

# Triyards Holdings (ETL SP)

Energy &amp; Petrochemicals - Oil &amp; Gas Services

Market Cap: USD93.8m

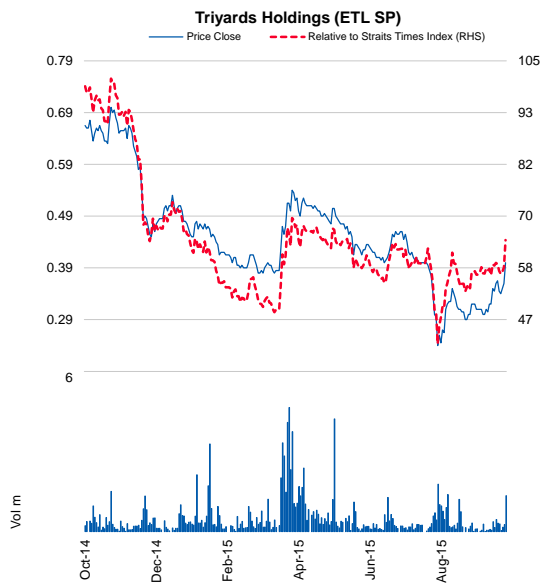
**Buy** (Maintained)

 Target Price: **SGD0.94**

 Price: **SGD0.40**

## Red Hot Chili Padi

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



Source: Bloomberg

Avg Turnover (SGD/USD)	0.10m/0.07m
Cons. Upside (%)	82.5
Upside (%)	135
52-wk Price low/high (SGD)	0.24 - 0.70
Free float (%)	32
Share outstanding (m)	325
<b>Shareholders (%)</b>	
Ezra Holdings Limited	60.9
Chye Tek Lee	5.7
Jit Sun Investments Pte Ltd	1.1

<b>Share Performance (%)</b>					
	YTD	1m	3m	6m	12m
Absolute	(21.6)	25.0	(12.1)	(25.2)	(38.5)
Relative	(11.5)	20.0	(2.3)	(11.0)	(34.0)

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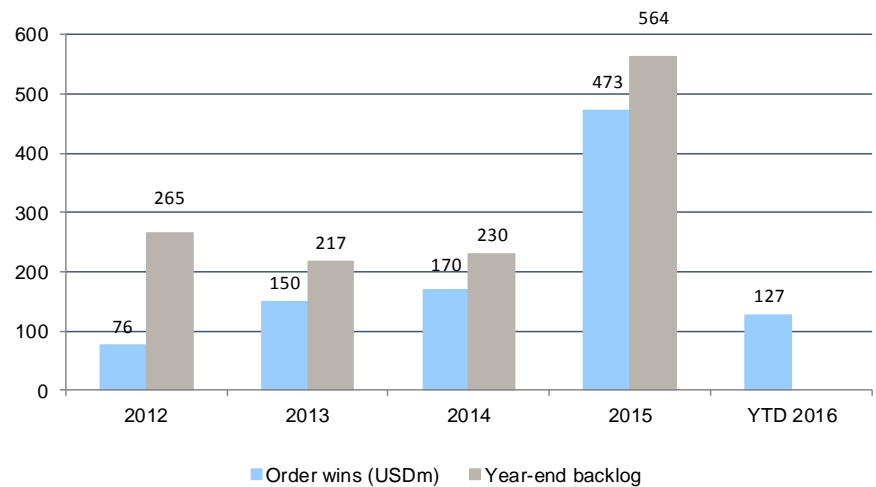
Triyards delivered a strong 4QFY15 (Aug) (+59% YoY) to end FY15 just ahead of our forecast. It also announced USD100m of new contracts for three chemical tankers and other work, lifting its orderbook to a new high of USD564m. Although small, we view it as the strongest offshore & marine player operationally, with a clean bill of financial health. Maintain BUY, with a SGD0.94 TP (from SGD0.84, 135% upside) based on 1.05x P/BV. The stock trades at a mere 2x of its orderbook profits.

- ◆ **Record orderbook to drive double-digit growth.** Triyards' record USD564m net orderbook is equivalent to 17 months of FY16F revenue. With its orderbook more than double the FY14 tally (see Figure 1), we forecast stronger revenues driving 24%/16% earnings growth in FY16/FY17, with conservative margin assumptions. Triyards has delivered 10% net margins in the last two years, while we forecasted only 8.3-8.7% (at these margins, it trades at 2x orderbook profits). Management shared that the tender book is at the USD2bn level, with a "more than even" chance of winning bids over the next 6-18 months.
- ◆ **Counter-cyclical tanker orders.** Currently viewed by investors as a pure oil & gas play, Triyards' c.USD80m contracts in chemical tankers is a step towards diversifying its orderbook exposure to sectors that are counter-cyclical to that of oil – which should assuage investor worries.
- ◆ **Clean bill of health but priced for distress.** Triyards' net gearing has fallen to 0.29x from 0.51x in FY14. Its EBITDA interest coverage stands at 9.6x, and we expect ROE to further improve to 15% going forward. Counter-intuitively, the stock is priced for distress, at <3x forward P/Es and only 0.45x current P/BV. While we recognise that investors are likely concerned about its parent Ezra (EZRA SP, TRADING BUY, TP SGD0.36), Triyards has proven itself independent with <2% orderbook exposure to Ezra, presenting an interesting investment opportunity.
- ◆ **Small but packs a punch.** Although small, Triyards packs a "chili padi" punch well above its weight, combining lowest-cost Vietnamese operations with high build quality (as its liftboat customers and users of the *Lewek Constellation* can attest.) We believe its capabilities and rapidly-growing orderbook justify a small premium to book, even in today's environment, and raise our TP to SGD0.94 based on 1.05x P/BV (from 1.0x). Triyards remains one of our Top Picks in the sector.

Forecasts and Valuations	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Total turnover (USDm)	269	270	403	447	412
Reported net profit (USDm)	26.7	27.2	33.6	39.0	40.6
Recurring net profit (USDm)	26.7	27.2	33.6	39.0	40.6
Recurring net profit growth (%)	(15.2)	1.8	23.7	16.0	4.2
Recurring EPS (USD)	0.09	0.08	0.10	0.12	0.13
DPS (USD)	0.01	0.01	0.01	0.01	0.01
Recurring P/E (x)	3.20	3.43	2.79	2.41	2.31
P/B (x)	0.50	0.45	0.39	0.34	0.30
P/CF (x)	11.4	1.8	18.2	8.9	na
Dividend Yield (%)	2.5	2.5	3.7	5.0	5.0
EV/EBITDA (x)	4.01	3.67	3.10	2.70	1.45
Return on average equity (%)	16.9	14.4	15.0	15.1	13.9
Net debt to equity (%)	51.2	29.1	31.4	27.6	0.2
Our vs consensus EPS (adjusted) (%)			8.3	27.5	0.0

## Additional Notes

Figure 1: Triyards' orderbook has more than doubled YoY



Source: Company data, RHB

Figure 2: Quarterly results in review

	4QFY14	3QFY15	4QFY15	YoY	QoQ	Comments
<b>Revenue</b>	<b>48.769</b>	<b>63.905</b>	<b>88.403</b>	<b>81%</b>	<b>38%</b>	Higher recognitions from liftboats in 4QFY15 and incremental contribution from the SM Group.
Cost of sales	-35.591	-49.798	-69.165	94%	39%	
<b>Gross profit</b>	<b>13.178</b>	<b>14.107</b>	<b>19.238</b>	<b>46%</b>	<b>36%</b>	
Other income	0.162	0.725	-0.421	nm	-158%	
Administrative expenses	-5.812	-8.116	-8.591	48%	6%	Increase due to acquisition and consolidation of Strategic Marine. Management is currently implementing cost control measures, which should see admin expenses declining over subsequent quarters.
Other operating expenses	0.000	0.000	0.000	nm	nm	
<b>Operating profit</b>	<b>7.528</b>	<b>6.716</b>	<b>10.226</b>	<b>36%</b>	<b>52%</b>	
<b>Operating EBITDA</b>	<b>9.567</b>	<b>9.712</b>	<b>13.329</b>	<b>39%</b>	<b>37%</b>	
Depreciation and amortisation	-2.039	-2.996	-3.103	52%	4%	YoY increase due to the consolidation of Strategic Marine.
<b>Operating EBIT</b>	<b>7.528</b>	<b>6.716</b>	<b>10.226</b>	<b>36%</b>	<b>52%</b>	
Financial costs	-1.222	-1.045	-0.859	-30%	-18%	
Financial income	0.001	0.004	0.044	nm	nm	
Share of profit / (loss) from JV	0.000	0.000	0.000	nm	nm	
<b>Profit before tax</b>	<b>6.307</b>	<b>5.675</b>	<b>9.411</b>	<b>49%</b>	<b>66%</b>	
Income tax expense	-1.01	-0.251	-1.006	0%	nm	
Minority interest	0.000	0.000	0.000	nm	nm	
<b>Profit after tax and minority interest</b>	<b>5.297</b>	<b>5.424</b>	<b>8.405</b>	<b>59%</b>	<b>55%</b>	
Gross margin	27.0%	22.1%	21.8%			Lower YoY quarterly margins due to a different product mix.
EBITDA margin	19.6%	15.2%	15.1%			
Net margin	10.9%	8.5%	9.5%			Stable.

Source: Company data, RHB

Figure 3: Annual results in review

	FY14	FY15	YoY Comments
<b>Revenue</b>	<b>268.620</b>	<b>270.113</b>	<b>1%</b> Higher revenue recognition from liftboats and incremental contributions from Strategic Marine offset by lower revenue from the large Lewek Constellation project.
Cost of sales	-216.755	-210.085	-3%
<b>Gross profit</b>	<b>51.865</b>	<b>60.028</b>	<b>16%</b>
Other income	0.414	4.929	nm Negative goodwill of USD3.6m recognised on acquisition of the SM Group.
Administrative expenses	-16.756	-30.110	80% Increase entirely due to acquisition of Strategic Marine.
Other operating expenses	0.000	0.000	nm
<b>Operating profit</b>	<b>35.523</b>	<b>34.847</b>	<b>-2%</b>
<b>Operating EBITDA</b>	<b>43.308</b>	<b>46.772</b>	<b>8%</b>
Depreciation and amortisation	-7.785	-11.925	53% Increase due to consolidation of Strategic Marine.
<b>Operating EBIT</b>	<b>35.523</b>	<b>34.847</b>	<b>-2%</b>
Financial costs	-4.447	-4.971	12%
Financial income	0.006	0.057	nm
Share of profit / (loss) from JV	0.000	0.000	nm
<b>Profit before tax</b>	<b>31.082</b>	<b>29.933</b>	<b>-4%</b>
Income tax expense	-4.417	-2.779	-37%
Minority interest			nm
<b>Profit after tax and minority interest</b>	<b>26.665</b>	<b>27.154</b>	<b>2%</b>
Gross margin	19.3%	22.2%	Higher margin resulted from a different product mix.
EBITDA margin	16.1%	17.3%	
Net margin	9.9%	10.1%	Stable.

Source: RHB

## Financial Exhibits

Profit & Loss (USDm)	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Total turnover	269	270	403	447	412
Cost of sales	(217)	(210)	(329)	(366)	(332)
<b>Gross profit</b>	<b>52</b>	<b>60</b>	<b>73</b>	<b>82</b>	<b>80</b>
Gen & admin expenses	(17)	(30)	(32)	(33)	(29)
<b>Operating profit</b>	<b>35</b>	<b>30</b>	<b>41</b>	<b>49</b>	<b>51</b>
Operating EBITDA	43	42	55	63	65
Depreciation of fixed assets	(8)	(12)	(13)	(14)	(14)
<b>Operating EBIT</b>	<b>35</b>	<b>30</b>	<b>41</b>	<b>49</b>	<b>51</b>
Other recurring income	0	5	3	3	3
Interest income	0	0	0	0	0
Interest expense	(4)	(5)	(5)	(6)	(7)
<b>Pre-tax profit</b>	<b>31</b>	<b>30</b>	<b>40</b>	<b>46</b>	<b>48</b>
Taxation	(4)	(3)	(6)	(7)	(7)
<b>Profit after tax &amp; minorities</b>	<b>27</b>	<b>27</b>	<b>34</b>	<b>39</b>	<b>41</b>
<b>Reported net profit</b>	<b>27</b>	<b>27</b>	<b>34</b>	<b>39</b>	<b>41</b>
<b>Recurring net profit</b>	<b>27</b>	<b>27</b>	<b>34</b>	<b>39</b>	<b>41</b>

Source: Company data, RHB

Cash flow (USDm)	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
<b>Operating profit</b>	<b>35</b>	<b>30</b>	<b>41</b>	<b>49</b>	<b>51</b>
<b>Depreciation &amp; amortisation</b>	<b>8</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>14</b>
<b>Change in working capital</b>	<b>(27)</b>	<b>24</b>	<b>(39)</b>	<b>(40)</b>	<b>35</b>
Other operating cash flow	-	(3)	-	-	-
<b>Operating cash flow</b>	<b>15</b>	<b>62</b>	<b>16</b>	<b>23</b>	
Interest received	0	0	0	0	
Interest paid	(4)	(5)	(5)	(6)	(7)
Tax paid	(4)	(6)	(6)	(7)	(7)
<b>Cash flow from operations</b>	<b>7</b>	<b>52</b>	<b>5</b>	<b>11</b>	
Capex	(13)	(17)	(20)	(10)	(10)
Other investing cash flow	(0)	(22)	-	-	10
<b>Cash flow from investing activities</b>	<b>(14)</b>	<b>(39)</b>	<b>(20)</b>	<b>(10)</b>	
Dividends paid	(5)	(2)	(2)	(4)	(5)
Proceeds from issue of shares	-	16	-	-	
Increase in debt	18	(19)	10	20	-
Other financing cash flow	0	2	-	-	5
<b>Cash flow from financing activities</b>	<b>13</b>	<b>(4)</b>	<b>8</b>	<b>16</b>	
Cash at beginning of period	15	23	41	36	55
<b>Total cash generated</b>	<b>7</b>	<b>8</b>	<b>(7)</b>	<b>17</b>	
<b>Implied cash at end of period</b>	<b>22</b>	<b>31</b>	<b>33</b>	<b>53</b>	

Source: Company data, RHB

## Financial Exhibits

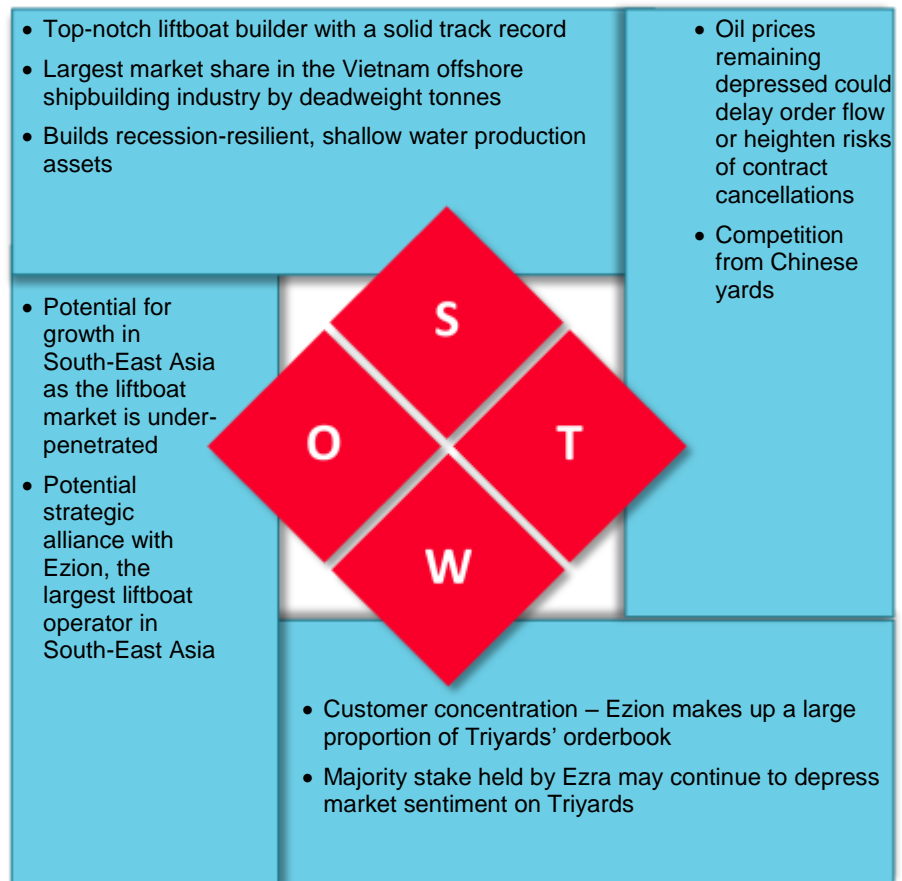
Balance Sheet (USDm)	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Total cash and equivalents	23	43	39	58	133
Inventories	31	52	63	70	64
Accounts receivable	157	148	199	221	203
Other current assets	36	39	39	39	39
<b>Total current assets</b>	<b>246</b>	<b>283</b>	<b>340</b>	<b>388</b>	<b>439</b>
Tangible fixed assets	107	138	145	142	138
Total other assets	8	9	9	9	9
Total non-current assets	115	147	154	151	147
<b>Total assets</b>	<b>362</b>	<b>430</b>	<b>494</b>	<b>539</b>	<b>586</b>
Short-term debt	104	89	91	95	95
Accounts payable	27	31	54	43	55
Other current liabilities	55	84	84	84	84
<b>Total current liabilities</b>	<b>186</b>	<b>204</b>	<b>229</b>	<b>222</b>	<b>233</b>
Total long-term debt	6	15	23	39	39
Other liabilities	0	2	2	2	2
<b>Total non-current liabilities</b>	<b>6</b>	<b>18</b>	<b>26</b>	<b>42</b>	<b>42</b>
<b>Total liabilities</b>	<b>192</b>	<b>222</b>	<b>254</b>	<b>264</b>	<b>275</b>
Share capital	194	210	210	210	210
Retained earnings reserve	155	179	211	246	282
Other reserves	(179)	(181)	(181)	(181)	(181)
<b>Shareholders' equity</b>	<b>169</b>	<b>208</b>	<b>240</b>	<b>275</b>	<b>311</b>
<b>Total equity</b>	<b>169</b>	<b>208</b>	<b>240</b>	<b>275</b>	<b>311</b>
<b>Total liabilities &amp; equity</b>	<b>362</b>	<b>430</b>	<b>494</b>	<b>539</b>	<b>586</b>

Source: Company data, RHB

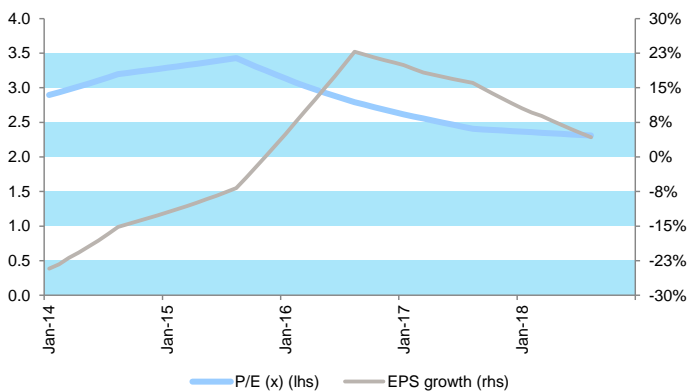
Key Ratios (USD)	Aug-14	Aug-15	Aug-16F	Aug-17F	Aug-18F
Revenue growth (%)	(2.4)	0.6	49.1	11.1	(8.0)
Operating profit growth (%)	(3.8)	(14.8)	38.6	18.3	4.1
Net profit growth (%)	(15.2)	1.8	23.7	16.0	4.2
EPS growth (%)	(15.2)	(6.8)	22.8	16.0	4.2
BVPS growth (%)	15.0	11.9	15.0	14.8	13.1
Operating margin (%)	13.1	11.1	10.3	11.0	12.4
Net profit margin (%)	9.9	10.1	8.3	8.7	9.9
Return on average assets (%)	7.8	6.9	7.3	7.5	7.2
Return on average equity (%)	16.9	14.4	15.0	15.1	13.9
Net debt to equity (%)	51.2	29.1	31.4	27.6	0.2
DPS	0.01	0.01	0.01	0.01	0.01
Recurrent cash flow per share	0.03	0.16	0.02	0.03	

Source: Company data, RHB

## SWOT Analysis

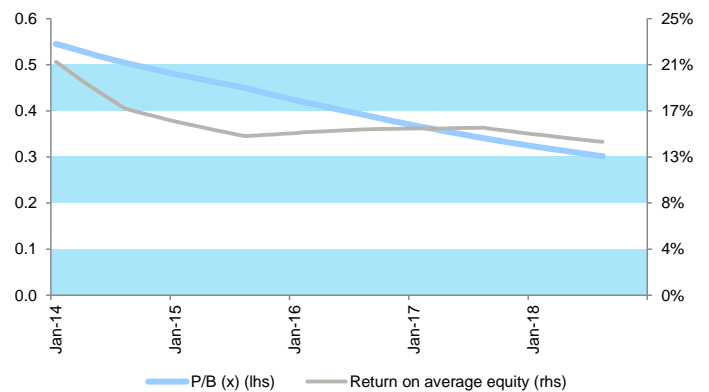


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Triyards Holdings is engaged in providing engineering, fabrication and ship construction solutions to the offshore and marine industry.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-08	Buy	0.84	0.41
2015-04-07	Buy	0.77	0.43

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

**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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