

Vard Holdings (VARD SP)

Share Price: SGD0.36

Target Price: SGD0.22 (-39%)

MCap (USD): 299M

ADTV (USD): 0.9M

Singapore

Oil & Gas

SELL

 (Unchanged)

Brazil Yet Again

- 3Q15 missed with net loss of NOK486m. Brazil cost overruns again the culprit. We now expect losses till FY17.
- Vard reviewing exposure to Brazil. New business plan to be announced in FY15 results.
- Maintain SELL. Cut TP from SGD0.35 to SGD0.22, now based on 0.4x P/BV from 0.55x. Risks to our view could come from order win upside or any privatisation by parent company.

What's New

3Q15 missed big time with a net loss of NOK486m, a historical low. 9M15 losses were NOK520m vs our previous NOK143m profit forecast for FY15. EBITDA margins were a negative 20.6% (2Q15: 1.8%, 3Q14: -1.8%). The reasons: 1) cost overruns and provisions for LPG projects in Brazil; 2) slowing work in European yards; and 3) a net forex loss of NOK239m. Brazil appeared to be the biggest culprit as EBITDA was positive for its other operations. Vard shared that the complexity of its Transpetro LPG carriers - seven of which it has yet to deliver, out of eight, worth NOK369m each - exceeded its initial estimates.

What's Our View

Vard is reviewing its exposure to Brazil and could make structural changes. We think these could involve cutting its stake in 50.5%-owned Promar and/or booking impairment charges. We estimate invested capex of c.USD180m for Vard Promar. Vard said it would elaborate more when it reports full-year results.

YTD new orders reached NOK2.6b (FY14: NOK9.5b) against our NOK3.5b for FY15. This excludes a new contract that could be worth NOK400-600m. We cut FY16/17 orders from NOK7.9/11.1b to NOK5.0b/9.9b to reflect offshore vessel demand weakness. We now forecast net losses for FY15-17.

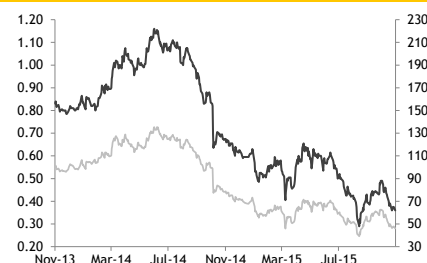
We slash TP from SGD0.35 to SGD0.22, now based on 0.4x P/BV, on par with what we accord PACRA SP (SELL, TP SGD0.34). Weak order-book replenishment and Brazil woes are the main de-rating catalysts. Upside to our view could come from surprise new orders or any privatisation by Fincantieri, Vard's parent company.

FYE Dec (NOK m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	11,155.0	12,923.0	9,963.3	7,918.0	7,644.0
EBITDA	686.0	429.0	(426.3)	(125.1)	70.6
Core net profit	357.0	349.0	(559.8)	(161.3)	(22.4)
Core EPS (NOK)	0.30	0.30	(0.47)	(0.14)	(0.02)
Core EPS growth (%)	(60.4)	(2.2)	nm	nm	nm
Net DPS (NOK)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	7.2	7.4	(4.6)	(16.0)	(115.5)
P/BV (x)	0.7	0.6	0.7	0.7	0.7
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	10.4	8.8	(13.7)	(4.1)	(0.6)
ROAA (%)	2.7	2.1	(2.9)	(0.9)	(0.1)
EV/EBITDA (x)	12.5	25.7	nm	nm	137.2
Net debt/equity (%)	106.8	173.0	240.1	231.4	213.9

Key Data

52w high/low (SGD)	0.68/0.29
3m avg turnover (USDm)	0.9
Free float (%)	44.0
Issued shares (m)	1,180
Market capitalization	SGD424.8M
Major shareholders:	
-Fintecna SpA	55.6%
-Kairos Partners SGR SpA	4.8%
-Fideuram Investimenti SGR SpA	1.7%

Share Price Performance



— Vard - (LHS, SGD) — Vard / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	(26.5)	(14.3)	(46.7)
Relative to index (%)	(26.5)	(8.6)	(41.3)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	0	0	5
	Maybank Consensus		% +/-
Target Price (SGD)	0.22	0.34	(34.6)
'15 PATMI (NOKm)	-560	-15	#####
'16 PATMI (NOKm)	-161	94	(272.6)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss

FYE Dec (NOK m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	Comments
Revenue	2,271	2,489	2,809	(8.8)	(19.2)	Reduced activities at some European shipyards
Materials, subcontract costs & others	(2,009)	(1,663)	(2,137)	20.8	(6.0)	
Salaries and related costs	(547)	(639)	(606)	(14.4)	(9.7)	
Other op. income/expenses	(182)	(141)	(117)	29.1	55.6	
EBITDA	(467)	46	(51)	n.m.	n.m.	Lower due to loss provisions for projects at Brazilian yards. Rest of group booked positive EBITDA.
Restructuring cost	(36)	(14)	0	157.1	n.m.	
Dep, amortisation & impairment	(51)	(53)	(57)	(3.8)	(10.5)	
EBIT	(554)	(21)	(108)	n.m.	n.m.	
Non-op. income	144	49	0	193.9	n.m.	Mainly due to forex gain of NOK146m
Non-op. expenses	(391)	(43)	(69)	809.3	466.7	Mainly due to forex loss of NOK385m
Interest income	8	6	7	33.3	14.3	
Interest expenses	(19)	(17)	(1)	11.8	n.m.	
Associates income	0	3	10	n.m.	n.m.	
EBT	(812)	(23)	(161)	n.m.	n.m.	
Taxation	(33)	(28)	(6)	17.9	450.0	
Net profit	(845)	(51)	(167)	n.m.	n.m.	
Minority interest	359	109	(123)	n.m.	n.m.	Minority interest relates mainly to Vard Promar, 50.5%-owned.
PATMI	(486)	58	(44)	n.m.	n.m.	
EBITDA margins (%)	(20.6)	1.8	(1.8)	(22.4)ppts	(18.7)ppts	
EBIT margins (%)	(24.4)	(0.8)	(3.8)	(23.6)ppts	(20.5)ppts	
EBT margins (%)	(35.8)	(0.9)	(5.7)	(34.8)ppts	(30.0)ppts	
Net margins (%)	(37.2)	(2.0)	(5.9)	(35.2)ppts	(31.3)ppts	

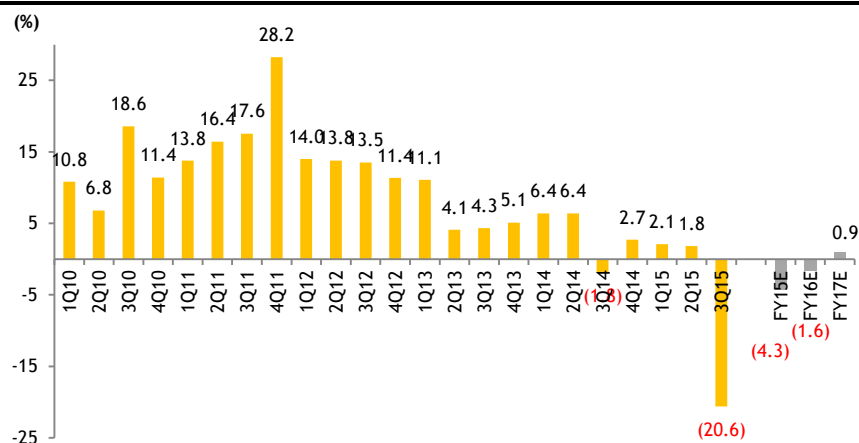
Source: Company, Maybank KE

Figure 2: 9M profit and loss

FYE Dec (NOK m)	9M15	9M14	% chg YoY	Previous FY15E	YTD as % of FY15E	Comments
Revenue	7,823	8,423	(7.1)	11,289	69	
Materials, subcontract costs & others	(5,861)	(5,929)	(1.1)	(8,146)	72	
Salaries and related costs	(1,849)	(1,769)	4.5	(2,432)	76	
Other op. income/expenses	(469)	(416)	12.7	(541)	87	
EBITDA	(356)	309	n.m.	257	(139)	
Restructuring cost	(56)		n.m.		n.m.	
Dep, amortisation & impairment	(154)	(154)	0.0	(202)	76	
EBIT	(566)	155	n.m.	55	n.m.	
Non-op. income	261	35	645.7	217	120	Mainly due to forex gain of NOK257m
Non-op. expenses	(710)	(107)	n.m.	(269)	264	Mainly due to forex loss of NOK698m
Interest income	21	23	(8.7)	28	75	
Interest expenses	(51)	(3)	n.m.	(60)	85	
Associates income	4	17	(76.5)	18	22	
EBT	(1,041)	120	n.m.	(11)	n.m.	
Taxation	(81)	(90)	(10.0)	(88)	92	
Net profit	(1,122)	30	n.m.	(99)	n.m.	
Minority interest	602	(165)	n.m.	242	n.m.	Minority interest relates mainly to Vard Promar, 50.5%-owned.
PATMI	(520)	195	n.m.	143	n.m.	
EBITDA margins (%)	(4.6)	3.7	(8.2)ppts	2.3		
EBIT margins (%)	(7.2)	1.8	(9.1)ppts	0.5		
EBT margins (%)	(13.3)	1.4	(14.7)ppts	(0.1)		
Net margins (%)	(14.3)	0.4	(14.7)ppts	(0.9)		

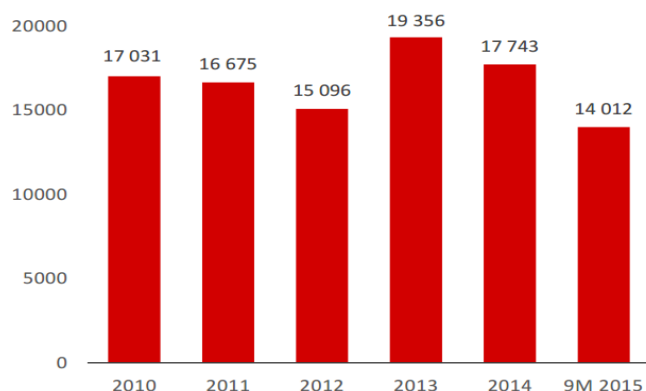
Source: Company, Maybank KE

Figure 3: Historical and forecast EBITDA margins
 3Q15 margins a historical low, largely due to loss provisions for Brazil LPG vessels.



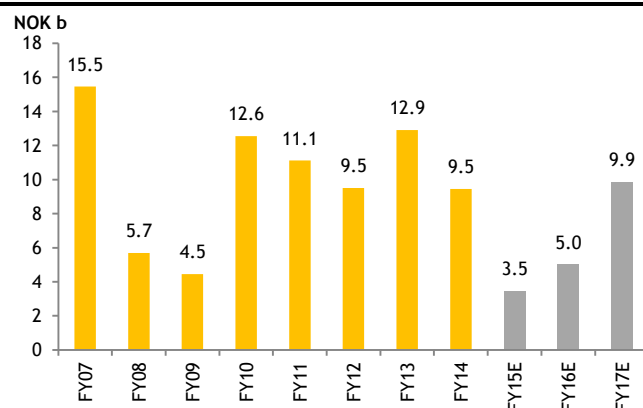
Source: Company, Maybank KE

Figure 4: Historical order book
 Dwindling orderbook due to weak replenishment. This will affect future yard utilisation.



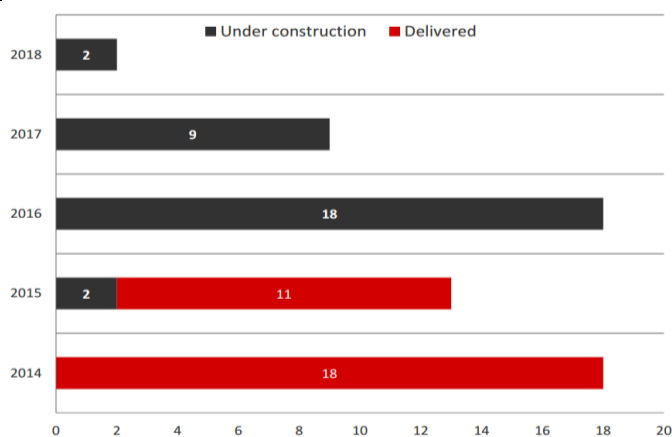
Source: Company

Figure 5: Order-intake forecasts
 We cut FY16E/17E order intake further from NOK7.9b/NOK11.1b to NOK5.0/9.9b



Source: Company

Figure 6: Orderbook delivery status



Source: Company

Figure 7: Orderbook by region and vessel type

By region				
Region	Order book 30 Jun 2015	Deliveries 3Q 2015	Order intake 3Q 2015	Order book 30 Sep 2015
Norway / Romania	15	1	4	18
Brazil	11	1	-	10
Vietnam	3	-	-	3
Total	29	2	4	31

By vessel type				
Vessel type	Order book 30 Jun 2015	Deliveries 3Q 2015	Order intake 3Q 2015	Order book 30 Sep 2015
AHTS	3	-	-	3
PSV	7	-	-	7
OSCV	11	1	2	12
Other	8	1	2	9
Total	29	2	4	31

Source: Company

Figure 8: Changes in estimates

	Old			New			% chg		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Revenue (NOK m)	11,289	8,703	9,404	9,963	7,918	7,644	(12)	(9)	(19)
EBITDA (NOK m)	257	267	497	(426)	(125)	71	(266)	(147)	(86)
PATMI (NOK m)	143	154	340	(560)	(161)	(22)	(491)	(205)	(107)
EPS (SGD cts)	2.1	2.2	2.2	(8.2)	(2.4)	(0.3)	(498)	(206)	(115)
BVPS (SGD cts)	61.4	63.6	63.6	58.0	55.6	55.3	(6)	(13)	(13)
EBITDA margins (%)	2.3	3.1	5.3	(4.3)	(1.6)	0.9	(7)	(5)	(4)
New order wins (NOK b)	3.5	7.9	11.1	3.5	5.0	9.9	0	(36)	(11)
Net Orderbook (NOK b)	8.6	7.7	9.4	9.0	6.1	6.4	5	(22)	(32)

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	7.2	7.4	(4.6)	(16.0)	(115.5)
Core P/E (x)	7.2	7.4	(4.6)	(16.0)	(115.5)
P/BV (x)	0.7	0.6	0.7	0.7	0.7
P/NTA (x)	76.4	66.9	71.2	74.5	nm
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	12.5	nm	9.4	2.3
EV/EBITDA (x)	12.5	25.7	nm	nm	137.2
EV/EBIT (x)	17.9	45.9	nm	nm	nm

INCOME STATEMENT (NOK m)

Revenue	11,155.0	12,923.0	9,963.3	7,918.0	7,644.0
Gross profit	3,171.0	3,277.0	2,255.2	1,941.0	2,143.9
EBITDA	686.0	429.0	(426.3)	(125.1)	70.6
Depreciation	(206.0)	(189.0)	(256.5)	(194.0)	(186.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	480.0	240.0	(682.8)	(319.0)	(116.1)
Net interest income / (exp)	42.0	14.0	(11.5)	(19.3)	(21.0)
Associates & JV	9.0	35.0	4.0	4.0	4.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(34.0)	(51.0)	(374.0)	120.0	140.0
Pretax profit	497.0	238.0	(1,064.3)	(214.3)	6.9
Income tax	(197.0)	(188.0)	(101.0)	(54.6)	(44.2)
Minorities	57.0	299.0	605.5	107.6	14.9
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	357.0	349.0	(559.8)	(161.3)	(22.4)
Core net profit	357.0	349.0	(559.8)	(161.3)	(22.4)

BALANCE SHEET (NOK m)

Cash & Short Term Investments	1,745.0	2,002.0	1,266.3	1,468.4	2,125.5
Accounts receivable	2,076.0	3,465.0	1,637.8	1,301.6	1,256.5
Inventory	237.0	466.0	510.4	475.3	436.7
Property, Plant & Equip (net)	2,167.0	2,535.0	2,498.5	2,404.5	2,317.9
Intangible assets	305.0	338.0	338.0	338.0	338.0
Investment in Associates & JVs	383.0	327.0	331.0	335.0	339.0
Other assets	6,901.0	10,316.0	12,719.3	11,861.7	11,164.4
Total assets	13,814.0	19,449.0	19,301.3	18,184.5	17,978.0
ST interest bearing debt	5,012.0	8,069.0	9,526.0	9,138.8	9,085.1
Accounts payable	2,625.0	2,418.0	1,429.1	1,188.3	1,091.8
LT interest bearing debt	673.0	1,204.0	1,270.1	1,142.3	1,135.6
Other liabilities	1,796.0	3,894.0	3,980.0	3,888.0	3,876.0
Total Liabilities	10,106.0	15,585.0	16,205.6	15,357.7	15,188.5
Shareholders Equity	3,688.0	4,202.0	3,969.2	3,807.8	3,785.4
Minority Interest	20.0	(268.0)	(873.5)	(981.0)	(995.9)
Total shareholder equity	3,708.0	3,934.0	3,095.7	2,826.8	2,789.5
Total liabilities and equity	13,814.0	19,519.0	19,301.3	18,184.5	17,978.0

CASH FLOW (NOK m)

Pretax profit	497.0	238.0	(1,064.3)	(214.3)	6.9
Depreciation & amortisation	206.0	189.0	256.5	194.0	186.7
Adj net interest (income)/exp	(42.0)	(14.0)	11.5	19.3	21.0
Change in working capital	(604.0)	460.0	(378.0)	412.9	13.2
Cash taxes paid	(197.0)	(188.0)	(101.0)	(54.6)	(44.2)
Other operating cash flow	172.0	203.0	97.0	50.6	40.2
Cash flow from operations	(341.0)	690.0	(1,132.6)	344.1	160.0
Capex	(811.0)	(367.0)	(220.0)	(100.0)	(100.0)
Free cash flow	(1,152.0)	323.0	(1,352.6)	244.1	60.0
Dividends paid	(1.0)	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	417.0	423.0	616.9	(42.0)	597.0
Other invest/financing cash flow	(39.0)	(488.0)	0.0	0.0	0.0
Effect of exch rate changes	20.0	0.0	0.0	0.0	0.0
Net cash flow	(755.0)	258.0	(735.7)	202.1	657.0

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	0.2	15.8	(22.9)	(20.5)	(3.5)
EBITDA growth	(53.4)	(37.5)	nm	nm	nm
EBIT growth	(63.2)	(50.0)	nm	nm	nm
Pretax growth	(62.4)	(52.1)	nm	nm	nm
Reported net profit growth	(60.4)	(2.2)	nm	nm	nm
Core net profit growth	(60.4)	(2.2)	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	6.1	3.3	nm	nm	0.9
EBIT margin	4.3	1.9	nm	nm	nm
Pretax profit margin	4.5	1.8	nm	nm	0.1
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	3.2	2.7	nm	nm	nm
Revenue/Assets (x)	0.8	0.7	0.5	0.4	0.4
Assets/Equity (x)	3.7	4.6	4.9	4.8	4.7
ROAE (%)	10.4	8.8	(13.7)	(4.1)	(0.6)
ROAA (%)	2.7	2.1	(2.9)	(0.9)	(0.1)
Liquidity & Efficiency					
Cash conversion cycle	(43.9)	(3.8)	25.2	17.7	15.5
Days receivable outstanding	64.5	77.2	92.2	66.8	60.2
Days inventory outstanding	13.9	13.1	22.8	29.7	29.8
Days payables outstanding	122.3	94.1	89.8	78.8	74.6
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.1	1.1	1.1	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.2	1.2	1.2	1.2
Net debt/equity (%)	106.8	173.0	240.1	231.4	213.9
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	8.3	nm	nm	nm	nm
Capex/revenue (%)	7.3	2.8	2.2	1.3	1.3
Net debt/ (net cash)	3,940.0	7,271.0	9,529.8	8,812.7	8,095.3

Source: Company; Maybank

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