

MITA No. 010/06/2008

13 April 2009

Swiber Holdings Ltd

Reducing debt, but valuations look stretched

Downgrade to

SELL

Previous Rating: HOLD

S\$0.465

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)	197/130
Major Shareholder	
Goh Kim Teck	(14.1%)
Free Float (%)	37.7
NTA per share (cents)	73.1
Daily Vol 3-mth ('000)	7,576
52Wk High (S\$)	3.230
52Wk Low (S\$)	0.235

Barge sale may help reduce debt. According to an article by upstreamonline ("CUEL buys Swiber barge", 8 Apr 09), Thai contractor CUEL is planning to buy Swiber's derrick pipelay barge, Swiber Chai, after signing a sale and purchase agreement with Swiber Holdings (Swiber). If CUEL buys the barge, it will reduce Swiber's leverage ratio if the group channels the proceeds to pay off some of its debt. As seen by recent events (ICON Capital taking a 51% stake in Victorious LLC, Swiber selling interest in OBT Holdings), the group has been trying to increase its cashflow (see next page).

1Q09 earnings may be impacted by vessel delays. Although the above is positive news, it is worth noting that 1Q09 earnings may continue to feel the impact of previous delays in vessel deliveries. There was an unexpected delay in the delivery of two vessels, Swiber Concorde (pipelay barge) and Swiber Supporter (dive-support work barge) which hugely impacted 4Q08 earnings, and though both have been delivered (Supporter in Jan 09 and Concorde in Feb 09), higher operating costs and the delay in work schedule may affect earnings.

Net gearing of 1x. The group's net debt-to-equity ratio stood at 1x as of 31 Dec 08 but management expects it to fall with the delivery of vessels under its sales and leaseback transactions. It is therefore imperative that deliveries of vessels under the sales and leaseback agreement are on time so as not to impact its cashflow (out of 15 sale and leaseback deals totaling US\$408m, eight have been delivered). To recap, the group has a S\$15m bond maturing in 8 May 09, on top of its existing bank loans (ST: US\$68.5m, LT: US\$57.7m as of 31 Dec 08). There are also remaining medium term notes that will mature in 2010 and 2011.

Downgrading to SELL. We are keeping our FY09/10 estimates and fair value estimate of S\$0.35 but are downgrading the stock to a **SELL** purely based on valuations. At current price, the market appears to have run ahead of Swiber's fundamentals which have benefited from the recent rally in oil and gas stocks. As mentioned in our previous report, we will re-look our valuation peg when the firm demonstrates margins stability.

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Year to 31 Dec	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Price/NTA (x)
FY 07	151.2	31.1	49.7	19.5	-	2.5	0.7
FY 08	428.4	45.7	38.8	14.2	-27.2	3.4	0.6
FY 09F	361.2	71.9	47.9	17.5	23.2	2.7	0.5
FY 10F	401.1	80.8	48.2	17.6	0.6	2.7	0.4

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

Recent undertakings that increase cashflow

ICON Capital, an equipment leasing and specialty finance company, subscribed to a 51% stake in Victorious LLC, which is the owner of the construction vessel, Swiber Victorious. Swiber has mentioned that it will use the proceeds of US\$19.125m to repay loans (25 Mar 09).

A subsidiary of Swiber has also sold its entire interest in OBT Holdings Pte Ltd to Mineral Energy Pte Ltd, a joint venture partner, for US\$3.9m (7 Apr 09).

Exhibit 1: Vessels delivery schedule

Vessel Type	FY09	FY10
AHT/AHTS	Swiber Sanderfjord* Swiber Oslo* Kreuz TBN 1* Swiwar TBN	Kreuz TBN 2* Kreuz TBN 3*
Cargo/Flat top barges	Kreuz 281 Kreuz 282 Kreuz 283 Kreuz 284 Kreuz 331 Kreuz 332	
Subsea support vessels	Kreuz DSV 1* Kreuz DSV 2*	
Pipelay barges	Swiber Enterprise Swiber Concorde*	
Derrick pipelay barge	Swiber Chai	
Crane barge		Swiber Magnificent
Accommodation barges	Swiber Supporter Swiber Victorious	

**Vessels under sale and leaseback arrangements*

Source: Company

Source: Company

Swiber's Key Financial Data

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

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)	2.5	3.4	2.7	2.7
Price/NTA (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	5.8	8.8	6.1	3.8
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	4.3

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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