

## Ezra Holdings (EZRA SP)

Energy &amp; Petrochemicals - Offshore &amp; Marine

Market Cap: USD268m

**Trading Buy** (Maintained)

 Target Price: **SGD0.33**

 Price: **SGD0.13**

### Targeting Return To Dividends

Macro	◆◆◆
Risks	◆◆◆
Growth	◆◆
Value	◆◆◆



Source: Bloomberg

Avg Turnover (SGD/USD)	7.55m/5.38m
Cons. Upside (%)	53.8
Upside (%)	153.8
52-wk Price low/high (SGD)	0.10 - 0.48
Free float (%)	60
Share outstanding (m)	2,939
<b>Shareholders (%)</b>	
Lionel Lee	22.7
Aker Solutions	7.4
Mondrian Investment	7.3

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(60.0)	5.0	(14.2)	(54.3)	(74.0)
Relative	(51.2)	(2.8)	(5.6)	(41.9)	(68.8)

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At its results briefing, Ezra's management surprised us by highlighting its target to return to paying dividends. Maintain **TRADING BUY**, with a **SOP-based SGD0.33 TP** (from SGD0.36, 154% upside). After selling half the subsea business, its balance sheet is indeed looking healthier and the company should return to positive FCF this year. The USD67m tranche of debt to be refinanced by Mar 2016 is not large enough to warrant solvency concerns.

- ◆ **Return to positive free cash flow (FCF).** Through a combination of lower capex (now that the *Lewek Constellation* has been delivered), better working capital controls, and targeting 10% lower cash overheads, we believe Ezra can return to a positive FCF position this year. We also estimate its net gearing to drop to its target 0.5-0.6x by FY16F/FY17F from 0.77x today (this figure includes the USD106m of perpetuals being redeemed as debt).
- ◆ **May be dividend-paying as soon as Aug 2016.** In management's words, Ezra is "going to return steady dividends going forward". As the company's cash flow stabilises and gearing falls, we believe this willingness will be combined with the ability to pay – prompting us to pencil in c.20% payout ratios for FY16F-18F.
- ◆ **Only a USD67m debt tranche to refinance by Mar 2016.** Ezra's debt maturity profile is healthy – of the USD479m coming due within a year, USD412m are revolving cash facilities related to vessel, project and working capital purposes which we expect the banks to refinance. There is only one USD67m of non-bank debt to either refinance or retire, which poses little solvency risk to the group. The next USD106m tranche of non-bank non-revolving debt will be due only three years later (see Figure 2). Market concerns about Ezra's balance sheet appear overdone with the stock trading at 0.24x P/BV yet recording gains on vessel sales.
- ◆ **New industry records, company remains on track.** We highlight that Ezra's flagship *Lewek Constellation* has set new industry records with a 632-tonne pipelay tension at sea trials, holding on to the pipe in c.2,200m of water. To reflect the still-challenging operating environment, we take the conservative option of discounting the subsea sale value at 40% (from 20%) in our SOP, resulting in a lower SGD0.33 TP. Maintain **TRADING BUY**. Key risks are its execution and order win momentum.

Forecasts and Valuations	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Total turnover (USDm)	1,488	544	662	653	641
Reported net profit (USDm)	34.9	74.3	16.5	25.8	26.4
Recurring net profit (USDm)	30.6	(29.5)	16.5	25.8	26.4
Recurring net profit growth (%)	na	(196.4)	na	56.7	2.5
Recurring EPS (USD)	0.01	(0.01)	0.01	0.01	0.01
DPS (USD)	0.000	0.000	0.002	0.003	0.003
Recurring P/E (x)	8.4	na	16.3	10.4	10.1
P/B (x)	0.23	0.24	0.24	0.23	0.23
P/CF (x)	2.49	1.75	2.11	3.72	3.65
Dividend Yield (%)	0.0	0.0	1.9	3.3	3.3
EV/EBITDA (x)	10.0	10.8	9.5	9.1	8.8
Return on average equity (%)	3.1	6.7	1.5	2.3	2.3
Net debt to equity (%)	115.8	77.1	58.1	55.5	53.1
Our vs consensus EPS (adjusted) (%)			(21.5)	(0.7)	0.0

Source: Company data, RHB

## Additional Notes

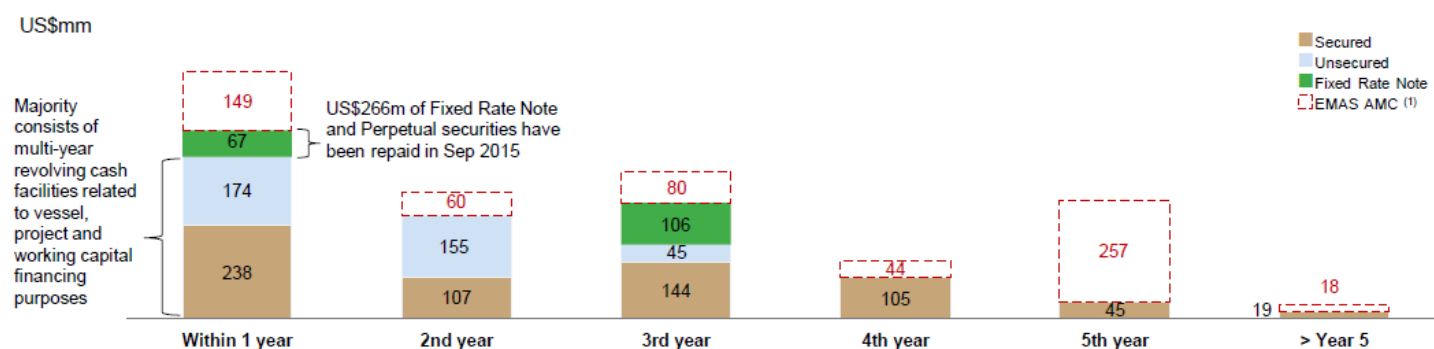
Figure 1: SOP valuation

Description	Shares (m)	Value (USDm)	Remarks
<b>Core businesses:</b>			
Subsea business (AMC)		534.0	Adjusted Enterprise Value of USD890m on part-sale to Chiyoda, discounted 40%
EMAS Offshore (EOL)	330.8	233.1	Average of market and book value (implying c0.6x P/B)
Triyards	197.7	185.8	Market value at RHB target price
<b>Stake in listed companies</b>			
Perisai	144.7	11.8	Market value
<b>Other assets:</b>			
Assets held for sale		102.5	Other financial assets held
<b>Enterprise value</b>		<b>1,067.2</b>	
Less financial liabilities of subsea business		-380.0	Third-party net debt of subsea division of USD530m, less USD150m raised from Jul-15 rights issue
<b>Equity value (USDm)</b>		<b>687.2</b>	
<b>Equity value (SGDm)</b>		<b>962.1</b>	<b>Forex SGD1.40 per USD</b>
Shares (m)	2,939.0		<b>Ex-rights number of shares</b>
<b>Equity value per share (SGD)</b>		<b>0.33</b>	<b>RHB Target Price</b>

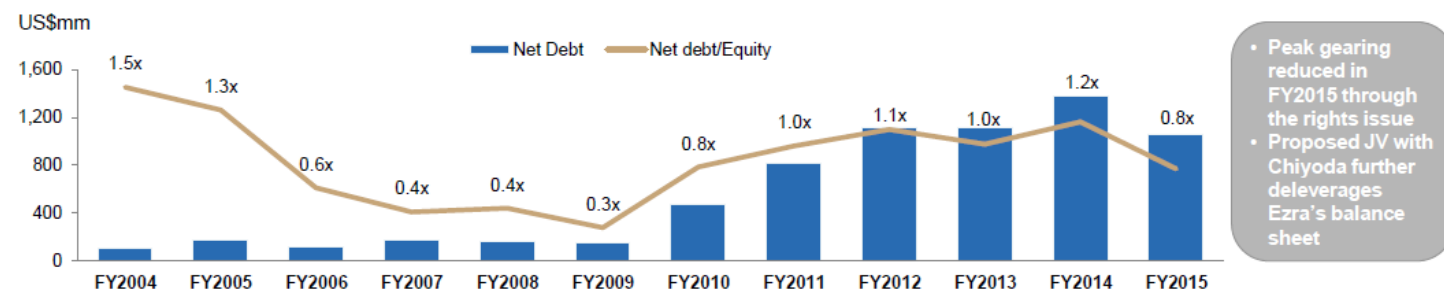
Source: RHB

Figure 2: Ezra's balance sheet is much healthier after the subsea business sale with net gearing extending its downtrend

Debt maturity profile by financial year, as of 31 August 2015 (Adjusted for 2015 Bonds and Perpetual Securities repayment)



### Debt and gearing ratio



Source: Company

- Peak gearing reduced in FY2015 through the rights issue
- Proposed JV with Chiyoda further deleverages Ezra's balance sheet

## Financial Exhibits

<b>Profit &amp; Loss (USDm)</b>	<b>Aug-14</b>	<b>Aug-15</b>	<b>Aug-16F</b>	<b>Aug-17F</b>	<b>Aug-18F</b>
Total turnover	1,488	544	662	653	641
Cost of sales	(1,261)	(454)	(547)	(539)	(529)
<b>Gross profit</b>	<b>227</b>	<b>90</b>	<b>115</b>	<b>114</b>	<b>112</b>
Gen & admin expenses	(157)	(83)	(86)	(85)	(83)
Other operating costs	(2)	(5)	5	5	5
<b>Operating profit</b>	<b>68</b>	<b>2</b>	<b>34</b>	<b>34</b>	<b>34</b>
Operating EBITDA	142	107	97	96	95
Depreciation of fixed assets	(71)	(103)	(62)	(61)	(60)
Amortisation of intangible assets	(3)	(2)	(1)	(1)	(1)
<b>Operating EBIT</b>	<b>68</b>	<b>2</b>	<b>34</b>	<b>34</b>	<b>34</b>
Net income from investments	40	26	27	34	34
Interest income	4	5	8	5	3
Interest expense	(43)	(44)	(38)	(31)	(28)
Exchange gains	1	26	-	-	-
Other non-recurring income	4	104	-	-	-
<b>Pre-tax profit</b>	<b>75</b>	<b>119</b>	<b>31</b>	<b>42</b>	<b>43</b>
Taxation	(21)	(12)	(6)	(7)	(7)
Minority interests	(9)	(23)	(8)	(9)	(9)
<b>Profit after tax &amp; minorities</b>	<b>45</b>	<b>84</b>	<b>16</b>	<b>26</b>	<b>26</b>
Preferred dividends	(10)	(10)	-	-	-
<b>Reported net profit</b>	<b>35</b>	<b>74</b>	<b>16</b>	<b>26</b>	<b>26</b>
<b>Recurring net profit</b>	<b>31</b>	<b>(29)</b>	<b>16</b>	<b>26</b>	<b>26</b>

Source: Company data, RHB

<b>Cash flow (USDm)</b>	<b>Aug-14</b>	<b>Aug-15</b>	<b>Aug-16F</b>	<b>Aug-17F</b>	<b>Aug-18F</b>
<b>Operating profit</b>	<b>68</b>	<b>2</b>	<b>34</b>	<b>34</b>	<b>34</b>
<b>Depreciation &amp; amortisation</b>	<b>74</b>	<b>105</b>	<b>63</b>	<b>62</b>	<b>62</b>
<b>Change in working capital</b>	<b>(3)</b>	<b>(452)</b>	<b>286</b>	<b>1</b>	<b>6</b>
Other operating cash flow	18	562	(220)	8	5
<b>Operating cash flow</b>	<b>157</b>	<b>216</b>	<b>163</b>	<b>105</b>	<b>106</b>
Interest received	4	5	8	5	3
Interest paid	(43)	(44)	(38)	(31)	(28)
Dividends received	3	-	-	-	-
Tax paid	(17)	(27)	(6)	(7)	(7)
<b>Cash flow from operations</b>	<b>104</b>	<b>150</b>	<b>127</b>	<b>72</b>	<b>73</b>
Capex	(336)	(329)	(110)	(50)	(50)
Other investing cash flow	2	73	180	-	-
<b>Cash flow from investing activities</b>	<b>(333)</b>	<b>(255)</b>	<b>70</b>	<b>(50)</b>	<b>(50)</b>
Dividends paid	(4)	-	-	(4)	(6)
Proceeds from issue of shares	-	205	-	-	-
Increase in debt	505	(129)	(400)	(100)	(100)
Other financing cash flow	(269)	294	-	-	-
<b>Cash flow from financing activities</b>	<b>232</b>	<b>370</b>	<b>(400)</b>	<b>(104)</b>	<b>(106)</b>
Cash at beginning of period	176	179	418	263	182
<b>Total cash generated</b>	<b>2</b>	<b>265</b>	<b>(203)</b>	<b>(81)</b>	<b>(83)</b>
Forex effects	0	(6)	-	-	-
<b>Implied cash at end of period</b>	<b>178</b>	<b>438</b>	<b>215</b>	<b>182</b>	<b>99</b>

Source: Company data, RHB

## Financial Exhibits

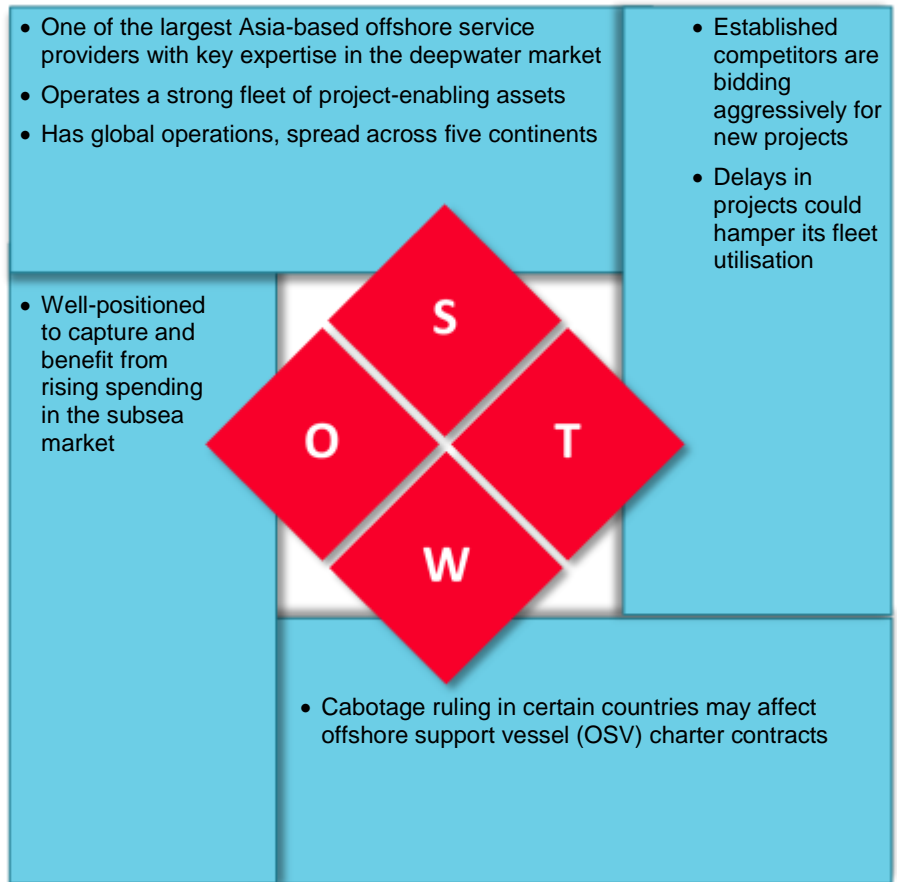
Balance Sheet (USDm)	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Total cash and equivalents	179	418	263	182	99
Inventories	97	78	100	98	97
Accounts receivable	546	245	308	304	298
Other current assets	389	1,921	584	583	580
<b>Total current assets</b>	<b>1,210</b>	<b>2,661</b>	<b>1,255</b>	<b>1,167</b>	<b>1,074</b>
Total investments	265	407	429	459	488
Tangible fixed assets	1,376	692	677	604	532
Intangible assets	242	27	27	27	27
Total other assets	270	390	451	512	573
Total non-current assets	2,153	1,516	1,585	1,602	1,620
<b>Total assets</b>	<b>3,363</b>	<b>4,177</b>	<b>2,841</b>	<b>2,769</b>	<b>2,694</b>
Short-term debt	511	745	642	582	522
Accounts payable	154	54	63	63	61
Other current liabilities	418	1,275	304	302	298
<b>Total current liabilities</b>	<b>1,083</b>	<b>2,074</b>	<b>1,010</b>	<b>946</b>	<b>882</b>
Total long-term debt	1,041	726	428	388	348
Other liabilities	53	13	13	13	13
<b>Total non-current liabilities</b>	<b>1,094</b>	<b>738</b>	<b>441</b>	<b>401</b>	<b>361</b>
<b>Total liabilities</b>	<b>2,177</b>	<b>2,812</b>	<b>1,451</b>	<b>1,347</b>	<b>1,243</b>
Share capital	490	635	635	635	635
Retained earnings reserve	517	469	486	508	528
Other reserves	123	-	-	-	-
<b>Shareholders' equity</b>	<b>1,130</b>	<b>1,104</b>	<b>1,120</b>	<b>1,143</b>	<b>1,163</b>
Minority interests	56	261	270	279	288
Other equity	0	-	-	-	-
<b>Total equity</b>	<b>1,186</b>	<b>1,365</b>	<b>1,390</b>	<b>1,422</b>	<b>1,451</b>
<b>Total liabilities &amp; equity</b>	<b>3,363</b>	<b>4,177</b>	<b>2,841</b>	<b>2,769</b>	<b>2,694</b>

Source: Company data, RHB

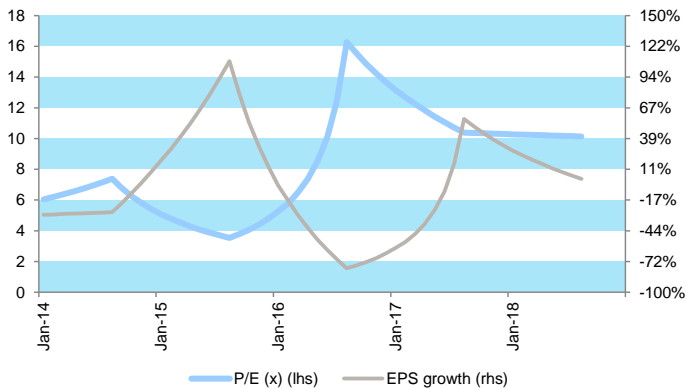
Key Ratios (USD)	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Revenue growth (%)	17.9	(63.5)	21.7	(1.4)	(1.9)
Operating profit growth (%)	375.1	(97.5)	1848.9	0.2	0.0
Net profit growth (%)	(27.8)	112.7	(77.8)	56.7	2.5
EPS growth (%)	(27.7)	108.9	(78.3)	56.7	2.5
BVPS growth (%)	3.9	(6.0)	1.5	2.0	1.8
Operating margin (%)	4.6	0.3	5.1	5.2	5.2
Net profit margin (%)	2.3	13.7	2.5	4.0	4.1
Return on average assets (%)	1.1	2.0	0.5	0.9	1.0
Return on average equity (%)	3.1	6.7	1.5	2.3	2.3
Net debt to equity (%)	115.8	77.1	58.1	55.5	53.1
DPS	0.000	0.000	0.002	0.003	0.003
Recurrent cash flow per share	0.04	0.05	0.04	0.02	0.02

Source: Company data, RHB

## SWOT Analysis

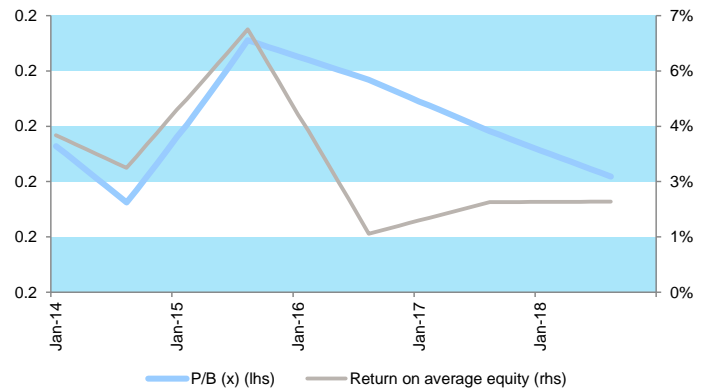


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Ezra is a leading integrated offshore support solutions provider for the oil and gas industry, with strong expertise in the mid/deepwater market.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-28	Trading Buy	0.36	0.12
2015-07-13	Trading Buy	0.25	0.16
2015-06-08	Trading Buy	0.34	0.17
2015-04-09	Buy	0.55	0.26
2014-10-27	Neutral	0.85	0.46
2014-07-13	Neutral	1.25	0.69
2014-04-14	Neutral	1.00	0.62
2013-10-28	Sell	0.75	0.72
2013-07-15	Sell	0.70	0.53
2013-05-31	Neutral	1.15	0.57

Source : RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

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**Not Rated:** Stock is not within regular research coverage

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