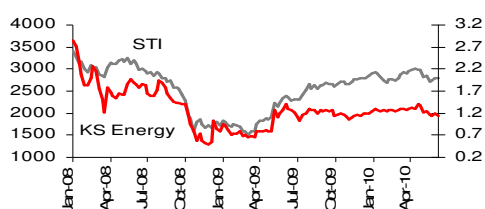


18 June 2010

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$1.17
Fair Value: S\$1.21


Reuters Code	KSTL.SI
ISIN Code	578
Bloomberg Code	KST SP
Issued Capital (m)	407
Mkt Cap (S\$m / US\$m)	476 / 343
Major Shareholders	
Kris Wiluan	32.3%
Free Float (%)	43.6%
Daily Vol 3-mth ('000)	528
52 Wk Range	0.970 - 1.450

(S\$m)	FY08	FY09	FY10F	FY11F
Revenue	611.0	489.8	517.8	530.6
Gross Profit	182.4	140.9	150.2	164.5
EPS (cts)	14.9	11.5	7.4	10.4
PER (x)	7.9	10.2	15.8	11.2
Price/NTA (x)	1.2	1.1	1.0	0.9

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KS Energy Services Ltd

Land rigs secure work

Land rigs secure work. Consistent with KS Energy Services' (KSE) earlier statement that it was in advanced negotiations for new charters, the group has announced newly secured work for its rigs. First, there is a US\$12m contract extension for its 1500HP land rig, KS Discoverer 1, to 15 Aug 2011. The contract has been transferred to Gulf Keystone Petroleum International. Second, KSE's 2000HP land rig, KS Discoverer 4, has won a three-month contract worth US\$3m from Storm Energy for a single well drilling program. The rig has commenced drilling operations in Tunisia.

Other updates. The group has not announced any new contracts regarding its liftboat, KS Titan 2. We are also awaiting new updates for its other land rig, KS Discoverer 2, whose contract has expired. As mentioned in an earlier report (17 May 2010), the group's 2Q10 results could be adversely affected partly due to the fact that a number of its assets are in between charters; it also has to account for mobilization, de-mobilization costs and set-up time.

Demand for Middle Eastern rigs holds up. KSE's land rigs are in places such as the Middle East and North Africa. A few days ago, Iran's Deputy Oil Minister for International and Commercial Affairs said that investment in joint oil and gas fields will be among priorities of the Iranian oil industry. For instance, each phase of the South Pars field needs about US\$2.5b of investment. As of 1 May 2010, the Middle Eastern rig count stands at 254, similar to a month ago and higher than the 247 count a year ago.

Maintain HOLD. We are encouraged to see new work for the group's rigs but still await updates for the other assets. KSE's longer-term outlook is likely brighter, supported by its distribution business which would have a geographic reach spanning more than nine countries, representing more than 300 globally-accredited brands and carrying more than 60,000 line items. The group recently established an indirect subsidiary in Vietnam to undertake import, export and distribution rights for industrial materials and equipment. KSE also hopes to tap into the global network of Actis, its new strategic partner. However, given limited upside potential, we maintain our **HOLD** rating and S\$1.21 fair value estimate on the stock.

¹ "Iran's oil industry to focus on development of joint fields".

Rigzone. 16 Jun 2010.

http://www.rigzone.com/news/article.asp?a_id=94789

² "Rig count data". EnergyDigger. 11 Jun 2010.

<http://www.energydigger.com/rig-count-data.asp>

KS Energy's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Revenue	611.0	489.8	517.8	530.6	Cash and cash equivalents	68.3	72.2	41.1	44.8
Gross profit	182.4	140.9	150.2	164.5	Other current assets	271.9	241.9	246.8	270.4
Operating profit	87.8	50.4	56.2	65.3	Property, plant, and equipment	417.2	406.3	403.3	393.4
Finance costs	-25.8	-17.0	-21.0	-16.5	Total assets	930.6	885.5	853.7	873.8
Associates and JVs	3.6	19.3	0.9	1.8	Debt	345.5	308.3	247.7	222.9
Pre-tax profit excl EI	58.8	37.5	34.1	48.7	Current liabilities excluding debt	158.3	109.2	115.9	129.6
Pre-tax profit	65.5	52.7	36.1	50.7	Total liabilities	511.7	425.2	370.9	359.6
Tax	-5.2	-9.2	-7.2	-10.1	Shareholders equity	366.4	406.9	426.3	453.7
Minority interests	-8.4	-3.5	-3.0	-4.0	Total equity	418.9	460.3	482.8	514.2
Net attributable profit	51.9	40.0	25.9	36.6	Total equity and liabilities	930.6	885.5	853.7	873.8

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chang	100.0	83.2	91.0	100.2	EPS (S cents)	14.9	11.5	7.4	10.4
Working cap, taxes and int	72.3	-9.8	-7.0	-7.8	NTA per share (cents)	97.9	109.7	116.0	124.6
Net cash from operations	164.6	59.6	77.1	82.6	Gross profit margin (%)	29.9	28.8	29.0	31.0
Purchase of PP&E	-257.9	-22.5	-27.0	-32.4	Net profit margin (%)	8.5	8.2	5.0	6.9
Other investing flows	-21.5	13.6	2.3	2.3	PER (x)	7.9	10.2	15.8	11.2
Investing cash flow	-279.4	-9.0	-24.8	-30.2	Price/NTA (x)	1.2	1.1	1.0	0.9
Financing cash flow	97.4	-39.6	-83.4	-48.7	EV/EBITDA (x)	3.8	7.0	5.6	5.0
Net cash flow	-17.4	11.5	-31.1	3.7	Dividend yield (%)	4.9	0.0	1.6	2.2
Cash at beginning of year	85.0	68.3	72.2	41.1	ROE (%)	14.2	9.8	6.1	8.1
Cash at end of year (incl ODs)	68.3	72.2	41.1	44.8	Net gearing (%)	66.2	51.3	42.8	34.6

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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