

# PACC Offshore Services Holdings (POSH SP)

Share Price: SGD0.34

MCap (USD): 436M

Singapore

Target Price: SGD0.50 (+49%)

ADTV (USD): 0.2M

Oil &amp; Gas

**BUY**

(Unchanged)

## A game of survival

- 3Q15 beat our expectations on better margins but met consensus. This shows cost-optimisation efforts are paying off. Raise FY15E by 32%, trim FY16E/17E by 5%/1%.
- Likely to survive downturn given strong balance sheet. Preferred OSV play.
- Cut TP from SGD0.65 to SGD0.50, now at 0.5x P/BV to reflect longer downturn. Maintain BUY.

## What's New

3Q15 net profit of SGD12.6m (-16% YoY, +106% QoQ) beat our expectations but met consensus. 9M15 net profit of SGD18.7m (-71% YoY) formed 85%/58% of our/consensus forecasts. The beat came from better-than-expected margins which show that cost-optimisation efforts are paying off. OSV segment saw gross margin improve sequentially from -2.3% to 14.0%. Strong OA contributions from new vessels also helped. Excluding vessel sale gains, 3Q15 core net profit actually rose 293% YoY.

## What's Our View

We raise FY15E EPS by 32% on the better-than-expected 3Q15 but trim FY16E/17E by 5%/1% on housekeeping adjustments. Our forecast of strong EPS growth in FY16E still hinges on POSH securing a charter for its second SSAV - POSH Arcadia, by 2Q16 and stopping losses at its Mexican JV vessels which have been transferred to the OSV segment.

The sector continues to face rates and utilisation pressure. With no visible oil price rebound, a sustained OSV recovery may come after 1H16. To reflect a longer downturn, we lower our P/BV valuation multiple from 0.7x to 0.5x, based on GGM (ROE 6%; CoE 12%). This brings our TP down from SGD0.65 to SGD0.50.

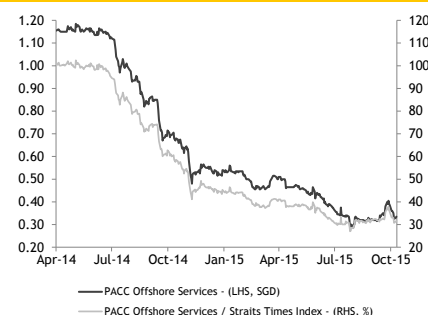
This is a game of survival and POSH's strong financial position (0.46x net gearing; 9.4x/8.0x 3Q15/FY15E EBITDA/interest expense) and Kuok Group parentage minimise risk of failure. POSH is our preferred OSV player. Maintain BUY.

FYE Dec (USD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	237.3	234.0	296.7	365.1	391.3
EBITDA	114.4	112.6	90.7	136.0	155.9
Core net profit	73.4	53.2	29.1	66.0	86.0
Core EPS (cts)	4.0	2.9	1.6	3.6	4.7
Core EPS growth (%)	37.1	(27.4)	(45.4)	127.0	30.4
Net DPS (cts)	0.0	1.1	0.0	1.1	1.1
Core P/E (x)	5.9	8.2	15.0	6.6	5.1
P/BV (x)	0.5	0.4	0.4	0.3	0.3
Net dividend yield (%)	0.0	4.5	0.0	4.5	4.5
ROAE (%)	9.6	5.1	2.4	5.3	6.5
ROAA (%)	4.6	2.9	1.5	3.4	4.4
EV/EBITDA (x)	na	11.5	10.7	7.1	5.6
Net debt/equity (%)	92.2	45.2	43.8	40.7	32.2

## Key Data

52w high/low (SGD)	0.68/0.29
3m avg turnover (USDm)	0.2
Free float (%)	16.6
Issued shares (m)	1,820
Market capitalization	SGD609.7M
Major shareholders:	
-Kuok Group	59.8%
-Malaysian Bulk Carriers Bhd.	21.2%
-Camsward Pte Ltd.	0.7%

## Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	6.3	(1.5)	(52.5)
Relative to index (%)	(1.0)	4.9	(47.9)

## Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	2	1
	Maybank Consensus		% +/-
Target Price (SGD)	0.50	0.50	(0.9)
'15 PATMI (USDm)	29	29	(1.3)
'16 PATMI (USDm)	66	69	(4.4)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss

FYE Dec (USD m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	Comments
Revenue	80.4	71.0	67.0	13.2	19.9	
Cost of Goods Sold	(62.0)	(56.6)	(49.7)	9.7	24.9	
<b>Gross Profit</b>	<b>18.4</b>	<b>14.5</b>	<b>17.4</b>	<b>27.1</b>	<b>5.9</b>	
SG&A	(7.2)	(10.7)	(8.0)	(33.1)	(10.5)	Lower due to cost control and reversal of USD0.7m of doubtful debt.
Other Op. Income	2.9	1.3	13.4	124.3	(78.5)	3Q14 consists of USD11.6m of vessel sale gain.
<b>EBIT</b>	<b>14.1</b>	<b>5.0</b>	<b>22.8</b>	<b>179.9</b>	<b>(38.1)</b>	
Interest Income	0.7	0.6	0.3	13.1	157.4	
Interest Expense	(2.6)	(2.5)	(2.4)	3.1	9.0	
JV Income	0.9	3.3	(5.7)	(73.6)	(115.4)	Higher contribution from POSH Terasea
<b>EBT</b>	<b>13.1</b>	<b>6.5</b>	<b>15.0</b>	<b>102.8</b>	<b>(12.7)</b>	
Taxation	(0.5)	(0.3)	0.0	47.2	n.m.	
<b>Net Profit</b>	<b>12.6</b>	<b>6.1</b>	<b>15.0</b>	<b>105.9</b>	<b>(16.0)</b>	Excluding vessel sale gains, 3Q15 net profit is USD11.8m vs USD3.0m in 3Q14 (+293% YoY).
Gross Margins (%)	22.9	20.4	25.9	2.5ppts	(3.0)ppts	
EBIT Margins (%)	17.5	7.1	34.0	10.4ppts	(16.5)ppts	
EBT Margins (%)	16.3	9.1	22.4	7.2ppts	(6.1)ppts	
Net Margins (%)	15.6	8.6	22.4	7.0ppts	(6.7)ppts	
<b>Revenue</b>						
OSV	38.0	31.5	43.0	20.5	(11.5)	Utilisation rates: 3Q15: 74%   2Q15: 79%   3Q14: 83%
T&I	7.2	8.1	9.8	(10.0)	(26.2)	
Offshore Accommodation	26.9	26.3	9.0	2.4	199.8	
Harbour Services and Emergency Response	8.2	5.1	5.3	60.0	55.7	Higher due to a salvage job in 3Q15.
<b>Total</b>	<b>80.4</b>	<b>71.0</b>	<b>67.0</b>	<b>13.2</b>	<b>19.9</b>	
<b>Gross Profit</b>						
OSV	5.3	(0.7)	10.4	(838.1)	(49.1)	
T&I	0.8	1.7	3.3	(50.3)	(74.8)	
Offshore Accommodation	10.9	13.1	3.3	(16.4)	235.2	
Harbour Services and Emergency Response	1.3	0.4	0.3	199.5	295.8	
<b>Total</b>	<b>18.4</b>	<b>14.5</b>	<b>17.4</b>	<b>27.1</b>	<b>5.9</b>	
<b>Gross Margins</b>						
OSV	14.0	-2.3	24.3	16.3ppts	(10.3)ppts	
T&I	11.6	21.0	33.9	(9.4)ppts	(22.4)ppts	
Offshore Accommodation	40.5	49.6	36.2	(9.1)ppts	4.3ppts	
Harbour Services and Emergency Response	15.9	8.5	6.3	7.4ppts	9.6ppts	
<b>Total</b>	<b>22.9</b>	<b>20.4</b>	<b>25.9</b>	<b>2.5ppts</b>	<b>(3.0)ppts</b>	

Source: Company, Maybank KE

Figure 2: 9M profit and loss

FYE Dec (USD m)	9M15	9M14	% chg YoY	MBKE FY15E	YTD as % of FY15E	Comments
<b>Revenue</b>	<b>209.0</b>	<b>178.2</b>	<b>17.3</b>	<b>288.5</b>	<b>72</b>	Higher contribution from OA segment
Cost of Goods Sold	(168.2)	(127.5)	31.9	(238.5)	71	
<b>Gross Profit</b>	<b>40.8</b>	<b>50.7</b>	<b>(19.5)</b>	<b>50.0</b>	<b>82</b>	Lower charter rates and Utilisation for OSV and T&I
SG&A	(25.2)	(24.9)	1.2	(35.8)	70	
Other Op. Income	6.5	50.9	(87.3)	6.4	102	Lower vessel sale gain of only USD2.6m in 9M15 compared to USD46.5m in 9M14
<b>EBIT</b>	<b>22.2</b>	<b>76.8</b>	<b>(71.1)</b>	<b>20.5</b>	<b>108</b>	
Interest Income	2.4	5.3	(54.6)	8.7	28	
Interest Expense	(7.7)	(8.6)	(10.7)	(14.3)	54	
JV Income	2.9	(8.6)	(133.3)	7.3	39	
<b>EBT</b>	<b>19.7</b>	<b>64.8</b>	<b>(69.6)</b>	<b>22.2</b>	<b>89</b>	
Taxation	(1.0)	(0.6)	72.2	(0.2)	443	
<b>Net Profit</b>	<b>18.7</b>	<b>64.3</b>	<b>(70.9)</b>	<b>22.0</b>	<b>85</b>	
Gross Margins (%)	19.5	28.5	(8.9)ppts	17.3		
EBIT Margins (%)	10.6	43.1	(32.5)ppts	7.1		
EBT Margins (%)	9.4	36.4	(26.9)ppts	7.7		
Net Margins (%)	9.0	36.1	(27.1)ppts	7.6		
<b>Revenue</b>						
OSV	102.3	105.1	(2.6)	123.8		<b>Utilisation rates:</b> 9M15: 70%   9M14: 85%
T&I	21.3	34.3	(37.7)	42.9		
Offshore Accommodation	66.4	22.6	194.0	94.9		Higher due to contribution from SSAV POSH Xanadu and 3 x LCVs.
Harbour Services and Emergency Response	19.0	16.3	16.6	27.0		<b>Utilisation rates:</b> 9M15: 67%   9M14: 77%
	<b>209.0</b>	<b>178.2</b>	<b>17.3</b>	<b>288.5</b>		
<b>Gross Profit</b>						
OSV	8.5	27.8	(69.5)	2.0		
T&I	4.1	12.6	(67.6)	10.7		
Offshore Accommodation	25.6	8.2	213.3	31.8		Higher due to contribution from SSAV POSH Xanadu and 3 x LCVs.
Harbour Services and Emergency Response	2.7	2.2	24.4	5.4		
	<b>40.8</b>	<b>50.7</b>	<b>(19.5)</b>	<b>50.0</b>		
<b>Gross Margins</b>						
OSV	8.3	26.5	(18.2)ppts	1.7ppts		
T&I	19.1	36.7	(17.6)ppts	25.0ppts		
Offshore Accommodation	38.6	36.2	2.4ppts	33.6ppts		
Harbour Services and Emergency Response	14.1	13.2	0.9ppts	20.0ppts		
	<b>19.5</b>	<b>28.5</b>	<b>(8.9)ppts</b>	<b>17.3ppts</b>		

Source: Company, Maybank KE

**Figure 3: Revenue and gross profit**

We have shifted its Mexican vessels from JV line to OSV segment which accounts for the increase in revenue.

FYE Dec	Old			New		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
<b>Revenue (USD m)</b>						
OSV	124	130	141	143	159	170
T&I	43	44	46	32	38	41
OA	95	139	149	95	139	149
HSER	27	29	32	27	29	32
	<b>289</b>	<b>342</b>	<b>368</b>	<b>297</b>	<b>365</b>	<b>391</b>
<b>Gross profit (USD m)</b>						
OSV	2	7	14	12	19	23
T&I	11	11	12	6	8	10
OA	32	68	78	34	68	78
HSER	5	6	8	5	6	8
	<b>50</b>	<b>92</b>	<b>112</b>	<b>58</b>	<b>101</b>	<b>120</b>
<b>Gross margins (%)</b>						
OSV	1.7	5.0	9.7	8.7	12.0	13.7
T&I	25.0	25.0	25.0	20.0	20.0	25.0
OA	33.6	49.2	52.4	36.0	49.2	52.4
HSER	20.0	20.4	26.0	20.0	20.4	26.0
	<b>17.3</b>	<b>26.9</b>	<b>30.3</b>	<b>19.7</b>	<b>27.7</b>	<b>30.6</b>

Source: Maybank KE

**Figure 4: Operating assumptions**

We have shifted its Mexican vessels from JV line to OSV segment which accounts for the increase in number of vessels.

FYE Dec	Old			New		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
<b>OSV</b>						
No. of vessels	20	22	22	27	29	29
Average charter rates (USD/day)	15,233	15,751	16,242	15,326	15,851	16,393
Average utilisation (%)	77%	75%	78%	70%	72%	76%
<b>T&amp;I</b>						
No. of vessels	35	37	37	35	37	37
Average charter rates (USD/day)	5,362	5,346	5,480	5,453	5,448	5,466
Average utilisation (%)	63%	62%	63%	47%	53%	56%
<b>Offshore Accommodation</b>						
No. of vessels	8	9	9	8	9	9
Average charter rates (USD/day)	48,147	53,481	54,123	48,147	53,481	54,123
Average utilisation (%)	72%	80%	85%	72%	80%	85%
<b>Harbour Services &amp; Emergency Response</b>						
No. of vessels	16	16	16	16	16	16
Average charter rates (USD/day)	10,000	10,000	10,000	10,000	10,000	10,000
Average utilisation (%)	50%	50%	56%	50%	50%	56%

Source: Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	5.9	8.2	15.0	6.6	5.1
Core P/E (x)	5.9	8.2	15.0	6.6	5.1
P/BV (x)	0.5	0.4	0.4	0.3	0.3
P/NTA (x)	0.8	0.5	0.5	0.4	0.4
Net dividend yield (%)	0.0	4.5	0.0	4.5	4.5
FCF yield (%)	nm	nm	nm	nm	20.0
EV/EBITDA (x)	na	11.5	10.7	7.1	5.6
EV/EBIT (x)	na	17.7	27.8	13.4	9.8

**INCOME STATEMENT (USD m)**

Revenue	237.3	234.0	296.7	365.1	391.3
Gross profit	72.4	57.2	58.5	101.0	119.9
EBITDA	114.4	112.6	90.7	136.0	155.9
Depreciation	(36.7)	(39.3)	(55.7)	(64.4)	(66.7)
Amortisation	(4.2)	(0.1)	(0.1)	0.0	0.0
EBIT	73.5	73.2	34.9	71.6	89.2
Net interest income / (exp)	3.0	(3.8)	(8.4)	(8.4)	(7.4)
Associates & JV	0.9	(13.6)	3.6	5.3	7.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	77.4	55.8	30.1	68.5	89.3
Income tax	(4.0)	(2.6)	(1.1)	(2.5)	(3.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	73.4	53.2	29.1	66.0	86.0
Core net profit	73.4	53.2	29.1	66.0	86.0

**BALANCE SHEET (USD m)**

Cash & Short Term Investments	10.6	12.2	33.0	33.6	66.5
Accounts receivable	184.1	201.6	158.3	174.8	187.4
Inventory	1.3	2.4	1.3	1.4	1.5
Property, Plant & Equip (net)	1,037.6	1,113.7	1,288.0	1,333.6	1,296.9
Intangible assets	295.6	295.4	295.3	295.3	295.3
Investment in Associates & JVs	20.1	75.1	86.3	91.5	99.0
Other assets	224.4	171.0	34.6	35.2	35.2
<b>Total assets</b>	<b>1,773.5</b>	<b>1,871.3</b>	<b>1,896.8</b>	<b>1,965.5</b>	<b>1,981.8</b>
ST interest bearing debt	507.4	260.5	269.1	257.8	203.3
Accounts payable	86.1	90.1	99.1	112.4	116.6
LT interest bearing debt	300.0	300.0	300.0	300.0	300.0
Other liabilities	16.0	7.0	6.0	6.0	7.0
<b>Total Liabilities</b>	<b>909.2</b>	<b>657.6</b>	<b>673.8</b>	<b>676.5</b>	<b>626.5</b>
Shareholders Equity	864.3	1,213.8	1,223.0	1,289.0	1,355.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>864.3</b>	<b>1,213.8</b>	<b>1,223.0</b>	<b>1,289.0</b>	<b>1,355.3</b>
<b>Total liabilities and equity</b>	<b>1,773.5</b>	<b>1,871.3</b>	<b>1,896.8</b>	<b>1,965.5</b>	<b>1,981.8</b>

**CASH FLOW (USD m)**

Pretax profit	77.4	55.8	30.1	68.5	89.3
Depreciation & amortisation	40.9	39.4	55.8	64.4	66.7
Adj net interest (income)/exp	(3.2)	3.8	8.4	8.4	7.4
Change in working capital	21.2	(1.7)	(26.5)	7.6	(4.1)
Cash taxes paid	(1.6)	(0.9)	0.8	(2.5)	(3.3)
Other operating cash flow	(1.2)	(26.4)	(16.7)	(13.6)	(8.1)
Cash flow from operations	135.2	60.1	44.4	121.9	137.2
Capex	(416.5)	(190.2)	(250.0)	(130.0)	(50.0)
Free cash flow	(281.3)	(130.1)	(205.6)	(8.1)	87.2
Dividends paid	0.0	0.0	(19.8)	0.0	(19.8)
Equity raised / (purchased)	0.0	296.2	0.0	0.0	0.0
Change in Debt	0.0	(246.9)	8.6	(11.3)	(54.5)
Other invest/financing cash flow	(1.5)	82.4	237.7	20.0	20.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(282.8)	1.6	20.9	0.6	32.9

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.3)	(1.4)	26.8	23.0	7.2
EBITDA growth	18.4	(1.6)	(19.4)	50.0	14.6
EBIT growth	25.3	(0.4)	(52.3)	105.1	24.6
Pretax growth	42.0	(27.9)	(46.0)	127.4	30.4
Reported net profit growth	37.1	(27.4)	(45.4)	127.0	30.4
Core net profit growth	37.1	(27.4)	(45.4)	127.0	30.4
<b>Profitability ratios (%)</b>					
EBITDA margin	48.2	48.1	30.6	37.3	39.8
EBIT margin	31.0	31.3	11.8	19.6	22.8
Pretax profit margin	32.6	23.8	10.2	18.8	22.8
Payout ratio	0.0	37.2	0.0	30.0	23.0
<b>DuPont analysis</b>					
Net profit margin (%)	30.9	22.7	9.8	18.1	22.0
Revenue/Assets (x)	0.1	0.1	0.2	0.2	0.2
Assets/Equity (x)	2.1	1.5	1.6	1.5	1.5
ROAE (%)	9.6	5.1	2.4	5.3	6.5
ROAA (%)	4.6	2.9	1.5	3.4	4.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	121.0	78.2	22.0	16.7
Days receivable outstanding	nm	296.6	218.3	164.2	166.6
Days inventory outstanding	7.9	3.8	2.8	1.9	1.9
Days payables outstanding	176.4	179.4	143.0	144.2	151.9
Dividend cover (x)	nm	2.7	nm	3.3	4.4
Current ratio (x)	0.4	0.6	0.5	0.6	0.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.8	2.8	2.9	3.2
Net debt/equity (%)	92.2	45.2	43.8	40.7	32.2
Net interest cover (x)	na	19.0	4.1	8.5	12.0
Debt/EBITDA (x)	7.1	5.0	6.3	4.1	3.2
Capex/revenue (%)	175.6	81.2	84.3	35.6	12.8
Net debt/ (net cash)	796.9	548.3	536.0	524.2	436.8

Source: Company; Maybank

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