

MTQ Corp (MTQ SP)

Energy & Petrochemicals - Oil & Gas Services

Market Cap: USD61.6m

Neutral (Maintained)

 Target Price: **SGD0.59**

 Price: **SGD0.56**

Cost Cuts Sharply Narrow Losses

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

| | |
|----------------------------|-------------|
| Avg Turnover (SGD/USD) | 0.01m/0.01m |
| Cons. Upside (%) | 23.2 |
| Upside (%) | 6.2 |
| 52-wk Price low/high (SGD) | 0.46 - 1.31 |
| Free float (%) | 37 |
| Share outstanding (m) | 154 |
| Shareholders (%) | |
| Kuah Kok Kim | 24.9 |
| Kurt Robert Lindblad | 18.1 |
| Tai Tak Securities | 8.2 |

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------|--------|-------|--------|--------|--------|
| Absolute | (48.2) | 6.7 | (13.9) | (28.2) | (57.3) |
| Relative | (37.4) | (1.0) | (5.3) | (14.3) | (50.4) |

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MTQ's 2QFY16 was almost back to breakeven as a result of successful cost cutting. Maintain NEUTRAL with SGD0.59 TP (from SGD0.69, 6.2% upside) as we trim our P/B multiple to 0.75x (from 0.9x) due to the general sector derating. Margins were stable QoQ, but the dividend was omitted this half-year. We continue to like the company for its high cashflows, but the difficult operating environment continues to weigh on profitability and market sentiment.

- ◆ **Heading back towards profitability.** MTQ narrowed its 2QFY16 loss to SGD0.5m from a SGD2.3m loss in 1QFY16 even though revenue fell 4% QoQ. This was managed through staff and core operating costs falling 9% and 15% respectively QoQ, an admirable performance. Our forecasts are adjusted from a SGD6.9m loss estimate to a SGD3.3m loss position for the current year, and we expect the full-year impact of the ongoing cost cuts to bring MTQ back into profitability next year.
- ◆ **Margins appear to be stabilizing.** After four consecutive quarters of gross margin declines, this is the first quarter where it has remained constant QoQ. The EBITDA margin has bounced up to 5.2% from 2.6% in 1QFY16, due entirely to lower overheads.
- ◆ **Balance sheet strong but dividend omitted for conservatism.** Though we question management's decision to omit the half-yearly dividend, as the balance sheet remains strong at only 0.13x net gearing and positive operating cashflows, we understand their preference for conservatism. Management did not rule out the option to "make good" on it in the final dividend, subject to the operating environment showing significant improvement.
- ◆ **Keep this stock on your radar.** The difficult operating environment has hit services players hard, but MTQ's management has begun reaping the fruits of cost-cutting labour. The stock appears fairly-valued today based on the general weak market sentiment, though a positive thesis could be made on the basis of its strong cash flows. A discount to book is currently warranted due to ROE having fallen below the cost of equity (COE). Maintain Neutral with SGD0.59 TP pegged to 0.75x FY16F P/B.

| Forecasts and Valuations | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|-------------------------------------|--------|--------|---------|---------|---------|
| Total turnover (SGDm) | 313 | 296 | 243 | 250 | 273 |
| Reported net profit (SGDm) | 24.2 | 5.0 | (3.3) | 4.0 | 9.7 |
| Recurring net profit (SGDm) | 24.2 | 11.8 | (3.3) | 4.0 | 9.7 |
| Recurring net profit growth (%) | 19.7 | (51.1) | (127.9) | na | 145.8 |
| Recurring EPS (SGD) | 0.16 | 0.08 | (0.02) | 0.03 | 0.06 |
| DPS (SGD) | 0.04 | 0.04 | 0.02 | 0.02 | 0.03 |
| Recurring P/E (x) | 3.5 | 7.3 | na | 21.8 | 8.9 |
| P/B (x) | 0.65 | 0.67 | 0.71 | 0.70 | 0.67 |
| P/CF (x) | 2.61 | 2.77 | 5.22 | 5.42 | 4.44 |
| Dividend Yield (%) | 6.5 | 7.1 | 3.6 | 3.6 | 5.4 |
| EV/EBITDA (x) | 2.77 | 3.46 | 8.68 | 5.20 | 3.53 |
| Return on average equity (%) | 20.0 | 3.9 | (2.6) | 3.2 | 7.7 |
| Net debt to equity (%) | 19.3 | 11.2 | 9.0 | 6.4 | 1.5 |
| Our vs consensus EPS (adjusted) (%) | | | (5.8) | (34.5) | (12.6) |

Source: Company data, RHB

Additional Notes

Figure 1: Results in review

| Figures in SGD'000 | 2Q15 | 1Q16 | 2Q16 | YoY | QoQ | Remarks |
|--------------------------|---------------|----------------|---------------|-------------|-------------|--|
| Revenue | 80,334 | 60,012 | 57,820 | -28% | -4% | Revenue decline mostly attributable to Singapore oilfield engineering business while contributions in Bahrain were stable. |
| Cost of sales | (54,019) | (44,391) | (42,784) | -21% | -4% | |
| Gross profit | 26,315 | 15,621 | 15,036 | -43% | -4% | |
| Other income | 12 | 428 | 2,035 | nm | nm | Insurance claim on remotely-operated-vessel recorded here, write-off on assets in other expenses. |
| Staff costs | (11,930) | (10,194) | (9,256) | -22% | -9% | Staff costs down as contracts not renewed or resignations not replaced. |
| Other operating expenses | (7,207) | (7,273) | (8,173) | 13% | 12% | Core operating expenses now down to c.SGD6m, as SGD2m of the 2Q16 total were related to an asset write-off. Down 15% QoQ. |
| Finance costs | (624) | (531) | (509) | -18% | -4% | Lower level of borrowings. Net debt now down to 13% of equity. |
| Share of JV | (173) | (300) | (29) | nm | -90% | |
| Profit before tax | 6,393 | (2,249) | (896) | nm | -60% | |
| Income tax expense | (1,002) | (95) | 662 | nm | nm | |
| Minority interest | (45) | 13 | (267) | nm | nm | Tax credit in 2Q16 from taxable losses in Australia regarding Binder and Neptune. |
| PATMI | 5,346 | (2,331) | (501) | nm | -79% | Loss has narrowed dramatically QoQ, surpassing expectations. |
| Gross Margin | 32.8% | 26.0% | 26.0% | | | |
| EBIT Margin | 8.7% | -2.9% | -0.7% | | | Margin compression from the Singapore oilfield engineering business from both pricing pressure and lower utilisation. Stabilized QoQ. |
| Net Margin | 6.7% | -3.9% | -0.9% | | | |

Source: Company, RHB

Financial Exhibits

| Profit & Loss (SGDm) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|--|---------------|---------------|----------------|----------------|----------------|
| Total turnover | 313 | 296 | 243 | 250 | 273 |
| Cost of sales | (210) | (203) | (180) | (179) | (192) |
| Gross profit | 104 | 93 | 63 | 71 | 81 |
| Gen & admin expenses | (46) | (46) | (39) | (37) | (39) |
| Other operating costs | (25) | (27) | (25) | (27) | (28) |
| Operating profit | 33 | 19 | (1) | 7 | 14 |
| Operating EBITDA | 43 | 32 | 13 | 20 | 28 |
| Depreciation of fixed assets | (10) | (13) | (13) | (13) | (14) |
| Operating EBIT | 33 | 19 | (1) | 7 | 14 |
| Net income from investments | 0 | (1) | (1) | 0 | 0 |
| Interest expense | (3) | (2) | (2) | (2) | (2) |
| Exceptional income - net | - | (7) | - | - | - |
| Pre-tax profit | 30 | 9 | (3) | 5 | 12 |
| Taxation | (5) | (4) | 1 | (1) | (2) |
| Minority interests | (1) | (0) | (1) | (0) | (0) |
| Profit after tax & minorities | 24 | 5 | (3) | 4 | 10 |
| Reported net profit | 24 | 5 | (3) | 4 | 10 |
| Recurring net profit | 24 | 12 | (3) | 4 | 10 |

Source: Company data, RHB

| Cash flow (SGDm) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|--|---------------|---------------|----------------|----------------|----------------|
| Operating profit | 33 | 19 | (1) | 7 | 14 |
| Depreciation & amortisation | 10 | 13 | 13 | 13 | 14 |
| Change in working capital | (2) | 4 | 6 | (2) | (5) |
| Other operating cash flow | 0 | 2 | (0) | 0 | 0 |
| Operating cash flow | 41 | 38 | 18 | 19 | 24 |
| Interest received | 0 | 0 | - | - | - |
| Interest paid | (3) | (2) | (2) | (2) | (2) |
| Tax paid | (6) | (5) | 1 | (1) | (2) |
| Cash flow from operations | 32 | 31 | 17 | 16 | 19 |
| Capex | (12) | (15) | (9) | (9) | (10) |
| Other investing cash flow | (13) | 0 | (1) | - | - |
| Cash flow from investing activities | (26) | (15) | (10) | (9) | (10) |
| Dividends paid | (3) | (4) | (3) | (3) | (3) |
| Proceeds from issue of shares | (0) | (1) | - | - | - |
| Increase in debt | (5) | (3) | - | - | - |
| Other financing cash flow | (1) | 0 | - | - | - |
| Cash flow from financing activities | (9) | (8) | (3) | (3) | (3) |
| Cash at beginning of period | 41 | 37 | 44 | 48 | 51 |
| Total cash generated | (2) | 9 | 4 | 3 | 6 |
| Forex effects | (1) | (2) | - | - | - |
| Implied cash at end of period | 37 | 44 | 48 | 51 | 58 |

Source: Company data, RHB

Financial Exhibits

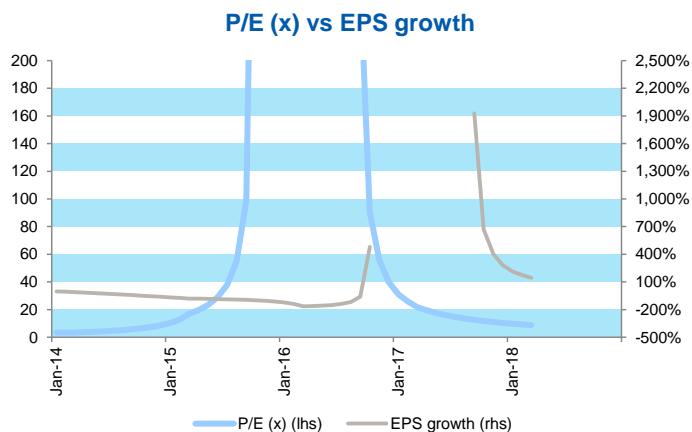
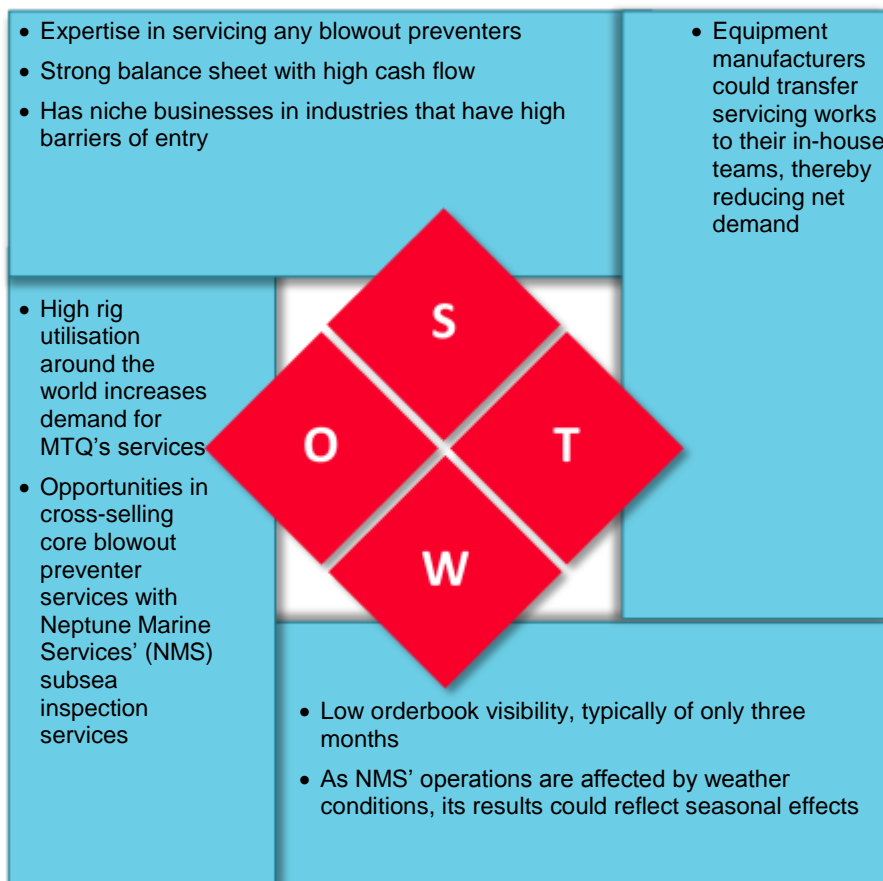
| Balance Sheet (SGDm) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Total cash and equivalents | 37 | 44 | 48 | 51 | 58 |
| Inventories | 29 | 27 | 25 | 25 | 26 |
| Accounts receivable | 78 | 69 | 60 | 62 | 67 |
| Other current assets | 3 | 3 | 3 | 3 | 3 |
| Total current assets | 147 | 143 | 135 | 140 | 154 |
| Tangible fixed assets | 82 | 82 | 78 | 74 | 70 |
| Intangible assets | 32 | 22 | 22 | 22 | 22 |
| Total other assets | 11 | 9 | 9 | 9 | 9 |
| Total non-current assets | 124 | 113 | 109 | 105 | 101 |
| Total assets | 271 | 256 | 244 | 245 | 255 |
| Short-term debt | 7 | 7 | 7 | 7 | 7 |
| Accounts payable | 50 | 44 | 39 | 39 | 42 |
| Other current liabilities | 8 | 9 | 9 | 9 | 9 |
| Total current liabilities | 64 | 60 | 55 | 55 | 58 |
| Total long-term debt | 58 | 53 | 53 | 53 | 53 |
| Other liabilities | 9 | 5 | 4 | 4 | 4 |
| Total non-current liabilities | 67 | 57 | 56 | 56 | 56 |
| Total liabilities | 131 | 117 | 111 | 111 | 114 |
| Share capital | 34 | 37 | 37 | 37 | 37 |
| Retained earnings reserve | 97 | 92 | 86 | 87 | 93 |
| Shareholders' equity | 131 | 129 | 123 | 123 | 130 |
| Minority interests | 10 | 9 | 10 | 10 | 11 |
| Other equity | - | 0 | - | (0) | - |
| Total equity | 141 | 138 | 133 | 134 | 141 |
| Total liabilities & equity | 271 | 256 | 244 | 245 | 255 |

Source: Company data, RHB

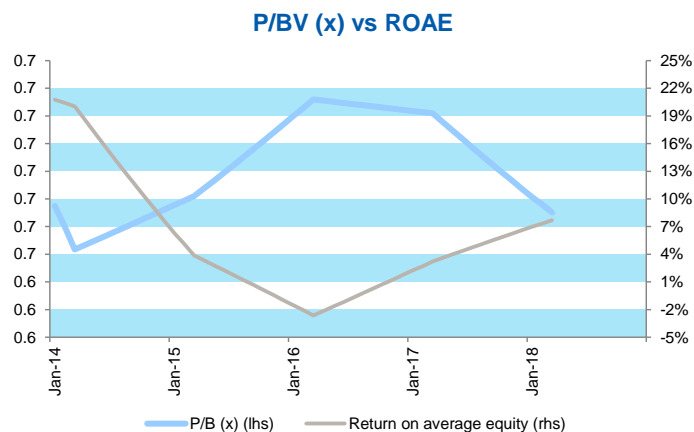
| Key Ratios (SGD) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|-------------------------------|---------------|---------------|----------------|----------------|----------------|
| Revenue growth (%) | 50.1 | (5.6) | (17.7) | 2.8 | 9.0 |
| Operating profit growth (%) | 22.8 | (41.4) | (102.6) | 0.0 | 107.0 |
| Net profit growth (%) | (3.3) | (79.2) | (165.7) | 0.0 | 145.8 |
| EPS growth (%) | (9.7) | (79.6) | (165.2) | 0.0 | 145.8 |
| BVPS growth (%) | 17.0 | (2.9) | (5.0) | 0.7 | 5.4 |
| Operating margin (%) | 10.6 | 6.6 | (0.2) | 2.7 | 5.2 |
| Net profit margin (%) | 7.7 | 1.7 | (1.4) | 1.6 | 3.6 |
| Return on average assets (%) | 9.1 | 1.9 | (1.3) | 1.6 | 3.9 |
| Return on average equity (%) | 20.0 | 3.9 | (2.6) | 3.2 | 7.7 |
| Net debt to equity (%) | 19.3 | 11.2 | 9.0 | 6.4 | 1.5 |
| DPS | 0.04 | 0.04 | 0.02 | 0.02 | 0.03 |
| Recurrent cash flow per share | 0.21 | 0.20 | 0.11 | 0.10 | 0.13 |

Source: Company data, RHB

SWOT Analysis



Source: Company data, RHB



Source: Company data, RHB

Company Profile

MTQ is an oilfield equipment service provider catering to drilling contractors, manufacturers, rig owners and oil companies. It is also the largest supplier of turbochargers and diesel fuel injection parts and services in Australia. Its newly-acquired subsidiary, Neptune Marine Services, performs inspection-maintenance-repair work on subsea installations.

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2015-07-29 | Neutral | 0.67 | 0.65 |
| 2015-05-13 | Neutral | 0.79 | 0.76 |
| 2015-02-01 | Buy | 1.43 | 1.03 |
| 2014-10-31 | Buy | 1.77 | 1.27 |
| 2014-07-28 | Buy | 2.16 | 1.69 |
| 2014-05-06 | Buy | 2.47 | 1.61 |
| 2014-02-11 | Buy | 2.64 | 1.31 |
| 2014-01-20 | Buy | 2.67 | 1.28 |
| 2013-10-31 | Buy | 2.51 | 1.23 |
| 2013-10-23 | Buy | 2.20 | 1.23 |

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

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

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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