



## EA Technique (M) Bhd

### Sluggish 1Q16

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TA Research Coverage

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### Review

- EA Technique Bhd (EAT) reported 1Q16 core net profit of RM8.0mn (-76% QoQ, +9% YoY). This was below our expectations, comprising 10% of our full-year forecasts. The variance was mainly due to lower-than-expected contribution from marine port services, Hess' EPCIC contract, and coupled with higher-than-expected opex and depreciation.
- Headline net profit of RM25.2mn includes unrealized FX gains of RM17.2mn, which we believe is mainly attributed to naturally hedged USD loans.
- However, we expect earnings momentum to accelerate from 2Q16 onwards, with the delivery of 2 tankers and 2 harbour tugs in 2Q16. This is followed by 2 units of harbor tugboats in 3Q16. All deliveries are backed by term charters. In addition earnings will also be boosted upon completion of FSO Nautica Muar's acquisition by 2Q16.
- The YoY improvement was driven by:- 1) the Hess FSO EPCIC contract, where revenue recognition more than doubled, and 2) contribution from Tembikai FSO (started in 2H15).
- Meanwhile, lower QoQ core profits was largely due to lower recognition (-22% QoQ) of the HESS EPCIC contract, which tends to be lumpy. In addition, we believe USD weakness in 1Q16 also contributed to topline (-15% QoQ) contraction. Significantly higher taxes exacerbated bottomline decline.

### Impact

- Maintain earnings forecasts pending an Analyst Briefing today.

### Valuation & Outlook

- EAT's orderbook (as at end-1Q16) remains robust at RM1.2bn (-7% QoQ), with an additional RM350mn of potential contract extensions.
- A near term earnings catalyst would be EAT securing a long term 20-year O&M contract for the Hess FSO at North Malay Basin. We believe the group stands a strong chance given that EAT is the sole contender and incumbent EPCIC contractor. The award will be anytime soon as EAT targets to deliver the completed vessel by September 2016.
- Maintain Buy on EAT with unchanged TP of RM1.62 based on unchanged 10x CY16 P/E.

**TP: RM1.62 (+52%)**

Last Traded: RM1.07

**BUY**

### Share Information

Bloomberg Code	EATECH MK
Stock Code	5259
Listing	Main Market
Share Cap (mn)	504
Market Cap (RMmn)	539
Par Value (RM)	0.50
52-wk Hi/Lo (RM)	1.50/0.75
12-mth Avg Daily Vol ('000 shrs)	1,204
Estimated Free Float (%)	35
Beta	n.a.
Major Shareholders (%)	Johor Corp - 50.6 Dato' Hak - 5.8 CIMB Principal - 4.4

### Forecast Revision (%)

	FY16	FY17
Forecast Revision (%)	0.0	0.0
Core Net Profit (RM mn)	79.6	93.1
Consensus	n.a.	n.a.
TA/Consensus (%)	n.a.	n.a.
Previous Rating	Buy (Maintained)	

### Scorecard

	% of FY	
vs TA	10	Below
vs Consensus	n.a	n.a

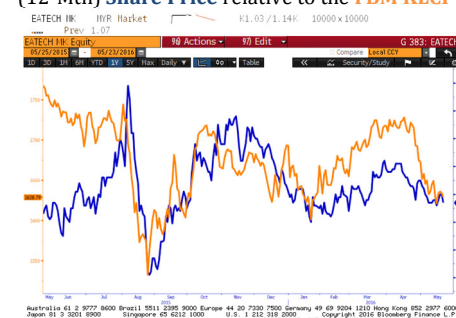
### Financial Indicators

	FY16	FY17
Net (Debt)/Equity (x)	0.7	0.4
ROA (%)	8.4	9.7
ROE (%)	22.6	22.3
FCFF/Share (sen)	2.0	4.9
P/CFPS (x)	53.5	22.0

### Share Performance

Price Change (%)	EATECH	FBMKLCI
1 mth	(6.1)	(4.5)
3 mth	(1.8)	(2.5)
6 mth	(14.4)	(1.8)
12 mth	(5.3)	(9.8)

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



Source: Bloomberg

**Figure 1: 1Q16 Results Analysis (RM mn)**

<b>YE 31 Dec (RM mn)</b>	<b>1Q16</b>	<b>4Q15</b>	<b>QoQ%</b>	<b>1Q15</b>	<b>YoY%</b>
Revenue	125.6	147.9	(15.1)	72.7	72.6
<b>Core EBITDA</b>	30.3	70.1	(56.7)	18.8	61.4
Depreciation	(14.0)	(14.6)	(3.9)	(7.3)	92.1
Other Inc & Expense	(3.1)	(35.1)	(91.1)	(3.7)	(14.7)
Net Finance Costs	(5.5)	(1.6)	>100	(2.6)	>100
FX	17.2	(4.5)	>-100	0.0	n.m.
EI	0.0	(17.0)	>-100	0.0	n.m.
Core Pretax Profit	10.5	35.3	(70.2)	8.7	21.7
Taxation	(2.5)	(2.7)	(6.8)	(1.3)	96.0
Reported Net Profit	25.2	11.2	>100	7.4	>100
<b>Core Net Profit</b>	8.0	32.6	(75.5)	7.4	8.7
Core EPS (sen)	1.6	6.5	(75.5)	1.5	8.7
DPS (sen)	0.0	0.0	n.m.	0.0	n.m.
Core EBITDA Margin	24.1	47.4		25.8	
Core Net Margin	6.4	22.1		10.1	

**Figure 2: Earnings Summary**

<b>FYE Dec (RM mn)</b>		<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017F</b>	<b>2018F</b>
Revenue		155.7	549.1	545.4	613.8	641.2
EBITDA		56.8	146.6	169.4	184.9	194.5
<i>EBITDA margin</i>	(%)	36.5	26.7	31.1	30.1	30.3
Pretax Profit		19.7	50.8	107.9	126.3	132.5
Reported Net Profit		14.2	37.3	79.6	93.1	97.7
Exceptionals		0.1	(38.9)	0.0	0.0	0.0
Core Net Profit		14.1	76.2	79.6	93.1	97.7
Core EPS	(sen)	3.6	15.1	15.8	18.5	19.4
Core PER	(x)	29.5	7.1	6.8	5.8	5.5
DPS	(sen)	2.0	2.3	4.7	5.5	5.8
Dividend Yield	(%)	1.9	2.1	4.4	5.2	5.4

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