

Ezion Holdings (EZI SP)

Energy & Petrochemicals - Oil & Gas Services

Market Cap: USD749m

Buy (Maintained)

 Target Price: **SGD1.40**

 Price: **SGD0.68**

Trying Tough Trough Times

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	13.9m/9.90m
Cons. Upside (%)	69.1
Upside (%)	107
52-wk Price low/high (SGD)	0.55 - 1.50
Free float (%)	85
Share outstanding (m)	1,578

Shareholders (%)

Chew Thiam Keng	14.2
Commonwealth Bank of Australia	8.8
Guoline Capital	7.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.7)	(7.5)	(15.1)	(45.1)	(54.7)
Relative	(28.3)	(6.9)	(9.7)	(31.0)	(45.3)

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Ezion reported weak 3Q15 PATMI of USD30.3m as its vessel downtime increased, compounded by higher repair and crew costs. Maintain BUY with a lower SGD1.40 TP (from SGD1.60, 107% upside). 18 of its 26 vessels were working at end-3Q15, and Ezion expects a net increase of three working units by end-FY15. The operating environment is still difficult, but we believe the 40% discount to book value is unjustified, given that the company could still deliver 11% ROE in a trough year.

- ◆ **Fleet status update.** Ezion currently has 26 units in its fleet, of which 18 were working as of end-3Q15. Of the eight units in the dry dock, three will return to work in 4Q15, while two newbuild liftboats will be delivered into the fleet. However, two more units will be coming off-hire in 4Q15 – this implies a net gain of three working units in 4Q15. Based on available vessel days, the 3Q15 utilisation rate was only at 60%. We expect this to be near the trough, and the rate should rebound next year.
- ◆ **Fallout from AMS incident will be felt next year.** The three units that were not properly maintained by Atlantic Marine Services (AMS), Ezion's partner in the North Sea, are being drydocked for repairs and will be out of action for nearly half a year. This could decrease its utilisation rate by 4-5% in FY16, based on a fleet growing to 37 vessels from 28 vessels.
- ◆ **Maersk wants one more unit while customers remain demanding.** Maersk had already substituted its original liftboat order with a larger newbuild from Ezion, which allowed the previous unit to fulfill another of the latter's contracts. However, Maersk now wants the old unit back for additional field operations. This presents Ezion with a (high-quality) problem of not having enough liftboats on hand. However, like every other customer, Maersk is asking for specification improvements that require capex while still trying to hold rates down. The operating environment has not gotten any easier.
- ◆ **40% discount to book unjustified.** With the additional repair time required for the AMS units, we cut our FY15F/FY16F EPS by 12%/14%. We also cut our FY17F EPS by 12%, to be conservative. Still, we believe the 40% discount to book is unjustified – Ezion should still deliver 11% ROE in this tough year (which is shaping up to be an earnings trough), which justifies a share price at book value. Our TP is based on 8x (from 9x) FY15F/FY16F P/E, implying 7.2x FY16F P/E and 1.17x FY16F P/BV.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	282	387	349	526	566
Reported net profit (USDm)	160	224	128	219	264
Recurring net profit (USDm)	141	188	128	219	264
Recurring net profit growth (%)	115.0	33.6	(32.0)	71.2	20.8
Recurring EPS (USD)	0.11	0.12	0.08	0.14	0.17
DPS (USD)	0.001	0.001	0.001	0.001	0.001
Recurring P/E (x)	4.21	3.82	5.86	3.42	2.83
P/B (x)	0.80	0.68	0.61	0.52	0.44
P/CF (x)	4.11	3.92	3.40	2.50	1.86
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	8.83	6.47	8.66	5.32	3.87
Return on average equity (%)	27.7	24.8	11.0	16.4	16.8
Net debt to equity (%)	115.0	85.7	115.2	97.7	64.4
Our vs consensus EPS (adjusted) (%)			(15.9)	(4.8)	5.8

Source: Company data, RHB

Additional Notes

Figure 1: Quarterly results in review

FYE Dec (USDm)	3Q14	2Q15	3Q15	QoQ	YoY	Comments
Revenue	94.9	90.1	86.2	-4%	-9%	Revenue slightly down QoQ as units drydocked in 2Q15 remained non-operating through the whole quarter. Revenue in 3Q14 included Australian operations, which have stopped as no new liquefied natural gas trains are being built.
Gross profit	48.4	31.4	25.0	-20%	-48%	Higher depreciation and operating costs. In addition, Ezion expenses off repair costs. Additional crewing costs were also incurred, as crew returned to vessels almost ready for deployment.
Other income, net	5.9	1.0	8.6	nm	45%	USD7.5m forex gain in 3Q15 vs USD2.4m in 3Q14.
Administrative expenses	-4.6	-4.8	-4.2	-13%	-8%	
Other operating expenses	-1.3	-1.7	-1.6	-2%	25%	
Operating profit	48.4	25.9	27.7	7%	-43%	
Finance income	1.6	1.1	1.1	-2%	-32%	
Finance costs	-5.4	-7.0	-7.0	1%	31%	Higher quantum of borrowings to support a larger fleet.
Associates / JVs	5.7	9.3	9.0	-2%	58%	JV liftboats and Charisma Energy generally performed well.
Profit before tax	50.4	29.3	30.8	5%	-39%	
Tax	-0.2	-0.4	-0.4	16%	-55%	
Minority interest	-0.2	0.0	0.0	nm	-100%	
PATMI	49.2	29.0	30.3	5%	-38%	
Exceptionals	0.0	0.0	0.0	nm	nm	
Core PATMI	49.2	29.0	30.3	5%	-38%	
Balance sheet						
Gross debt	1,491.6	1,619.2	1,650.5			
Gross cash	332.9	339.9	245.5			
Net debt	1,158.7	1,279.2	1,405.0			
Total equity	1,123.0	1,366.6	1,302.0			
Net gearing	103%	94%	108%			Net gearing up QoQ because of SGD125m of perpetuals redeemed (lower cash, lower equity compared to 2Q15).
Perpetual securities	97.7	211.9	116.5			
Shareholders' equity	1,025.4	1,154.7	1,185.5			
Net debt to shareholders' equity	113%	111%	119%			
Margins						
Group gross profit	51.0%	34.9%	29.0%			
Operating profit	51.1%	28.8%	32.2%			
Core PATMI	51.9%	32.2%	35.2%			

Source: Company data, RHB

Financial Exhibits

Profit & Loss (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	282	387	349	526	566
Cost of sales	(149)	(191)	(223)	(296)	(293)
Gross profit	133	196	126	230	273
Gen & admin expenses	(14)	(17)	(9)	(13)	(14)
Operating profit	119	179	117	217	259
Operating EBITDA	165	281	253	400	449
Depreciation of fixed assets	(45)	(103)	(135)	(183)	(190)
Operating EBIT	119	179	117	217	259
Net income from investments	31	28	37	39	39
Interest income	5	6	4	2	3
Interest expense	(12)	(22)	(29)	(37)	(35)
Exceptional income - net	20	36	-	-	-
Pre-tax profit	163	226	130	221	266
Taxation	(3)	(2)	(2)	(2)	(2)
Minority interests	0	(0)	-	-	-
Profit after tax & minorities	160	224	128	219	264
Reported net profit	160	224	128	219	264
Recurring net profit	141	188	128	219	264

Source: Company data, RHB

Cash flow (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	119	179	117	217	259
Depreciation & amortisation	45	103	135	183	190
Change in working capital	(5)	(62)	(6)	(63)	(12)
Other operating cash flow	(2)	(4)	-	-	-
Operating cash flow	158	215	247	337	437
Interest received	0	-	4	2	3
Interest paid	(13)	(30)	(29)	(37)	(35)
Dividends received	1	-	-	-	-
Tax paid	(2)	(2)	(2)	(2)	(2)
Cash flow from operations	144	183	220	300	404
Capex	(709)	(458)	(425)	(275)	(50)
Other new investments	(40)	3	-	-	-
Other investing cash flow	15	18	-	-	-
Cash flow from investing activities	(734)	(437)	(425)	(275)	(50)
Dividends paid	(1)	(1)	(2)	(2)	(2)
Proceeds from issue of shares	87	158	-	-	-
Increase in debt	676	355	200	-	(250)
Other financing cash flow	(134)	49	(95)	-	-
Cash flow from financing activities	628	561	102	(2)	(252)
Cash at beginning of period	135	166	372	149	172
Total cash generated	38	306	(102)	23	102
Forex effects	(6)	(18)	-	-	-
Implied cash at end of period	167	454	269	172	274

Source: Company data, RHB

Financial Exhibits

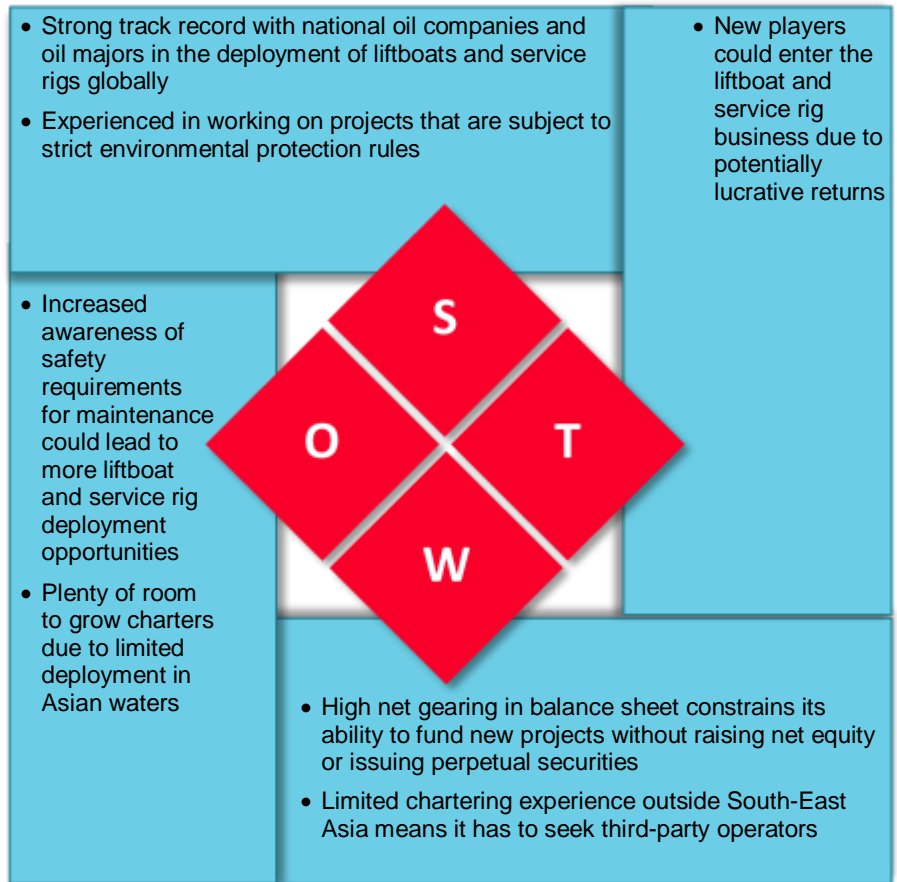
Balance Sheet (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	166	372	149	172	274
Accounts receivable	107	160	191	252	271
Other current assets	107	128	128	128	128
Total current assets	380	659	468	552	672
Total investments	199	187	224	263	301
Tangible fixed assets	1,464	2,136	2,545	2,637	2,497
Total non-current assets	1,663	2,322	2,769	2,900	2,799
Total assets	2,043	2,981	3,237	3,452	3,471
Short-term debt	223	288	339	339	289
Accounts payable	69	70	95	94	101
Other current liabilities	84	69	69	69	69
Total current liabilities	376	427	504	502	459
Total long-term debt	863	1,208	1,357	1,357	1,157
Other liabilities	4	33	33	33	33
Total non-current liabilities	866	1,241	1,390	1,390	1,190
Total liabilities	1,243	1,668	1,894	1,892	1,649
Share capital	346	536	536	536	536
Retained earnings reserve	357	565	691	907	1,170
Shareholders' equity	703	1,101	1,226	1,443	1,705
Minority interests	(0)	(0)	(0)	(0)	(0)
Other equity	98	212	116	116	116
Total equity	800	1,313	1,343	1,560	1,822
Total liabilities & equity	2,043	2,981	3,237	3,452	3,471

Source: Company data, RHB

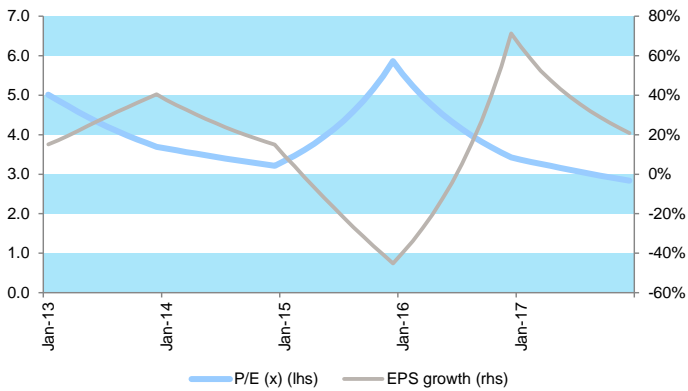
Key Ratios (USD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	77.7	37.1	(9.8)	50.9	7.6
Operating profit growth (%)	108.5	49.9	(34.3)	84.9	19.3
Net profit growth (%)	103.4	39.4	(42.8)	71.2	20.8
EPS growth (%)	40.5	15.0	(45.2)	71.2	20.8
BVPS growth (%)	70.7	17.6	11.4	17.7	18.2
Operating margin (%)	42.3	46.2	33.7	41.3	45.8
Net profit margin (%)	56.9	57.9	36.7	41.6	46.7
Return on average assets (%)	9.9	8.9	4.1	6.5	7.6
Return on average equity (%)	27.7	24.8	11.0	16.4	16.8
Net debt to equity (%)	115.0	85.7	115.2	97.7	64.4
DPS	0.001	0.001	0.001	0.001	0.001
Recurrent cash flow per share	0.12	0.12	0.14	0.19	0.26

Source: Company data, RHB

SWOT Analysis

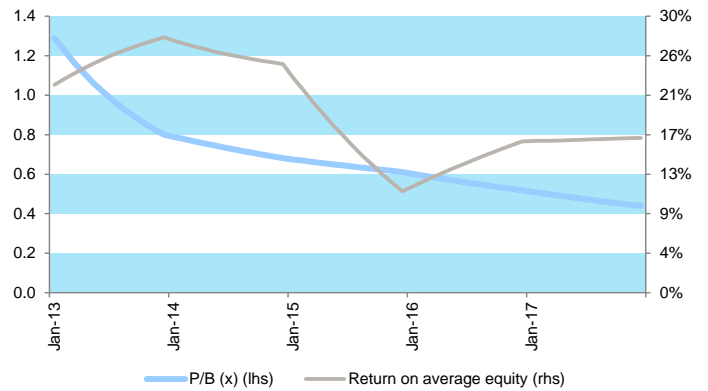


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

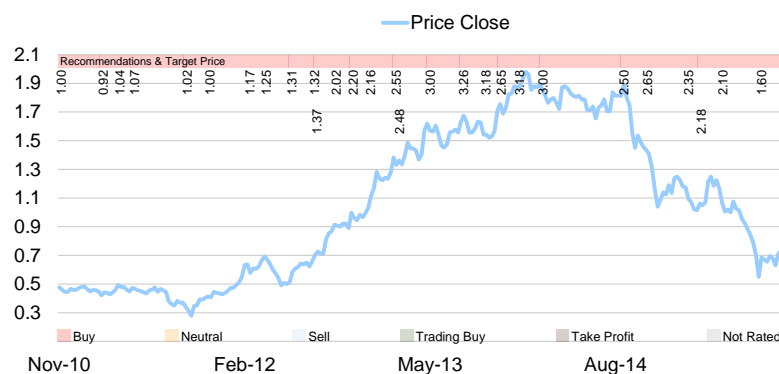


Source: Company data, RHB

Company Profile

Ezion is involved in the provision of offshore and marine logistics. It owns one of the largest liftboat fleets in the world.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-17	Buy	1.60	0.66
2015-07-02	Buy	2.10	1.03
2015-05-13	Buy	2.10	1.22
2015-03-20	Buy	2.18	1.04
2015-03-11	Buy	2.35	1.06
2015-02-16	Buy	2.35	1.17
2014-11-07	Buy	2.65	1.48
2014-09-09	Buy	2.50	1.86
2014-07-23	Buy	3.00	1.73
2014-07-15	Buy	3.00	1.68

Source : RHB, Bloomberg

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