the erstwhile EOC fleet; without these expenses, Ezra would have been profitable at the gross profit line. There were also significant expenses incurred in fleet mobilisation as vessels were in transition between contracts during the quarter. Management expects pressure on performance to continue amid global weakness in the industry. There will be more focus on reducing vessel operating costs and SG&A expenses.

Triyards performance the bright spot. Ezra'a Marine Services division (largely fabrication subsidiary Triyards) registered y-o-y increases in both revenue and profits, on the back of strong order wins over the last year. YTD in 2016, Triyards has announced close to US$600m of new order wins, and following the acquisition of Strategic Marine, has also been able to diversify its product offerings and win newbuilding contracts for aluminium crafts and chemical tankers.

Outlook

Ezra balance sheet has improved. Ezra finished FY15 with 1.0x net gearing after the rights issue, down from 1.2x at end-FY14. While retaining 50% interest in a potentially growing subsea services vehicle, Ezra will be able to further deleverage its balance sheet following the proposed transaction with Chiyoda. Following the 50% sale of the subsea business and potential sale and leaaseback of some key vessels like the FPSOs, net gearing could reduce further to around 0.6-0.7x in FY16, and enable Ezra to ride out the current oil price crisis in a better shape.

Lack of significant positive catalysts in near term. New order wins in subsea division are likely to remain subdued amid the low oil price environment and while we expect US$1bn subsea order wins in FY16/17, driven by Lewek Constellation, the deepwater subsea services industry is unlikely to recover strongly before 2017 at the earliers. The OSV division also could see further headwinds if fleet utilisation and rates decline.

Net losses likely to continue in FY16/17. With subsea division losses likely to continue in the near term despite the influence of strategic partner Chiyoda, and the OSV division is also weak, we now expect Ezra to post full year losses in FY16/17. However, the losses should be lower than FY15's core net loss, as subsea division performance should improve by some extent and Ezra will only be recognising 50% of the losses as the subsea division will be accounted on the JV line.

Valuation:

Our target price of S$0.30 is based on sum-of-the-parts valuation for Ezra's subsea, OSV and fabrication businesses, plus market valuations of its stake in Perisai Petroleum. The stock is down close to 60% YTD in 2015 and is currently trading at just 0.3x P/BV even after the recent rights issue to shore up its book value. The implied 100% sale value of the subsea business of US$360m from its recent transaction with Chiyoda Corporation on its own surpasses Ezra's current market cap of around US$270m. We thus continue to believe that despite the lackluster earnings outlook in FY16/17, valuations are too depressed at current levels and maintain our BUY call.

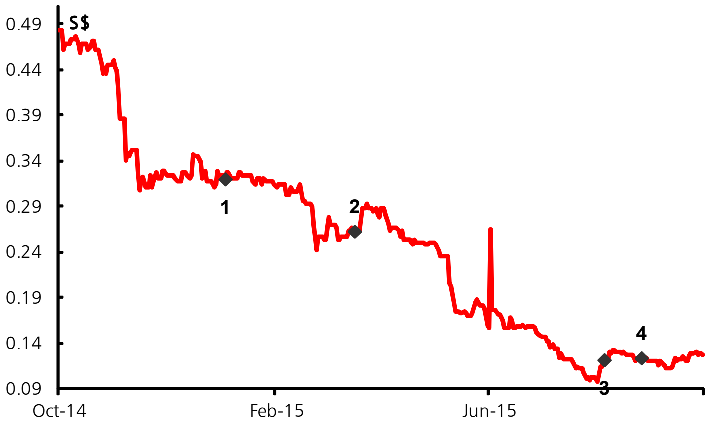
Key Risks:

Execution risks persist in near term. The acquisition of Aker Marine Contractors propelled Ezra to the big league in deepwater subsea but managing projects has not been easy. The addition of flagship vessel Lewek Constellation raises Ezra's profile but also means sufficient amount of work needs to be secured to ensure adequate utilisation.

Delays in contract orders. Deepwater exploration is highly sensitive to oil price changes and regulatory clearance, and hence, volatility can be expected, especially given the oil price fall to levels below which most deepwater development projects are considered feasible.

Interest rate risks. Balance sheet will still be reasonably geared despite rights issue and part divestment of subsea business. Vulnerable to interest rate hikes in future.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	26 Jan 15	0.32	0.36	HOLD
2:	09 Apr 15	0.26	0.31	HOLD
3:	28 Aug 15	0.12	0.30	BUY
4:	18 Sep 15	0.12	0.30	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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