



EA Technique (M) Bhd

Full Control & Equity of FSO Nautica Muar

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TA Research Coverage

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- EA Techinque (M) Bhd (EA Tech) has entered into a conditional S&P agreement with MTCE Engineering Sdn Bhd (MTCE) to acquire topside equipment attached to EAT's FSU (Floating Storage Unit), Nautica Muar, for USD24mn (RM106mn).
- The equipment includes an extended well test (EWT) system, flare tower system, metering skid, cargo pump, quick release hook and helideck. This proposal is targeted for completion in 1H17.
- To recap, back in Sept-12, EAT leased the vessel (excluding topside) to MTCE to execute a time charter contract awarded by Petronas Carigali at Anjung Kecil field offshore Johor. MTCE had subsequently installed a topside to Nautica Muar at its own cost, amounting to RM130mn (USD29.3mn).
- The FSU vessel will now be redeployed to a field operated by Vestigo Petroleum, Petronas' marginal field arm. As such, Nautica Muar's original contract (expiry: Jan-18) will now be taken over by Vestigo, converted into a bareboat charter, and extended until Jan-2021 (tenure: 44 months) at a revised DCR of USD33,500. Accordingly, MTCE's new contract with Vestigo will now be novated to EA Tech.
- The acquisition will be funded via a combination of cash (USD4.8mn) and bank borrowings (balance of purchase price: USD19.2mn). The cash portion will be offset against amount owing from MTCE to EA Tech.
- We view this new agreement as a variation of an earlier conditional 73:27 JV agreement inked earlier in Dec-15. The latter has now been aborted in favour of this new arrangement whereby EA Tech fully owns the vessel (including topside).

Our Take

- This announcement is within expectations as management had earlier guided on this new arrangement. We are positive on this acquisition as it enables EA Tech to have full ownership and control of the FSU. It would also allow the group to deal directly with the client, and take over minority earnings leakages.
- According to management's earlier guidance, there is a possibility that Vestigo may tender the O&M contract for Nautica Muar. This implies higher time charter rates, if EA Tech manages to secure this job.
- We estimate that EA Tech's current net gearing of 1.8x will reduce to 0.5x upon delivery of the North Malay Basin FSO to Hess by 1Q17. Therefore, this implies ample debt headroom to fund the acquisition of Nautica Muar's topsides.

Impact

- We maintain earnings forecasts pending further clarity from management, including contract commencement date and whether the vessel will need to undergo dry docking at the group's own cost prior to deployment.

TP: RM0.90 (+46%)

Last Traded: RM0.62

BUY

Share Information

Bloomberg Code	EATECH MK
Stock Code	5259
Listing	Main Market
Share Cap (mn)	504
Market Cap (RMmn)	312
Par Value (RM)	0.25
52-wk Hi/Lo (RM)	1.36/0.62
12-mth Avg Daily Vol ('000 shrs)	786
Estimated Free Float (%)	35
Beta	0.70
Major Shareholders (%)	Sindora - 50.6 Dato' Hak - 5.8

Forecast Revision (%)

	FY16	FY17
Forecast Revision (%)	0.0	0.0
Core Net Profit (RM mn)	73.6	57.0
Consensus	n.a.	n.a.
TA/Consensus (%)	n.a.	n.a.
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY16	FY17
Net (Debt)/Equity (x)	0.7	0.5
ROA (%)	7.7	6.6
ROE (%)	24.6	14.3
FCFF/Share (sen)	1.1	13.1
P/CFPS (x)	1.8	21.2

Share Performance

Price Change (%)	EATECH	FBM KLCI
1 mth	(6.1)	(2.4)
3 mth	(23.5)	(3.2)
6 mth	(45.1)	(0.3)
12 mth	(51.6)	(2.5)

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



Source: Bloomberg

Valuation

- The stock is currently trading at a cheap valuation of 5.5x FY17 P/E, which has baked-in expectations that the group is unable to secure new engineering contracts in FY17. Therefore, we believe there is an upside potential to the current valuations, given that the group's transport and FSU business remains resilient. The latter is underpinned by long-term locked-in contracts and close-to-full fleet utilization.
- In addition, there is earnings upside from cost savings derived from EA Tech's new dry dock, and impending award of a 20-year O&M contract for the North Malay Basin FSO. Maintain Buy with unchanged TP of RM0.90 based on 8x CY16 EPS.

Earnings Summary

Income Statement

FYE 31 Dec (RMmn)	2014	2015	2016E	2017F	2018F
Revenue	155.7	549.1	554.1	326.5	550.8
EBITDA	56.8	108.6	165.5	132.4	164.2
Depreciation	(25.0)	(43.6)	(47.6)	(47.5)	(49.4)
Net finance cost	(12.2)	(13.4)	(18.1)	(8.4)	(10.8)
Share of Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.1	(0.9)	14.5	0.0	0.0
Pretax Profit	19.7	50.8	114.2	76.4	104.0
Taxation	(5.5)	(13.4)	(25.9)	(19.1)	(27.0)
Net Profit	14.2	37.3	88.1	57.0	76.6
Core Net Profit	14.1	38.2	73.6	57.0	76.6

Per Share Data

Core EPS	(sen)	3.6	7.6	14.6	11.3	15.2
DPS	(sen)	2.0	2.3	4.4	3.4	4.6
Book Value	(RM)	0.7	0.6	0.7	0.8	0.9

Ratios

FYE 31 Dec (RMmn)		2014	2015	2016E	2017F	2018F
Valuations						
Core PER	(x)	17.1	8.2	4.2	5.5	4.1
Dividend yield	(%)	3.2	3.6	7.1	5.5	7.4
EV/EBITDA	(x)	9.0	7.4	3.4	3.9	2.8
P/BV	(x)	0.9	1.1	0.9	0.8	0.7
FCF Yield	(%)	>-100	>-100	1.8	21.2	10.4

Profitability ratios

EBITDA margin	(%)	36.5	19.8	29.9	40.5	29.8
EBIT margin	(%)	20.4	11.8	21.3	26.0	20.8
PBT margin	(%)	12.6	9.2	20.6	23.4	18.9
Core Net margin	(%)	9.1	7.0	13.3	17.5	13.9
Core ROE	(%)	5.3	12.6	24.6	14.3	16.9
Core ROA	(%)	2.1	3.9	7.7	6.6	7.1

Liquidity ratios

Current Ratio	(x)	1.4	0.9	0.8	0.7	1.0
Interest Cover	(x)	2.2	4.1	5.7	6.1	7.6

Leverage ratios

Total Debt/ Assets	(x)	0.5	0.6	0.5	0.4	0.4
Total Debt/Equity	(x)	1.2	2.0	1.2	0.9	1.0
Net Debt(Cash)/ Equity	(x)	1.0	1.7	0.7	0.5	0.3
Interest Coverage	(x)	2.2	4.1	5.7	6.1	7.6

Growth ratios

Revenue	(%)	28.5	252.7	0.9	(41.1)	68.7
EBITDA	(%)	5.7	91.4	52.4	(20.0)	24.0
PBT	(%)	(66.8)	157.8	125.1	(33.1)	36.0
Core Net Profit	(%)	(31.8)	170.5	92.6	(22.6)	34.4
Core EPS	(%)	(82.4)	109.3	92.6	(22.6)	34.4

Key Assumptions

Fleet Count	(units)		45	45	45
Average Fleet Utilisation	(%)		82	89	90
New Engineering Orders	(USD mn)		0	0	80

Balance Sheet

FYE 31 Dec (RMmn)	2014	2015	2016E	2017F	2018F
Property, Plant & Equip	536.7	644.0	673.9	672.1	699.8
Others	3.2	2.4	2.4	2.4	2.4
Non-Current Assets	539.9	646.3	676.3	674.5	702.2
Trade and other rcv	58.2	87.9	91.1	44.7	81.5
Cash and Deposits	64.4	85.4	185.2	146.4	297.3
Others	0.0	168.8	0.0	0.0	0.0
Current Assets	122.6	342.1	276.2	191.1	378.8
Total Assets	662.5	988.4	952.5	865.6	1,081.0
LT Borrowings	287.0	295.7	218.0	177.3	228.2
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	247.4	206.7	257.6
ST Borrowings	44.8	285.8	210.7	171.4	220.6
Trade & other Payables	43.0	81.6	136.6	89.4	150.9
Others	1.1	0.0	0.0	0.0	0.0
Current Liabilities	89.0	367.4	347.3	260.9	371.5
Total Liabilities	392.6	692.6	594.8	467.6	629.1
Share capital	126.0	126.0	126.0	126.0	126.0
Reserves	143.9	169.9	231.6	271.5	325.1
Equity	269.9	295.9	357.7	398.0	451.9

Total Equity + Liabilities	662.5	988.4	952.5	865.6	1,081.0
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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	114.2	76.4	104.0
Depreciation	25.0	43.6	47.6	47.5	49.4
Net Interest	12.2	13.4	18.1	8.4	10.8
Associates & JCEs	0.0	0.0	0.0	0.0	0.0
Working Cap Changes	30.4	8.9	51.8	(0.8)	24.7
Income Tax Paid	(5.5)	(13.4)	(25.9)	(19.1)	(27.0)
Others	(51.5)	(159.3)	168.8	0.0	0.0
CF from Operations	30.3	(56.1)	374.7	112.5	161.8
Capex	(129.0)	(135.5)	(77.6)	(45.7)	(77.1)
Acquisitions/Disposal	1.7	0.0	0.0	0.0	0.0
Interest Received	2.2	2.3	2.6	5.6	4.4
Others	(27.6)	(23.0)	2.6	5.6	4.4
CF from Investing	(154.9)	(158.5)	(75.0)	(40.2)	(72.7)
Share Issuance	71.6	0.0	0.0	0.0	0.0
Net Change in Debt	72.2	249.7	(152.8)	(80.0)	100.0
Dividends	0.0	(11.3)	(26.4)	(17.1)	(23.0)
Others	38.9	(2.7)	(20.7)	(14.0)	(15.2)
CF from Financing	182.7	235.6	(200.0)	(111.1)	61.9
Net Cash Flow	58.1	21.1	99.7	(38.8)	151.0
Beginning Cash	6.3	64.4	85.4	185.2	146.4
Ending Cash	64.4	85.4	185.2	146.4	297.3

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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