

Pacific Radiance (PACRA SP)

Energy & Petrochemicals - Offshore & Marine

Market Cap: USD190m

Buy (Maintained)

 Target Price: **SGD0.65**

 Price: **SGD0.38**

Book Value Supported By Profitable Vessel Sales

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.46m/0.33m
Cons. Upside (%)	50.0
Upside (%)	71.1
52-wk Price low/high (SGD)	0.30 - 1.00
Free float (%)	28
Share outstanding (m)	722
Shareholders (%)	
Pang Yoke Min and family	64.1
Mok Meng Vai	7.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(52.5)	(2.6)	(6.3)	(42.3)	(61.9)
Relative	(41.1)	(2.0)	(0.9)	(28.2)	(52.5)

Radiance had a weak 3Q15 as OSV utilisation fell QoQ with some vessels in between jobs. Maintain BUY with a revised SGD0.65 TP (71% upside) based on 0.8x P/BV. What caught our eye this quarter were two vessel sales at c.15% above book value. Our calculations suggest these were newbuild vessels that joined the fleet recently. Radiance's book value is certainly not impaired, but the stock trades at a 55% discount to NAV.

- ◆ **Lower OSV utilisation, but DSV jobs coming back.** Pacific Radiance's (Radiance) offshore support vessel (OSV) utilisation rate was only 65% in 3Q15, vs 77% in 2Q15 as certain vessels were in between jobs and a couple of vessels joined the fleet in 2Q15. The better news was that the diving support vessels (DSVs) enjoyed a 32% utilisation rate, up from 3% in 2Q15. Oil majors have managed to postpone maintenance jobs for 9-10 months, but this is now raising safety, compliance and production concerns.
- ◆ **OSV charter rates have bottomed out.** An encouraging takeaway was that OSV rates have troughed, with many operators in the red or at breakeven preferring to lay up vessels rather than charter out at a loss. Saudi Aramco recently took >40 vessels on 5-year charters, clearly snapping up assets for long-term charters at depressed rates. However, as rates could stay depressed for longer, we slash our earnings estimates to USD8.4m/USD22.7m from USD14.8m/USD32.5m for FY15/FY16 respectively.
- ◆ **Solid 15% gain on vessel sales.** Working the numbers backwards, Radiance sold a 6,000 brake horsepower (bhp) anchor-handler and a work barge at a 15% gain. The implied book value also indicates that those vessels were less than a year old. Separately, management confirmed that the vessels were without jobs, but that the buyer had a contract that called for assets with those specifications. To us, this means that Radiance's vessels can be sold at a profit even without contracts on hand, which lends strong support to its book value.
- ◆ **BUY for realisable book value.** As an asset-heavy play, Radiance is compellingly attractive at a 55% discount to book value. We believe even a small rebound in oil prices next year would be sufficient to reset market sentiment to a neutral stance, when the stock could trade near book value. We trim our TP to SGD0.65 (from SGD0.66), based on 0.8x P/BV.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	169	172	142	223	248
Reported net profit (USDm)	56.8	68.3	8.4	22.7	43.5
Recurring net profit (USDm)	56.8	68.3	8.4	22.7	43.5
Recurring net profit growth (%)	76.4	20.4	(87.7)	168.9	91.7
Recurring EPS (USD)	0.08	0.09	0.01	0.03	0.06
DPS (USD)	0.02	0.02	0.01	0.01	0.01
Recurring P/E (x)	3.4	2.8	22.7	8.4	4.4
P/B (x)	0.51	0.45	0.45	0.44	0.41
P/CF (x)	8.65	3.12	6.97	3.82	2.85
Dividend Yield (%)	6.0	8.4	2.7	5.4	5.4
EV/EBITDA (x)	4.6	4.3	12.3	9.1	7.2
Return on average equity (%)	19.6	17.0	2.0	5.3	9.6
Net debt to equity (%)	60.4	52.7	90.7	96.3	95.5
Our vs consensus EPS (adjusted) (%)			(44.9)	(30.3)	(12.1)

Lee Yue Jer, CFA +65 6232 3898

lee.yue.jer@rhbgroup.com

Additional Notes

Figure 1: Quarterly results in review

USDm	3Q14	2Q15	3Q15	YoY	QoQ	Comments
Offshore Support Services	31.800	32.700	27.604	-13%	-16%	65% utilisation in 3Q15 vs 77% in 2Q15.
Subsea services	5.800	0.400	2.500	-57%	nm	32% utilisation in 3Q15 vs. 3% in 2Q15.
Complementary Business	6.759	1.680	3.655	-46%	nm	
Revenue	44.359	34.780	33.759	-24%	-3%	
Cost of sales	(34.991)	(24.632)	(26.574)	-24%	8%	GP decline YoY in line with revenue fall. 2Q15 enjoyed a one-off boost from change in depreciation policy.
Gross profit	9.368	10.148	7.185	-23%	-29%	
Other income	13.216	2.746	7.790	-41%	nm	USD6.6m gains on vessel sales in 3Q15 vs USD11.5m gains in 3Q14.
Administrative expenses	(8.646)	(5.503)	(5.873)	-32%	7%	Cost-cutting measures have taken effect.
Other operating expenses	0.184	(0.199)	(2.739)	nm	nm	
Finance costs	(2.261)	(3.160)	(3.241)	43%	3%	Increasing due to higher quantum of borrowings to fund larger fleet.
Results of JVs	2.829	1.133	0.168	-94%	-85%	Lower due to weak results from Indonesian operations.
Results of associates	(0.343)	(0.715)	(0.235)	-31%	-67%	
Profit before tax	14.347	4.450	3.055	-79%	-31%	
Income tax expense	(0.038)	(0.649)	(1.469)	nm	nm	Higher withholding taxes incurred in 3Q15.
Minority interest	(1.243)	0.037	0.079	nm	nm	
PATMI	13.066	3.838	1.665	-87%	-57%	2Q15 PATMI includes a USD1.6m credit resulting from the change in depreciation policy from carried-over 1Q15 depreciation. 3Q15 core earnings negative, but negative operating leverage effect should diminish if DSVs can achieve higher utilisation.
Gains on sale and Exceptionals	9.577	1.600	5.485	-43%	nm	Assume 17% tax on gains.
PATMI ex gains on sale	3.489	2.238	(3.820)	nm	nm	
Group gross margin	21.1%	29.2%	21.3%			
Net margin	29.5%	11.0%	4.9%			
Core net margin	11.0%	6.8%	-13.8%			

Source: Company, RHB

Financial Exhibits

Profit & Loss (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	169	172	142	223	248
Cost of sales	(110)	(118)	(104)	(175)	(180)
Gross profit	59	54	38	48	68
Gen & admin expenses	(27)	(30)	(24)	(26)	(29)
Other operating costs	30	39	4	3	4
Operating profit	62	63	17	25	43
Operating EBITDA	87	91	45	64	86
Depreciation of fixed assets	(25)	(28)	(27)	(40)	(42)
Operating EBIT	62	63	17	25	43
Net income from investments	2	13	1	13	16
Interest income	2	2	2	2	2
Interest expense	(13)	(9)	(13)	(16)	(17)
Pre-tax profit	53	68	7	24	44
Taxation	4	1	2	(1)	(1)
Minority interests	(0)	(1)	(1)	(1)	(1)
Profit after tax & minorities	57	68	8	23	43
Reported net profit	57	68	8	23	43
Recurring net profit	57	68	8	23	43

Source: Company data, RHB

Cash flow (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	62	63	17	25	43
Depreciation & amortisation	25	28	27	40	42
Change in working capital	(27)	17	(2)	5	2
Other operating cash flow	(27)	(36)	(6)	(5)	(5)
Operating cash flow	34	72	37	65	82
Interest received	2	0	2	2	2
Interest paid	(13)	(8)	(13)	(16)	(17)
Tax paid	(0)	(4)	2	(1)	(1)
Cash flow from operations	22	61	27	50	67
Capex	(192)	(207)	(200)	(136)	(137)
Other new investments	-	(2)	-	-	-
Other investing cash flow	81	156	30	50	50
Cash flow from investing activities	(110)	(53)	(170)	(86)	(87)
Dividends paid	(7)	(11)	(15)	(5)	(10)
Proceeds from issue of shares	123	-	-	-	1
Increase in debt	13	39	125	19	20
Other financing cash flow	(0)	0	-	-	-
Cash flow from financing activities	129	28	110	14	10
Cash at beginning of period	24	65	101	68	46
Total cash generated	41	37	(33)	(22)	(9)
Implied cash at end of period	65	101	68	46	37

Source: Company data, RHB

Financial Exhibits

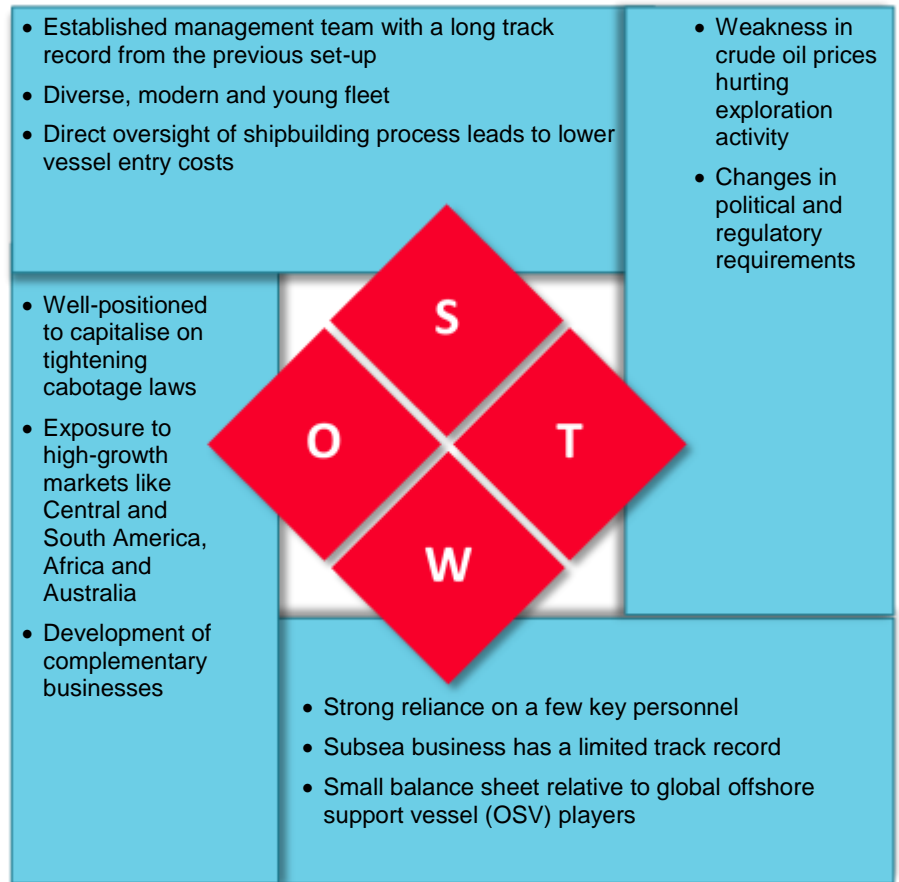
Balance Sheet (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	65	101	68	46	38
Inventories	0	3	3	4	5
Accounts receivable	56	42	34	54	60
Other current assets	32	55	55	55	55
Total current assets	152	201	160	160	158
Total investments	44	66	67	80	96
Tangible fixed assets	549	572	721	772	821
Intangible assets	0	0	0	0	0
Total other assets	0	-	-	-	-
Total non-current assets	593	638	788	852	917
Total assets	746	840	948	1,011	1,075
Short-term debt	53	53	92	96	101
Accounts payable	11	16	13	20	23
Other current liabilities	55	47	40	59	65
Total current liabilities	120	116	144	175	188
Total long-term debt	240	276	362	378	393
Other liabilities	9	16	16	16	17
Total non-current liabilities	249	292	378	393	410
Total liabilities	368	408	523	568	598
Share capital	155	163	163	163	163
Retained earnings reserve	220	265	258	276	309
Shareholders' equity	376	428	421	438	472
Minority interests	2	4	4	5	5
Other equity	(0)	(0)	-	-	-
Total equity	377	432	425	443	477
Total liabilities & equity	746	840	948	1,011	1,075

Source: Company data, RHB

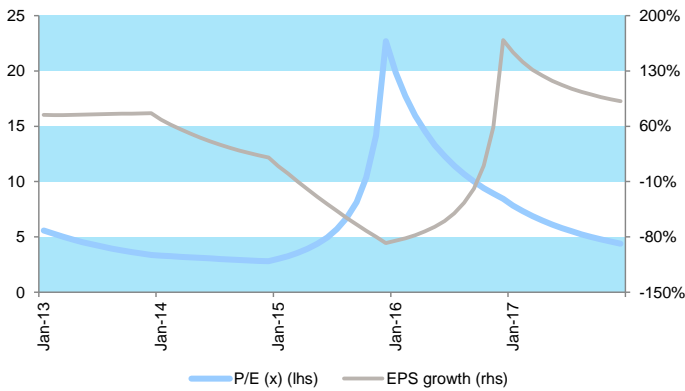
Key Ratios (USD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	28.9	2.2	(17.8)	57.4	11.4
Operating profit growth (%)	70.2	1.1	(72.5)	42.7	74.8
Net profit growth (%)	76.4	20.4	(87.7)	168.9	91.7
EPS growth (%)	76.4	20.4	(87.7)	168.9	91.7
BVPS growth (%)	83.6	13.9	(1.6)	4.2	7.6
Operating margin (%)	36.9	36.5	12.2	11.1	17.4
Net profit margin (%)	33.7	39.7	6.0	10.2	17.5
Return on average assets (%)	8.6	8.6	0.9	2.3	4.2
Return on average equity (%)	19.6	17.0	2.0	5.3	9.6
Net debt to equity (%)	60.4	52.7	90.7	96.3	95.5
DPS	0.02	0.02	0.01	0.01	0.01
Recurrent cash flow per share	0.03	0.08	0.04	0.07	0.09

Source: Company data, RHB

SWOT Analysis

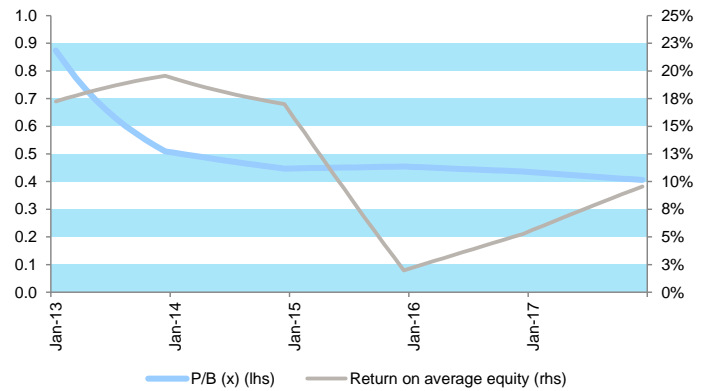


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Pacific Radiance is a growing offshore support services provider with a very experienced management team.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-14	Buy	0.66	0.36
2015-05-15	Buy	0.83	0.64
2015-02-27	Buy	1.24	0.73
2014-11-14	Buy	1.55	0.95
2014-08-15	Buy	1.76	1.51
2014-05-15	Buy	1.43	1.18
2014-03-03	Buy	1.30	0.97

Source : RHB, Bloomberg

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

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Bangkok

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799