

Perdana Petroleum (PETR MK)

Energy & Petrochemicals - Offshore & Marine

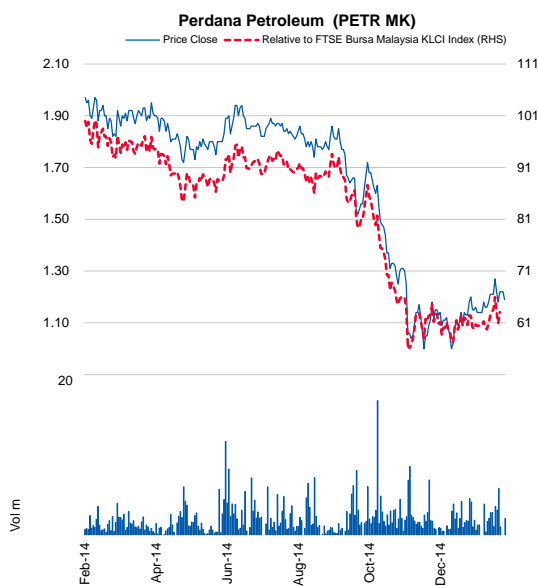
Market Cap: USD242m

Buy (Maintained)

Target Price: MYR1.53

Price: MYR1.19

Ends FY14 With a Whimper

 Macro ◆
 Risks ◆
 Growth ◆◆
 Value ◆◆


Source: Bloomberg

Avg Turnover (MYR/USD)	2.35m/0.67m
Cons. Upside (%)	94.1
Upside (%)	28.9
52-wk Price low/high (MYR)	1.00 - 1.97
Free float (%)	45
Share outstanding (m)	739
Shareholders (%)	
Dayang Enterprise	28.6
Lembaga Tabung Haji	8.5
Kho Eng Poh	5.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.2	(0.8)	(4.8)	(34.6)	(39.0)
Relative	4.6	(1.1)	(4.7)	(31.2)	(37.7)

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Perdana Petroleum's core profit came in at MYR83.9m, below our and consensus estimates at 93% and 88% respectively, due to early dry-docking as well as higher opex. We maintain our BUY call with a lower MYR1.53 TP (from MYR1.62, 29% upside). We downgrade our FY15 earnings forecasts by 6% due to lower vessel count but leave our FY16 estimates unchanged.

- ◆ **Full-year core profit of MYR83.9m.** Perdana Petroleum's FY14 revenue came in at MYR347.2m, an increase of 26.4%, on a higher vessel count as well as better vessel utilisation. Average vessel utilisation for FY14 increased to 92% vs the previous year's 80%. Core profit of MYR83.9m came in below our and consensus estimates – at 93% and 88% respectively – due to lower vessel utilisation in 4Q. This was because of scheduled dry-docking as well as interim maintenance for three vessels, ie the *Perdana Liberty*, *Perdana Sovereign*, and *Perdana Expedition*. Note that the *Perdana Enterprise*, which was previously under contract to UMW Oil & Gas (UMWOG MK, NR), has been earmarked for disposal while the *Perdana Emerald* (delivered in 3Q14) has taken its place at the same charter rate.
- ◆ **Outlook.** As the 10-year-old *Perdana Enterprise* undergoes disposal, this will lower Perdana Petroleum's FY15 vessel count to 17. New vessels, ie two 500-man accommodation work barges (AWBs), will only come into service in 1H16. However, with an average fleet age of 4.3 years and 82% of its vessels under long-term charters until 2019, we believe the company is still in sound condition operationally. Although there is industry talk of charter rates being revised down by 15-20%, we believe Perdana Petroleum's fleet of young and modern vessels will still enable it to command a premium in the market.
- ◆ **Maintain BUY with a lower TP of MYR1.53.** We lower our FY15 and FY16 earnings by 11% and 6% respectively in light of the lower vessel count. This resulted in a lower TP of MYR1.53 (29% upside) from MYR1.62 based on 13x FY15F P/E. This is the high end of our oil & gas counters valuation, but we deem it justified given Perdana Petroleum's long-term charters visibility until 2019 as well as the company's modern and young fleet, which allows its vessels to command a premium.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	275	347	413	514	585
Reported net profit (MYRm)	62	88	91	125	154
Recurring net profit (MYRm)	39	84	91	125	154
Recurring net profit growth (%)	109.5	113.1	9.0	36.7	23.2
Recurring EPS (MYR)	0.08	0.11	0.12	0.16	0.20
DPS (MYR)	0.00	0.02	0.00	0.00	0.00
Recurring P/E (x)	15.7	10.4	10.1	7.4	6.0
P/B (x)	1.10	1.34	1.20	1.03	0.88
P/CF (x)	7.69	6.73	4.18	4.52	4.00
Dividend Yield (%)	0.0	1.7	0.0	0.0	0.0
EV/EBITDA (x)	13.1	9.4	8.1	6.3	5.0
Return on average equity (%)	12.1	14.5	12.8	14.9	15.8
Net debt to equity (%)	91.3	89.9	60.6	40.5	22.0
Our vs consensus EPS (adjusted) (%)			(23.8)	4.2	28.3

Sensitivity analysis. We offer in the table below the PATAMI and diluted EPS of Perdana Petroleum under different assumptions: i) no revision in charter rates, ii) 15% downward revision from current charter rates, iii) 15% downward revision on spot and new charters coming in FY16, and iv) 15% downward revision on vessels chartered by Petronas Carigali.

Figure 1: Perdana Petroleum's charter rates sensitivity

No revision in charter rates	FY15F	FY16F
PATAMI (MYRm)	91.4	125.0
Diluted EPS (MYR)	0.117	0.160
15% downward revision (all vessels)	FY15F	FY16F
PATAMI (MYRm)	54.7	81.1
Diluted EPS (MYR)	0.070	0.104
15% downward revision (spot charters)	FY15F	FY16F
PATAMI (MYRm)	90.2	117.4
Diluted EPS (MYR)	0.116	0.151
15% downward revision (Petronas Carigali chartered)	FY15F	FY16F
PATAMI (MYRm)	85.1	111.9
Diluted EPS (MYR)	0.109	0.144

Source: RHB

Figure 2: Perdana Petroleum's 4Q14/FY14 results review

FYE Dec (MYRm)	4Q13	3Q14	4Q14	QoQ (%)	YoY (%)	FY13	FY14	YoY (%)
Revenue	78.1	93.8	77.5	(17.3)	(0.6)	274.7	347.2	26.4
EBITDA	40.2	47.6	37.9	(20.3)	(5.7)	115.0	173.7	51.1
<i>EBITDA Margin (%)</i>	<i>51.5</i>	<i>50.7</i>	<i>48.9</i>			<i>41.9</i>	<i>50.0</i>	
Depreciation	(10.9)	(12.8)	(13.8)	7.9	26.1	(30.9)	(52.2)	69.0
EBIT	29.2	34.8	24.1	(30.7)	(17.5)	84.1	121.5	44.5
<i>EBIT Margin (%)</i>	<i>37.4</i>	<i>37.1</i>	<i>31.1</i>			<i>30.6</i>	<i>35.0</i>	
Interest expense	(8.0)	(7.1)	(8.8)	24.9	9.8	(18.6)	(32.0)	71.8
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
El/Others	8.9	(0.7)	1.7	(353.4)	(81.3)	22.2	4.1	(81.4)
Pretax profit	21.2	27.7	15.3	(44.8)	(27.9)	65.5	89.5	36.7
<i>Pretax Margin (%)</i>	<i>27.2</i>	<i>29.5</i>	<i>19.7</i>			<i>23.8</i>	<i>25.8</i>	
Tax	0.1	(0.7)	(0.3)	(59.8)	(426.4)	(3.5)	(1.5)	(57.9)
<i>Effective tax rate (%)</i>	<i>0.4</i>	<i>(2.5)</i>	<i>(1.9)</i>			<i>(5.3)</i>	<i>(1.6)</i>	
Minority Interest	0.6	0.0	0.0	(100.0)	(100.0)	(0.3)	0.0	(100.6)
Net Profit	21.9	27.0	15.0	(44.4)	(31.4)	61.7	88.0	42.8
Core Profit	13.0	27.7	13.3	(51.8)	2.9	39.5	83.9	112.5
<i>Net Margin (%)</i>	<i>16.6</i>	<i>29.5</i>	<i>17.2</i>			<i>14.4</i>	<i>24.2</i>	

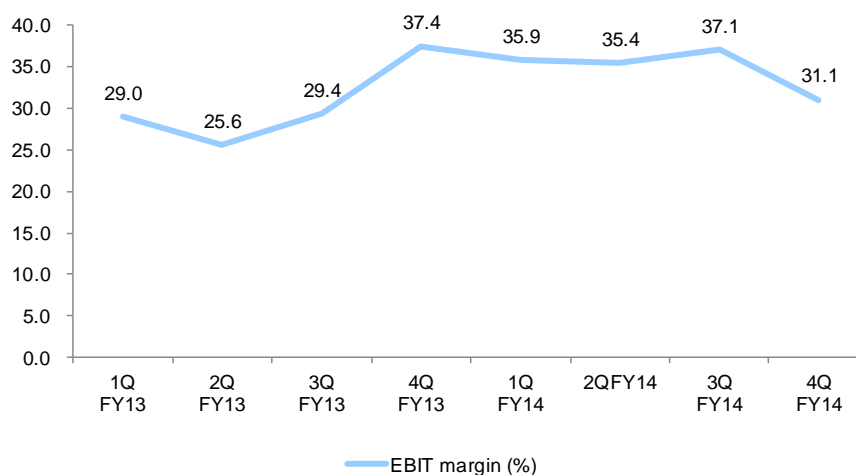
Source: Company data, RHB

Figure 3: Perdana Petroleum's historical quarterly results

FYE Dec (MYRm)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	56.8	71.7	68.2	78.1	87.3	88.6	93.8	77.5
Growth q-o-q (%)	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3
Growth y-o-y (%)	(11.6)	26.2	(4.9)	14.5	11.8	1.5	5.9	(17.3)
Other operating income	6.6	3.6	6.5	10.5	2.3	1.6	1.0	32.1
Other operating cost	(7.9)	(6.9)	(8.7)	(11.7)	(11.5)	(10.0)	(13.8)	(38.8)
EBITDA	22.5	25.1	27.1	40.2	44.1	44.2	47.6	37.9
<i>EBITDA margin (%)</i>	39.7	35.1	39.8	51.5	50.5	49.9	50.7	48.9
Depreciation, amortisation	(6.1)	(6.7)	(7.1)	(10.9)	(12.8)	(12.8)	(12.8)	(13.8)
EBIT	16.5	18.4	20.0	29.2	31.3	31.3	34.8	24.1
<i>EBIT margin (%)</i>	29.0	25.6	29.4	37.4	35.9	35.4	37.1	31.1
Interest expense	(3.3)	(3.1)	(4.2)	(8.0)	(8.9)	(7.2)	(7.1)	(8.8)
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EI/Others	6.5	2.0	4.8	8.9	1.7	1.4	(0.7)	1.7
Pretax profit	13.2	15.3	15.8	21.2	22.4	24.1	27.7	15.3
<i>Pretax margin (%)</i>	23.2	21.4	23.2	27.2	25.6	27.3	29.5	19.7
Tax	(1.9)	(1.8)	0.1	0.1	(0.3)	(0.1)	(0.7)	(0.3)
<i>Effective tax rate (%)</i>	14.5	11.5	(0.5)	(0.4)	1.6	0.5	2.5	1.9
MI	(0.2)	(0.4)	(0.4)	0.6	0.0	0.0	0.0	0.0
Net profit	11.1	13.2	15.5	21.9	22.0	24.0	27.0	15.0
Core profit	4.6	11.2	10.7	13.0	20.3	22.6	27.7	13.3
<i>Core net margin (%)</i>	8.1	15.6	15.7	16.6	23.3	25.5	29.5	17.2

Source: Company data, RHB

Figure 4: Perdana Petroleum's historical EBIT margins (%)



Source: Company data, RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	275	347	413	514	585
Cost of sales	(183)	(189)	(264)	(321)	(355)
Gross profit	92	159	149	193	229
Gen & admin expenses	(30)	-	(25)	(31)	(35)
Selling expenses	(4)	-	(4)	(5)	(6)
Other operating costs	(7)	(74)	(27)	(33)	(38)
Operating profit	51	85	93	124	151
Operating EBITDA	82	148	165	195	222
Depreciation of fixed assets	(31)	(64)	(72)	(72)	(72)
Operating EBIT	51	85	93	124	151
Other recurring income	33	37	29	36	41
Interest expense	(19)	(32)	(26)	(29)	(30)
Pre-tax profit	65	90	96	131	161
Taxation	(3)	(1)	(4)	(5)	(6)
Minority interests	(0)	(0)	(1)	(1)	(1)
Profit after tax & minorities	62	88	91	125	154
Reported net profit	62	88	91	125	154
Recurring net profit	39	84	91	125	154

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	51	85	93	124	151
Depreciation & amortisation	31	64	72	72	72
Change in working capital	52	(22)	58	8	5
Other operating cash flow	(37)	-	-	-	-
Operating cash flow	97	127	223	203	228
Interest received	-	37	29	36	41
Interest paid	(15)	(32)	(26)	(29)	(30)
Tax paid	(2)	(1)	(4)	(5)	(6)
Cash flow from operations	80	130	222	205	232
Capex	(488)	(236)	(100)	(100)	(100)
Other investing cash flow	87	22	29	36	41
Cash flow from investing activities	(401)	(214)	(71)	(64)	(59)
Shares repurchased		(2)			
Proceeds from issue of shares	25	7	30	-	-
Increase in debt	317	88	4	4	4
Other financing cash flow	0	1	-	-	-
Cash flow from financing activities	342	93	34	4	4
Cash at beginning of period	41	61	99	219	358
Total cash generated	22	9	185	145	177
Forex effects	(2)	-	-	-	-
Implied cash at end of period	61	70	284	363	534

Source: Company data, RHB

Financial Exhibits

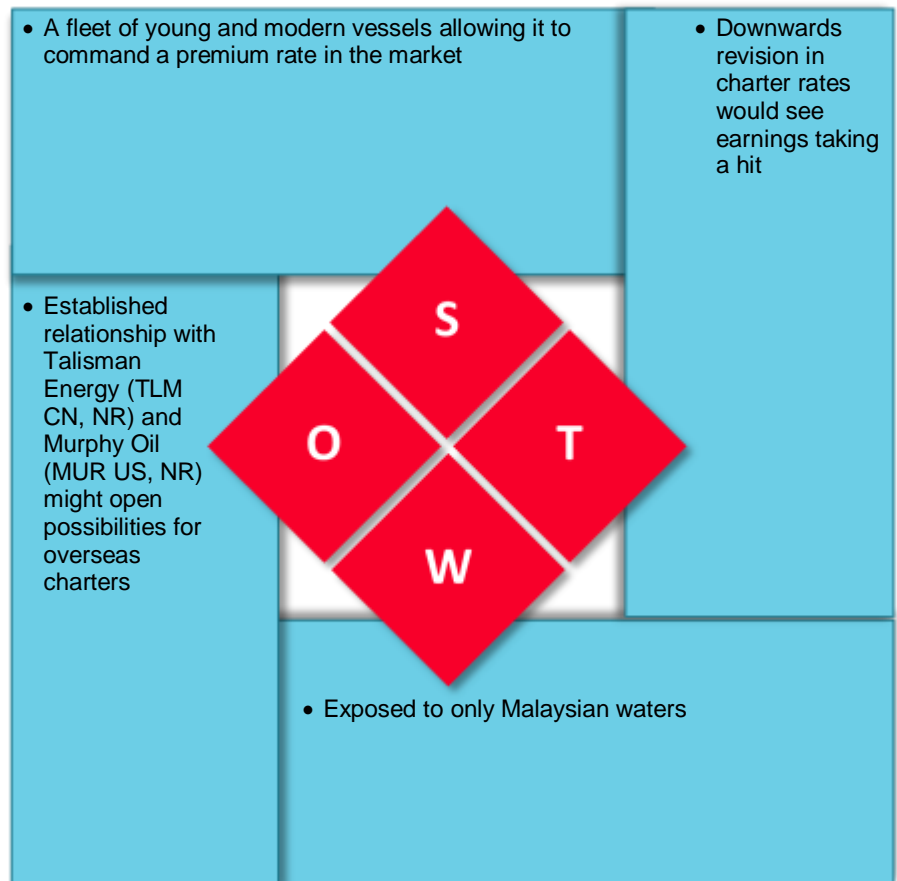
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	61	99	219	358	524
Inventories	1	2	8	10	11
Accounts receivable	50	38	68	85	96
Other current assets	28	57	57	57	57
Total current assets	140	196	352	509	688
Total investments	53	55	55	55	55
Tangible fixed assets	962	1,123	1,183	1,212	1,240
Intangible assets	28	11	11	11	11
Total other assets	0	0	0	0	0
Total non-current assets	1,042	1,188	1,249	1,277	1,306
Total assets	1,182	1,384	1,601	1,787	1,994
Short-term debt	114	143	137	144	150
Accounts payable	41	13	107	134	152
Other current liabilities	0	25	25	25	25
Total current liabilities	156	181	269	302	327
Total long-term debt	460	544	551	579	606
Other liabilities	5	5	5	5	5
Total non-current liabilities	465	550	557	584	611
Total liabilities	620	730	826	886	938
Share capital	364	369	390	390	390
Retained earnings reserve	199	285	377	501	655
Other reserves	-	-	9	9	9
Shareholders' equity	562	654	775	900	1,054
Minority interests	(0)	(0)	0	1	2
Other equity	(0)	(0)	(0)	(0)	0
Total equity	562	654	775	901	1,056
Total liabilities & equity	1,182	1,384	1,601	1,787	1,994

Source: Company data, RHB

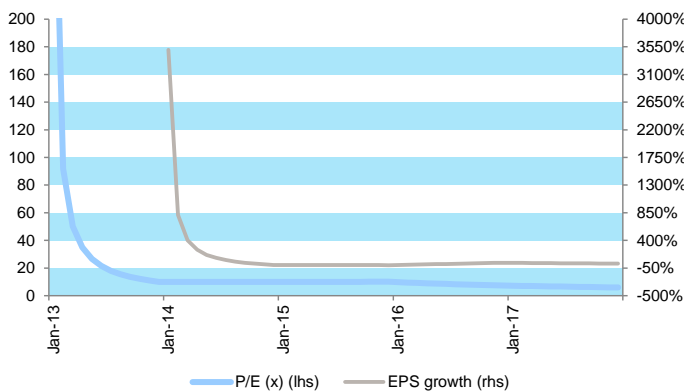
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	5.8	26.4	18.9	24.6	13.7
Operating profit growth (%)	0.0	64.9	10.0	33.0	21.7
Net profit growth (%)	0.0	42.8	3.9	36.7	23.2
EPS growth (%)	0.0	0.7	(1.8)	36.7	23.2
Bv per share growth (%)	16.7	(17.9)	12.0	16.1	17.1
Operating margin (%)	18.7	24.4	22.5	24.1	25.7
Net profit margin (%)	22.5	25.4	22.1	24.3	26.3
Return on average assets (%)	6.4	6.9	6.1	7.4	8.1
Return on average equity (%)	12.1	14.5	12.8	14.9	15.8
Net debt to equity (%)	91.3	89.9	60.6	40.5	22.0
DPS	0.00	0.02	0.00	0.00	0.00
Recurrent cash flow per share	0.15	0.18	0.28	0.26	0.30

Source: Company data, RHB

SWOT Analysis

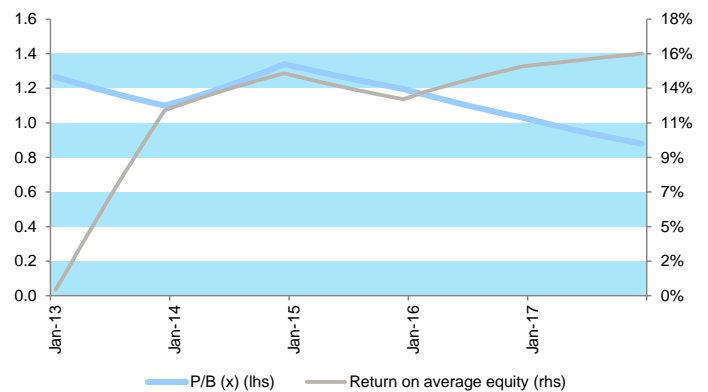


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Perdana Petroleum provides offshore marine and integrated brown field services for the upstream oil & gas industry

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-11-26	Buy	1.62	1.31
2014-08-20	Buy	2.20	1.84
2014-05-23	Buy	2.20	1.81
2014-03-05	Neutral	2.10	1.96
2014-02-26	Neutral	1.90	1.96
2014-01-20	Buy	1.90	1.66
2014-01-03	Buy	1.80	1.58
2013-11-25	Neutral	1.82	1.42
2013-11-20	Neutral	1.80	1.42
2013-08-21	Neutral	1.80	1.32

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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