

MITA No. 010/06/2008

3 March 2009

Swiber Holdings Ltd

Downgrade to

HOLD

Previous Rating: BUY

S\$0.37

Fair Value: S\$0.35

Stock Code: SWBR.SI
 Reuters: AK3
 ISIN Code: SWIB SP
 Bloomberg:

Event: Results

General Data

Issued Capital (m)	424
Mkt Cap (S\$m/US\$m)	157/101
Major Shareholder	
Goh Kim Teck	(14.1%)
Free Float (%)	37.7
NTA per share (cents)	73.1
Daily Vol 3-mth ('000)	5,569
52Wk High (S\$)	3.230
52Wk Low (S\$)	0.330

Late vessels delivery led to a loss in 4Q08

Earnings below expectations. Swiber Holdings (Swiber) reported a 183.4% rise in revenue to US\$428.4m but a 20.6% fall in net profit to US\$39.5m for FY08. Though revenue was in line with our expectations, net profit was about 30% lower than ours and market's expectations. This was due to a poor showing of results in 4Q08 as the group experienced a gross loss of US\$12.3m compared to a profit of US\$14.6m in 4Q07.

Unexpected delayed delivery of vessels the main reason. There was an unexpected delay in the delivery of two vessels, Swiber Concorde (pipelay barge) and Swiber Supporter (dive-support work barge). Higher costs were incurred due to multiple mobilizations and de-mobilizations of vessels from project to project. We had noted in our earlier report that hiccups in project executions is a risk for the group given its tight schedule that allocates specific time slots at specific work sites for specific vessels but are still disappointed to see that the group's contingency plans were unable to stem the higher costs.

FY09 earnings likely to be impacted too. Cost of sales for 4Q08 was 148% YoY higher at US\$115.3m due to the absence of both vessels as well as higher subcontractor costs relating to a project involving fabrication of offshore structures for British Gas India. Since certain work could not be completed with the absence of both vessels, the delay in the group's overall schedule may impact future work and subsequently affect the bidding of new contracts.

US\$70m contract wins, but execution risks remain. Swiber announced that it was awarded US\$70m of new contracts in 1Q09, on top of its outstanding US\$596m order book as at 31 Dec 08. The group will be kept busy with its present contracts but the risk lies more in execution and operational hiccups. It is critical that Swiber takes timely delivery of its future vessels as it uses the proceeds from a sale and leaseback strategy for these vessels to pay down part of its debt.

Downgrading to HOLD. We are revising our FY09/10 estimates lower and as a result, our revenue and net profit estimates drop by 6.3% and 19.1% respectively. We are also concerned over the group's ability to control margins and are pegging the stock at 2x FY09F instead of the earlier 3x. We therefore lower our fair value estimate to S\$0.35 from S\$0.66 previously and downgrade the stock to a **HOLD**. We will re-look our valuation peg when Swiber demonstrates margin stability.

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Year to 31 Dec	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (S cents)	EPS Growth (%)	PER (x)	Price/NTA (x)
FY 07	151.2	31.1	49.7	19.5	-	2.0	0.6
FY 08	428.4	45.7	38.8	14.2	-27.2	2.7	0.5
FY 09F	361.2	71.9	47.9	17.5	23.2	2.2	0.4
FY 10F	401.1	80.8	48.2	17.6	0.6	2.2	0.3

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

Swiber's Key Financial Data

Swiber Results Year Ended 31 Dec (US\$ m)	4Q07 (US\$m)	4Q08 (US\$m)	% Chg (YoY)	3Q08 (US\$m)	% Chg (QoQ)
Revenue	61.1	102.9	68.4%	130.1	-20.9%
Cost of sales	-46.5	-115.3	148.0%	-104.1	10.8%
Gross profit	14.6	-12.3	NM	26.0	NM
Other operating income	13.6	13.6	0.0%	6.8	100.0%
Admin expenses	-6.4	-6.0	NM	-10.1	-40.6%
Other operating expenses	-0.2	-3.6	1700.0%	-0.6	500.0%
Associates and JV	0.4	1.1	175.0%	0.5	120.0%
Finance costs	-1.6	-2.7	68.8%	-2.9	-6.9%
Pre-tax profit	20.5	-9.9	NM	19.8	NM
Tax	-0.2	-1.3	550.0%	-1.6	-18.8%
Minority interests	-0.2	2.9	NM	-2.1	NM
Net profit attributable	20.0	-8.3	NM	16.0	NM

EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	151.2	428.4	361.2	401.1
Cost of sales	-108.3	-364.1	-287.6	-316.4
Gross profit	42.8	64.3	73.6	84.7
EBITDA	31.1	45.7	71.9	80.8
Depreciation	-2.7	-8.7	-22.6	-24.6
EBIT	28.5	37.0	49.3	56.2
Net interest	-2.2	-10.3	-8.6	-8.7
Share of Assoc Profits & JV	1.7	2.8	2.0	2.0
Exceptional items	24.1	15.7	10.0	5.0
Pre-tax profit	52.0	45.2	52.7	54.5
Tax	-2.3	-5.7	-4.0	-5.5
Minority interests	0.0	-0.7	-0.8	-0.8
Net profit	49.7	38.8	47.9	48.2
Earnings per share (S cents)	19.5	14.2	17.5	17.6
Fully diluted earnings per share (S cents)	19.5	14.2	17.5	17.6
Gross profit margin (%)	28.3	15.0	20.4	21.1
EBIT margin (%)	18.8	8.6	13.6	14.0
Net profit margin (%)	32.9	9.1	13.3	12.0

Source: Company

BALANCE SHEET**As at 31 Dec (US\$ m)**

	FY07	FY08	FY09F	FY10F
Cash	97.7	74.7	39.8	28.1
Other current assets	137.9	318.1	340.3	317.3
Fixed assets	112.9	282.5	307.4	330.3
Other long term assets	21.5	30.4	77.1	21.1
Total assets	370.0	705.6	764.6	696.7
Current liabilities less debt	95.3	206.7	217.3	238.6
Debt	95.7	281.3	278.2	140.0
Other long term liabilities	1.6	10.5	5.7	5.7
Total liabilities	192.6	498.5	501.2	384.3
Shareholders equity	176.9	205.9	261.4	309.6
Minority interests	0.6	1.2	2.0	2.8
Total equity and liabilities	370.0	705.6	764.6	696.7
NTA per share (S cents)	67.1	73.1	92.4	109.4

CASH FLOW**Year Ended 31 Dec (US\$ m)**

	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	29.3	49.7	71.9	82.3
Working capital changes	-41.6	-34.3	-6.9	-5.7
Income tax	-0.7	-2.1	-3.5	-5.5
Interest paid	-3.7	-11.1	-8.6	-8.7
Net cash from operations	-16.8	2.2	52.8	62.4
Capex	-92.1	-226.3	-50.0	-50.0
Other investing flows	33.2	19.5	-33.6	0.3
Investing cash flow	-58.8	-206.7	-83.6	-49.7
Change in equity	78.6	0.0	0.0	0.0
Net change in debt	84.9	193.9	3.8	-30.0
Dividends paid	0.0	0.0	0.0	0.0
Others	-15.0	7.8	-31.7	-0.7
Financing cash flow	148.5	190.8	-27.9	-30.7
Other adjustments	0.4	-0.8	0.0	0.0
Net cash flow	73.2	-14.5	-58.7	-18.0
Cash at beginning of year	11.5	97.7	74.7	36.9
Cash at end of year	97.7	74.7	36.9	21.7

Key Ratios

PER (x)	2.0	2.7	2.2	2.2
Price/NTA (x)	0.6	0.5	0.4	0.3
EV/EBITDA (x)	4.6	7.9	5.5	3.3
ROIC (%)	13.4	5.5	6.3	6.9
ROE (%)	28.1	18.9	18.3	15.6
Net Debt/Equity (%)	-1.1	100.4	91.2	36.2
PE to growth (x)	0.0	-0.1	0.1	3.4

Source: Company data, OIR estimates

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

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