

Vard Holdings (VARD SP)

Energy & Petrochemicals - Oil & Gas Services

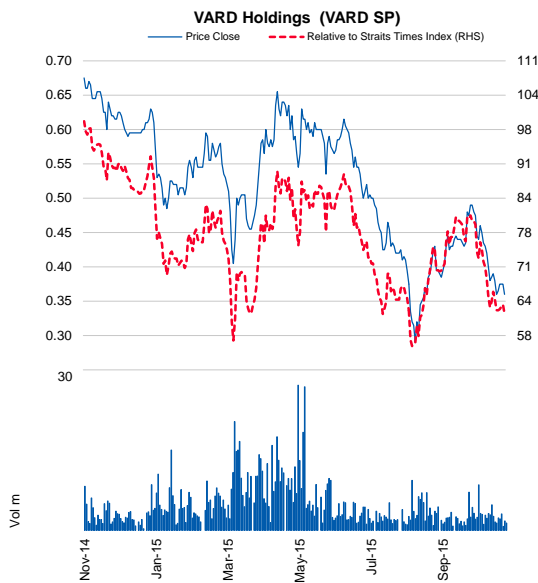
Market Cap: USD299m

Sell (Maintained)

 Target Price: **SGD0.29**

 Price: **SGD0.36**

Slow Orders? Go Fishing!

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


Source: Bloomberg

Avg Turnover (SGD/USD)	1.16m/0.83m
Cons. Upside (%)	0.0
Upside (%)	-19.4
52-wk Price low/high (SGD)	0.29 - 0.68
Free float (%)	44
Share outstanding (m)	1,180
Shareholders (%)	
Fincantieri	55.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(40.0)	(26.5)	(14.3)	(41.9)	(46.3)
Relative	(29.1)	(26.5)	(8.1)	(28.7)	(37.5)

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Vard reported a surprisingly large 3Q15 PATMI loss of NOK486m. Maintain SELL with a lower SGD0.29 TP (from SGD0.32, 19% downside). While we had flagged large forex losses in our 29 Sep report, the negative shock came from additional provisions in Brazil. It is putting those operations under a strategic review, and a new business plan (likely involving parent Fincantieri) would be revealed together with its FY15 results.

- ◆ **Massive Brazilian losses.** Vard said that its “other operations were EBITDA positive”. The underperformance and additional loss provisions made for cost overruns and delays in Brazil, pushing the group to a -20.6% EBITDA margin. Our earnings estimates are slashed from its core (excluding exchange losses) of NOK140m/NOK105m to NOK-183m/NOK66m for FY15/16F respectively. The book value erosion and increasing working capital requirements pushed Vard to a 301% net gearing position. Orders for 3Q15 were NOK1,436m (which included two fishing-related vessels), with a total of NOK14.0bn backlog.
- ◆ **Gas carriers’ delivery schedules being delayed.** Vard is discussing terms with Petrobras Transporte SA (Transpetro) to delay all its remaining liquefied petroleum gas (LPG) vessels under construction, due to the unsatisfactory progress at the yard. Management indicated that the visibility and predictability were negatively impacted by the overall economic and political environment in Brazil. It also guided that the client relationship was challenging. If penalties for delays exceed estimates, Vard could face another round of writedowns.
- ◆ **Strategic overhaul.** Vard is diversifying its product offerings. We saw a brochure for its Vard 8-Series line of fisheries and aquaculture-vessels. We believe it ought to eventually take on hull jobs for parent Fincantieri’s (FCT IM, NR) booming cruise-liner business. Exposure to Brazil is under review and we see a possibility of a partial sale of this business.
- ◆ **Go fishing, or go on a cruise.** The fishing vessels would certainly not make up for the weakness in its core offshore business. Nevertheless, we see a potential white knight to Vard’s yard underutilisation problem in Europe if parent Fincantieri can subcontract out larger parts, or even whole hull jobs of its cruise-liner orderbook to Vard. Our SGD0.29 TP is based on 0.55x FY15F P/BV.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (NOKm)	11,155	12,923	10,072	8,768	7,288
Reported net profit (NOKm)	357	349	(384)	(4)	(104)
Recurring net profit (NOKm)	366	406	(183)	66	(34)
Recurring net profit growth (%)	(53.6)	10.9	(145.1)	na	(152.5)
Recurring EPS (NOK)	0.31	0.34	(0.16)	0.06	(0.03)
DPS (NOK)		0.00	0.04	0.04	0.04
Recurring P/E (x)	7.1	6.4	na	39.6	na
P/B (x)	0.70	0.63	0.69	0.70	0.73
P/CF (x)	na	3.76	na	2.33	2.00
Dividend Yield (%)	0.0	0.0	1.9	1.9	1.9
EV/EBITDA (x)	8.8	21.2	na	70.8	54.6
Return on average equity (%)	10.4	8.9	(9.7)	(0.1)	(2.9)
Net debt to equity (%)	106.3	188.2	351.1	354.3	346.3
Our vs consensus EPS (adjusted) (%)			(186.1)	(66.6)	(119.0)

Source: Company data, RHB

Additional Notes

Figure 1: Quarterly financial results in review

FYE 31 Dec (NOKm)	3Q14	2Q15	3Q15	QoQ	YoY Remarks
Revenue	2,809	2,489	2,271	-9%	-19% Lower activity at European yards due to shortfall of new orders. Secured NOK1,436m from four new vessel contracts in 3Q15, vs NOK956m in 2Q15. Orderbook stands at NOK14.0bn in 3Q15, from NOK17.7bn at end-2014.
Materials, subcontract costs and others	-2,137	-1,663	-2,009	21%	-6% We estimate NOK500m of additional provisions taken here in 3Q15 for underperforming Brazilian operations.
Salaries and related costs	-606	-639	-547	-14%	-10% Downsizing continuing in Brazil and Europe as workload falls.
Others	-117	-141	-182	29%	56%
EBITDA	-51	46	-467	nm	nm
Depreciation and amortisation	-57	-53	-51	-4%	-11%
Operating profit	-108	-21	-554	nm	nm
Financial income	14	11	6	-45%	-57%
Interest income	7	6	8		
Dividend income	0	0	0		
Forex	0	44	146		Exchange gains due to weaker NOK against USD.
Fair value of derivatives	0	0	0		
Others	7	5	-2		
Financial expense	-11	-36	-25	-31%	nm
Interest expense	-1	-17	-19		Increased borrowings and reduced capitalisation of borrowing costs related to assets under construction.
Forex	-59	-39	-385		Exchange losses in 3Q15 related to yard construction loans denominated in USD.
Financial instruments	0	-4	0		
Others	-10	-15	-6		
Share of results	10	3	0	-100%	-100%
Exceptional items	-59	28	-269		We treat exchange losses and restructuring items as exceptional, for reference.
Profit before tax	-154	-23	-842	nm	nm
Income tax	-6	-28	-33	18%	nm Negative taxes in 3Q15 as no tax credits were recorded for large losses in Brazil.
Minority interest	123	109	359	nm	nm
Net profit to equity holders	-37	58	-486	nm	nm
Analysis					
EBITDA margins	-1.8%	1.8%	-20.6%		
Op margins	-3.8%	-0.8%	-24.4%		
Income tax	4%	122%	4%		
PBT margins	-5.5%	-0.9%	-37.1%		
Net margins	-1.3%	2.3%	-21.4%		

Source: Company, RHB

Financial Exhibits

Profit & Loss (NOKm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	11,155	12,923	10,072	8,768	7,288
Cost of sales	(10,113)	(12,132)	(10,064)	(8,289)	(6,884)
Gross profit	1,042	791	8	479	405
Other operating costs	(562)	(551)	(619)	(539)	(448)
Operating profit	480	240	(611)	(60)	(43)
Operating EBITDA	686	429	(407)	138	158
Depreciation of fixed assets	(206)	(189)	(204)	(198)	(201)
Operating EBIT	480	240	(611)	(60)	(43)
Net income from investments	9	35	6	10	10
Interest income	53	63	31	26	24
Interest expense	(36)	(43)	(215)	(70)	(70)
Exceptional income - net	(9)	(57)	(201)	(70)	(70)
Pre-tax profit	497	238	(990)	(164)	(149)
Taxation	(197)	(188)	(111)	(40)	(30)
Minority interests	57	299	717	200	75
Profit after tax & minorities	357	349	(384)	(4)	(104)
Reported net profit	357	349	(384)	(4)	(104)
Recurring net profit	366	406	(183)	66	(34)

Source: Company data, RHB

Cash flow (NOKm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	480	240	(611)	(60)	(43)
Depreciation & amortisation	206	189	204	198	201
Change in working capital	(604)	460	(1,283)	1,129	1,281
Other operating cash flow	(50)	(1)	(196)	(70)	(70)
Operating cash flow	32	888	(1,886)	1,197	1,369
Interest received	46	18	31	26	24
Interest paid	(7)	(7)	(215)	(70)	(70)
Tax paid	(412)	(209)	(111)	(40)	(30)
Cash flow from operations	(341)	690	(2,181)	1,112	1,293
Capex	(811)	(384)	(250)	(250)	(250)
Other new investments	(6)	(507)	-	-	-
Other investing cash flow	(55)	62	-	-	-
Cash flow from investing activities	(872)	(829)	(250)	(250)	(250)
Dividends paid	(1)	-	-	(50)	(50)
Increase in debt	545	954	900	-	(500)
Other financing cash flow	3	10	-	-	-
Cash flow from financing activities	547	964	900	(50)	(550)
Cash at beginning of period	2,437	1,745	2,002	471	1,284
Total cash generated	(666)	825	(1,531)	813	494
Forex effects	19	45	-	-	-
Implied cash at end of period	1,790	2,615	471	1,284	1,778

Source: Company data, RHB

Financial Exhibits

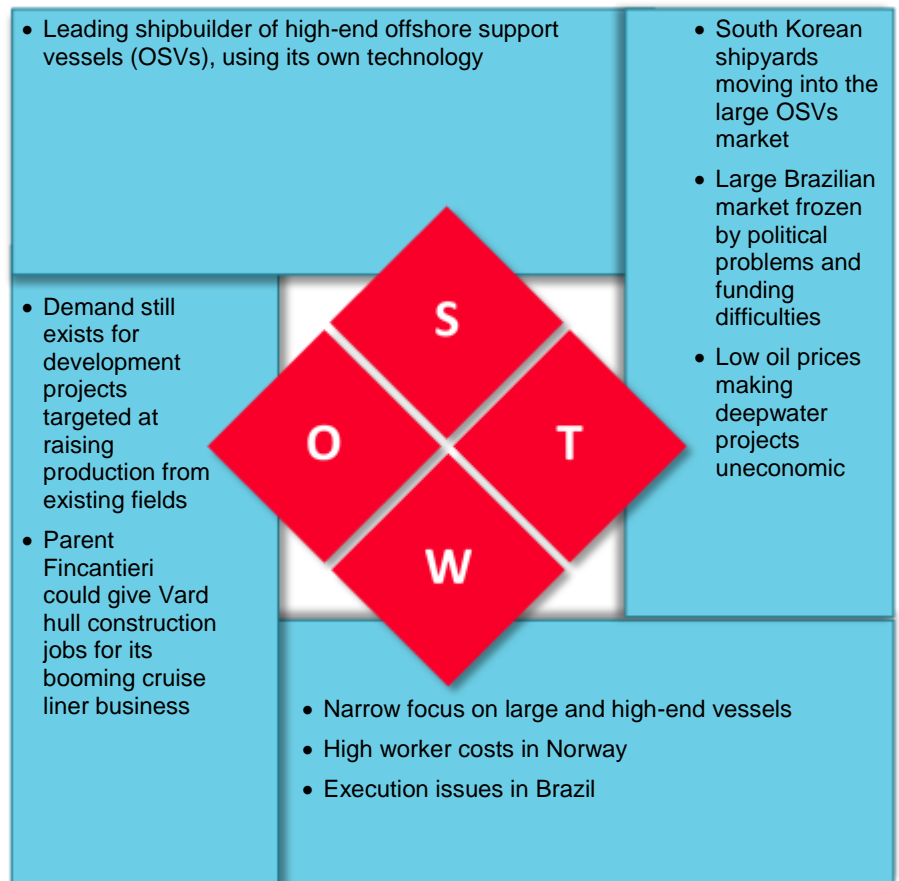
Balance Sheet (NOKm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,745	2,002	471	1,284	1,778
Inventories	6,661	9,666	8,830	7,687	6,390
Accounts receivable	2,076	3,465	1,821	1,585	1,318
Other current assets	51	530	530	530	530
Total current assets	10,533	15,663	11,653	11,086	10,015
Total investments	730	780	786	796	806
Tangible fixed assets	2,167	2,535	2,576	2,628	2,677
Intangible assets	305	338	338	338	338
Total other assets	79	133	133	133	133
Total non-current assets	3,281	3,786	3,833	3,895	3,954
Total assets	13,814	19,449	15,486	14,982	13,969
Short-term debt	5,012	8,069	9,629	8,390	6,982
Accounts payable	3,616	5,694	1,932	1,682	1,398
Other current liabilities	595	370	370	370	370
Total current liabilities	9,223	14,133	11,930	10,441	8,750
Total long-term debt	673	1,204	544	1,783	2,691
Other liabilities	210	248	248	248	248
Total non-current liabilities	883	1,452	792	2,031	2,939
Total liabilities	10,106	15,585	12,723	12,473	11,689
Share capital	4,138	4,138	4,138	4,138	4,138
Retained earnings reserve	(450)	(6)	(390)	(444)	(598)
Shareholders' equity	3,688	4,132	3,748	3,694	3,540
Minority interests	20	(268)	(985)	(1,185)	(1,260)
Total equity	3,708	3,864	2,763	2,509	2,280
Total liabilities & equity	13,814	19,449	15,486	14,982	13,969

Source: Company data, RHB

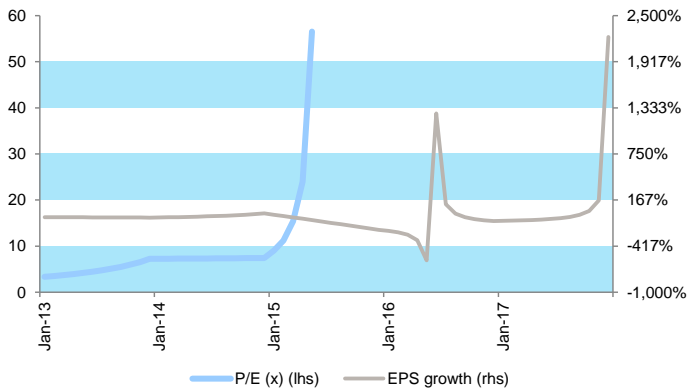
Key Ratios (NOK)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	0.2	15.8	(22.1)	(12.9)	(16.9)
Operating profit growth (%)	(63.2)	(50.0)	(354.5)	(90.1)	(28.4)
Net profit growth (%)	(55.6)	(2.2)	(210.0)	(98.8)	2230.2
EPS growth (%)	(55.6)	(2.2)	(210.0)	(98.8)	2230.2
BVPS growth (%)	17.0	12.0	(9.3)	(1.4)	(4.2)
Operating margin (%)	4.3	1.9	(6.1)	(0.7)	(0.6)
Net profit margin (%)	3.2	2.7	(3.8)	(0.1)	(1.4)
Return on average assets (%)	2.7	2.1	(2.2)	(0.0)	(0.7)
Return on average equity (%)	10.4	8.9	(9.7)	(0.1)	(2.9)
Net debt to equity (%)	106.3	188.2	351.1	354.3	346.3
DPS		0.00	0.04	0.04	0.04
Recurrent cash flow per share	(0.29)	0.58	(1.85)	0.94	1.10

Source: Company data, RHB

SWOT Analysis

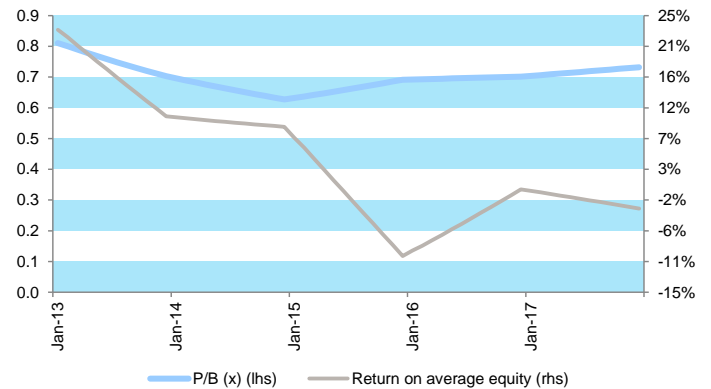


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

VARD builds large, specialized offshore support vessels (OSVs) used in the offshore oil and gas industry. It has yards in Norway, Romania, Vietnam and Brazil.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-28	Sell	0.32	0.45
2015-08-03	Sell	0.36	0.43
2015-05-14	Sell	0.47	0.55
2015-03-16	Neutral	0.50	0.51
2015-03-02	Neutral	0.52	0.58
2015-01-09	Sell	0.51	0.61
2014-10-15	Sell	0.57	0.70
2014-10-10	Neutral	0.80	0.84
2014-06-05	Neutral	1.10	1.11
2014-04-29	Neutral	1.00	0.96

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

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