

MITA No. 010/06/2008

18 May 2009

# Swiber Holdings Ltd

Maintain

## SELL

Previous Rating: SELL

### S\$0.845

### Fair Value: S\$0.66

Stock Code:

Reuters:

ISIN Code

Bloomberg:

SWBR.SI

AK3

SWIB SP

Event:

Results

#### General Data

Issued Capital (m)	424
Mkt Cap (S\$m/US\$m)	359/244
Major Shareholder	
Goh Kim Teck	(14.1%)
Free Float (%)	37.7
NTA per share (cents)	73.0
Daily Vol 3-mth ('000)	13,888
52Wk High (S\$)	3.230
52Wk Low (S\$)	0.235

## Slower contract flows

**Results largely in line with expectations.** Swiber Holdings (Swiber) reported a 22.9% YoY rise in revenue to US\$87.1m for 1Q09 but this was a 15.4% QoQ decline. Net profit fell 5.0% YoY to US\$9.8m, affected by lower gross profit margins (20% in 1Q09 compared to 26% in 1Q08). This is largely in line with expectations. The lower gross profit margin was mainly due to the roll-over effect of delayed deliveries of the group's pipelay barge and dive-support work barge in the previous quarter. Operating profit (excl. one-off items) was S\$11.6m compared to S\$12.9m in 1Q08.

**Decreasing order book.** The group's order book is now US\$515m as at 31 Mar 09 compared to US\$596m as at 31 Dec 08. Slower order flow should hardly be surprising, given lower oil prices and the global economic downturn. We note that so far about US\$70m worth of contracts were secured in 1Q09 compared to about US\$470m (including the US\$250m CUEL contract) in 1Q08. Management, however, is optimistic about obtaining contracts from Saudi Aramco's US\$60b investments in oil and gas production over the next five years, especially after forming a joint venture with a leading Saudi Arabian company, Rawabi Holding Co Ltd, which could increase the chances of securing contracts.

**Little room for error.** The group's net debt-to-equity ratio has eased from 1x as at 31 Dec 08 to 0.94x as at 31 Mar 09. It is 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). Management does not anticipate any more delays in vessel deliveries from reports of project management teams stationed at yards. The group mentioned that the delivery schedule is still in line so far.

**Maintain SELL.** We are keeping our FY09 estimates but lowering FY10 estimates by 13% with lower contract flow assumptions. However, we are raising our fair value estimate to S\$0.66 based on 6x FY09F core earnings (peers trading around 7x) with lower risk aversion in the market and a re-rating of the sector. At current price, the market appears to have run ahead of Swiber's fundamentals and it is prudent to note a few things 1) slowdown in orders, 2) relatively high leverage, and 3) little leeway for hiccups in project execution. We maintain our **SELL** rating on the stock.

**Low Pei Han**

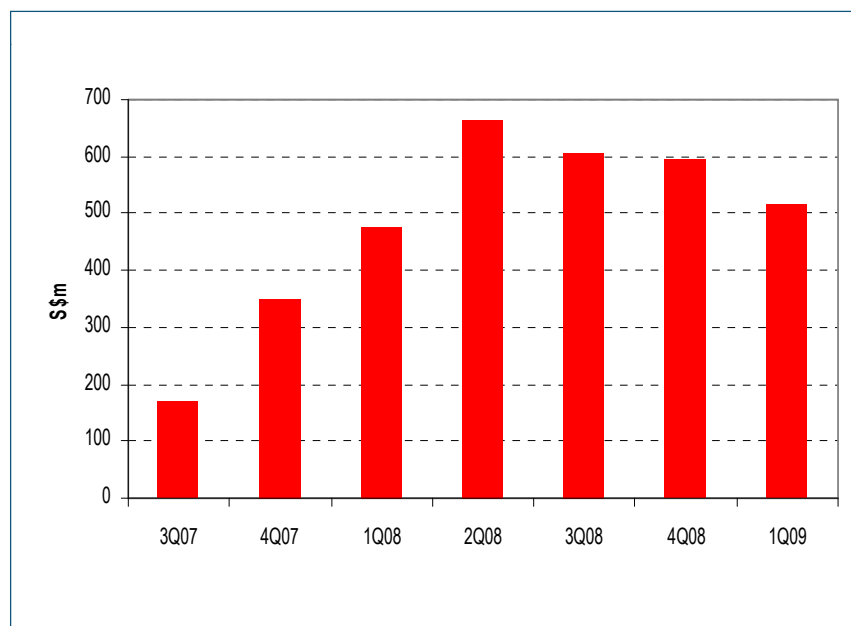
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Year to 31 Dec	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (S cents)	Price/NTA (x)	PER (x)	EV/EBITDA (x)
FY 07	151.2	31.1	49.7	18.8	1.3	4.5	10.7
FY 08	428.4	45.7	38.8	13.8	1.2	6.1	12.3
FY 09F	361.2	65.9	47.9	16.9	0.9	5.0	8.3
FY 10F	376.2	62.9	42.0	14.8	0.8	5.7	7.5

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

Exhibit 1: Order book trends



Source: Company data, OIR

Exhibit 2: Peer comparison

Companies	Price (S\$)	Market cap (S\$m)	P/E	
			Cur Yr (x)	Next Yr (x)
<b>Local comparables</b>				
Ezra	1.24	726	8.4	6.7
Jaya	0.52	400	7.0	7.0
ASL Marine	0.78	235	3.5	4.1
Ezion	0.4	258	11.2	4.0
KS Energy	1.11	386	7.2	7.3
<b>Average</b>		<b>401</b>	<b>7.4</b>	<b>5.8</b>
<b>Swiber</b>	0.845	<b>359</b>	<b>6.5</b>	<b>4.5</b>

Source: Bloomberg, OIR

**Swiber's Key Financial Data**

<b>Swiber Results</b> Year Ended 31 Dec (US\$ m)	<b>1Q08</b> (US\$m)	<b>1Q09</b> (US\$m)	<b>% Chg</b> (YoY)	<b>4Q08</b> (US\$m)	<b>% Chg</b> (QoQ)
Revenue	70.9	87.1	22.9%	102.9	-15%
Cost of sales	-52.5	-69.5	32.3%	-115.3	-40%
Gross profit	18.3	17.6	-4.2%	-12.3	NM
Other operating income	0.5	4.3	824.5%	13.6	-69%
Admin expenses	-5.1	-5.4	7.2%	-6.0	-10%
Other operating expenses	-0.8	-1.2	53.2%	-3.6	-66%
Associates and JV	0.6	1.0	59.6%	1.1	-7%
Finance costs	-2.3	-3.4	47.7%	-2.7	27%
Pre-tax profit	11.3	12.8	13.4%	-9.9	NM
Tax	-0.9	-0.8	-8.8%	-1.3	-37%
Minority interests	0.0	-2.1	NM	2.9	NM
Net attributable profit	10.3	9.8	-5.0%	-8.3	NM

**EARNINGS FORECAST**

<b>Year Ended 31 Dec (US\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Revenue	151.2	428.4	361.2	376.2
Cost of sales	-108.3	-364.1	-287.6	-299.1
Gross profit	42.8	64.3	73.6	77.1
EBITDA	31.1	45.7	65.9	62.9
Depreciation	-2.7	-8.7	-22.6	-21.9
EBIT	28.5	37.0	43.3	41.0
Net interest	-2.2	-10.3	-9.6	-8.7
Share of Assoc Profits & JV	1.7	2.8	2.0	2.0
Exceptional items	24.1	15.7	17.0	14.0
Pre-tax profit	52.0	45.2	52.7	48.3
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	42.0
Core EPS (S cents)	9.7	8.2	10.9	9.9
Earnings per share (S cents)	18.8	13.8	16.9	14.8
Fully diluted earnings per share (S cents)	18.8	13.8	16.9	14.8
Gross profit margin (%)	28.3	15.0	20.4	20.5
EBIT margin (%)	18.8	8.6	12.0	10.9
Net profit margin (%)	32.9	9.1	13.3	11.2

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

	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash	97.7	74.7	39.8	29.6
Other current assets	137.9	318.1	340.3	307.0
Fixed assets	112.9	282.5	273.8	299.9
Other long term assets	21.5	30.4	55.1	54.1
Total assets	370.0	705.6	709.0	690.5
Current liabilities less debt	95.3	206.7	217.3	238.6
Debt	95.7	281.3	225.1	140.0
Other long term liabilities	1.6	10.5	5.7	5.7
Total liabilities	192.6	498.5	448.1	384.3
Shareholders equity	176.9	205.9	258.9	303.4
Minority interests	0.6	1.2	2.0	2.8
Total equity and liabilities	370.0	705.6	709.0	690.5
NTA per share (S cents)	67.1	73.1	91.5	107.2

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

	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit before working cap. changes	29.3	49.7	66.2	63.9
Working capital changes	-41.6	-34.3	-6.9	4.7
Income tax	-0.7	-2.1	-3.5	-5.5
Interest paid	-3.7	-11.1	-9.6	-8.7
Net cash from operations	-16.8	2.2	46.1	54.4
Capex	-92.1	-226.3	-50.0	-50.0
Other investing flows	33.2	19.5	-2.0	-55.7
Investing cash flow	-58.8	-206.7	-52.0	-105.7
Change in equity	78.6	0.0	0.0	0.0
Net change in debt	84.9	193.9	-56.2	30.0
Dividends paid	0.0	0.0	0.0	0.0
Others	-15.0	7.8	6.3	8.3
Financing cash flow	148.5	190.8	-49.9	38.3
Other adjustments	0.4	-0.8	0.0	0.0
Net cash flow	73.2	-14.5	-55.8	-13.1
Cash at beginning of year	11.5	97.7	74.7	39.8
Cash at end of year	97.7	74.7	39.8	29.6

**Key Ratios**

PER (x)	4.5	6.1	5.0	5.7
Price/NTA (x)	1.3	1.2	0.9	0.8
EV/EBITDA (x)	10.7	12.3	8.3	7.5
ROIC (%)	13.4	5.5	6.8	6.1
ROE (%)	28.1	18.9	18.5	13.8
Net Debt/Equity (%)	-1.1	100.4	71.6	36.4
PE to growth (x)	0.0	-0.2	0.2	-0.5

*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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Head of Research

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