



EA Technique (M) Bhd

Aggressively Hunting New Contracts

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TA Research Coverage

Tel: +603-2167 9601

kyliechan@ta.com.my

www.taonline.com.my

Below are key takeaways from an analyst briefing held by EA Technique Bhd (EAT) in conjunction with the release of 4Q15 results:-

- EAT is one of the final two bidders for a 5-year USD110mn local EPCIC contract. The group had submitted its bid much earlier in 2014, thus implying that the award may be anytime soon (target: end-2Q16). This enables timely replenishment of EAT's engineering orderbook, post-delivery of Bergading FSO by 2H16. We understand that this is a local project, and due to its smaller scale, EAT is able to utilise its yard at Perak for fabrication works. Management is optimistic of its bid given that EAT is more competitive versus other large Malaysian yards whom have high fixed overheads.
- EAT had recently submitted a bid to supply 6 harbour tugboats to Johor Port. These tenders are to replace expired contracts previously serviced by foreign vessels (mostly Singapore-flagged). Management sees numerous opportunities for import-substitution of product tankers, and also port vessels in Johor. One of EAT's main clients, Petronas Chemicals, is currently served by 12 foreign-flagged product tankers. Given the scarcity of local players in this space, EAT stands a high chance of replacing these foreign tankers. Furthermore, international players are less keen on Malaysian contracts given MYR weakness.
- On top of the tenders mentioned above, EAT has also submitted bids for a slew of other projects, including:- 1) 1+4 commodity bulk carriers for 3+2 years, 2) 3 tug boats for port services in the Mid-East, 3) 2 units of OSVs in Malaysia for an estimated RM20mn p.a., 4) 20-year O&M contract for Bergading FSO, 5) 2 product tankers for 5+3 years, 6) 1+2 chemical tankers for 3 years – estimated to start from 3Q16, and 7) FSO contract in South East Asia. The group does not discount the possibility of raising equity capital to finance successful bids. We are positive on this measure, as long as such exercises are EPS accretive. In addition to the stock benefiting from a liquidity boost, an expanded share cap would ease EAT's balance sheet to gear up for future projects.
- The Bergading EPCIC contract will provide another bumper year of earnings for the group in FY16, underpinned by circa 45% revenue recognition (FY15: ~40%). Meanwhile, for FY17-18, profits will also receive a boost - as 15% of the remaining contract value (USD 29mn/RM31mn) will flow directly to bottomline (without corresponding costs).
- EAT expects to complete the acquisition of Nautica Muar (NT Muar) by 2Q16, via its 73:27 JV with MTC Engineering. This also entails consolidation of circa USD29mn of gross borrowings from the JV. This implies incremental debt (net of EAT's existing borrowings for NT Muar) of approximately USD24mn. Nevertheless, the additional debt is backed by cashflows from NT Muar's existing contract which has a remaining tenure of circa 2+1 years.

TP: RM1.62 (+45%)

Last Traded: RM1.12

BUY

Share Information

Bloomberg Code	EATECH MK
Stock Code	5259
Listing	Main Market
Share Cap (mn)	504
Market Cap (RMmn)	564
Par Value (RM)	0.50
52-wk Hi/Lo (RM)	1.50/0.53
12-mth Avg Daily Vol ('000 shrs)	2,191
Estimated Free Float (%)	17
Beta	n.a.
Major Shareholders (%)	Johor Corp - 50.6
	Dato' Hak - 23.8

Forecast Revision (%)

	FY16	FY17
Forecast Revision (%)	(0.9)	(1.7)
Core Net Profit (RM mn)	86.0	94.6
Consensus	n.a.	n.a.
TA/Consensus (%)	n.a.	n.a.
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY16	FY17
Net (Debt)/Equity (x)	0.6	0.4
ROA (%)	8.7	9.7
ROE (%)	24.1	22.4
FCFF/Share (sen)	n.m	12.0
P/CFPS (x)	n.m	9.3

Share Performance

Price Change (%)	EATECH	FBMKLCI
1 mth	8.7	3.1
3 mth	(12.5)	0.6
6 mth	29.5	5.1
12 mth	107.4	(7.5)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- For Tembikai FSO, on the back of Petronas' request, EAT will offer a sparing discount of 3% to current DCR (Daily Charter Rates). This revised DCR will take effect next month and brings total discounts to 6% of the original contracted rate. However, rates will revert to normal when oil price recovers to USD60/bbl. Nevertheless, as a sweetener, EAT has offered Petronas the option of chartering its Fast Crew Boats (FCB) at a lower rate. In turn, this may boost utilisation of EAT's fleet of two FCBs which are currently on spot charters.

Impact

- As per management guidance, we incorporate FSO Tembikai's DCR discounts, and also delayed delivery of 3 tugboats for FLNG1 (from Apr 2016 to Jul 2016). The latter was upon the request of client, Petronas. As a result, our FY16-18 estimates are trimmed slightly by 1% -1.7%.

Valuation

- Following the earnings tweak, our TP on EAT is revised to RM1.62 (previous: RM1.64) based on unchanged 10x FY16 P/E. Reiterate Buy on the back of attractive valuations, resilient earnings, and strong tenderbook with relatively high bid success rate.

Earnings Summary

Income Statement

FYE 31 Dec (RMmn)	2014	2015	2016E	2017F	2018F
Revenue	155.7	549.1	595.8	620.3	663.5
EBITDA	56.8	146.6	179.4	187.2	201.4
Depreciation	(25.0)	(43.6)	(47.3)	(49.9)	(52.6)
Net finance cost	(12.2)	(13.4)	(14.8)	(8.2)	(10.0)
Share of Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.1	(38.9)	0.0	0.0	0.0
Pretax Profit	19.7	50.8	117.3	129.2	138.7
Taxation	(5.5)	(13.4)	(31.1)	(34.2)	(36.8)
Net Profit	14.2	37.3	86.0	94.6	101.6
Core Net Profit	14.1	76.2	86.0	94.6	101.6

Per Share Data

Core EPS	(sen)	3.6	15.1	17.1	18.8	20.2
DPS	(sen)	2.0	2.3	5.1	5.6	6.0
Book Value	(RM)	0.7	0.6	0.7	0.8	1.0

Ratios

FYE 31 Dec (RMmn)		2014	2015	2016E	2017F	2018F
Valuations						
Core PER	(x)	30.9	7.4	6.6	6.0	5.6
Dividend yield	(%)	1.8	2.0	4.6	5.0	5.4
EV/EBITDA	(x)	12.4	7.2	4.3	4.0	3.6
P/BV	(x)	1.6	1.9	1.6	1.3	1.1
FCF Yield	(%)	>-100	>-100	(4.8)	10.7	12.5

Profitability ratios

EBITDA margin	(%)	36.5	26.7	30.1	30.2	30.4
EBIT margin	(%)	20.4	18.8	22.2	22.1	22.4
PBT margin	(%)	12.6	9.2	19.7	20.8	20.9
Core Net margin	(%)	9.1	13.9	14.4	15.2	15.3
Core ROE	(%)	5.3	12.6	24.1	22.4	20.6
Core ROA	(%)	2.1	7.7	8.7	9.7	8.8

Liquidity ratios

Current Ratio	(x)	1.4	0.9	0.8	0.7	1.0
Interest Cover	(x)	2.2	6.6	7.6	9.2	9.7

Leverage ratios

Total Debt/ Assets	(x)	0.5	0.6	0.4	0.4	0.4
Total Debt/Equity	(x)	1.2	2.0	1.2	0.8	0.9
Net Debt(Cash)/ Equity	(x)	1.0	1.7	0.6	0.4	0.3
Interest Coverage	(x)	2.2	6.6	7.6	9.2	9.7

Growth ratios

Revenue	(%)	28.5	252.7	8.5	4.1	7.0
EBITDA	(%)	5.7	158.3	22.3	4.4	7.6
PBT	(%)	(66.8)	157.8	131.1	10.1	7.4
Core Net Profit	(%)	(31.8)	439.5	12.9	10.0	7.4
Core EPS	(%)	(82.4)	317.4	12.9	10.0	7.4

Balance Sheet

FYE 31 Dec (RMmn)	2014	2015	2016E	2017F	2018F
Property, Plant & Equip	536.7	644.0	680.1	717.1	757.3
Others	3.2	2.4	2.4	2.4	2.4
Non-Current Assets	539.9	646.3	682.5	719.4	759.7
Trade and other rcvb	58.2	87.9	81.6	85.0	98.2
Cash and Deposits	64.4	85.4	219.6	172.5	302.4
Others	0.0	168.8	0.0	0.0	0.0
Current Assets	122.6	342.1	301.2	257.5	400.5
Total Assets	662.5	988.4	983.6	976.9	1,160.2
LT Borrowings	287.0	295.7	221.0	180.4	231.2
Deferred Tax	16.7	29.4	29.4	29.4	29.4
Others	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	303.7	325.1	250.5	209.8	260.6
ST Borrowings	44.8	285.8	213.7	174.4	223.5
Trade & other Payables	43.0	81.6	163.2	169.9	181.8
Others	1.1	0.0	0.0	0.0	0.0
Current Liabilities	89.0	367.4	376.9	344.3	405.3
Total Liabilities	392.6	692.6	627.4	554.1	665.9
Share capital	126.0	126.0	126.0	126.0	126.0
Reserves	143.9	169.9	230.1	296.3	367.4
Equity	269.9	295.9	356.3	422.8	494.3

Total Equity + Liabilities	662.5	988.4	983.6	976.9	1,160.2
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FYE 31 Dec (RMmn)	2014	2015	2016E	2017F	2018F
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Cash Flow Statement

Pretax Profit	19.7	50.8	117.3	129.2	138.7
Depreciation	25.0	43.6	47.3	49.9	52.6
Net Interest	12.2	13.4	14.8	8.2	10.0
Associates & JCEs	0.0	0.0	0.0	0.0	0.0
Working Cap Changes	30.4	8.9	87.9	3.4	(1.3)
Income Tax Paid	(5.5)	(13.4)	(31.1)	(34.2)	(36.8)
Others	(51.5)	(159.3)	168.8	0.0	0.0
CF from Operations	30.3	(56.1)	405.0	156.3	163.3
Capex	(129.0)	(135.5)	(83.4)	(86.8)	(92.9)
Acquisitions/Disposal	1.7	0.0	0.0	0.0	0.0
Interest Received	2.2	2.3	2.6	6.8	5.3
Others	(27.6)	(23.0)	2.6	6.8	5.3
CF from Investing	(154.9)	(158.5)	(80.8)	(80.0)	(87.5)
Share Issuance	71.6	0.0	0.0	0.0	0.0
Net Change in Debt	72.2	249.7	(146.8)	(80.0)	100.0
Dividends	0.0	(11.3)	(25.8)	(28.4)	(30.5)
Others	38.9	(2.7)	(17.5)	(15.0)	(15.4)
CF from Financing	182.7	235.6	(190.1)	(123.4)	54.1
Net Cash Flow	58.1	21.1	134.1	(47.1)	129.9
Beginning Cash	6.3	64.4	85.4	219.6	172.5
Ending Cash	64.4	85.4	219.6	172.5	302.4

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for TA SECURITIES HOLDINGS BERHAD (14948-M)

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

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Kaladher Govindan – Head of Research