

MITA No. 010/06/2008

23 March 2009

# Ezra Holdings Ltd

Maintain

**BUY**

Previous Rating: BUY

**S\$0.59****Fair Value: S\$1.01**

Stock Code:

Reuters: EZRA SI

ISIN Code 5DN

Bloomberg: EZRA SP

Event:

Update

**General Data**

Issued Capital (m)	586
Mkt Cap (S\$m/US\$m)	346/228
Major Shareholder	Lionel Lee (14.3%)
Free Float (%)	64.4
NAV per share (US\$)	0.63
Daily Vol 3-mth ('000)	6,603
52Wk High (S\$)	3.086
52Wk Low (S\$)	0.325

**Firm contracts, better EOC business visibility**

**BHP guidance.** With Ezra Holdings' (Ezra) two Multi Functional Support Vessel (MFSVs) at Karlsund yard cancelled without penalties (OIR originally expected one cancellation), we are refining our revenue estimates. FY09 will have accretion from one Anchor Handling Tug Supply (AHTS) vessel while FY10 will have accretions from two MFSVs. We maintain our initial stance that the MFSV at Keppel Singmarine will also be cancelled. In total, Ezra will add 72,000BHP (prev OIR est. 99,000BHP) over the next two years. Netting the effect of better charter rates from its MFSVs and the loss of accretion of one more MFSVs from our previous estimates, our FY10F recurring revenue estimates fall by ~7%.

**Hard to replace a "Rolls-Royce".** Ezra would be one of the first companies to obtain its MFSVs in 2010, creating a new class of support vessel for the industry. Ezra's on-site managers have indicated that the building progress is on-schedule. We understand that Ezra could sign contracts now but are wisely choosing not to in view of the long lead time to vessel delivery in 2010. Even with a 1-2 month delivery delay, Ezra will have to incur high costs to replace such technically advanced vessels on spot rates. Swiber was an apt example when it incurred heightened costs due to vessel delivery delays in 4Q08.

**Charter rates holding firm.** From its last contract that Ezra renegotiated, we believe that charter rates are still holding firm for deep water capable vessels (Ezra's fleet is 77% deep water capable). With only 10-15% of charters up for renewal annually, we are encouraged by charter rates still holding relatively steady. We do note that offshore charter rates can lag in changes (up or down) as vessels have long term contracts in place. With oil prices finding a floor, we think that FY10 rates can still be renewed at current levels or maybe better.

**EOC updates.** EOC's FPSO in Thailand has still yet to commence gas extraction and we are expecting it to become accretive in May 09 (5 months delay). Once online, the US\$228k/day rate it charges would help boost EOC's earnings.

**Steady business.** The lower income from its core chartering business is buffered by better visibility of EOC's business. Our fair value is tweaked to S\$1.01 (prev: S\$1.09) based on SOTP valuation. Maintain **BUY**.

**Kelly Chia**

(65) 6531 9817

e-mail: kelly@ocbc-research.com

Year to 31 Aug	Turnover (US\$m)	Gross Profit (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	143.5	50.2	69.1	16.0	50.3	2.5	18.1
FY 08	268.3	79.6	176.3*	30.2*	88.8	1.3	12.7
FY 09F	313.4	87.7	59.5	10.1	-66.6	3.9	7.6
FY 10F	321.8	91.6	81.5	13.9	38.2	2.8	10.2

\* Includes divestments

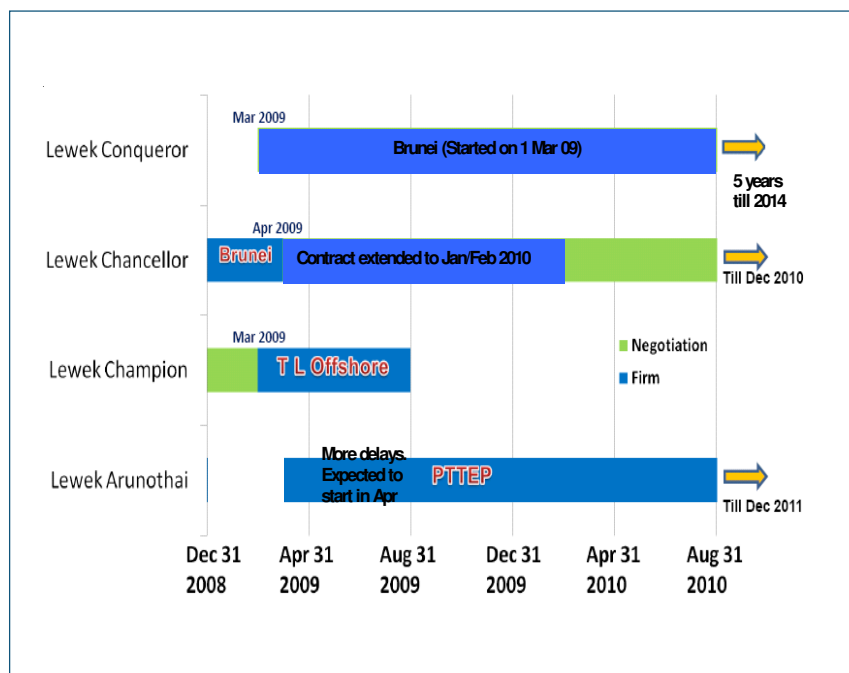
Please refer to the important disclosures at the back of this document.

Exhibit 1: Sum of The Parts

	Equity stake	Valuation type	Multiple (x)	Net profit / Mkt cap (m)	US\$ value per share	Shares out	Comments
<b>Business Units</b>							
				FY10F			
Core Offshore Support & Marine Services	100.0%	PER	5	54.6	272.8	0.47	585,839,990 Prev 6x PER.
EOC Limited	48.9%	PER	4	26.9	107.6	0.18	Accretion from FPSO
Ezion Holdings	15.0%	Mkt cap		85.0	12.8	0.02	
<b>Total</b>					<b>393.1</b>	<b>\$1.01</b>	Converted to SG\$

Source: OIR estimates

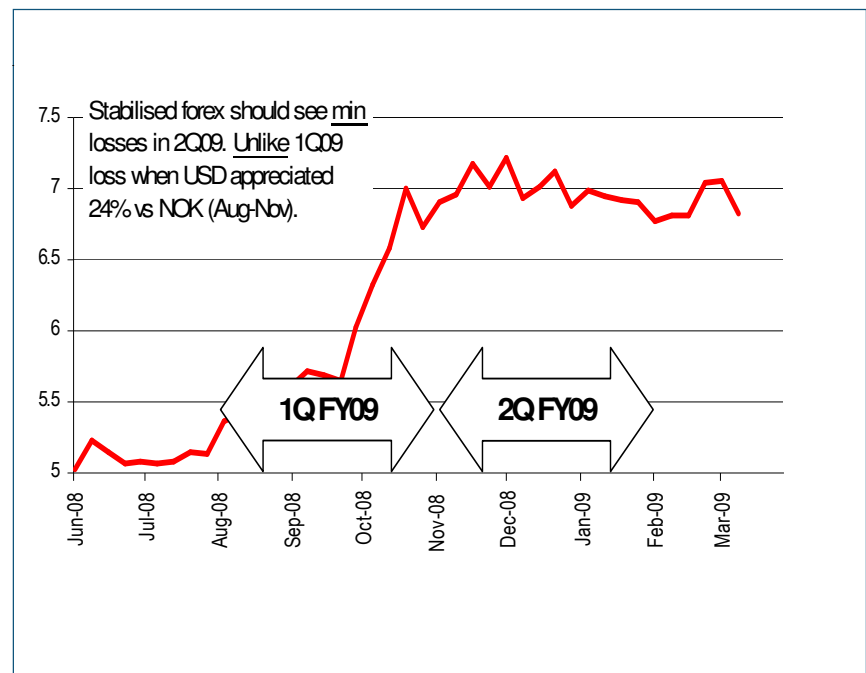
Exhibit 2: Updated charter terms for EOC's vessels



Source: EOC Limited

**Minimal forex issues for 2Q09.** In 1Q09, Ezra had to hold NOKs to pay their suppliers in a time of extreme volatility in the USD. For Ezra's 2Q09, the fluctuations have eased and we do not expect similar magnitudes of forex charges to be registered against their P&L. Write backs are unlikely if the USD weakens but would lead to a cheaper asset purchases and lower depreciation.

**Exhibit 3: USD fluctuations against NOK**



Source: Bloomberg

## Ezra's Key Financial Data

### EARNINGS FORECAST

Year Ended 31 Aug (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	143.5	268.3	313.4	321.8
Gross profit	50.2	79.6	87.7	91.6
Other operating income	50.1	137.9	-7.0	5.8
Admin expenses	-21.3	-46.4	-29.3	-35.4
Finance income	1.0	6.8	5.0	4.8
Finance cost	-5.5	-6.6	-6.3	-6.4
JV and associates	1.0	12.6	17.7	30.1
Pre-tax profit	75.5	184.1	67.8	90.5
Tax	-6.5	-7.7	-8.4	-9.1
Net profit	69.1	176.3	59.5	81.5
Earnings per share (US\$cents)	16.0	30.2	10.1	13.9
Fully diluted earnings per share (US\$cents)	16.0	30.2	10.1	13.9
EPS growth	0.5	0.9	-0.7	0.4
EPS ex EI	5.6	8.6	10.1	13.9
EPS ex EI growth	0.5	0.5	0.2	0.4
<b>Revenue revision</b>	NA	NA	No change	-0.1
<b>Net profit revision</b>	NA	NA	7.5%	9.9%
<b>EPS ex EI revision</b>	NA	NA	7.6%	9.9%
<b>Profitability ratios</b>				
Gross profit margin (%)	34.9	29.7	28.0	28.5
Net profit margin (%)	48.1	65.7	19.0	25.3

### BALANCE SHEET

As at 31 Aug (US\$ m)	FY07	FY08	FY09F	FY10F
Cash and equivalents	24.9	153.1	102.2	36.9
Other current assets	392.8	195.8	223.3	211.8
Fixed assets	122.1	182.6	303.8	485.5
Other long term assets	98.0	180.5	175.5	185.5
Total assets	637.7	711.9	804.8	919.7
ST and LT Debt	125.1	195.1	246.4	298.3
Other current liabilities	226.1	131.9	139.0	143.6
Other long term liabilities	8.4	14.5	17.2	17.7
Total liabilities	359.7	341.5	402.7	459.6
Shareholders equity incl reserves	278.1	370.4	402.1	460.1
Total equity and liabilities	637.7	711.9	804.8	919.7
NTA per share (US\$ cents)	48.7	62.3	67.1	77.1
NAV per share (US\$ cents)	48.8	63.7	68.6	78.5

<b>CASH FLOW</b>				
<b>Year Ended 31 Aug (US\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Profit/(Loss) before working cap. changes	38.5	47.8	95.1	127.7
Working capital changes	-16.5	-30.4	20.1	-13.0
Net cash from operations	22.0	17.4	115.2	114.7
Capex	-196.8	-127.4	-137.2	-207.2
Other investing flows	-9.6	22.6	-51.2	-7.0
Total investing cash flow	-206.5	-104.7	-188.4	-214.2
Change in equity	50.2	0.0	0.0	0.0
Net change in debt	142.8	95.7	51.4	51.9
Dividends paid	-7.7	-36.1	-29.1	-17.6
Total financing cash flow	215.9	202.1	22.3	34.3
Net cash flow	31.4	114.7	-50.9	-65.2
Cash at beginning of year	8.2	39.9	153.1	102.2
FD and cash pledged	-15.0	0.1	0.0	0.0
Cash at end of year	39.9	153.0	102.2	36.9
<b>Key Ratios</b>				
PER (x)	2.5	1.3	3.9	2.8
Price/NTA (x)	0.8	0.6	0.6	0.5
Dividend yield (%)	18.1	12.7	7.6	10.2
ROA (%)	10.8	24.8	7.4	8.9
ROE (%)	24.8	47.6	14.8	17.7
Net gearing (x)	0.4	0.1	0.4	0.6
PE growth (x)	0.0	0.0	-0.1	0.1

*Source: Company data, OIR estimates*

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**SHAREHOLDING DECLARATION:**

The analyst/analysts who wrote this report holds NIL shares in the above security.

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Carmen Lee  
Head of Research