Regional Industry Focus

Oil & Gas

DBS Group Research . Equity

23 Jan 2018

Happy new year for oil

- Oil price recovery gains more legs
- Brent will likely average around U$65/bbl in 2018
- Geopolitical risks the wildcard for further upside
- Interest in offshore services picking up, look for players without balance sheet issues

Oil price momentum continues to look positive. Brent crude oil price has had a much more positive start to the year than expected, hovering at US$65-70/bbl, a significant uptrend compared to 2017 average of US$55/bbl. In addition to the continued capacity cuts by OPEC and friends, improving global demand and falling crude oil inventory levels in the US have contributed to the positive sentiment, as have several one-off supply disruptions and increased geopolitical risks.

2018 average Brent crude oil price could end closer to the higher range of our US$60-65 per barrel forecast. While there could be some short-term pullbacks from the US$70/bbl level in the near term, and some volatility ahead, depending on the response of US shale drillers to the higher oil price environment, we do expect that 2018 Brent crude oil price to average towards the higher end of our US$60-65/bbl forecast in 2018, a healthy 15-20% improvement over the 2017 average. This should underpin hopes of capex recovery and drive positive stock market sentiment for the sector.

Geopolitical wildcards abound in 2018. These include heightened tensions in the Middle East – militant attacks on oil installations in Libya, civil unrest in Iran, possibility of renewed US sanctions on Iran – and increasing tensions between US and North Korea. All these factors could result in further upside to oil prices or at least offset negative impact of supply growth from non-OPEC countries (read: US shale).

Limelight could slowly switch to O&G service providers. We maintain our Overweight stance on the sector. The recent oil price rally has driven up O&G stocks, with oil majors leading the rally as direct beneficiaries. While potential oil price pullback might cap the upside of upstream plays, sustainable oil price above US$60/bbl level should drive capex expansion and benefit players down the value chain. Our top picks are 1) Sinopec and Petrochina for their M&A and restructuring angle; 2) Sembcorp Marine, catalysed by robust contract pipeline; 3) POSH and Wintermar on improving utilisation of offshore service assets. We will continue to avoid services players with stressed balance sheets though.

STI : 3,569.43 **HSI : 32,393.41**
JCI: 6,500.53

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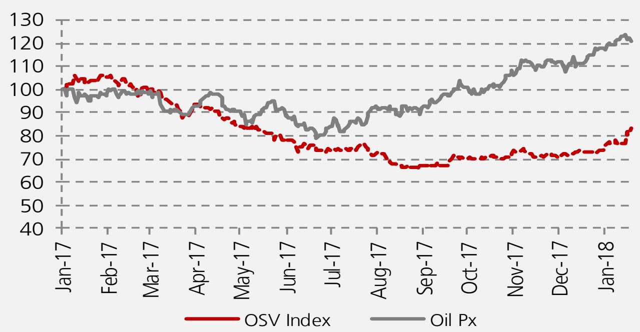
STOCKS

	Price (LCL)	Mkt Cap US$m	12-mth Target Price (LCL)	Performance (%) 3 mth	Performance (%) 12 mth	Rating
CNOOC	12.34	70,492	13.00	24.8	25.9	BUY
PetroChina	5.87	137,457	6.50	18.1	(4.2)	BUY
China Petroleum & Chem	6.51	100,844	7.50	14.4	7.3	BUY
Keppel Corporation	8.29	11,396	10.30	11.9	34.4	BUY
Sembcorp Marine	2.39	3,783	3.10	28.5	60.9	BUY
PACC Offshore Services Holdings	0.43	590	0.51	26.5	28.4	BUY
Wintermar Offshore Marine	340	103	396	25.9	37.1	BUY
Mermaid Maritime	0.16	166	0.14	12.3	(19.7)	HOLD

Source: Bloomberg Finance L.P.
Closing price as of 22 Jan 2018

Singapore rigbuilders: New orders drive rerating
Malaysia Oil & Gas: Turning positive

DBS Singapore OSV Index vs. Oil Price (Base: 1 Jan 2017)



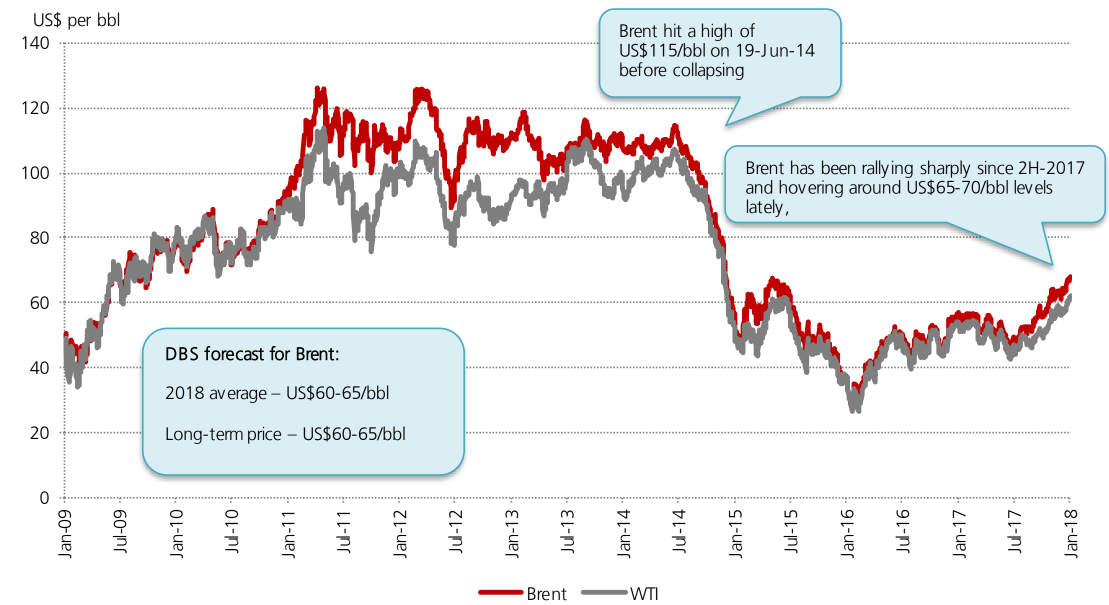
Source: Bloomberg Finance L.P., DBS Bank

Oil price momentum continues to look positive. Brent crude oil price has had a much more positive start to the year than expected, hovering at US$65-70/bbl, a significant uptrend compared to 2017 average of US$55/bbl. The upward shift started in November 2017, leading up to the OPEC general meeting, which yielded an expected positive move of keeping production cuts in place till end-2018. Falling oil inventory levels in the US contributed to the positive sentiment, as did several one-off events like supply disruptions towards end-2017 and increased geopolitical risks in the early part of 2018. This included the North Sea Forties pipeline closure in mid-December 2017 which affected around 450,000bpd of supplies. The system came back on stream to normal operations by the start of 2018.

2018 average Brent crude oil price could end closer to the higher range of our US$60-65 per barrel forecast. While there could be some short-term pullbacks from the US$70/bbl level in the near term, and some volatility ahead, depending on the response of US shale drillers to the higher oil price environment, we do expect 2018 Brent crude oil price to average towards the higher end of our US$60-65/bbl forecast in 2018, a healthy 15-20% improvement over the 2017 average. Shale oil production in the US is expected to be the main moderating factor for oil prices in 2018, with production forecast increasing from 9.3mmbpd on average in 2017 to more than 10.0mmbpd on average in 2018 by conservative estimates. Indeed, horizontal rig counts had already started to inch up in November/ December 2017, after a brief period of decline in the early part of 2H17, and shale oil production reached 10.0mmbpd by December, on the back of firmer oil prices. Despite the US shale-led production growth, we expect oil prices to remain supported by continued gradual moderating of inventory levels worldwide in 2018, as oil demand levels remain robust, backed by a synchronised global recovery.

Geopolitical wildcards abound in 2018. These include heightened tensions in the Middle East, and the unpredictable response of US President Donald Trump towards states like Iran and North Korea. Militant attacks on pipelines in Libya affected around 100,000bpd of supplies at end-December 2017. There have been reports that ISIS may be planning more attacks on the country's so-called Oil Crescent, where export terminals and many oil fields are located. Over in Iran, civilian unrest and protests against the existing regime have been growing. Add to this the possibility of renewed US sanctions on Iran by May 2018 if Iran fails to comply with several conditions laid down in the earlier agreement, and OPEC exports could end up lower than expected. Moreover, we are seeing increasing tensions between US and North Korea, raising risks for a full blown-out conflict disrupting trade routes. All these factors could result in further upside to oil prices or at least offset negative impact of supply growth from non-OPEC countries. PT. Elnusa (Not Rated - Upcoming IPO) is expected to raise Rp584bn from its upcoming public offering, scheduled to be held in February this year.

Oil price trends



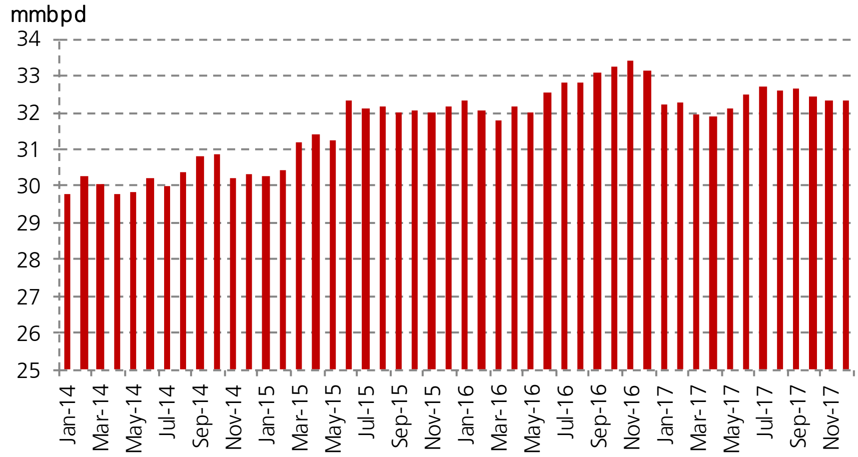
Source: Blooomberg Finance L.P., DBS Bank

OPEC deal extended to end-2018. In another landmark OPEC – non OPEC meeting which concluded in Vienna on the 30 November 2017, the group of countries decided to extend the ongoing production cuts until the end of 2018, i.e. a nine-month extension to the previous agreement, which was due to expire at the end of March 2018. The decision was taken amidst unprecedented unanimity between Saudi Arabia and Russia, two of the world's largest oil producers. The deal also places production caps for the first time on Nigeria and Libya, which were hitherto exempt from the cuts and had resulted in an unexpected supply glut in the early part of 2017. Thus, fewer supply side surprises are expected from the OPEC – non OPEC bloc in 2018.

Inventory normalisation is the key target. The target for the countries agreeing to these production cuts totalling 1.8mmbpd from October 2016 production levels is to bring global inventories down to normalised levels. According to OPEC estimates, global inventories fell from 280mmbbls above five-year average in May 2017 to 140mmbbls above five-year average by October 2017. Thus, while the direction is correct, OPEC believes it could be well into 3Q18 before inventories normalise, as the next two quarters are seasonally low demand quarters. Hence, any exit from the above deal will need to be very gradual from 2019 onwards at the earliest, though the exact mechanism has not been discussed yet as it is probably too early.

OPEC members have shown decent compliance to production cuts in 2017. The OPEC countries involved in the production cuts have been well compliant to the agreed production cuts in 2017, though the story has not been as smooth on the export front, where Saudi efforts to cut exports have been undermined to an extent by Iraq and Iran. We believe however the production cuts had filtered better into export cuts by 2H17.

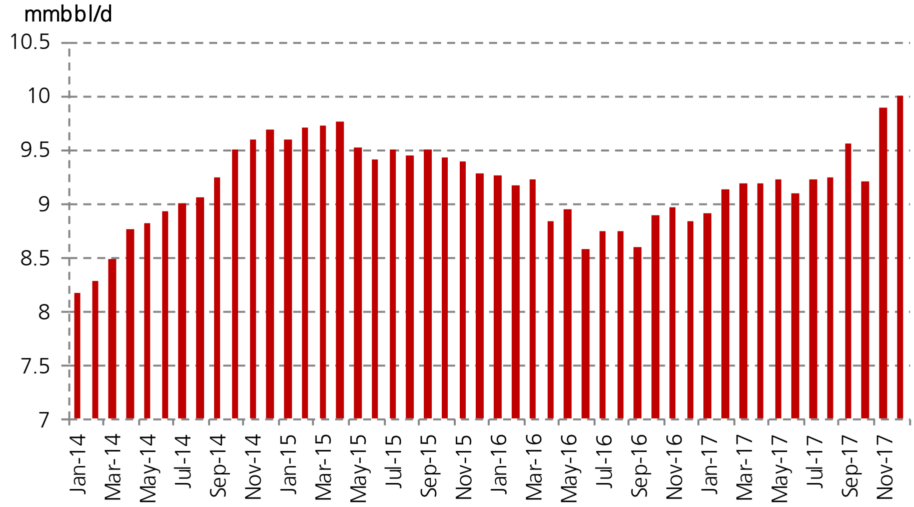
OPEC production levels lower in 2017, though Libya and Nigeria production have offset some of the declines



Source: Bloomberg Finance L.P., DBS Bank

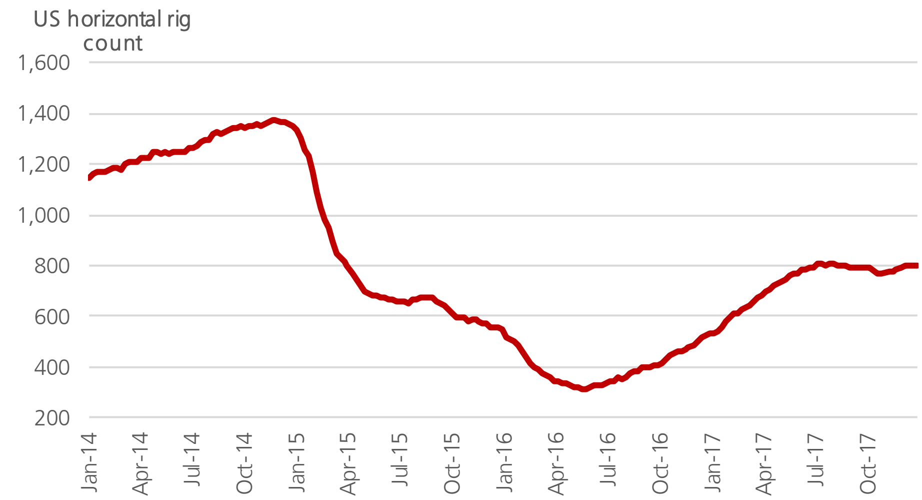
US shale production growth showing signs of life again. US crude oil production averaged around 9.3mmbpd in 2017, up from 8.9mmbpd in 2016, but more worryingly, production in November and December 2017 shot up quickly to levels of 9.8-10.0mmbpd. The US rig counts, which had started to fall slightly since August 2017, has picked up again as well, as more horizontal rigs were pressed into service, especially in the Anadarko and Permian Basins. While capex levels from shale players seem relatively muted amidst high debt levels, higher prices prevailing in the market in the run-up to the OPEC meeting seems to have incentivised higher production through greater well completions, given the high inventory of Drilled & Uncompleted Wells (DUCs) in the US. Whether this trend can continue as strong in 2018 remains to be seen, but even conservative estimates seem to be pointing at US production averaging at least 10.0mmbpd in 2018, growth of 0.7mmbpd over 2017 average levels. This will have an impact on how fast inventory levels decline in the US, especially as we move into refinery maintenance season, and slow down the market rebalancing process envisaged by the OPEC cartel.

US production picking up again



Source: Bloomberg Finance L.P., DBS Bank

US horizontal rig count stems the trend of declines recently



Source: Baker Hughes, DBS Bank

However, downside is likely to be limited as US shale productivity gains have plateaued and costs are rising. Over the last year, we saw US shale drilling productivity gains (in bpd per well) stall, especially in the Permian basin. Major US shale producers' cash operating costs per barrel have been inching up since 4Q16 as well, adding to evidence that the days of sharp cost reductions are over. We believe breakeven prices are no longer falling in US shale basins and we think

Brent crude oil prices above US$55/bbl and WTI oil prices in excess of US$50/bbl are required for shale producers to remain profitable and consider re-investing. This puts a higher floor on oil prices, in our view.

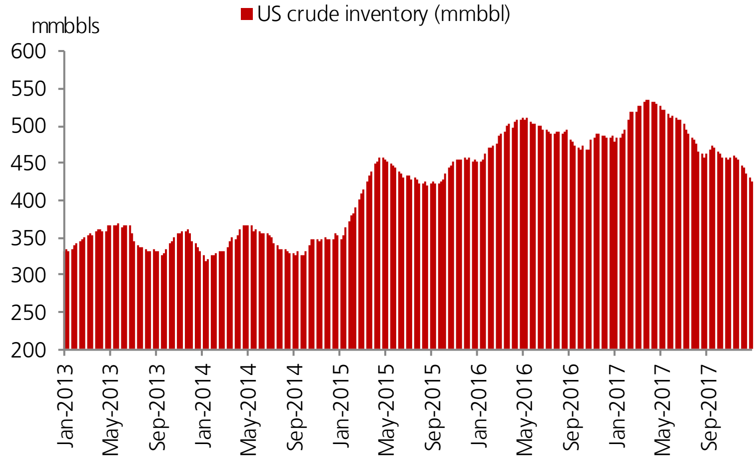
More constraints from shale players now? With shareholders demanding better discipline on the use of operating cash flows and further access to debt markets drying up in the face of high leverage ratios, shale company executives have been increasingly promising more prudence, with a focus not on aggressive drilling campaigns but on ensuring better returns on equity, debt repayment and eventually cash returns to shareholders. It remains to be seen though how they will react to US$70/bbl oil prices, and a look at capex budgets during full-year announcements in February should give us a better idea as to whether the restraint is for real.

Meanwhile, demand growth in 2018 is likely to be robust. We expect oil consumption to grow by around 1.5mmbpd in 2018, slightly higher than the demand growth seen in 2016/17. China and India as usual are expected to be the largest contributors to oil consumption growth. However, demand is also expected to pick up in developed markets like US, Europe and Japan as economic recovery picks up steam.

Will demand growth from China be better than expected? Recent press reports seem to suggest that China may be growing faster than official figures suggest, as the preceding downturn may have been understated. China's GDP grew by 6.9% in 2017, slightly higher than the 6.7% growth in 2016, but the real recovery may actually be sharper. Three of Northern China's commodity-heavy regions have admitted to falsifying data and overstating 2016 growth, and it is likely that more regions which depended on commodities like metals, oil and coal fared worse than reported during the commodity slump in 2015/16. Now that things are looking better on the commodity front, growth in oil demand from China could surprise on the upside.

Inventory drawdowns will continue to support oil price momentum. Global inventory drawdowns – as evidenced by US inventory numbers – picked up in 2H17, and have continued to drive the oil price recovery. As evident from the chart below, the pace of inventory declines in 2017 was significantly faster than in 2016, and the latest inventory reading of about 420mmbbls as of mid-January 2018 is 65mmbbls lower than the corresponding number at the start of 2017. This is a promising signal as far as market rebalancing is concerned and will continue to support positive oil price trajectory hereon, as long as the supply side is wilfully capped by market participants.

US crude oil inventory levels show sharp decline in 2017



Source: Bloomberg Finance L.P. , DBS Bank

Company Guides

China / Hong Kong Company Guide

PetroChina

Version 5 | Bloomberg: 857 HK EQUITY | Reuters: 0857.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2017

BUY (Upgrade from HOLD)

Last Traded Price (3 Nov 2017):HK$5.28 (HSI : 28,604)
Price Target 12-mth: HK$6.50 (23% upside) (Prev HK$5.45)

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What's New

- **3Q17 dragged by Marketing segment**
- **Trimmed FY17/18F net profit by 13/28%, factoring in weaker margins for Marketing segment**
- **Upside risk is higher oil prices; pipeline spin-off is no longer at the top of the agenda**
- **Reiterate HOLD; TP adjusted to** HK$6.50

Price Relative

Forecasts and Valuation

FY Dec (RMB m)	2016A	2017F	2018F	2019F
Turnover	1,616,903	1,894,970	2,039,954	2,080,948
EBITDA	270,151	285,270	312,120	321,767
Pre-tax Profit	45,140	52,303	76,534	87,976
Net Profit	7,856	23,227	40,180	46,188
Net Pft (Pre Ex) (core profit)	(6,137)	23,227	40,180	46,188
Net Profit Gth (Pre-ex) (%)	N/A	N/A	73.0	15.0
EPS (RMB)	0.04	0.13	0.22	0.25
EPS (HK$)	0.05	0.15	0.26	0.30
Core EPS (HK$)	(0.04)	0.15	0.26	0.30
Core EPS (RMB)	(0.03)	0.13	0.22	0.25
EPS Gth (%)	(77.9)	195.7	73.0	15.0
Core EPS Gth (%)	N/A	N/A	73.0	15.0
Diluted EPS (HK$)	0.05	0.15	0.26	0.30
DPS (HK$)	0.07	0.11	0.12	0.13
BV Per Share (HK$)	7.65	7.68	7.83	7.99
PE (X)	104.5	35.3	20.4	17.8
Core PE (X)	nm	35.3	20.4	17.8
P/Cash Flow (X)	3.1	3.2	2.9	2.8
P/Free CF (X)	9.8	12.1	8.5	8.0
EV/EBITDA (X)	5.3	5.0	4.4	4.2
Net Div Yield (%)	1.3	2.1	2.2	2.5
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.3	0.3	0.3	0.2
ROAE (%)	0.7	1.9	3.3	3.8
Earnings Rev (%):		(13)	(28)	-
Consensus EPS (RMB)		0.15	0.21	0.30
Other Broker Recs:		B: 11	S: 1	H: 9

Source of all data on this page: Company, DBS Bank, Thomson Reuters, HKEX

Laggard to the oil price recovery

Upgrade to BUY with higher TP of HK$6.50. We are upgrading PetroChina to a BUY on expectations of higher oil prices in the near-to-medium term; our house forecast for Brent in 2018 has been raised from US$55-60/bbl previously to US$60-65/bbl. This should lead to a rebound in E&P profits despite breakeven prices seemingly having risen at the company's older oilfields; we have raised our valuation for the E&P segment by c.9%. PetroChina remains a laggard to the oil price recovery. Although Brent has more than doubled from its lows of US$27/bbl, PetroChina is only 30% off its share price low in 1Q16, while CNOOC is 70% off its 1Q16 lows. Additionally, the revival of plans to form a national natural gas pipeline company by the NDRC since September creates a near-term value-unlocking catalyst in the form of pipeline asset sales.

Where we differ: Despite PetroChina being an integrated oil company, we view the E&P segment as the key to a share price re-rating, as historically the E&P segment has accounted for the majority of its operating profits (see appendix). The upward revision to our oil price forecast thus points to an earnings rebound.

Catalysts: A stronger-than-expected recovery in oil prices, possibly on deeper and longer cuts by OPEC, could spark an upside share price movement. Improvement in E&P breakeven price, divestment of pipeline assets, and more favourable pricing/policy on its loss-making imported natural gas are also key upside catalysts, in our view.

Valuation:

Our SOTP valuation gives a TP of HK$6.50. Of this, the E&P segment alone is worth about 74% of the total equity value – or about HK$4.69/share, based on our estimate.

Key Risks to Our View:

Oil price risk. If US shale players ramp up output to higher-than-expected levels, oil prices may see a downward correction, which would impact PetroChina's profits.

At A Glance

Issued Capital - H shares (m shs)	21,099
- Non H shares (m	161,922
H shs as a % of Total	12
Total Mkt. Cap (HK$m/US$m)	1,704,570 / 218,507
Major Shareholders	
PetroChina (%)	86.0
Major H Shareholders	
JPMorgan Chase & Co. (%)	6.9
BlackRock, Inc. (%)	6.2
H Shares-Free Float (%)	87.0
3m Avg. Daily Val. (US$m)	76.6
ICB Industry : Oil & Gas / Oil & Gas Producers	

WHAT'S NEW

3Q17 results below

Developments on pipeline assets

Discussions on a national natural gas pipeline company have been revived. It was reported in late September that the National Development and Reform Commission (NDRC) had restarted discussions with the three oil giants in China – CNPC (PetroChina's parent), Sinopec Group, and CNOOC. If PetroChina can achieve a c.20x PE valuation for these assets (in line with Sinopec's Sichua to East China pipeline sale), we think this would help to unlock value.

Results snapshot

Marketing segment disappoints. Petrochina's 3Q17 results were below our expectations, with net profit coming in at RMB4.7bn (+291% y-o-y; -28% q-o-q), vs our expectations of RMB6-7bn. This brings 9M17 net profit to RMB17bn, making up only 65% of our FY17 estimate.

The key drag was the Marketing segment, in which operating profit plunged to a mere RMB52m in 3Q17, from RMB2.8-2.9bn/quarter in 1H, blamed on the intensifying price war against independent petrol station operators that started in late March.

Exploration and Production (E&P) segment continued on its downtrend, with operating profit sliding to RMB4.1bn from RMB5bn a quarter ago, despite relatively steady average oil price. We surmise the breakeven cost per barrel might have crept up as highlighted in our previous note.

These underperforming segments were mitigated by the stronger-than-expected performance at Refining and Chemicals segment, in which operating profit rose from RMB7.7bn in 2Q17 to RMB11.9bn in 3Q17.

Natural gas and Pipeline business remained stable in 3Q.

E&P output on track. Crude oil production totalled 660.1mmbbls in 9M17, down 5.2% y-o-y as guided, on track to meet its target of 879mmbbls for 2017. Natural gas output seems ahead of target, rising 4.5% y-o-y to 2,549.2bcf, forming c.77% of its 2017 target of 3,308bcf.

Net gearing improved to 0.24x as of end-September 2017, from 0.3x a year ago. PetroChina continues to churn positive FCF, which amounted to c.RMB120bn in 9M17.

Outlook

Expect a stronger 4Q17. Looking ahead, we expect a stronger 4Q as PetroChina could raise its wholesale natural gas price by 20% for the winter heating season, offsetting the recent 15% cut in pipeline tariffs. In addition, crude oil prices had been creeping up in October, paving the way for better E&P performance.

Earnings revisions. We have cut our FY17/18F net profit forecast by 13/28% after lowering our margin assumption for the Marketing segment, partially offset by upward revision in oil price assumption for 2018.

Quarterly / Income Statement (RMBm)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	411,370	482,350	481,795	17.1	(0.1)
Cost of Goods Sold	(384,053)	(448,158)	(443,791)	15.6	(1.0)
Gross Profit	27,317	34,192	38,004	39.1	11.1
Other Oper. (Exp)/Inc	(16,342)	(17,391)	(21,127)	29.3	21.5
Operating Profit	10,975	16,801	16,877	53.8	0.5
Other Non Opg (Exp)/Inc	11.0	(975)	(667)	nm	(31.6)
Associates & JV Inc	1,021	1,283	1,262	23.6	(1.6)
Net Interest (Exp)/Inc	(5,170)	(4,803)	(4,859)	6.0	(1.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	6,837	12,306	12,613	84.5	2.5
Tax	(2,948)	(2,412)	(3,682)	24.9	52.7
Minority Interest	(2,689)	(3,369)	(4,241)	(57.7)	25.9
Net Profit	1,200	6,525	4,689	290.8	(28.1)
Net profit bef Except.	1,200	6,525	4,689	290.8	(28.1)
EBITDA	62,582	74,949	66,408	6.1	(11.4)
Margins (%)					
Gross Margins	6.6	7.1	7.9		
Opg Profit Margins	2.7	3.5	3.5		
Net Profit Margins	0.3	1.4	1.0		

Source of all data: Company, DBS Bank

CRITICAL FACTORS TO WATCH

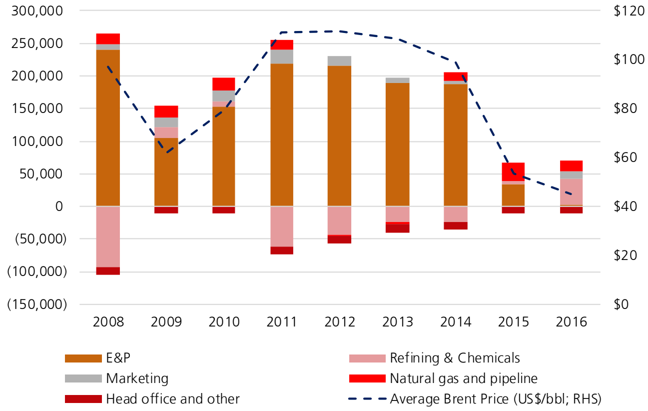
E&P segment accounts for majority of operating profits – realised oil price is crucial. PetroChina's operating profits have historically been driven by the E&P segment, which accounted for 100% of operating profit in times of high oil prices (as refining & chemicals segment incurred losses), but c.60-80% of operating profit in times of low oil prices (e.g. in 2009 and 2015 when Brent was US$62/bbl and US$54/bbl respectively). Given that PetroChina's breakeven level is estimated to be ~US$50/bbl, and our house forecast is for a medium- to long-term Brent price of US$60-65/bbl, we think PetroChina's E&P segment will gradually recover to account for the majority of operating profits by FY19. Thus, a recovery in global benchmark oil prices is a key data point to watch.

Pipeline reform could unlock value for PetroChina. As the market seems to be assigning a close-to-zero value at current market prices for PetroChina's non-E&P segments, we are of the view that progress in pipeline reform (e.g. via divestment of the pipeline assets) would unlock value for PetroChina's shareholders. However, recent commentary by PetroChina's management suggests that pipeline divestments are no longer at the top of the agenda, suggesting that it could be a while before we see further midstream asset sales.

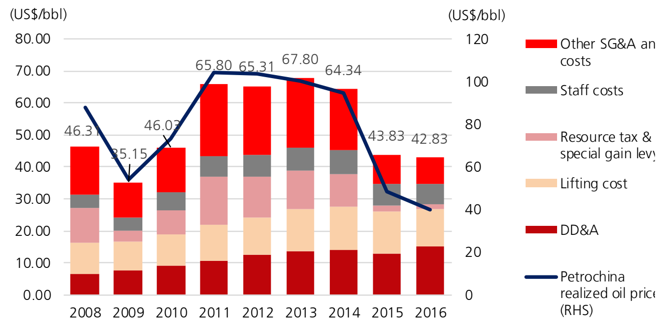
Natural gas losses depressing profits - renegotiation for lower import prices would be a boon. PetroChina accounts for at least 65% of China's natural gas imports by our estimates. Currently, the company incurs losses on natural gas imports as realised prices on gas sold domestically are lower than its import prices (mainly from Central Asia and Myanmar), while VAT refunds on gas imports have been insufficient to offset these losses. The Chinese government's target for natural gas to hit 10% of the country's energy mix by 2020 – up from 5.9% in 2015 - also looks set to increase PetroChina's volume of loss-making imports. As we do not view higher gas prices within China as a solution (gas price needs to be low to encourage consumption), that leaves a renegotiation with export partners for lower import prices as a potential solution. Such agreements would provide a boost to PetroChina's profits and share price.

High gas reserves, but crude oil reserves running below peer average. PetroChina's total reserve life as of end-December 2016 stood at c.14 years – one of the highest among integrated peers. However, its reserves are largely skewed towards natural gas (24 years reserve life), while crude oil reserve life stands at a much lower ~8 years, which is below peer average. Major crude oil discoveries or M&A at reasonable prices for overseas crude oil assets could provide investors with greater confidence and give the share price a boost.

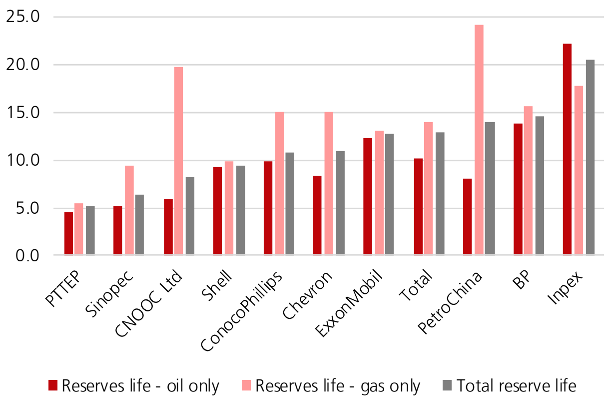
Operating profit by segment (RMB mil)



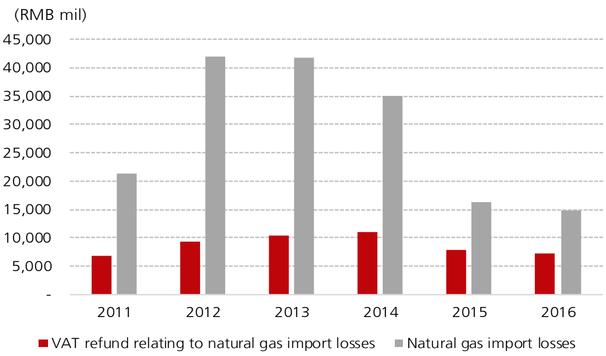
PetroChina estimated breakeven oil price (US$/bbl)



PetroChina reserve life vs. peers (in years)



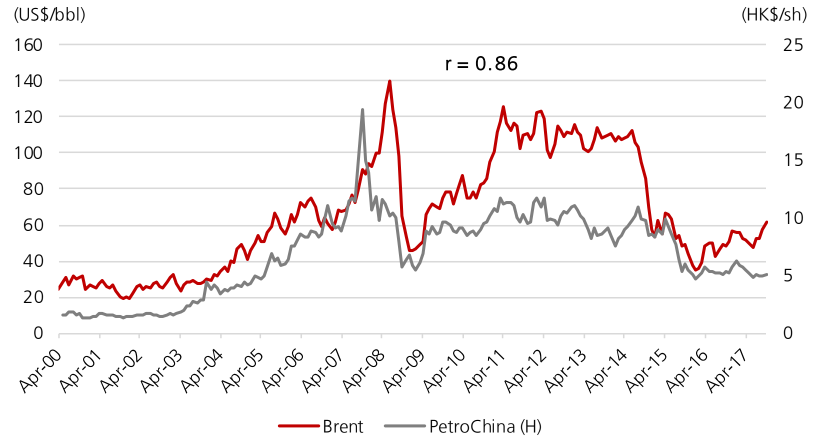
Natural gas import losses vs. VAT refunds



Source: Company, DBS Bank

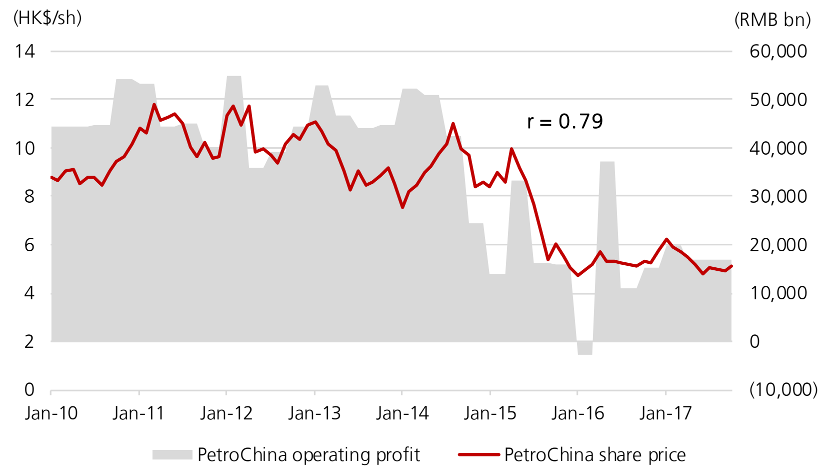
Appendix 1: A look at PetroChina's listed history – what drives its share price?

Share price demonstrates high correlation with crude oil prices



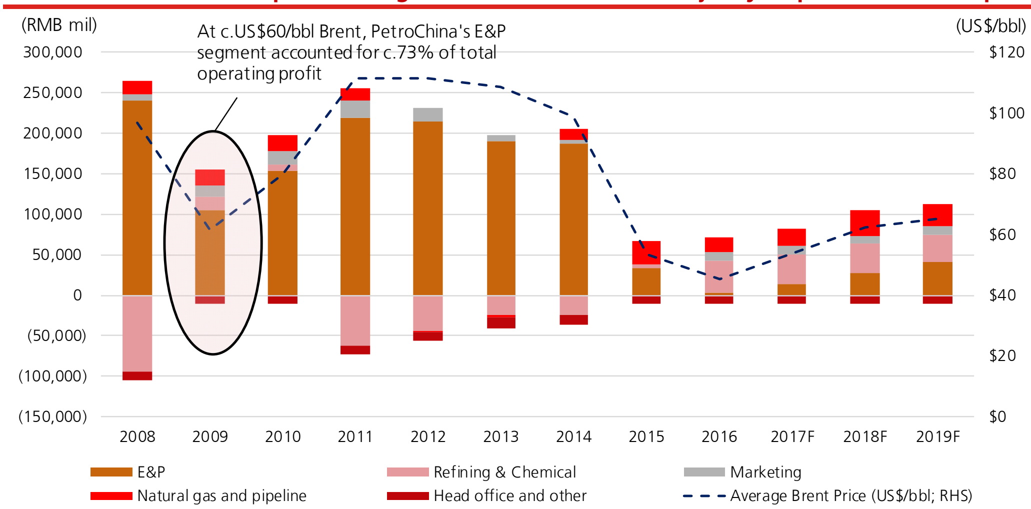
Source: Bloomberg Finance L.P., DBS Bank

Share price has also shown strong correlation to operating profits…



Source: Company, Bloomberg Finance L.P., DBS Bank

The link: PetroChina's upstream segment accounts for the majority of profits when oil prices are not extremely low



Source: Company, Bloomberg Finance L.P., DBS Bank

Balance Sheet:

Manageable gearing and bond maturity profile. PetroChina's net gearing of c.0.24x as of 3Q17 sits in the middle of its peer range. Debentures account for about 32% of total borrowings, with a relatively lumpy maturity profile; 2018 and 2021 are the key years with larger maturities of Rmb36bn and Rmb48bn respectively. However, given PetroChina's high cash balance of about Rmb165bn currently, as well as expectations of positive OCF of c.RMB260-300bn over the next three years, we do not foresee any liquidity-related issues and view PetroChina as relatively stable from a cash-flow point of view. Capex spending should also be maintained at relatively low levels going forward (guidance of Rmb191bn for FY17 vs. average of c.Rmb280bn from 2008-2014) given the focus on value over volume, freeing up more cash for debt repayments.

Share Price Drivers:

Benchmark oil prices. As PetroChina's E&P segment has the largest potential to boost operating profits, any rise or fall in benchmark oil prices would affect PetroChina's outlook for its operating profits.

Key Risks:

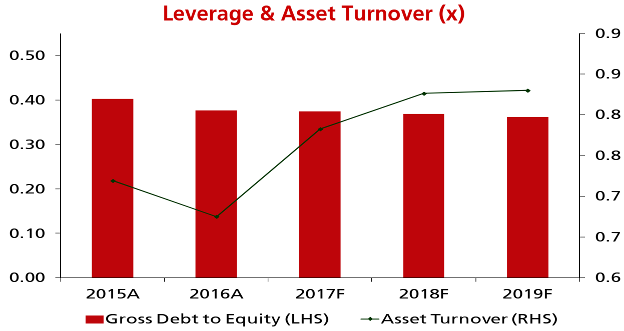
Oil price risk. If US shale players ramp up output to higher-than-expected levels, oil prices may see a downward correction, which would impact PetroChina's profits.

Intensifying competition from teapot refiners. Teapot refiners, mainly in the Shandong area, have been selling increasing amounts of refined products to independent retailers, sparking a retail price war in certain areas (mainly near Shandong) for gasoline and diesel. More intense competition could erode PetroChina's margins further.

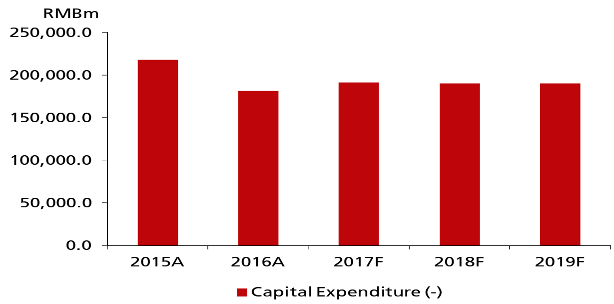
Company Background

PetroChina is the largest integrated oil company in China with operations in the upstream, midstream and downstream segments (including chemicals) of the oil and gas value chain.

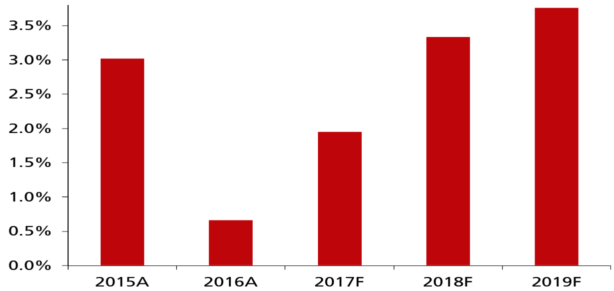
Leverage & Asset Turnover (x)



Capital Expenditure



ROE



PB Band

Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
Brent price (US$/bbl)	53.6	45.1	54.0	62.5	65.0
PetroChina realised crude oil price (RMB/ton)	2,134.0	1,881.0	2,451.0	2,890.3	3,019.5
PetroChina realised natural gas price (RMB/cubic metre)	1,371.0	1,097.0	1,056.4	1,397.7	1,380.7

Source: Company, DBS Vickers

Segmental Breakdown (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (RMB m)					
E&P	90,989	76,768	95,471	112,580	117,613
Refining & Chemicals	140,421	143,657	166,935	168,605	170,291
Marketing	1,236,707	1,175,272	1,395,741	1,445,921	1,483,979
Natural gas & pipeline	255,519	219,693	235,309	311,336	307,553
HQ and other	1,792	1,513	1,513	1,513	1,513
Total	1,725,428	1,616,903	1,894,970	2,039,954	2,080,948
Operating profit (RMB m)					
E&P	33,961	3,148	14,321	28,145	41,164
Refining & Chemicals	4,883	39,026	36,726	35,407	34,058
Marketing	(500)	11,048	9,770	10,121	10,388
Natural gas & pipeline	28,424	17,885	21,709	31,202	27,912
HQ and other	(10,323)	(10,472)	(10,472)	(10,472)	(10,472)
Total	56,445	60,635	72,053	94,404	103,051
Operating profit Margins (%)					
E&P	37.3	4.1	15.0	25.0	35.0
Refining & Chemicals	3.5	27.2	22.0	21.0	20.0
Marketing	0.0	0.9	0.7	0.7	0.7
Natural gas & pipeline	11.1	8.1	9.2	10.0	9.1
HQ and other	(576.1)	(692.1)	(692.1)	(692.1)	(692.1)
Total	3.3	3.8	3.8	4.6	5.0

Source: Company, DBS Bank

Income Statement (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	1,725,428	1,616,903	1,894,970	2,039,954	2,080,948
Cost of Goods Sold	(1,661,208)	(1,570,261)	(1,822,916)	(1,945,550)	(1,977,898)
Gross Profit	64,220	46,642	72,053	94,404	103,051
Other Opng (Exp)/Inc	0	0	0	0	0
Operating Profit	64,220	46,642	72,053	94,404	103,051
Other Non Opg (Exp)/Inc	(632)	1,257	(3,500)	0	0
Associates & JV Inc	1,504	4,105	4,000	5,000	6,000
Net Interest (Exp)/Inc	(22,309)	(20,857)	(20,250)	(22,870)	(21,074)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	15,032	13,993	0	0	0
Pre-tax Profit	57,815	45,140	52,303	76,534	87,976
Tax	(15,726)	(15,768)	(13,076)	(19,133)	(21,994)
Minority Interest	(6,572)	(21,515)	(16,000)	(17,220)	(19,795)
Preference Dividend	0	(1)	0	0	0
Net Profit	35,517	7,856	23,227	40,180	46,188
Net Profit before Except.	20,485	(6,137)	23,227	40,180	46,188
EBITDA	267,967	270,151	285,270	312,120	321,767
Growth					
Revenue Gth (%)	(24.4)	(6.3)	17.2	7.7	2.0
EBITDA Gth (%)	(25.9)	0.8	5.6	9.4	3.1
Opg Profit Gth (%)	(63.4)	(27.4)	54.5	31.0	9.2
Net Profit Gth (%)	(66.9)	(77.9)	195.7	73.0	15.0
Margins & Ratio					
Gross Margins (%)	3.7	2.9	3.8	4.6	5.0
Opg Profit Margin (%)	3.7	2.9	3.8	4.6	5.0
Net Profit Margin (%)	2.1	0.5	1.2	2.0	2.2
ROAE (%)	3.0	0.7	1.9	3.3	3.8
ROA (%)	1.5	0.3	1.0	1.6	1.8
ROCE (%)	(0.1)	(1.3)	0.1	0.8	1.2
Div Payout Ratio (%)	40.5	138.2	75.0	45.0	45.0
Net Interest Cover (x)	2.9	2.2	3.6	4.1	4.9

Source: Company, DBS Bank

Quarterly Income Statement (RMB m)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	411,370	466,466	493,559	482,350	481,795
Cost of Goods Sold	(384,053)	(425,013)	(456,479)	(448,158)	(443,791)
Gross Profit	**27,317**	**41,453**	**37,080**	**34,192**	**38,004**
Other Oper. (Exp)/Inc	(16,342)	(26,333)	(17,398)	(17,391)	(21,127)
Operating Profit	**10,975**	**15,120**	**19,682**	**16,801**	**16,877**
Other Non Opg (Exp)/Inc	11	709	(199)	(975)	(667)
Associates & JV Inc	1,021	388	932	1,283	1,262
Net Interest (Exp)/Inc	(5,170)	(4,514)	(5,340)	(4,803)	(4,859)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	**6,837**	**11,703**	**15,075**	**12,306**	**12,613**
Tax	(2,948)	(3,125)	(4,456)	(2,412)	(3,682)
Minority Interest	(2,689)	(2,452)	(4,918)	(3,369)	(4,241)
Net Profit	**1,200**	**6,126**	**5,701**	**6,525**	**4,689**
Net profit bef Except.	1,200	6,126	5,701	6,525	4,689
EBITDA	77,804	77,804	78,685	74,949	66,408
Growth (QoQ)					
Revenue Gth (%)	6.5	13.4	5.8	(2.3)	(0.1)
EBITDA Gth (%)	(33.5)	24.3	1.1	(4.7)	(11.4)
Opg Profit Gth (%)	(70.5)	37.8	30.2	(14.6)	0.5
Net Profit Gth (%)	(91.6)	410.5	(6.9)	14.5	(28.1)
Growth (YoY)					
Revenue Gth (%)	(3.8)	11.0	39.9	24.9	17.1
EBITDA Gth (%)	3.4	(3.3)	58.4	(20.3)	6.1
Opg Profit Gth (%)	(32.3)	(5.1)	(836.3)	(54.9)	53.8
Net Profit Gth (%)	(76.9)	24.6	N/A	(54.4)	290.8
Margins					
Gross Margins (%)	6.6	8.9	7.5	7.1	7.9
Opg Profit Margins (%)	2.7	3.2	4.0	3.5	3.5
Net Profit Margins (%)	0.3	1.3	1.2	1.4	1.0

Source: Company, DBS Bank

Balance Sheet (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	1,784,905	1,739,545	1,716,929	1,694,212	1,671,496
Invts in Associates & JVs	70,976	78,967	72,967	67,967	63,967
Other LT Assets	188,619	196,474	217,397	227,321	230,486
Cash & ST Invts	73,692	98,617	98,112	135,408	182,212
Inventory	126,877	146,865	180,022	193,796	197,690
Debtors	52,262	47,315	56,849	61,199	62,428
Other Current Assets	96,513	88,868	104,223	112,197	114,452
Total Assets	2,393,844	2,396,651	2,446,499	2,492,100	2,522,732
ST Debt	106,226	143,384	143,384	143,384	143,384
Creditors	331,040	310,680	358,131	379,598	385,391
Other Current Liab	34,141	45,199	47,374	50,999	52,024
LT Debt	434,475	372,887	372,887	372,887	372,887
Other LT Liabilities	143,928	151,766	146,185	144,595	143,005
Shareholder's Equity	1,179,716	1,189,024	1,194,828	1,216,927	1,242,330
Minority Interests	164,318	183,711	183,711	183,711	183,711
Total Cap. & Liab.	2,393,844	2,396,651	2,446,499	2,492,100	2,522,732
Non-Cash Wkg. Capital	(89,529)	(72,831)	(64,410)	(63,405)	(62,844)
Net Cash/(Debt)	(467,009)	(417,654)	(418,159)	(380,863)	(334,059)
Debtors Turn (avg days)	11.1	11.2	10.0	10.6	10.8
Creditors Turn (avg days)	87.0	86.6	75.8	77.7	79.1
Inventory Turn (avg days)	36.6	36.9	37.0	39.4	40.5
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.8
Current Ratio (x)	0.7	0.8	0.8	0.9	1.0
Quick Ratio (x)	0.3	0.3	0.3	0.3	0.4
Net Debt/Equity (X)	0.3	0.3	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.4	0.4	0.3	0.3	0.3
Capex to Debt (%)	40.3	35.1	37.1	36.8	36.8
Z-Score (X)	284.2	NA	NA	NA	NA

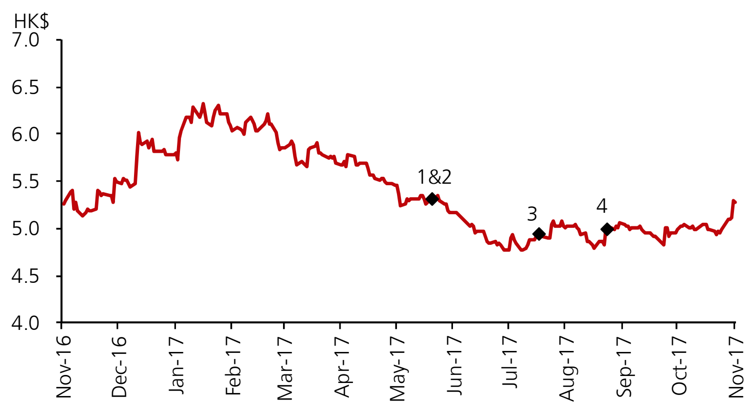
Source: Company, DBS Bank

Cash Flow Statement (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	57,815	45,140	52,303	76,534	87,976
Dep. & Amort.	202,875	218,147	212,716	212,716	212,716
Tax Paid	(28,192)	(13,188)	(13,076)	(19,133)	(21,994)
Assoc. & JV Inc/(loss)	(1,504)	(4,105)	(4,000)	(5,000)	(6,000)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	13,674	(532)	(9,061)	(1,505)	(1,060)
Other Operating CF	16,644	19,717	20,250	22,870	21,074
Net Operating CF	**261,312**	**265,179**	**259,133**	**286,481**	**292,712**
Capital Exp.(net)	(217,750)	(181,054)	(191,300)	(190,000)	(190,000)
Other Invts.(net)	3,857	(160)	(100)	(100)	(100)
Invts in Assoc. & JV	(1,637)	(2,008)	0	0	0
Div from Assoc & JV	9,617	10,505	10,000	10,000	10,000
Other Investing CF	(9,966)	(3,170)	(16,758)	(6,481)	2,075
Net Investing CF	**(215,879)**	**(175,887)**	**(198,158)**	**(186,581)**	**(178,025)**
Div Paid	(34,319)	(10,851)	(33,423)	(35,301)	(40,579)
Chg in Gross Debt	12,018	(36,392)	0	0	0
Capital Issues	1,297	939	0	0	0
Other Financing CF	(24,435)	(20,703)	(28,157)	(27,404)	(27,404)
Net Financing CF	**(45,439)**	**(67,007)**	**(61,580)**	**(62,705)**	**(67,983)**
Currency Adjustments	(999)	2,873	0	0	0
Chg in Cash	(1,005)	25,158	(605)	37,196	46,704
Opg CFPS (RMB)	1.35	1.45	1.47	1.57	1.61
Free CFPS (RMB)	0.24	0.46	0.37	0.53	0.56

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	22-May-17	HK$5.26	HK$6.82	Buy
2:	22-May-17	HK$5.26	HK$6.82	Buy
3:	19-Jul-17	HK$4.88	HK$6.63	Buy
4:	25-Aug-17	HK$5.00	HK$5.45	Hold

Source: DBS Bank

Analyst: Pei Hwa HO

China Petroleum & Chem

Version 4 | Bloomberg: 386 HK EQUITY | Reuters: 0386.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2017

BUY

Last Traded Price (3 Nov 2017):HK$5.74 (HSI : 28,604)
Price Target 12-mth: HK$7.50 (31% upside) (Prev HK$8.2)

Analyst
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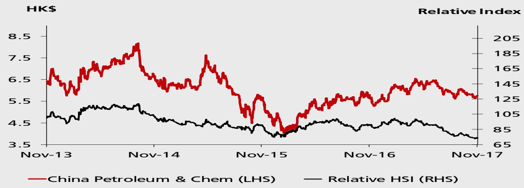
What's New

- **Trim FY17/18 profits by 1%/10%**
- **Still the safer integrated play among Big Three**
- **Potential IPO of marketing segment and spin-off of pipeline assets could unlock value**
- **Reiterate BUY; TP lowered marginally to** HK$7.50

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2016A	2017F	2018F	2019F
Turnover	1,930,911	2,165,191	2,324,376	2,468,103
EBITDA	194,577	190,370	194,027	197,064
Pre-tax Profit	80,151	83,931	80,761	78,363
Net Profit	46,672	50,361	48,447	47,009
Net Pft (Pre Ex) (core profit)	46,672	50,361	48,447	47,009
Net Profit Gth (Pre-ex) (%)	43.6	7.9	(3.8)	(3.0)
EPS (RMB)	0.39	0.42	0.40	0.39
EPS (HK$)	0.45	0.49	0.47	0.46
Core EPS (HK$)	0.45	0.49	0.47	0.46
Core EPS (RMB)	0.39	0.42	0.40	0.39
EPS Gth (%)	43.3	7.9	(3.8)	(3.0)
Core EPS Gth (%)	43.3	7.9	(3.8)	(3.0)
Diluted EPS (HK$)	0.45	0.49	0.47	0.46
DPS (HK$)	0.29	0.32	0.32	0.32
BV Per Share (HK$)	6.91	7.09	7.24	7.38
PE (X)	12.6	11.7	12.2	12.6
Core PE (X)	12.6	11.7	12.2	12.6
P/Cash Flow (X)	2.8	4.1	3.8	3.7
P/Free CF (X)	4.2	12.9	10.7	10.5
EV/EBITDA (X)	3.9	4.0	3.9	3.8
Net Div Yield (%)	5.1	5.5	5.5	5.5
P/Book Value (X)	0.8	0.8	0.8	0.8
Net Debt/Equity (X)	0.1	0.0	0.0	0.0
ROAE (%)	6.7	7.0	6.6	6.3
Earnings Rev (%):		(1)	(10)	-
Consensus EPS (RMB)		0.43	0.44	0.50
Other Broker Recs:		B: 19	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Thomson Reuters, HKEX

Value-unlocking opportunities ahead

Still an outperformer as oil prices remain favourable. We lower our TP to HK$7.50 after tweaking our earnings downwards, factoring in lower spread assumption due to keener competition at Refining and Marketing segment. We continue to like Sinopec as a safer integrated play among the Big Three. It is in a 'sweet spot' when crude prices are at US$50-65/bbl (within DBS's forecasts of Brent crude price in the medium term), where profits are maximised across its integrated segments. The impact from margin erosion resulting from retail fuel price discounting in the north is more muted vs. PetroChina, which has more petrol stations in the region.

IPO of marketing segment and pipeline spin-offs are catalysts for re-valuation. While the listing of Sinopec's marketing segment now looks to be a 2018 event, we think an IPO price above 14x FY17 PE – in line with Sinopec's 30% sale of the segment in 2014 – would be value accretive to the company. Additionally, with renewed talks about a national natural gas pipeline in China, spin-offs of pipeline assets could be another avenue to unlock value. If similar valuations (c.20x PE) are achieved vis-a-vis the Sichuan-East China pipeline deal in 2016, this could be positive for Sinopec, given the regulated 8% ROA on pipeline assets.

Where we differ: We believe the positives outweigh the negatives at this point – planned deployment of cash to new projects could address the worries over high E&P breakeven and low reserve life; there are spin-off catalysts on the horizon, and the impact from retail fuel price discounting has been relatively contained thus far.

Valuation:

Our SOTP valuation – based on reported PV-10 (present value estimate of future cash flows from oil & gas reserves based on 10% discount rate and oil price as of year-end) for the E&P segment, PE multiple for Chemicals and Refining, and DCF for Marketing – gives a TP of HK$7.50. Including a dividend yield of c.5.5%, this implies an all-in potential return of c.32%.

Key Risks to Our View:

Teapot refiners are encroaching into the retail fuel space. If competition intensifies, marketing margins could take a larger-than-expected hit.

At A Glance

Issued Capital - H shares (m shs)	25,513
- Non H shares (m	95,558
H shs as a % of Total	21
Total Mkt. Cap (HK$m/US$m)	840,594 / 107,755
Major Shareholders	
Sinopec Group (%)	70.9
Major H Shareholders	
Blackrock, Inc. (%)	9.1
Schroders Plc (%)	5.0
0 (%)	0.0
H Shares-Free Float (%)	85.9
3m Avg. Daily Val. (US$m)	62.1
ICB Industry : Oil & Gas / Oil & Gas Producers	

WHAT'S NEW

3Q17 results highlights

Sinopec's 3Q17 results were in line with expectations. 3Q17 PATMI of RMB11.5bn, was up 12.7% y-o-y, as the exploration and production (E&P) as well as the marketing and distribution segments saw higher profits y-o-y on a combination of volume growth and better pricing. This brings 9M17 PATMI to RMB39.4bn (+30.9% y-o-y), accounting for c.78% of our full-year forecast.

Capex target has been cut by c.11% to RMB98.5bn for the full-year, compared to RMB110bn previously. The largest cut of RMB8bn was to Exploration and Production capex, which is now set at RMB42.7bn for the full year. This suggests a lack of attractive opportunities in existing regions (88% of Sinopec's proven reserves are within China), and reserve additions via M&A may be the way forward.

Sinopec looks on track to meet FY17 operating targets:

- Crude oil production of 220.2mmbbls in 9M17 accounts for 74.9% of Sinopec's FY17 target, while natural gas output was slightly above target at 76.6%
- Refinery throughput of 177.46mm tonnes YTD is 75.2% of the targeted amount
- Domestic fuel sales are at 76.1% of target
- Ethylene production of 8.534mm tonnes is at 73.1% of target (though 4Q tends to see slightly higher production historically)

Marketing IPO looks to be a 2018 event. Management commented that it would be difficult to complete an IPO of the retail segment by end of the year; 2018 is a more realistic target.

Cash to be deployed to capex and maintaining dividend payout levels. Given Sinopec's near-net cash position, effective deployment of its cash would be a positive. In this respect, the company intends to funnel cash into upstream exploration, refining & chemical investments, and to maintain a dividend payout ratio of above 50%.

CRITICAL FACTORS TO WATCH

Critical Factors

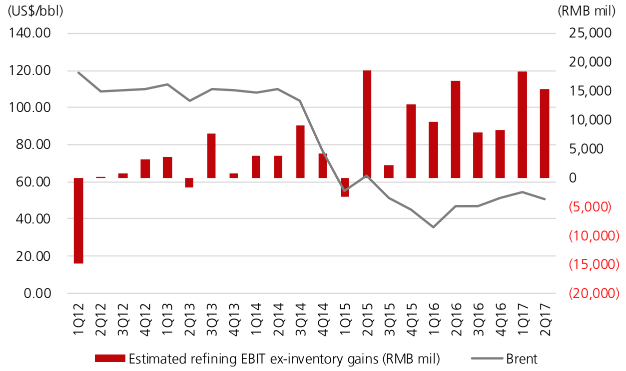
Sinopec outperforms when oil prices are either low, or expected to move lower. Relative to its Chinese oil major peers, which have their upstream segments contributing to the majority of group profits, Sinopec does well when oil prices are low or expected to be low. In the mid-2011 to mid-2014 period, despite high crude prices at the time, the market was pricing in a steep backwardation in the futures curve of c.US$20/bbl – this led to an early outperformance by Sinopec. Then when oil prices collapsed in late 2014, Sinopec's shares continued to outperform as refinery margins were given a boost. In 2017, Sinopec has continued to outperform as the market has expected 'lower-for-longer' long-term oil prices (evidenced by a flattish futures curve) at the US$55-65/bbl level, which benefits Sinopec, as we believe its sweet spot is between US$50-65/bbl.

Refining margins a key factor to share price performance. As we expect the refining segment to account for c.78%/73% of Sinopec's operating profits in FY17/FY18, refinery margins are a critical factor in driving earnings and share price performance. Historically, Sinopec has shown strong correlation between its refining margins and its relative performance vs. Chinese oil majors peers (see next page). Low oil price is one of the drivers, but regional as well as domestic capacity and output (particularly from teapot refiners) should be watched as well, as these can have a significant impact on refining margins.

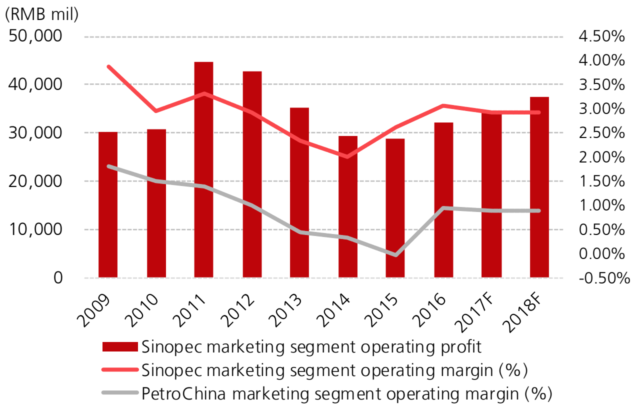
Marketing segment – price war impact on margins vs. potential IPO is a critical factor. Since late March 2017, Sinopec and PetroChina have been reportedly slashing retail fuel prices by as much as 20-30% in the northern regions of China in response to teapot refineries selling higher volumes of cheaper refined fuels to private petrol stations and fuel dealers. While we have already accounted for the price war by lowering our ASP assumptions, we estimate that every further RMB50/tonne reduction in the retail price of gasoline and diesel has the potential to lower the segment's operating income by 34%. On the flipside, a proposed overseas listing of the marketing segment could help unlock value if valuations are above expectations.

Low crude oil reserve life; asset purchases could help resolve this issue. Sinopec's crude oil reserve life is low at ~5.7 years, as key oilfield Shengli (which accounted for 56% of 2016 crude oil output) is mature and increasingly uneconomical at current levels of oil prices. M&A of overseas assets could help alleviate the worry over reserve life, as domestic exploration has apparently failed to yield fantastic results.

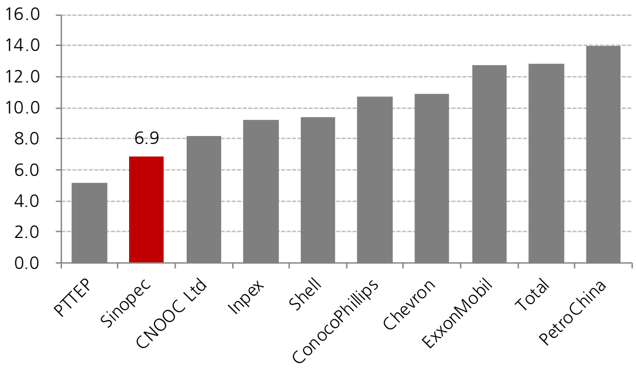
Sinopec refining EBIT (ex-inventory gain/loss) vs. Brent



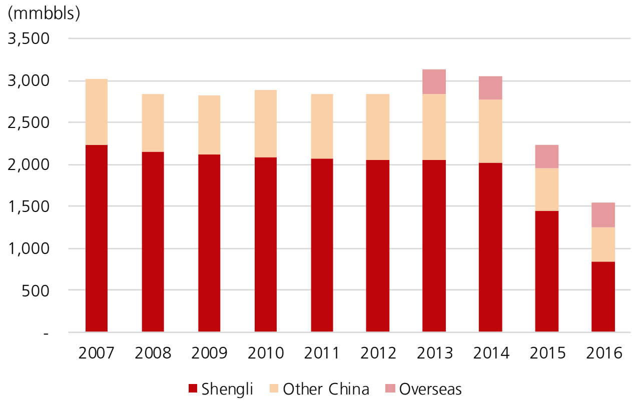
Sinopec marketing segment margins



Sinopec reserve life (in years) vs. global peers



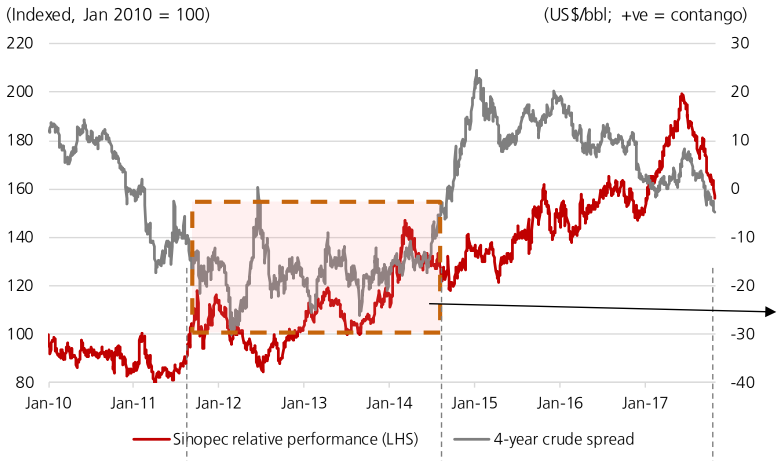
Sinopec crude oil reserves – Shengli increasingly uneconomical



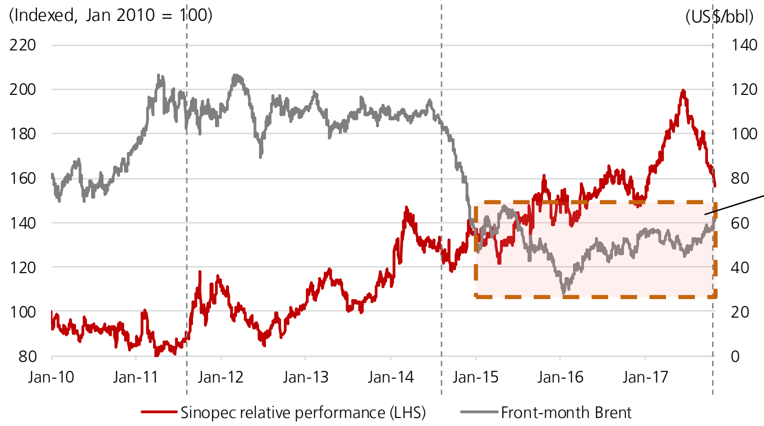
Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

In the long term, Sinopec outperforms when oil prices are either low or expected to move lower (forward curve implied)



From mid-2011 to mid-2014, Sinopec's outperformance was driven by steep backwardation in the crude futures curve, indicating expectations of lower oil prices in future

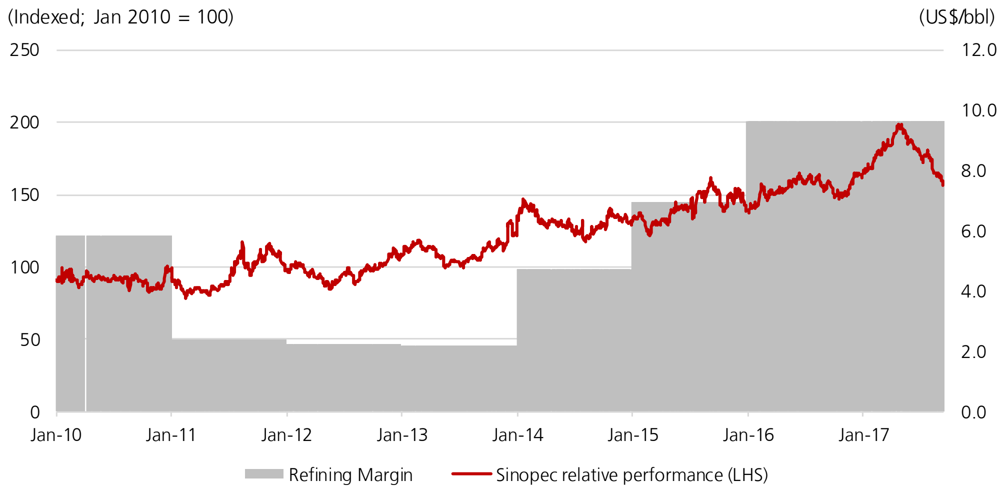


Since the oil price collapse, low oil prices have helped Sinopec outperform, as Sinopec is more geared towards the downstream segment vs. PetroChina/CNOOC.

In 2017, resilient US shale output has led to a 'lower-for-longer' consensus, which primarily benefits Sinopec, leading to its outperformance

Source: Bloomberg Finance L.P., DBS Bank

Relative performance vs. PetroChina and CNOOC tends to be influenced by refining margins



Source: Company, Bloomberg Finance L.P., DBS Bank

Balance Sheet:

Cash balance and healthy operating cash flows should cover bond maturities. Sinopec's bond maturity profile looks fairly lumpy, with c.RMB22bn of total principal from two bonds due in 2018. However, the quantum of principal amounts due is very manageable in light of its current cash balances of c.RMB161bn and yearly operating cash flows of c.RMB140-160bn expected in FY17/FY18. Thus, we do not see any liquidity issues for Sinopec.

Credit ratios are healthy. Having prudently directed cash to debt repayments instead of capex over the last two years, Sinopec's gross debt amount has fallen by c.RMB145m (or about 45%) since end-2014, and is now in a near-net cash position, with a net gearing of just 0.03x as of 3Q17. EBITDA interest cover is also not an issue, standing at ~20x for FY16 and is expected to increase further in FY17.

Share Price Drivers:

Crude oil prices remaining within Sinopec's sweet spot (US$50-65/bbl); refinery margin improvement owing to fuel quality upgrades and operational efficiency of new facilities; and a potential IPO of the marketing unit could be key share price drivers.

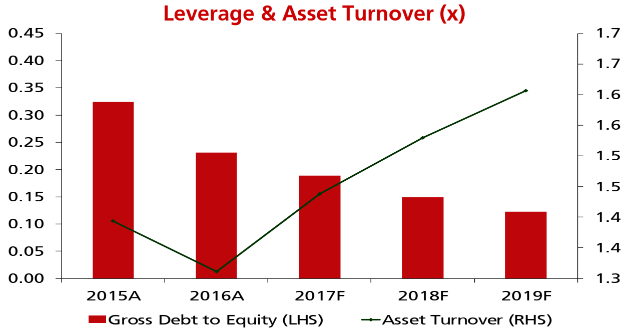
Key Risks:

Oil prices surging to US$80-100/bbl levels is a scenario that would likely be negative for Sinopec, though we believe this to be unlikely owing to resilient US shale output, and uncertainty over the timeframe of OPEC and non-OPEC cuts.

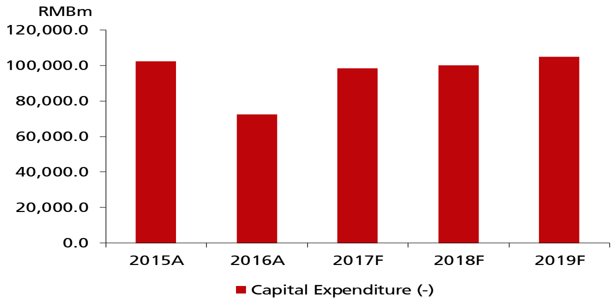
Company Background

Sinopec is an integrated oil major based in China, with operations in the upstream, midstream (pipeline), as well as downstream segments (marketing, refining, chemicals). Sinopec is the largest refiner in China, and accounted for about 43% of China's total refinery throughput in 2016.

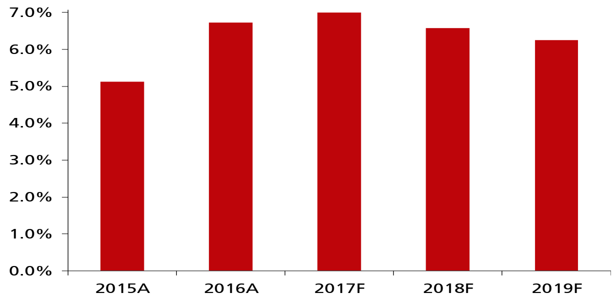
Leverage & Asset Turnover (x)



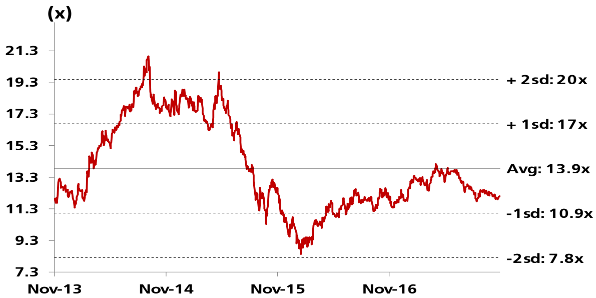
Capital Expenditure



ROE



Forward PE Band



PB Band

Source: Company, DBS Bank

Segmental Breakdown (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (RMB m)					
Exploration and Production	138,653	115,939	150,612	159,181	165,068
Refining	926,616	855,786	965,347	1,037,971	1,114,835
Marketing and Distribution	1,106,666	1,052,857	1,201,908	1,315,494	1,416,019
Chemicals	328,871	335,114	403,363	431,409	457,347
Corporate and others	783,874	739,947	754,746	769,841	785,238
Elimination	(1,264,305)	(1,168,732)	(1,310,785)	(1,389,519)	(1,470,403)
Total	2,020,375	1,930,911	2,165,191	2,324,376	2,468,103
Operating profit (RMB m)					
Exploration and Production	47,057	(17,418)	(36,641)	(33,623)	(28,443)
Refining	(1,954)	20,959	56,265	55,786	50,268
Marketing and Distribution	29,449	28,855	32,153	28,593	31,251
Chemicals	(2,181)	19,476	20,623	21,385	17,913
Corporate and others	(1,063)	384	3,212	2,079	2,121
Elimination	2,179	4,566	1,581	0	0
Total	73,487	56,822	77,193	74,220	73,109
Operating profit Margins (%)					
Exploration and Production	33.9	(15.0)	(24.3)	(21.1)	(17.2)
Refining	(0.2)	2.4	5.8	5.4	4.5
Marketing and Distribution	2.7	2.7	2.7	2.2	2.2
Chemicals	(0.7)	5.8	5.1	5.0	3.9
Corporate and others	(0.1)	0.1	0.4	0.3	0.3
Elimination	(0.2)	(0.4)	(0.1)	0.0	0.0
Total	3.6	2.9	3.6	3.2	3.0

Source: Company, DBS Bank

Income Statement (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	2,020,375	1,930,911	2,165,191	2,324,376	2,468,103
Cost of Goods Sold	(1,837,314)	(1,731,157)	(1,954,564)	(2,109,480)	(2,251,923)
Gross Profit	**183,061**	**199,754**	**210,627**	**214,896**	**216,180**
Other Opng (Exp)/Inc	(126,239)	(122,561)	(136,407)	(141,787)	(145,618)
Operating Profit	**56,822**	**77,193**	**74,220**	**73,109**	**70,562**
Other Non Opg (Exp)/Inc	(3,650)	(347)	161	176	173
Associates & JV Inc	8,362	9,306	12,966	11,549	10,876
Net Interest (Exp)/Inc	(5,123)	(6,001)	(3,416)	(4,073)	(3,247)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	**56,411**	**80,151**	**83,931**	**80,761**	**78,363**
Tax	(12,613)	(20,707)	(20,981)	(20,196)	(19,596)
Minority Interest	(11,286)	(12,772)	(12,589)	(12,118)	(11,758)
Preference Dividend	0	0	0	0	0
Net Profit	**32,512**	**46,672**	**50,361**	**48,447**	**47,009**
Net Profit before Except.	32,512	46,672	50,361	48,447	47,009
EBITDA	157,994	194,577	190,370	194,027	197,064
Growth					
Revenue Gth (%)	(28.5)	(4.4)	12.1	7.4	6.2
EBITDA Gth (%)	(4.3)	23.2	(2.2)	1.9	1.6
Opg Profit Gth (%)	(22.7)	35.9	(3.9)	(1.5)	(3.5)
Net Profit Gth (%)	(30.0)	43.6	7.9	(3.8)	(3.0)
Margins & Ratio					
Gross Margins (%)	9.1	10.3	9.7	9.2	8.8
Opg Profit Margin (%)	2.8	4.0	3.4	3.1	2.9
Net Profit Margin (%)	1.6	2.4	2.3	2.1	1.9
ROAE (%)	5.1	6.7	7.0	6.6	6.3
ROA (%)	2.2	3.2	3.3	3.2	3.1
ROCE (%)	2.6	3.7	4.3	4.1	4.0
Div Payout Ratio (%)	55.9	64.6	64.9	67.5	69.5
Net Interest Cover (x)	11.1	12.9	21.7	17.9	21.7

Source: Company, DBS Bank

Interim Income Statement (RMB m)

FY Dec	1H2015	2H2015	1H2016	2H2016	1H2017
Revenue	1,041,131	979,244	879,220	1,051,691	1,165,837
Cost of Goods Sold	(943,213)	(894,101)	(782,085)	(949,072)	(1,063,084)
Gross Profit	**97,918**	**85,143**	**97,135**	**102,619**	**102,753**
Other Oper. (Exp)/Inc	(57,422)	(68,817)	(62,027)	(60,534)	(63,444)
Operating Profit	**40,496**	**16,326**	**35,108**	**42,085**	**39,309**
Other Non Opg (Exp)/Inc	(10)	(3,640)	(379)	32	519
Associates & JV Inc	4,135	4,227	4,598	4,708	7,651
Net Interest (Exp)/Inc	(3,287)	(1,836)	(3,806)	(2,195)	(1,522)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	**41,334**	**15,077**	**35,521**	**44,630**	**45,957**
Tax	(9,674)	(2,939)	(8,379)	(12,328)	(8,915)
Minority Interest	(6,237)	(5,049)	(7,223)	(5,549)	(9,127)
Net Profit	**25,423**	**7,089**	**19,919**	**26,753**	**27,915**
Net profit bef Except.	25,423	7,089	19,919	26,753	27,915
Growth					
Revenue Gth (%)	(23.2)	(33.4)	(15.6)	7.4	32.6
Opg Profit Gth (%)	(22.5)	(23.1)	(13.3)	157.8	12.0
Net Profit Gth (%)	(21.9)	(49.1)	(21.6)	277.4	40.1
Margins					
Gross Margins (%)	9.4	8.7	11.0	9.8	8.8
Opg Profit Margins (%)	3.9	1.7	4.0	4.0	3.4
Net Profit Margins (%)	2.4	0.7	2.3	2.5	2.4

Source: Company, DBS Bank

Balance Sheet (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	733,449	690,594	689,901	684,751	678,553
Invts in Associates & JVs	84,293	116,812	134,778	151,327	167,202
Other LT Assets	295,869	278,942	275,111	271,068	266,813
Cash & ST Invts	69,666	142,497	120,584	108,118	106,492
Inventory	145,608	156,511	170,554	184,072	196,501
Debtors	56,142	50,289	59,672	64,059	68,020
Other Current Assets	62,241	62,964	62,964	62,964	62,964
Total Assets	1,447,268	1,498,609	1,513,564	1,526,359	1,546,545
ST Debt	115,446	74,819	64,819	54,819	49,819
Creditors	130,558	174,301	172,101	185,741	198,283
Other Current Liab	216,828	236,423	251,353	250,568	249,968
LT Debt	139,746	117,446	97,446	77,446	62,446
Other LT Liabilities	56,529	64,385	66,350	68,413	70,579
Shareholder's Equity	676,197	710,994	728,666	744,425	758,744
Minority Interests	111,964	120,241	132,830	144,947	156,705
Total Cap. & Liab.	1,447,268	1,498,609	1,513,564	1,526,359	1,546,545
Non-Cash Wkg. Capital	(83,395)	(140,960)	(130,264)	(125,214)	(120,766)
Net Cash/(Debt)	(185,526)	(49,768)	(41,681)	(24,147)	(5,773)
Debtors Turn (avg days)	13.3	10.1	9.3	9.7	9.8
Creditors Turn (avg days)	34.5	34.3	34.1	32.6	32.8
Inventory Turn (avg days)	35.0	34.0	32.2	32.4	32.5
Asset Turnover (x)	1.4	1.3	1.4	1.5	1.6
Current Ratio (x)	0.7	0.8	0.8	0.9	0.9
Quick Ratio (x)	0.3	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	0.2	0.1	0.0	0.0	0.0
Net Debt/Equity ex MI (X)	0.3	0.1	0.1	0.0	0.0
Capex to Debt (%)	40.1	37.7	60.7	75.6	93.5
Z-Score (X)	167.6	NA	NA	NA	NA

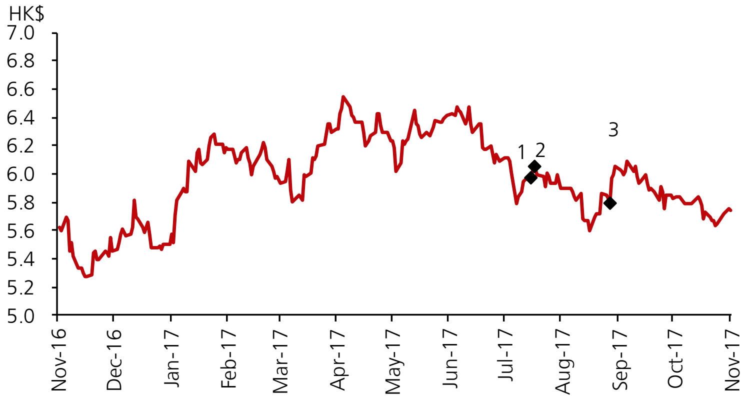
Source: Company, DBS Bank

Cash Flow Statement (RMB m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	56,411	80,151	83,931	80,761	78,363
Dep. & Amort.	96,460	108,425	103,024	109,193	115,455
Tax Paid	(13,999)	(23,236)	(6,051)	(20,981)	(20,196)
Assoc. & JV Inc/(loss)	(8,362)	(9,306)	(12,966)	(11,549)	(10,876)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	11,615	47,176	(25,626)	(4,265)	(3,848)
Other Operating CF	23,615	11,333	1,965	2,063	2,166
Net Operating CF	165,740	214,543	144,276	155,223	161,064
Capital Exp.(net)	(102,271)	(72,407)	(98,500)	(100,000)	(105,000)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(20,087)	17,127	(5,000)	(5,000)	(5,000)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	5,639	(10,937)	0	0	0
Net Investing CF	(116,719)	(66,217)	(103,500)	(105,000)	(110,000)
Div Paid	(24,214)	(16,876)	(32,689)	(32,689)	(32,689)
Chg in Gross Debt	(62,596)	(62,994)	(30,000)	(30,000)	(20,000)
Capital Issues	0	0	0	0	0
Other Financing CF	97,062	4,119	0	0	0
Net Financing CF	10,252	(75,751)	(62,689)	(62,689)	(52,689)
Currency Adjustments	293	256	0	0	0
Chg in Cash	59,566	72,831	(21,913)	(12,466)	(1,625)
Opg CFPS (RMB)	1.28	1.38	1.40	1.32	1.36
Free CFPS (RMB)	0.53	1.17	0.38	0.46	0.46

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	17-Jul-17	HK$5.96	HK$7.90	Buy
2:	19-Jul-17	HK$5.96	HK$7.90	Buy
3:	29-Aug-17	HK$5.85	HK$8.20	Buy

Source: DBS Bank

Analyst: Pei Hwa HO

Singapore Research Team

PACC Offshore Services Holdings

Version 11 | Bloomberg: POSH SP | Reuters: PACC.SI

DBS Group Research . Equity

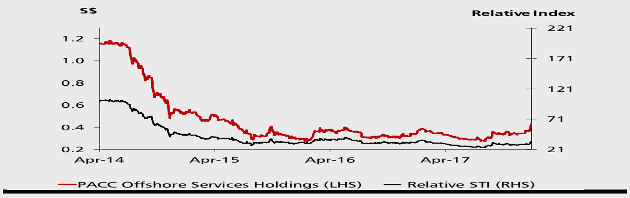
23 Jan 2018

BUY

Last Traded Price (22 Jan 2018): S$0.43 **(STI :** 3,569.43)
Price Target 12-mth : S$0.51 (19% upside) (Prev S$0.41)

Analyst
Suvro SARKAR +65 6682 3720 suvro@dbs.com
Glenn Ng +65 6682 2657 glennng@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (US$ m)	2015A	2016A	2017F	2018F
Revenue	281	183	189	231
EBITDA	90	24	53	63
Pre-tax Profit	(129)	(370)	(40)	(35)
Net Profit	(131)	(371)	(42)	(35)
Net Pft (Pre-Ex, Aft Pref Div)*	17	(61)	(42)	(35)
EPS (S cts)	(9.5)	(27.0)	(3.1)	(2.5)
EPS Pre Ex, Aft Pref Div (S cts)	1.3	(4.5)	(3.1)	(2.5)
EPS Gth (%)	nm	(184)	89	18
EPS Gth Pre Ex, Aft pref div (%)	(67)	nm	31	18
Net DPS (S cts)	0.5	0.0	0.0	0.0
BV Per Share (S cts)	77.2	50.1	47.0	44.5
PE (X)	nm	nm	nm	nm
PE Pre Ex, Aft Pref Div (X)	33.8	nm	nm	nm
P/Cash Flow (X)	8.5	15.4	24.2	15.8
EV/EBITDA (X)	12.6	53.7	25.7	21.2
Net Div Yield (%)	1.1	0.0	0.0	0.0
P/Book Value (X)	0.6	0.9	0.9	1.0
Net Debt/Equity (X)	0.5	1.0	1.2	1.2
ROAE (%)	(11.5)	(42.5)	(6.3)	(5.5)
Earnings Rev (%):			0	0
Consensus EPS (S cts):			(3.3)	(2.5)
Other Broker Recs:		B: 1	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Safe proxy to ride offshore/marine upswing

Maintain BUY: POSH is the safer bet in the OSV space to ride on the oil price recovery. We continue to see POSH as a name to ride the offshore service sector upturn; its share price has historically been strongly correlated with oil prices, which have rebounded strongly since mid-2017. In the near term, we see a stronger quarter in 4Q17 as the POSH Arcadia gets a full quarter of utilisation, and more of the Middle East offshore support vessels (OSVs) are deployed. Further, POSH has no bonds outstanding, is cash-generative with positive OCF in 9M17, and remains a privatisation candidate with Kuok (Singapore) Ltd as its majority shareholder (81.89% ownership).

Where we differ: We believe the OSV market has bottomed, and POSH is poised to ride the gradual upswing. Additionally, we think the market has overlooked the fact that POSH made the largest impairments as a percentage of fleet assets over FY15/16 (c.32% of fleet value). Its equity base is thus more eroded, and P/BV valuation looks inflated vs. peers, but is not.

Potential catalyst: We think POSH's semi-submersible accommodation vessels (SSAVs) can earn >US$3m in gross profit per quarter each if fully utilised. Thus their earnings potential is large, and SSAV contract wins are a key catalyst.

Valuation:
We maintain our BUY call with a higher TP of S$0.51 (pegged to 1x P/BV), as market valuations move upwards on more positive sentiment due to higher and more stable oil prices, as well as expectations of higher offshore activity on the horizon.

Key Risks to Our View:
Failure to secure/extend charter contracts for the SSAVs. There could be downside risk to earnings if further contracts fail to materialise for POSH's two SSAVs.

At A Glance

Issued Capital (m shrs)	1,814
Mkt. Cap (Sm/USm)	780 / 590
Major Shareholders (%)	
Kuok (Singapore) Limited	81.8
Free Float (%)	18.2
3m Avg. Daily Val (US$m)	0.20

ICB Industry : Oil & Gas / Oil Equipment; Services & Dist

CRITICAL DATA POINTS TO WATCH

Critical Factors

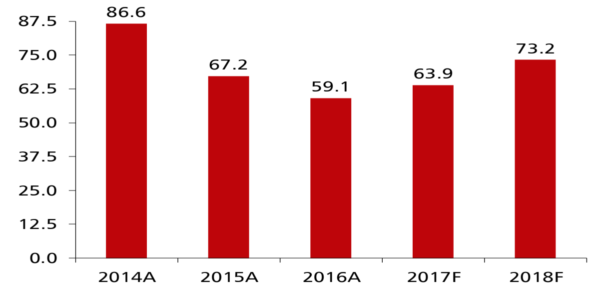
Four key vessel segments. POSH, one of the largest Asia-based providers of OSVs, is the result of the M&A of several companies in the industry. There are four key business segments now: 1) Offshore support vessels (OSV), 2) Transport & Installation (T&I), 3) Offshore Accommodation (OA), and 4) Harbour Services and Emergency Response (HSER). Thus, though POSH has a more diversified business mix than peers, other than the HSER segment, it is still rather dependent on the level of offshore oil & gas activity, and in turn, oil prices.

SSAVs are a bold bet. The economics of these accommodation units are very attractive, owing to niche market dynamics, but finding continuous employment for these deepwater-capable high-spec vessels is proving to be a challenge given that low oil prices have curtailed interest in deepwater E&P. We think the two SSAVs would easily account for over 50% of group profit if they are fully employed. The first SSAV, POSH Xanadu, completed its last contract with Petrobras in March 2017 and remains off-hire, while the second, POSH Arcadia is working off Australia on the hook-up and installation of Shell's Prelude FLNG. News of contract renewals/fixtures for these two units would be positive share price drivers.

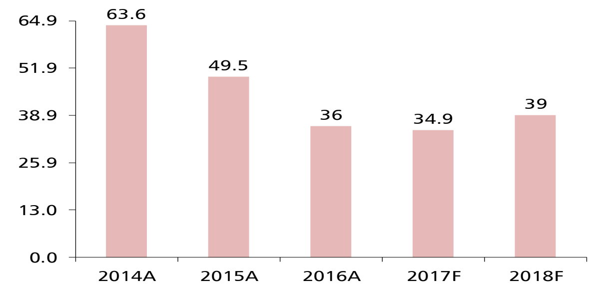
OSV division struggling to remain profitable in FY17, but long-term charters secured and a bottoming-out offshore rig count should help. OSV utilisation remained weak in 2016 but had taken a turn upward in 2017, boosted by POSH's long-term charters in the Middle East as well as a general bottoming out of the offshore rig and OSV market in 1Q17. POSH's utilisation rate stood at 72% as of 3Q17, up from recent lows of 56% in 3Q16. With higher oil prices and offshore activity up y-o-y in 2017, we see a demand-led recovery helping rates and utilisation. Long-term charters for 12 of POSH's vessels in the Middle East (of which ten are newbuilds) should help narrow its OSV segment gross losses as we enter 2018.

Being part of the Kuok Group has its advantages. POSH is a member of the Kuok Group, a respected conglomerate with diversified investments in commodities, hospitality, logistics, real estate and shipping, among others. We believe this brings three key advantages to POSH: i) Ready access to affiliated shipyards of the Kuok Group, which enables POSH to achieve faster turnaround times for newbuilds and better manage maintenance and refurbishment costs; ii) Lower financing costs; and iii) Access to the Kuok Group's global network and connections to open new markets and expand business.

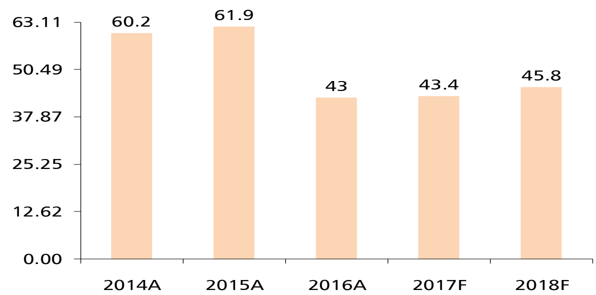
OSV fleet utilisation (%)



T&I fleet utilisation (%)



Acco fleet utilisation (%)



HSER fleet utilisation (%)

Source: Company, DBS Bank

Balance Sheet:

Relatively strong balance sheet should support capex commitments. As a result of new long-term contract wins in the Middle East, and a requirement for specific vessel types, POSH had boosted its newbuild orderbook in 2016. All of POSH's newbuilds were scheduled for delivery by end-2017 as of the last update in 3Q17 (for US$31.0m in outstanding capex at the time); undrawn bank lines of approximately US$318m are more than sufficient to fund this. Net gearing edged up from 1.10x in 2Q17 to 1.14x in 3Q17 on drawdown of debt to fund vessel deliveries, but a lack of near-term refinancing issues (POSH has no outstanding bonds) and a strong parental backing by the Kuok Group is reassuring. We do not see any near-term liquidity issues for the group.

Share Price Drivers:

More offshore oil activities as a result of higher oil prices. POSH's business is essentially a function of offshore activity. Higher oil price is the key catalyst here, which will spur companies to invest in more offshore capex, resulting in more operational rigs as well as rig installations, increasing demand for POSH's OSVs across the oilfield lifecycle.

Announcement of more or longer-term contracts for the SSAVs. POSH Xanadu has completed its contract with Petrobras, which ended in March 2017, while the POSH Arcadia is working on a ~150-day job for Technip Oceania for the Shell Prelude FLNG project (with possibility for extension); this still leaves some uncertainty over the utilisation of the two heavyweight assets in FY18. Securing contract renewals or new long-term contracts for the SSAVs would be a boon to POSH's share price.

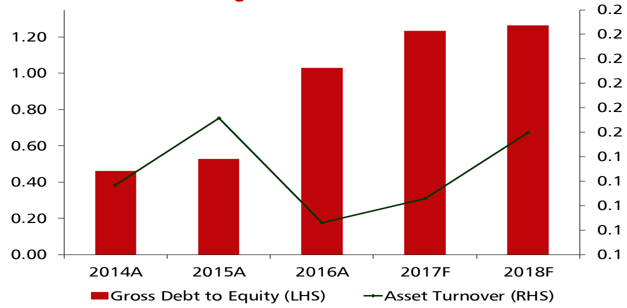
Key Risks:

Lack of contract wins for the two SSAVs. Again, since the SSAVs are key drivers of profitability, if contract wins dry up, POSH would see its losses intensify, which would be detrimental to its share price performance.

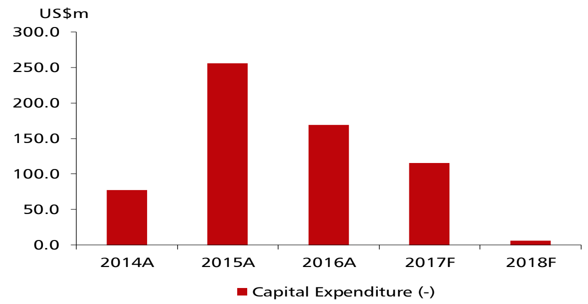
Company Background

PACC Offshore Services Holdings Ltd. (POSH) is the largest Asia-based international operator of offshore support vessels (OSVs) and one of the top five globally. It operates a combined fleet of about 120 vessels (including JV vessels).

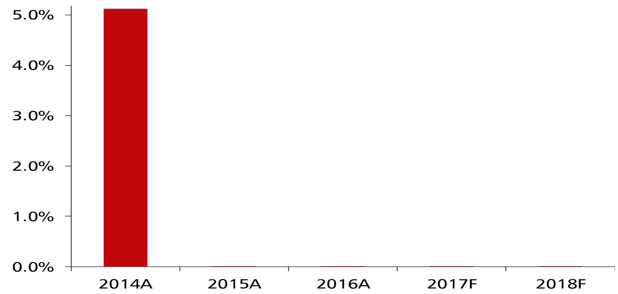
Leverage & Asset Turnover (x)



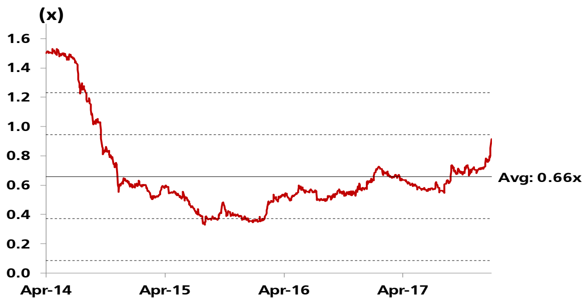
Capital Expenditure



ROE (%)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
OSV fleet utilisation (%)	86.6	67.2	59.1	63.9	73.2
T&I fleet utilisation (%)	63.6	49.5	36.0	34.9	39.0
Acco fleet utilisation (%)	60.2	61.9	43.0	43.4	45.8
HSER fleet utilisation (%)	49.9	50.0	50.0	50.0	55.0

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (US$ m)					
Offshore Support Vessels	141	136	74	79	107
Transportation &	38	27	16	15	18
Accommodation	31	93	72	73	84
HSER	24	24	21	22	22
Total	234	281	183	189	231
Gross Profit (US$ m)					
Offshore Support Vessels	31	13	(12)	(4)	4
Transportation &	12	5	(2)	1	2
Accommodation	11	36	15	(12)	(10)
HSER	3	4	4	5	4
Total	57	58	5	(10)	1
Gross Profit Margins (%)					
Offshore Support Vessels	21.9	9.6	(16.8)	(5.7)	3.9
Transportation &	32.4	16.9	(9.7)	9.6	13.8
Accommodation	35.5	38.6	20.3	(15.9)	(11.7)
HSER	12.6	18.0	21.0	20.9	20.0
Total	24.4	20.7	2.7	(5.3)	0.6

Expect improvement in OSV margins as Middle East vessels are deployed

Income Statement (US$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	234	281	183	189	231
Cost of Goods Sold	(177)	(223)	(178)	(199)	(230)
Gross Profit	57	58	5	(10)	1
Other Opng (Exp)/Inc	(23)	(23)	(37)	(22)	(18)
Operating Profit	34	35	(32)	(32)	(16)
Other Non Opg (Exp)/Inc	46	4	0	(1)	2
Associates & JV Inc	(14)	(10)	(14)	15	1
Net Interest (Exp)/Inc	(11)	(10)	(14)	(21)	(22)
Exceptional Gain/(Loss)	0	(148)	(310)	0	0
Pre-tax Profit	56	(129)	(370)	(40)	(35)
Tax	(3)	(2)	(1)	(2)	0
Minority Interest	0	0	0	0	0
Net Profit	53	(131)	(371)	(42)	(35)
Net Profit before Except.	53	17	(61)	(42)	(35)
Preference Dividend	0	0	0	0	0
Net Pft Pre-Ex, Aft Pref Div	53	17	(61)	(42)	(35)
EBITDA	106	90	24	53	63
Growth					
Revenue Gth (%)	(1.4)	20.0	(34.8)	3.1	22.6
EBITDA Gth (%)	(1.7)	(14.8)	(73.6)	123.8	18.8
Opg Profit Gth (%)	(43.0)	3.9	(192.0)	(2.3)	(48.5)
Net Profit Gth (%)	(27.4)	nm	(183.6)	88.7	17.7
Net Pft Pre-Ex Aft Perf Div Gth (%)	(1.8)	(67.2)	nm	31.3	17.7
Margins & Ratio					
Gross Margins (%)	24.4	20.7	2.7	(5.3)	0.6
Opg Profit Margin (%)	14.4	12.5	(17.6)	(16.7)	(7.0)
Net Profit Margin (%)	22.7	(46.6)	(202.9)	(22.3)	(15.0)
ROAE (%)	5.1	(11.5)	(42.5)	(6.3)	(5.5)
ROA (%)	2.9	(7.3)	(22.9)	(2.7)	(2.2)
ROCE (%)	1.9	2.1	(2.1)	(2.2)	(1.1)
Div Payout Ratio (%)	35.9	N/A	N/A	N/A	N/A
Net Interest Cover (x)	3.1	3.4	(2.2)	(1.5)	(0.8)

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US$ m)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	42	37	34	42	53
Cost of Goods Sold	(43)	(46)	(39)	(45)	(57)
Gross Profit	(1)	(9)	(5)	(3)	(4)
Other Oper. (Exp)/Inc	(7)	(7)	(4)	(5)	(8)
Operating Profit	(8)	(16)	(9)	(8)	(12)
Other Non Opg (Exp)/Inc	0	0	0	0	(2)
Associates & JV Inc	0	(15)	(4)	5	12
Net Interest (Exp)/Inc	(4)	(4)	(5)	(5)	(6)
Exceptional Gain/(Loss)	0	(310)	0	0	0
Pre-tax Profit	(13)	(346)	(18)	(8)	(8)
Tax	0	0	0	(1)	(1)
Minority Interest	0	0	0	0	0
Net Profit	(13)	(345)	(18)	(9)	(10)
Net profit bef Except.	(13)	(35)	(18)	(9)	(10)
Preference Dividend	0	0	0	0	0
Net Pft (Pre-Ex, Aft Pref Div)	(13)	(35)	(18)	(9)	(10)
EBITDA	9	(12)	2	12	14
Growth					
Revenue Gth (%)	(9.7)	(11.9)	(6.4)	23.6	24.4
EBITDA Gth (%)	215.3	nm	nm	702.1	13.3
Opg Profit Gth (%)	(23.1)	91.9	(43.5)	(15.5)	55.1
Net Profit Gth (%)	(26.2)	2,570.3	(94.7)	(50.4)	6.9
Margins					
Gross Margins (%)	(3.4)	(25.8)	(14.6)	(6.4)	(8.2)
Opg Profit Margins (%)	(20.2)	(44.0)	(26.6)	(18.1)	(22.6)
Net Profit Margins (%)	(31.1)	(942.1)	(53.6)	(21.5)	(18.5)

Balance Sheet (US$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	1,114	1,278	1,185	1,229	1,158
Invts in Associates & JVs	241	100	85	100	101
Other LT Assets	300	180	65	65	65
Cash & ST Invts	12	14	15	14	20
Inventory	2	1	2	2	2
Debtors	77	94	80	82	101
Other Current Assets	126	68	75	75	75
Total Assets	1,871	1,734	1,506	1,566	1,521
ST Debt	261	560	269	359	334
Creditor	70	69	74	86	104
Other Current Liab	27	43	35	35	32
LT Debt	300	0	439	439	439
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	1,214	1,061	688	646	612
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	1,871	1,734	1,506	1,566	1,521
Non-Cash Wkg. Capital	108	50	47	38	41
Net Cash/(Debt)	(548)	(546)	(693)	(785)	(753)
Debtors Turn (avg days)	112.7	110.7	172.8	156.4	144.1
Creditors Turn (avg days)	176.0	157.2	240.3	229.5	226.2
Inventory Turn (avg days)	4.9	3.7	4.2	5.2	5.2
Asset Turnover (x)	0.1	0.2	0.1	0.1	0.1
Current Ratio (x)	0.6	0.3	0.5	0.4	0.4
Quick Ratio (x)	0.2	0.2	0.3	0.2	0.3
Net Debt/Equity (X)	0.5	0.5	1.0	1.2	1.2
Net Debt/Equity ex MI (X)	0.5	0.5	1.0	1.2	1.2
Capex to Debt (%)	13.8	45.7	23.8	14.5	0.7
Z-Score (X)	0.9	0.5	0.1	0.0	0.0

Source: Company, DBS Bank

Cash Flow Statement (US$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	56	(129)	(370)	(40)	(35)
Dep. & Amort.	39	61	70	72	77
Tax Paid	(1)	(3)	(2)	(3)	(2)
Assoc. & JV Inc/(loss)	14	10	14	(15)	(1)
Chg in Wkg.Cap.	(2)	(16)	0	10	(1)
Other Operating CF	(46)	147	326	0	0
Net Operating CF	**60**	**70**	**38**	**24**	**37**
Capital Exp.(net)	(77)	(256)	(169)	(116)	(6)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(11)	206	(5)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(9)	0	0	0	0
Net Investing CF	**(97)**	**(50)**	**(173)**	**(116)**	**(6)**
Div Paid	0	(20)	(7)	0	0
Chg in Gross Debt	(247)	(1)	149	90	(25)
Capital Issues	296	(2)	0	0	0
Other Financing CF	(11)	5	(6)	0	0
Net Financing CF	**39**	**(18)**	**136**	**90**	**(25)**
Currency Adjustments	0	0	0	0	0
Chg in Cash	2	2	1	(1)	6
Opg CFPS (S cts)	3.4	4.7	2.1	0.8	2.1
Free CFPS (S cts)	(1.0)	(10.3)	(7.2)	(5.0)	1.7

US$31m in vessel capex remaining as of 3Q17; all vessels were scheduled to be delivered by the end of 2017 with no capex outstanding in 2018

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Feb 17	0.39	0.41	BUY
2:	22 Feb 17	0.36	0.42	BUY
3:	06 Mar 17	0.36	0.42	BUY
4:	13 Mar 17	0.36	0.42	BUY
5:	05 May 17	0.33	0.41	BUY
6:	02 Aug 17	0.29	0.41	BUY
7:	06 Nov 17	0.36	0.41	BUY
8:	14 Nov 17	0.33	0.41	BUY

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Suvro SARKAR
Glenn Ng

Indonesia Company Guide

Wintermar Offshore Marine

Version 8 | Bloomberg: WINS IJ | Reuters: WINS.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2017

BUY (Upgrade from HOLD)

Last Traded Price (3 Nov 2017): Rp318 (JCI : 6,039.50)

Price Target 12-mth: Rp396 (25% upside) (Prev Rp300)

Analyst

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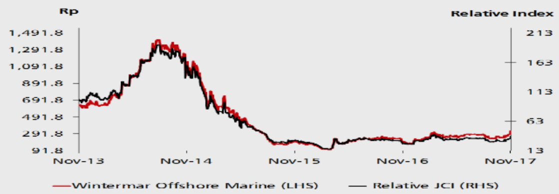
What's New

- 3Q17 gross margins return to positive territory as utilisation of mid- to high-tier vessels improves
- Offshore activity levels in Indonesia showing signs of improvement; drilling activity should rise further in 2018
- Upgrade to BUY with higher TP of Rp396

Price Relative



Forecasts and Valuation

FY Dec (US$ m)	2015A	2016A	2017F	2018F
Revenue	99.9	89.1	61.2	74.3
EBITDA	28.4	38.0	22.4	27.1
Pre-tax Profit	(8.6)	(20.7)	(15.5)	(7.7)
Net Profit	(5.7)	(16.0)	(11.6)	(5.7)
Net Pft (Pre Ex.)	(5.7)	(1.7)	(9.9)	(5.7)
Net Pft Gth (Pre-ex) (%)	nm	70.2	(481.6)	41.7
EPS (Rp)	(19.0)	(53.6)	(38.8)	(19.2)
EPS Pre Ex. (Rp)	(19.0)	(5.7)	(32.9)	(19.2)
EPS Gth Pre Ex (%)	(126)	(70)	482	(42)
Diluted EPS (Rp)	(19.0)	(53.6)	(38.8)	(19.2)
Net DPS (Rp)	0.0	0.0	0.0	0.0
BV Per Share (Rp)	707	655	616	597
PE (X)	nm	nm	nm	nm
PE Pre Ex. (X)	nm	nm	nm	nm
P/Cash Flow (X)	2.6	2.9	8.5	4.8
EV/EBITDA (X)	9.3	6.3	10.1	7.8
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.4	0.5	0.5	0.5
Net Debt/Equity (X)	0.5	0.5	0.5	0.4
ROAE (%)	(2.7)	(7.9)	(6.1)	(3.2)
Earnings Rev (%):		0	(13)	(40)
Consensus EPS (Rp):		N/A	(27.0)	(13.5)
Other Broker Recs:		B: 2	S: 0	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Improving visibility on contract flows

Rising offshore Indonesian rig count, earnings improvement, and low leverage vs. peers make Wintermar a BUY. Wintermar's share price has historically been correlated to Indonesia's offshore rig count, which has been depressed since the plunge in oil prices. However, with the rig count having bottomed in early 2017, we are now seeing more fixtures and tenders for rigs to work in offshore Indonesia in 2018, and expect at least a 50% improvement y-o-y in terms of rig days (see appendix). This should be positive for Wintermar, being the largest OSV player in cabotage-protected Indonesian waters. We also like the fact that its gross profit line turned positive again in 3Q17 on higher workload from its high-tier vessels. Its net gearing of 0.48x also remains reasonable vs peers, and YTD OCF is positive at US$7.7m, with no major capex outstanding (after cancelling its only newbuild vessel earlier in the year), positioning Wintermar as a solid name to ride the recovery.

Where we differ: Despite the negative sentiment over upstream investment levels in Indonesia, we see positive signals from Pertamina (who now plans to drill 84 wells in 2018 vs. ~40 so far in 2017), as well as from rig tender data, which points to a healthy rebound in 2018 workload.

Potential catalyst: Higher utilisation and day rates of Wintermar's vessels could help boost earnings.

Valuation:

We adjust our P/BV multiple from 0.5x to 0.65x (towards the higher end of peers) to account for Wintermar's strengthened outlook. Upgrade to BUY with higher TP of Rp396.

Key Risks to Our View:

If regulatory and political factors lead to further delays in the award of mega E&P projects, OSV players' profits could see downside risks. Excess newbuilding and reflagging of vessels for the Indonesian market present more supply-side risks.

At A Glance

Issued Capital (m shrs)	4,038
Mkt. Cap (Rpm/US$m)	1,284,088 / 95.2
Major Shareholders (%)	
Wintermarjaya Lestari PT	48.7
CIMB Securities Singapore	5.8
Ramanda Daminathan PT	5.8
Free Float (%)	45.5
3m Avg. Daily Val (US$m)	0.00

ICB Industry : Industrials / Industrial Transportation

WHAT'S NEW

3Q17 results highlights and outlook

Gross margins return to positive territory. Wintermar recorded a net loss of US$1.1m in 3Q17, better than our expectations and a significant improvement over the losses recorded over the last few quarters. This was mainly due to higher-than-expected revenue recognition in 3Q17, which led to gross margin reverting to the black after three quarters. 3Q17 revenue was up 12% q-o-q to US$16.3m as Wintermar managed to secure more work in niche markets like seismic, cable lay diving and ROV support services that led to better utilisation of its mid- to high-tier vessels. Overall vessel utilisation inched up to 58% in 3Q17 from 56% in 2Q17, but a higher estimated utilisation of close to 70% for mid- to high-tier vessels led to gross margin of around 10% in 3Q17.

Activity levels showing signs of improvement though margins could be difficult to maintain. According to management, offshore activity levels have continued to improve over the course of the year, with the upturn in revenue in 3Q17 coming from drilling projects in Indonesia and Papua New Guinea. Low-tier vessels continue to be idled but mid- to high-tier vessels are seeing opportunities in some deeper water development and production areas. But as vessels start to take on more work, there could be higher expenses as vessels that were idle are now working with a full crew, and various certifications of equipment and sea trials have to be undertaken to fulfil clients' pre-operations requirements.

Pertamina has more aggressive drilling targets for 2018. In line with the more stable oil price environment in 2017 and positive momentum expected to continue in 2018, Indonesia's national oil company Pertamina has recently indicated that it will be more aggressive in its exploration & production plans next year. It plans to drill 70 development wells and 14 exploration wells in 2018, a significant improvement over the 40 wells drilled so far in 2017.

Reduce our loss estimates for FY17/18, upgrade to BUY. Given the encouraging signs of employment of the mid- to high-tier OSV fleet for Wintermar in the near to medium term, we raise our revenue and gross margin forecasts for Wintermar, resulting in our net loss estimates for FY17/18 falling from our previous estimates of US$13.5m/ US$9.5m to US$11.6m/ US$5.7m. A return to profitability could be possible by FY19. With a reasonably conservative balance sheet (net gearing of 0.48x) and no capex commitments outstanding, Wintermar looks set to survive the downturn and participate in an eventual recovery.

Quarterly / Interim Income Statement (US$m)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	21.3	14.6	16.3	(23.3)	12.0
Cost of Goods Sold	(18.2)	(15.4)	(14.8)	(19.1)	(4.0)
Gross Profit	3.00	(0.8)	1.60	(48.3)	nm
Other Oper. (Exp)/Inc	(1.6)	(1.7)	(1.0)	(37.5)	(42.9)
Operating Profit	1.50	(2.5)	0.60	nm	(123.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	(0.4)	nm	(3,483.1)
Net Interest (Exp)/Inc	(2.0)	(1.8)	(1.9)	5.4	(6.4)
Exceptional Gain/(Loss)	(13.2)	(1.8)	0.0	nm	(100.0)
Pre-tax Profit	(13.7)	(6.0)	(1.7)	87.8	72.2
Tax	2.90	0.0	0.0	(99.9)	(224.6)
Minority Interest	4.00	1.40	0.60	(84.4)	(54.4)
Net Profit	(6.9)	(4.7)	(1.1)	84.7	(77.5)
Net profit bef Except.	6.30	(2.9)	(1.1)	nm	(63.9)
EBITDA	8.60	4.20	7.00	(18.7)	65.0
Margins (%)					
Gross Margins	14.2	(5.5)	9.6		
Opg Profit Margins	6.9	(17.2)	3.6		
Net Profit Margins	(32.4)	(32.1)	(6.5)		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

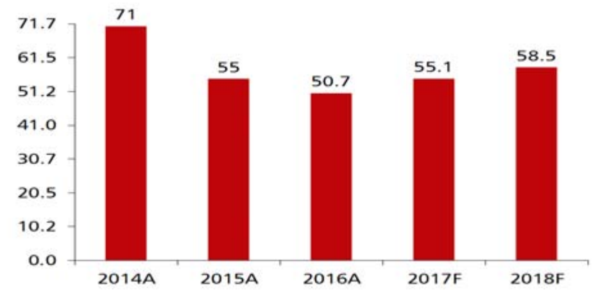
Offshore E&P capex growth in Indonesia is key; seeing signs of a healthy recovery in 2018. Based on tenders for offshore rigs for work in Indonesia, we see a healthy rise in offshore activity in 2018 (see chart in Appendix). This is driven by more positive sentiment on oil prices, lower breakeven costs for offshore Indonesian projects since the downturn, and Pertamina's more aggressive drilling plan. Given the strong correlation of offshore E&P work in Indonesia (E&P activities can be gauged by rig count) with Wintermar's share price, we think this will start to be reflected in Wintermar's numbers via higher utilisation rates (and possibly day rates as well) in 2018.

For a longer-term recovery, reform needs to happen. Indonesia's bureaucratic burden and conflicting policies continue to impede the inflow of foreign investment into the offshore sector, which is much needed to arrest declining production levels; reform in streamlining paperwork required for undertaking E&P work has been slow; and continued nationalism of oil assets (e.g. the uncertainty over Pertamina taking over expiring PSCs) has run contrary to the country's need for foreign capital. More clarity and liberalisation in regulations would bode well for the Indonesian offshore industry and Wintermar.

Staying afloat is crucial in these difficult times. Amid a challenging OSV environment, operators with stronger financials and cash flows have outperformed. Wintermar has done well in this respect, with no bonds outstanding, no newbuild vessels due from the yards, a deferment of its loan repayments, as well as a potential rights issue to tap upon (albeit of a relatively small quantum of c.US$8m+). Additionally, operating cash flow (OCF) has been a positive US$7.7m YTD in FY17.

Diversification to other markets has entailed lower margins in near term; higher Indonesian workload is positive for margins. Gross margins for owned fleet fell from almost 40% in 1H14 – before the oil price collapse – to negative 11% in 1H17. Part of the margin erosion has been a result of the company responding to a lull in activity in Indonesian waters by redeploying vessels outside Indonesia to markets in South and Southeast Asia, where day rates and margins are less favourable due to higher competition and a lack of cabotage advantages. While cost-saving strategies such as natural attrition of headcount and warm-stacking of vessels have helped, higher workload from cabotage-advantaged jobs in Indonesia would give margins the boost it needs.

Vessel Utilization (%)



Owned vessels gross margin (%)

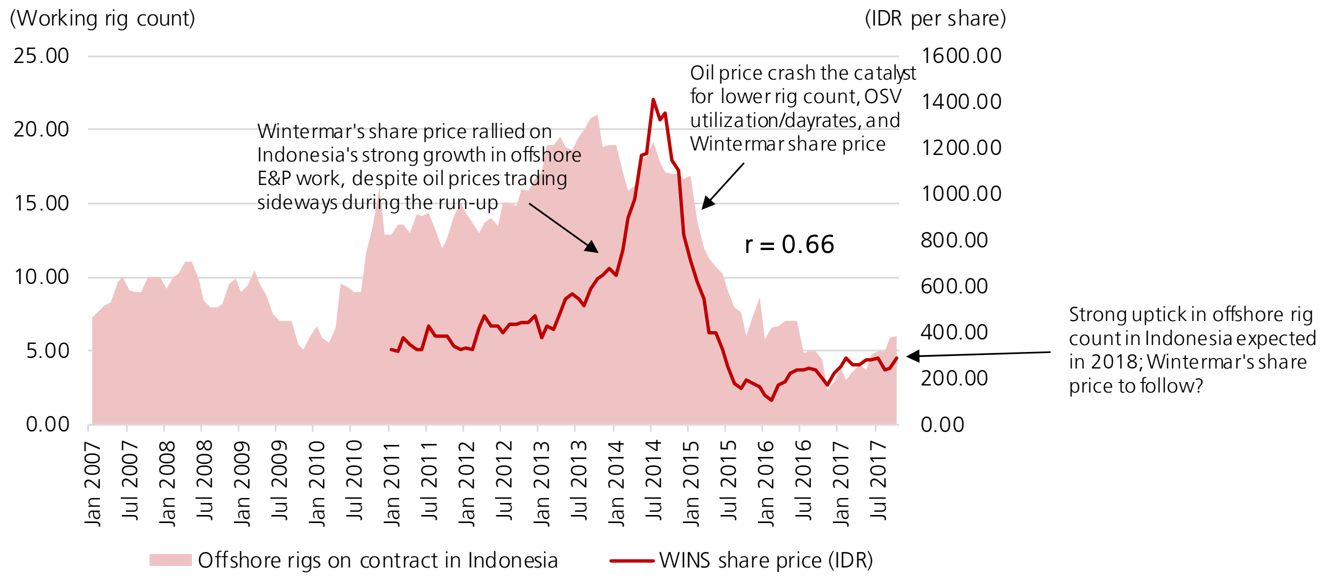
Chartered-in vessels gross margin (%)

Source: Company, DBS Bank

Appendix 1: A look at the drivers of Wintermar's share price

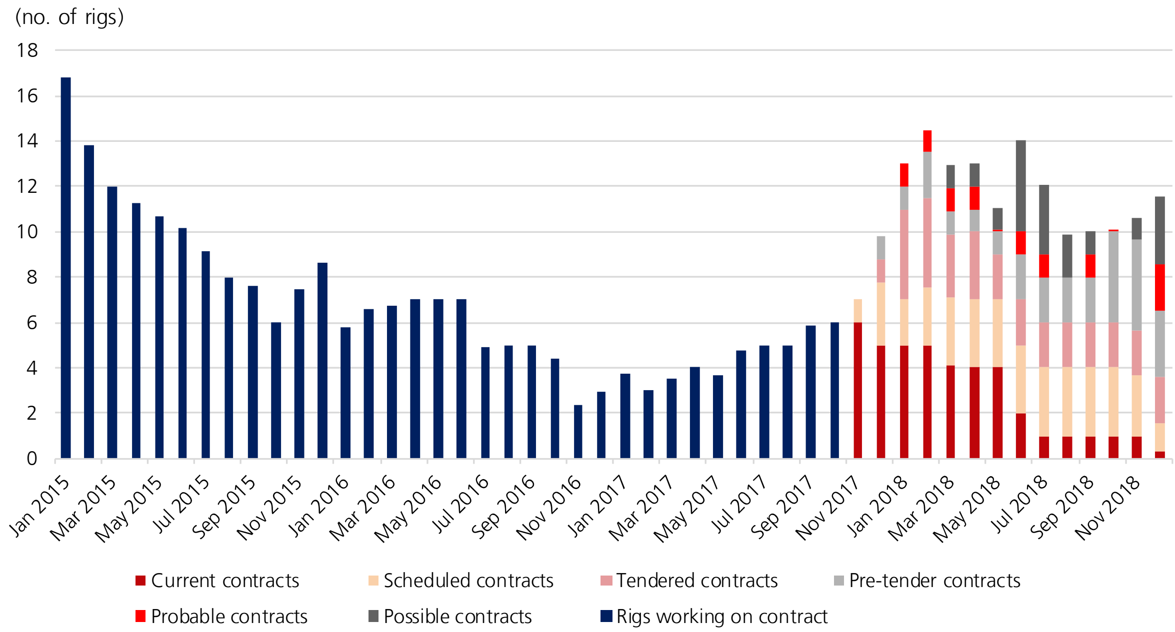
Offshore rig count is the key driver. Wintermar's share price has historically been most correlated to the offshore rig count in Indonesia. Leading up to the 2014 rally, Indonesia's working rig count quadrupled in the prior four years despite oil prices trading sideways at ~US$110/bbl. The crash in oil prices since late 2014 has led to a dearth of exploration and drilling work in Indonesia, but we have seen the rig count bottoming in early 2017, and more importantly, are now seeing clear signs of a higher working fleet in 2018 on stronger exploration and drilling activity.

Wintermar's share price has been most correlated to Indonesia's offshore rig count…



Source: IHS Petrodata, Bloomberg Finance L.P., DBS Bank

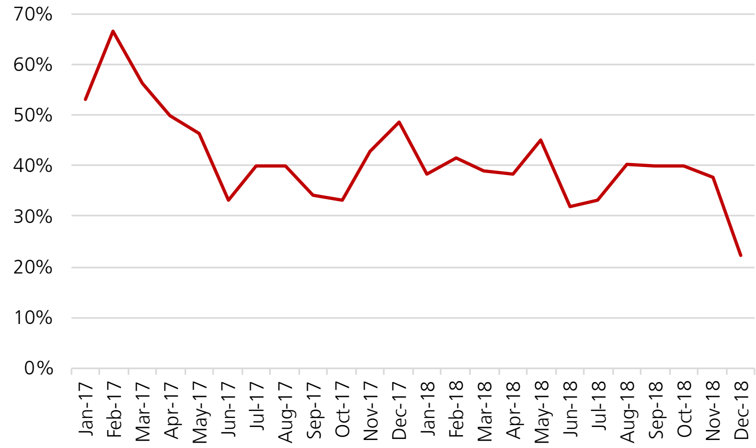
…and we are expecting Indonesia's offshore rig count to rise strongly in 2018



Source: IHS Petrodata

Pertamina has taken on a larger role in Indonesia's offshore; more aggressive drilling plan in 2018 is positive for Wintermar. Pertamina used to account for c.10-20% of offshore work in Indonesia. However, a somewhat nationalistic move towards re-claiming offshore oilfields in the last two years or so (e.g. acquisition of the Mahakam Block from Total; North Sumatra Offshore and Block B from ExxonMobil) has boosted its influence in the country's waters significantly. We estimate that Pertamina will account for c.40% of the offshore contracted rig count in Indonesia in 2018. Recently, Pertamina has announced a plan to drill 70 development wells and 14 exploration wells in 2018, a large jump versus just over 40 wells drilled thus far in 2017. This should be positive for Wintermar, as the largest OSV player in Indonesia.

Pertamina contracts as a percentage of Indonesia's offshore rig count



Source: IHS Petrodata, DBS Bank Estimates

Balance Sheet:

Proactive policies have created a strong balance sheet position. Net debt-to-equity ratio remains flat y-o-y at around 0.48x as of end-3Q17. This is a reasonable level of gearing relative to peers in the industry, where gearing levels above 1x are common. A loan restructuring exercise with key lenders was completed in 2Q17, which has pushed back US$31.7m of loan principal due in 2017-2018 to 2018-2022. The group's only vessel on order has also been cancelled (albeit with a penalty of US$1.3m that is covered by the deposit). Additionally, a rights issue that could raise c.US$8+m has been approved by shareholders in May 2017, which Wintermar can tap upon until its expiry on 18 May 2019. Finally, Wintermar has no unsecured bonds or perpetuals outstanding (which we view as less easily refinanceable in this environment), so there should be no near-term cash crunch.

Share Price Drivers:

Sustained oil price recovery would lift the share price. Higher oil prices would help in re-starting some of the more expensive delayed projects in Indonesia, which would boost offshore activity, and Wintermar's share price.

Higher utilisation and day rates, driven by greater offshore activity in Indonesia. OSV players' bottom lines are very sensitive to shifts in utilisation and day rates. A material improvement in utilisation and day rates as a result of heightened offshore activity and thus higher OSV demand would drive Wintermar's earnings and consequently, its share price.

Key Risks:

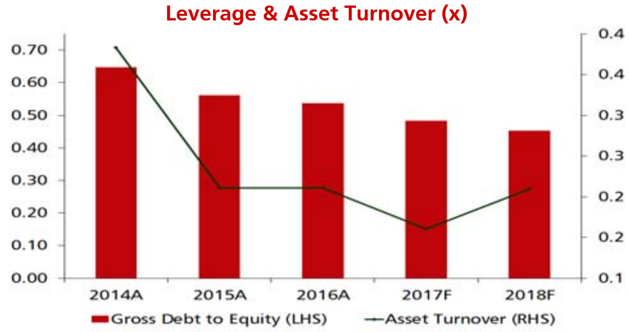
Delays in start of new projects. Regulatory and political factors in Indonesia could lead to delays in the award of mega E&P projects, which in turn could affect demand for offshore support vessels. While the new government has instituted a new setup at the regulator SKK Migas and has been pursuing investment-friendly policies, it may be a while before any impact is felt on the ground.

Impairment risk is present. We note that Wintermar has impaired c.4-5% of its fleet value so far since the downturn, which is at the lower end of regional peers' impairment proportions. With the year-end audit review coming up, we see risk of impairments in 4Q17.

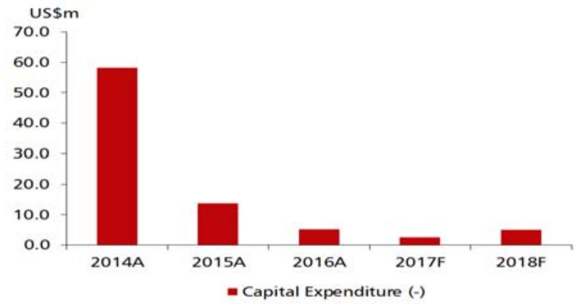
Company Background

Wintermar Offshore Marine (Wintermar) is one of the largest and best-established providers of Indonesian-flagged offshore support vessels to the Indonesian O&G industry.

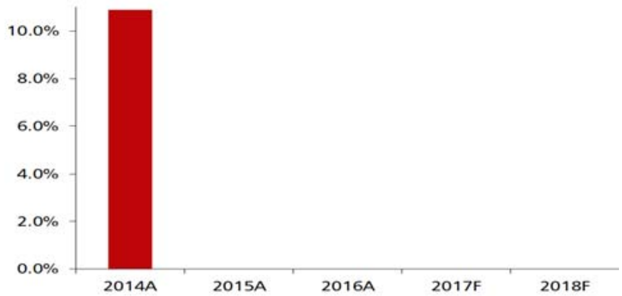
Leverage & Asset Turnover (x)



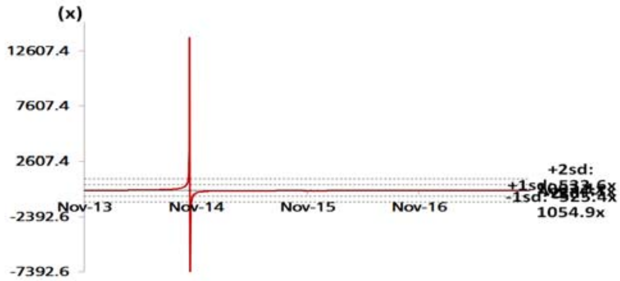
Capital Expenditure



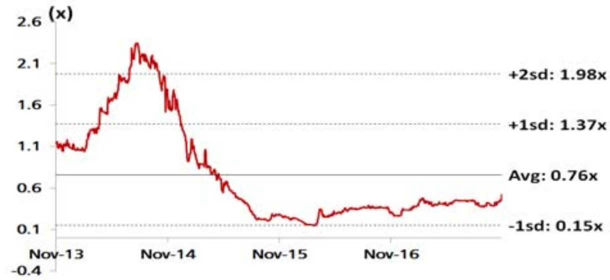
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (US$m)					
Own Vessels	111	65.9	58.9	47.0	55.9
Chartered Vessels	54.7	27.1	26.2	10.3	14.5
Others	11.3	6.90	4.00	3.80	3.90
Total	177	99.9	89.1	61.2	74.3
Gross Profit (US$m)					
Own Vessels	50.0	9.10	8.60	0.20	4.30
Chartered Vessels	5.80	2.40	3.70	1.00	1.20
Others	2.20	1.30	1.30	0.90	1.20
Total	58.0	12.8	13.6	2.00	6.60
Gross Profit Margins (%)					
Own Vessels	45.1	13.8	14.6	0.4	7.7
Chartered Vessels	10.7	9.0	14.2	9.7	8.0
Others	19.3	18.5	31.4	22.8	30.0
Total	32.8	12.8	15.3	3.3	8.9

Income Statement (US$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	177	99.9	89.1	61.2	74.3
Cost of Goods Sold	(119)	(87.1)	(75.5)	(59.1)	(67.7)
Gross Profit	58.0	12.8	13.6	2.00	6.60
Other Opng (Exp)/Inc	(13.3)	(13.6)	(11.7)	(7.4)	(8.0)
Operating Profit	44.7	(0.8)	1.90	(5.4)	(1.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.50	1.60	(0.1)	(0.8)	(0.3)
Net Interest (Exp)/Inc	(11.8)	(9.4)	(8.2)	(7.6)	(6.1)
Exceptional Gain/(Loss)	0.0	0.0	(14.3)	(1.8)	0.0
Pre-tax Profit	33.4	(8.6)	(20.7)	(15.5)	(7.7)
Tax	(3.0)	(1.2)	(2.2)	0.0	0.0
Minority Interest	(8.7)	4.10	6.90	3.90	2.00
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	21.7	(5.7)	(16.0)	(11.6)	(5.7)
Net Profit before Except.	21.7	(5.7)	(1.7)	(9.9)	(5.7)
EBITDA	71.5	28.4	38.0	22.4	27.1
Growth					
Revenue Gth (%)	(5.3)	(43.5)	(10.8)	(31.4)	21.5
EBITDA Gth (%)	7.1	(60.3)	34.0	(41.1)	20.9
Opg Profit Gth (%)	(3.0)	(101.8)	(334.4)	(389.3)	(74.7)
Net Profit Gth (Pre-ex) (%)	(19.8)	nm	70.2	(481.6)	41.7
Margins & Ratio					
Gross Margins (%)	32.8	12.8	15.3	3.3	8.9
Opg Profit Margin (%)	25.3	(0.8)	2.1	(8.8)	(1.8)
Net Profit Margin (%)	12.3	(5.7)	(18.0)	(19.0)	(7.7)
ROAE (%)	10.9	(2.7)	(7.9)	(6.1)	(3.2)
ROA (%)	4.7	(1.2)	(3.8)	(3.0)	(1.6)
ROCE (%)	9.5	(0.2)	0.5	(1.5)	(0.4)
Div Payout Ratio (%)	0.0	N/A	N/A	N/A	N/A
Net Interest Cover (x)	3.8	(0.1)	0.2	(0.7)	(0.2)

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US$m)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	21.3	19.3	13.1	14.6	16.3
Cost of Goods Sold	(18.2)	(19.2)	(13.3)	(15.4)	(14.8)
Gross Profit	3.00	0.10	(0.3)	(0.8)	1.60
Other Oper. (Exp)/Inc	(1.6)	(3.2)	(2.7)	(1.7)	(1.0)
Operating Profit	1.50	(3.1)	(3.0)	(2.5)	0.60
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(0.7)	(0.3)	0.0	(0.4)
Net Interest (Exp)/Inc	(2.0)	(1.7)	(2.1)	(1.8)	(1.9)
Exceptional Gain/(Loss)	(13.2)	(1.2)	0.0	(1.8)	0.0
Pre-tax Profit	(13.7)	(6.6)	(5.4)	(6.0)	(1.7)
Tax	2.90	(5.0)	0.0	0.0	0.0
Minority Interest	4.00	3.10	1.40	1.40	0.60
Net Profit	(6.9)	(8.5)	(4.0)	(4.7)	(1.1)
Net profit bef Except.	6.30	(7.3)	(4.0)	(2.9)	(1.1)
EBITDA	8.60	3.20	3.70	4.20	7.00
Growth					
Revenue Gth (%)	(15.9)	(9.0)	(32.4)	11.3	12.0
EBITDA Gth (%)	(16.7)	(63.2)	16.0	15.5	65.0
Opg Profit Gth (%)	(53.7)	(310.7)	(3.2)	(16.1)	(123.5)
Net Profit Gth (Pre-ex) (%)	691.3	(217.0)	(45.8)	(26.7)	(63.9)
Margins					
Gross Margins (%)	14.2	0.7	(2.0)	(5.5)	9.6
Opg Profit Margins (%)	6.9	(15.9)	(22.8)	(17.2)	3.6
Net Profit Margins (%)	(32.4)	(44.1)	(30.4)	(32.1)	(6.5)

Balance Sheet (US$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	380	363	324	298	274
Invts in Associates & JVs	25.6	27.2	26.9	26.1	25.9
Other LT Assets	12.6	13.9	5.70	5.70	5.70
Cash & ST Invts	29.8	16.2	15.4	4.10	8.70
Inventory	0.10	0.10	0.10	0.10	0.10
Debtors	45.6	19.7	21.2	20.4	24.8
Other Current Assets	7.60	5.70	7.70	7.70	7.70
Total Assets	501	446	401	362	347
ST Debt	38.0	34.7	24.8	24.8	24.8
Creditor	17.3	10.1	12.8	10.0	12.7
Other Current Liab	12.1	10.8	12.4	11.7	11.7
LT Debt	132	108	99.4	79.4	69.4
Other LT Liabilities	38.0	28.4	20.3	20.3	20.3
Shareholder's Equity	217	212	196	184	179
Minority Interests	46.4	42.3	35.5	31.6	29.6
Total Cap. & Liab.	501	446	401	362	347
Non-Cash Wkg. Capital	23.9	4.70	3.70	6.40	8.10
Net Cash/(Debt)	(141)	(126)	(109)	(100)	(85.5)
Debtors Turn (avg days)	102.7	119.3	83.8	124.1	110.9
Creditors Turn (avg days)	88.8	83.9	106.3	136.1	106.2
Inventory Turn (avg days)	0.7	0.7	0.7	0.8	0.7
Asset Turnover (x)	0.4	0.2	0.2	0.2	0.2
Current Ratio (x)	1.2	0.8	0.9	0.7	0.8
Quick Ratio (x)	1.1	0.6	0.7	0.5	0.7
Net Debt/Equity (X)	0.5	0.5	0.5	0.5	0.4
Net Debt/Equity ex MI (X)	0.6	0.6	0.6	0.5	0.5
Capex to Debt (%)	34.2	9.6	4.1	2.4	5.3
Z-Score (X)	1.2	0.8	0.9	0.7	0.7

Gearing levels quite conservative for OSV asset owner/ operator and company should be able to withstand any potential asset writedowns

Source: Company, DBS Bank

Cash Flow Statement (US$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	33.4	(8.6)	(20.7)	(15.5)	(7.7)
Dep. & Amort.	26.3	27.5	36.3	28.6	28.8
Tax Paid	(3.2)	(0.3)	(0.2)	(0.7)	0.0
Assoc. & JV Inc/(loss)	(0.5)	(1.6)	0.10	0.80	0.30
Chg in Wkg.Cap.	4.20	17.9	3.10	(2.0)	(1.6)
Other Operating CF	2.80	2.30	14.2	0.0	0.0
Net Operating CF	**63.0**	**37.3**	**32.7**	**11.2**	**19.6**
Capital Exp.(net)	(58.2)	(13.7)	(5.1)	(2.5)	(5.0)
Other Invts.(net)	0.0	0.0	0.10	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(2.6)	1.60	4.10	0.0	0.0
Net Investing CF	**(60.8)**	**(12.2)**	**(0.9)**	**(2.5)**	**(5.0)**
Div Paid	(3.7)	0.0	0.0	0.0	0.0
Chg in Gross Debt	9.10	(29.0)	(24.5)	(20.0)	(10.0)
Capital Issues	9.00	0.0	0.0	0.0	0.0
Other Financing CF	(12.2)	(9.5)	(8.1)	0.0	0.0
Net Financing CF	**2.20**	**(38.5)**	**(32.6)**	**(20.0)**	**(10.0)**
Currency Adjustments	0.0	(0.2)	0.0	0.0	0.0
Chg in Cash	4.40	(13.6)	(0.8)	(11.3)	4.60
Opg CFPS (Rp)	197	64.6	98.9	44.1	71.2
Free CFPS (Rp)	15.9	78.6	92.0	29.0	49.0

Positive operating cash flows have been sustained

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Dec 16	175	231	HOLD
2:	21 Mar 17	246	245	HOLD
3:	02 Aug 17	280	300	HOLD

Source: DBS Bank

Analyst: Suvro SARKAR
Glenn Ng

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 23 Jan 2018 07:28:33 (SGT)

Dissemination Date: 23 Jan 2018 07:52:15 (SGT)

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