

Singapore Company Guide

Ezion Holdings

Version 16 | Bloomberg: EZI SP | Reuters: EZHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 May 2018

BUY

Last Traded Price (11 May 2018): S\$0.116 (STI : 3,570.17)
Price Target 12-mth : S\$0.29 (147% upside)

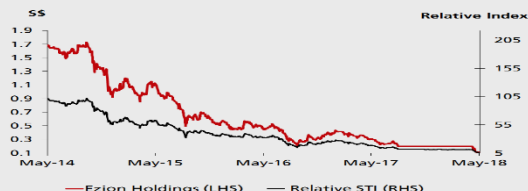
Analyst

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What's New

- 1Q18 core net loss of ~US\$15m was expected
- Gradual recovery from 3Q with higher utilisation
- Unusual price movement with high trading volume post trading resumption is unjustified on fundamentals
- Reiterate BUY; TP unchanged at S\$0.29

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2016A	2017A	2018F	2019F
Revenue	318	193	240	318
EBITDA	204	72	119	184
Pre-tax Profit	(31)	(1,015)	(15)	62
Net Profit	(34)	(1,018)	(14)	60
Net Pft (Pre-Ex, Aft Pref Div)*	14	(105)	8	60
EPS (S cts)	(2.2)	(65.6)	(0.4)	1.2
EPS Pre Ex, Aft Pref Div (S cts)	0.9	(6.8)	0.2	1.2
EPS Gth (%)	nm	(2,933)	99	nm
EPS Gth Pre Ex, Aft pref div (%)	(89)	nm	nm	466
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	84.6	19.6	19.8	22.9
PE (X)	nm	0.0	nm	9.9
PE Pre Ex, Aft Pref Div (X)	12.7	nm	55.9	9.9
P/Cash Flow (X)	1.2	2.8	15.2	3.4
EV/EBITDA (X)	7.2	21.5	12.1	6.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.1	0.6	0.6	0.5
Net Debt/Equity (X)	1.0	4.5	1.4	0.5
ROAE (%)	(3.3)	(125.6)	(2.8)	6.3
Earnings Rev (%)			-	-
Consensus EPS (S cts)			0.3	1.2
Other Broker Recs:		B: 1	S: 3	H: 1

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

Bottom-fishing opportunity

BUY; TP S\$ 0.29 based on 1.4x FY18 book value. Ezion's sell-off since resumption of trading is unwarranted. We hold on to our view that Ezion is poised to re-rate from its current low valuation (which reflects insolvency), catalysed by: i) successful refinancing exercise which provides a 6-year runway; ii) improving utilisation and day rates driving an earnings recovery; iii) Temasek-linked Pavilion Capital as strategic investor boosts confidence; and iv) potential strategic partners to brighten growth prospects.

Strategic industrial partners on the way? Ezion remains in talks with strategic partners that could offer financial support or liftboat assets to tap the demand recovery. We believe potential tie-ups with prominent industry players enhances Ezion's growth prospects, which would otherwise be constrained by its high gearing level. This serves as a catalyst for further re-rating.

Where we differ. We are more hopeful on Ezion's turnaround. While it has also been hit hard by the recent oil crisis, Ezion is among the few surviving players with a niche competitive edge in liftboats, a segment with brighter demand/supply outlook relative to other offshore support vessels.

Valuation:

We value Ezion based on 1.4x FY18 book value, in line with the valuation multiple ascribed to SGX-listed peer PACC Offshore (POSH) post massive impairments, arriving at a target price of S\$ 0.29. Our FY18F book value has factored in ~US\$1.1bn total impairments made in 2015-2017 and assumes full conversion and exercise of bondholders' warrants.

Key Risks to Our View:

Slower recovery. Drop in oil price below US\$50/bbl may hit O&G activities, and thus drag demand and day rates improvement for liftboats. This poses downside risks to our earnings forecasts.

At A Glance

Issued Capital (m shrs)	3,105
Mkt. Cap (S\$m/US\$m)	262 / 196
Major Shareholders (%)	
Thiam Keng Chew	7.0
Macarios Pte Ltd	4.9
Free Float (%)	88.1
3m Avg. Daily Val (US\$m)	9.0
ICB Industry : Oil & Gas / Oil Equipment; Services & Dist	

WHAT'S NEW

1Q18 losses expected

Excluding one-off, net loss was ~US\$15m in 1Q18. Headline net loss of US\$46.4m comprises one-off expenses and losses totaling ~US\$22m including:

- remaining **professional fees** (US\$6m in 1Q18, in addition to US\$26m incurred in 4Q17) for the restructuring exercise, which was completed in Apr-2018;
- **consent fee** (US\$13m); and
- **loss on disposal of tug & barges** (US\$3m).

Stripping the US\$22m one-off and forex loss of ~US\$10m, core net loss was ~US\$15m in 1Q18, narrower from ~US\$17m recorded last quarter despite lower revenue largely aided by depreciation savings of US\$13m post impairment.

Revenue declined q-o-q due to off-hire. Revenue dropped 15% q-o-q as one service rig was offhire for redeployment in 1Q18. The unit will likely resume operations in 3Q18.

Interest savings kicking in 2Q18. We expect ~US\$2m / quarter interest savings post refinancing exercise completed in Apr-2018.

Higher utilisation and charter rates are key. Ezion will have to demonstrate improvement in utilisation and grow revenue in coming quarters. The effect of charter rate increase will likely translate to higher margins towards 4Q18 upon recontractings.

To rehash, the liftboat fleet of 12 units is c.70% utilised (additional 2 units to be delivered by end of the year and 1H19) while only ~40% of the jackup fleet of 18 rigs are chartered.

Awaiting industrial strategic partner. The potential partnership with subsidiaries of China Merchant Group is a key catalyst that will drive the future growth of Ezion without adding more burden to its balance sheet.

Positive operating cash flow. On a positive note, Ezion churned positive operating cash flow of US\$13.1m in 1Q18. Net gearing was lifted further to 5.4x due to net losses pressing down book value to US\$250.8m, from US\$304.8m a quarter ago.

Book value lifted by bond conversion. As of 9-May, 39% of convertible bonds and 60% of convertible PERPs have exercised the conversion. This has resulted in issuance of 813m new shares. This will transfer ~US\$100m debt to equity. In addition, there is also an equity injection from strategic investors as well as new shares issued for professional fees and consent fees of ~US\$60m in total. These will lower net gearing from 5.4x to 3.2x.

(Please click on the link to Ezion's official website for bond conversion status:

<http://www.ezionholdings.com/?p=section&sub=article&articlepk=97&articlepk=166/>)

What caused the price weakness?

Ezion's shares has trended down since the lifting of share trading suspension on 17th Apr. There was selling pressure as:

1) Prudential - M&G was pairing down its stake to below its original stake of 5.65% or 132m shares

2) We surmise some stakeholders may have cashed out at a loss. As of 9 May, approximately 44% or 813m shares issued from bondholders' conversion.

Still, Ezion's trading volume has been overwhelmingly high with >2.4bn shares or ~138m shares/day transacted since resumption of trading. With the successful restructuring, improving outlook and strategic shareholders coming in above 20Scts, we did not expect the stock to be sold down to 0.5x impaired book value.

Ezion had put out a clarification on 30 Apr that the company is not aware of any development that may contribute to the unusual share price movement and **"draw attention to the Securities and Futures Act which prohibits market manipulation...."**

Quarterly / Interim Income Statement (US\$m)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	68.6	44.7	37.8	(45.0)	(15.5)
Cost of Goods Sold	(59.8)	(41.3)	(37.6)	(37.2)	(9.1)
Gross Profit	8.75	3.36	0.18	(97.9)	(94.6)
Other Oper. (Exp)/Inc	(17.6)	(15.8)	(16.3)	(7.3)	3.7
Operating Profit	(8.9)	(12.4)	(16.2)	82.1	30.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	3.63	(3.0)	(0.3)	nm	(90.3)
Net Interest (Exp)/Inc	(6.5)	(9.8)	(7.2)	(9.7)	27.0
Exceptional Gain/(Loss)	0.0	(917)	(22.0)	nm	(97.6)
Pre-tax Profit	(11.8)	(942)	(45.6)	(287.5)	95.2
Tax	(1.0)	(0.9)	(0.8)	(16.4)	(7.1)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	(12.7)	(943)	(46.4)	(264.5)	(95.1)
Net profit bef Except.	(12.7)	(26.1)	(24.4)	(91.7)	(6.3)
EBITDA	30.8	17.6	3.16	(89.8)	(82.1)
Margins (%)					
Gross Margins	12.8	7.5	0.5		
Opg Profit Margins	(12.9)	(27.7)	(42.8)		
Net Profit Margins	(18.6)	(2,110.7)	(122.9)		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Successful refinancing exercise provides 6-year runway. The refinancing proposal, which has been approved by its lenders, security holders and shareholders: i) gives Ezion a 6-year runway as going-concern is no longer an issue; ii) provides additional credit line of US\$118m for working capital; iii) reduces depreciation expense by approx. US\$60m, and leads to interest savings of US\$30m from bank loans and US\$28m from securities issued; and iv) allows Ezion to seek Strategic Partners and Investors to strengthen its balance sheet and expand the liftboat fleet.

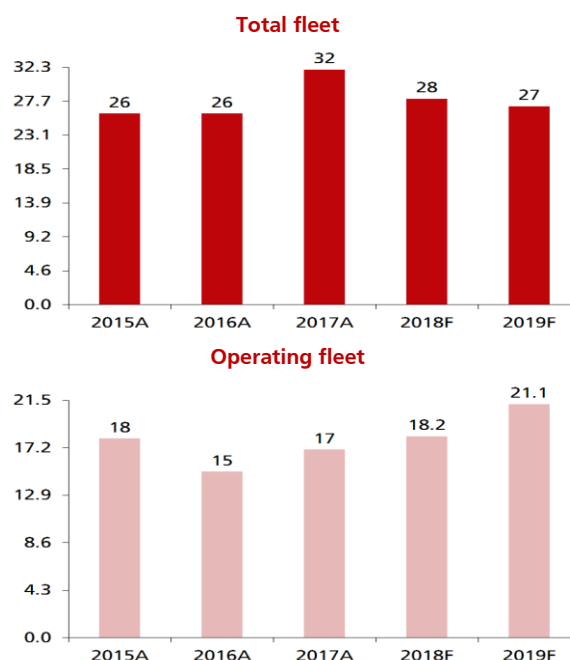
Strategic partners boost growth prospects. Successful refinancing is half the battle. Ezion remains in talks with potential strategic partners that are synergistic with its existing liftboat business and financial investors to strengthen its balance sheet and position it to ride the sector's recovery. Having strategic shareholders is a critical weapon required to win the other half of the battle i.e. earnings recovery. Financial backing will be required to grow Ezion's operating fleet to tap demand for liftboats and Mobile Offshore Production Units (MOPUs).

Sustainable oil price rebound. Oil price is a leading indicator and key re-rating catalyst for the O&G sector. The positive reversal in capex trend will inject cash flow into the eco-system and filter through to service providers next year. This should stimulate demand for Ezion's service rigs.

Utilisation and day rates set to rise. Utilisation for its liftboats hovered at around 70% in FY17 and is expected to rise to >90% by the end of this year; jackups were only 19% utilised in FY17 but should improve to 50% this year. Day rates are now seeing some signs of rate recovery as well. Average day rates for liftboats could improve from last year's estimated ~US\$30k level to US\$40k on average. As for jackups, day rates are also rebounding. Though, average day rates for jackups could normalise to ~US\$30k level this year from FY17's estimated average rate of ~US\$54k, in the absence of legacy contracts and commencement of charters at lower rates.

Diversification of income stream; Windfarm venture shaping up.

China had set a target of 5GW of installed offshore wind capacity by 2015 and 30GW by 2020 in its current 5-year plan. It is behind schedule with approximately only 2.5GW offshore wind capacity installed. A liftboat would facilitate installations of 200MW offshore wind capacity a year. Assuming 27.5GW of wind capacity to be installed over the next five years or 5.5GW per year, 25-30 liftboats would be required in China. Ezion has signed an MOU (Memorandum of Understanding) with one of the top five largest state-owned power generation enterprises in China – Huadian – and several partners to speed up the installation of offshore windfarms using liftboats. The first service rig for a China windfarm was delivered in 3Q17 and second unit is expected by end 2018.



Source: Company, DBS Bank

Balance Sheet:

Net gearing shot up from 1.1x to 4.5x post massive impairment of ~US\$900m in 4Q17 and **inched up to ~5.4x in 1Q18** due to net losses. Considering new shares issuance in Apr-May, net gearing would have been lowered to **3.2x**. Assuming full conversion and exercise of all warrants & options, the net gearing would be reduced to <1.0x.

Share Price Drivers:

Oil price rebound. Oil price is a leading indicator and key re-rating catalyst for the O&G sector as the market has widely priced in the weak earnings and new lower norm of oil prices. We believe Ezion will be a major beneficiary to ride the upturn.

Utilisation and charter rates. The utilisation and day rates have plunged by at least 50% the past three years and are expected to pick up in 2018. Securing new/renewal of charter contracts at good rates is a key earnings driver.

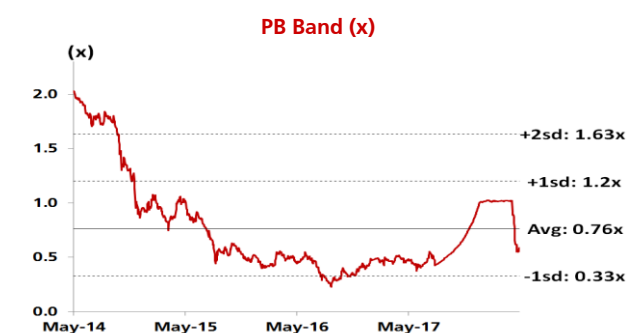
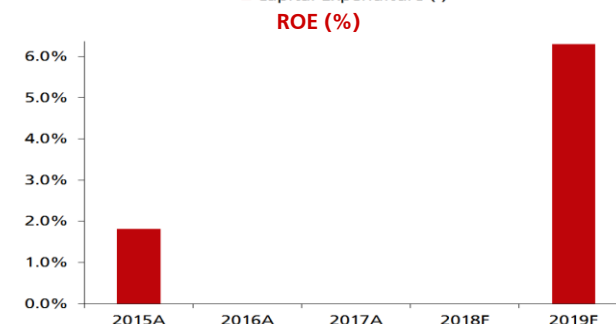
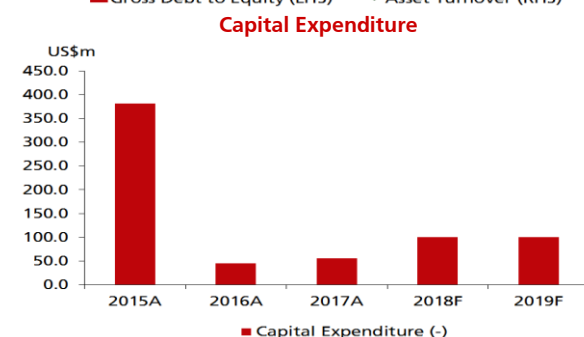
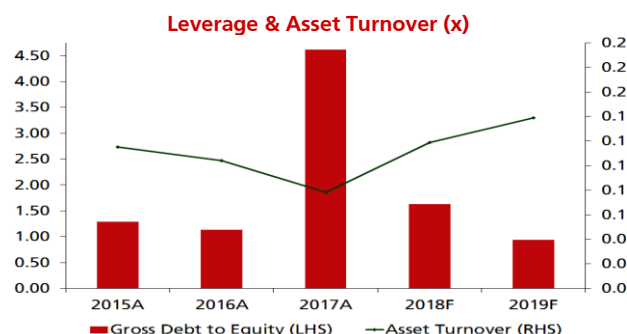
Key Risks:

Slower recovery. Falling oil price below US\$50/bbl might hit O&G activities, and thus drag demand and day rates improvement for liftboats. This poses downside risks to our earnings forecasts.

Keener competition. The rising acceptance and growing demand for liftboats have attracted new entrants to the market. We estimate that there are c.20 new liftboats currently under construction, of which majority is near completion.

Company Background

Ezion provides service rigs and offshore logistics support services to the offshore oil & gas industry. It was one of the first companies to introduce liftboats in Asia and the Middle East regions. Ezion had a total of 32 service rigs delivered and 17 service rigs in operation as of Dec-2017. It is expected to take delivery of two liftboats in 2018-2019 and dispose of 7 jackrups rigs.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Total fleet	26.0	26.0	32.0	28.0	27.0
Operating fleet	18.0	15.0	17.0	18.2	21.1

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F
Revenues (US\$ m)				
Liftboat	127	96	130	193
Jackups	157	76	91	111
Offshore Support Vessels	34	21	19	14
Total	318	193	240	318
Gross Profit (US\$ m)				
Liftboat	45	37	60	107
Jackups	11	(35)	8	21
Offshore Support Vessels	5	0	7	2
Total	61	2	75	130
Gross Profit Margins (%)				
Liftboat	35.8	38.5	46.3	55.2
Jackups	7.1	(45.8)	8.6	19.3
Offshore Support Vessels	13.9	(1.3)	34.2	15.7
Total	19.2	0.9	31.1	41.0

Income Statement (US\$ m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	351	318	193	240	318
Cost of Goods Sold	(233)	(257)	(191)	(165)	(188)
Gross Profit	118	61	2	75	130
Other Opng (Exp)/Inc	(9)	(19)	(56)	(30)	(35)
Operating Profit	109	42	(54)	45	95
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	11	(16)	(12)	(6)
Net Interest (Exp)/Inc	(22)	(28)	(32)	(26)	(27)
Exceptional Gain/(Loss)	(72)	(56)	(912)	(22)	0
Pre-tax Profit	38	(31)	(1,015)	(15)	62
Tax	(2)	(3)	(3)	0	(2)
Minority Interest	0	0	0	0	0
Net Profit	37	(34)	(1,018)	(14)	60
Net Profit before Except.	109	23	(105)	8	60
Preference Dividend	(14)	(8)	0	0	0
Net Pft Pre-Ex, Aft Pref Div	95	14	(105)	8	60
EBITDA	267	204	72	119	184
Growth					
Revenue Gth (%)	(9.1)	(9.4)	(39.3)	24.3	32.5
EBITDA Gth (%)	(13.6)	(23.8)	(64.8)	66.5	54.3
Opg Profit Gth (%)	(38.9)	(61.5)	(228.8)	(182.7)	112.7
Net Profit Gth (%)	(83.6)	nm	(2,928.0)	98.6	nm
Net Pft Pre-Ex Aft Perf Div Gth (%)	(46.7)	(85.1)	nm	nm	680.3
Margins & Ratio					
Gross Margins (%)	33.6	19.2	0.9	31.1	41.0
Opg Profit Margin (%)	31.1	13.2	(28.1)	18.7	30.0
Net Profit Margin (%)	10.5	(10.6)	(527.0)	(6.0)	18.9
ROAE (%)	1.8	(3.3)	(125.6)	(2.8)	6.3
ROA (%)	0.8	(1.4)	(41.2)	(0.7)	2.6
ROCE (%)	3.7	1.5	(2.4)	2.4	4.3
Div Payout Ratio (%)	0.0	N/A	N/A	N/A	0.0
Net Interest Cover (x)	5.0	1.5	(1.7)	1.8	3.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US\$ m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	69	67	64	45	38
Cost of Goods Sold	(60)	(61)	(62)	(41)	(38)
Gross Profit	9	7	2	3	0
Other Oper. (Exp)/Inc	(18)	(10)	(11)	(16)	(16)
Operating Profit	(9)	(4)	(10)	(12)	(16)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	4	(2)	5	(3)	0
Net Interest (Exp)/Inc	(7)	(7)	(8)	(10)	(7)
Exceptional Gain/(Loss)	0	11	0	(917)	(22)
Pre-tax Profit	(12)	(2)	(13)	(942)	(46)
Tax	(1)	(1)	0	(1)	(1)
Minority Interest	0	0	0	0	0
Net Profit	(13)	(3)	(14)	(943)	(46)
Net profit bef Except.	(13)	(13)	(14)	(26)	(24)
Preference Dividend	0	0	0	0	0
Net Pft (Pre-Ex, Aft Pref Div)	(13)	(13)	(14)	(26)	(24)
EBITDA	31	31	32	18	3

Growth

Revenue Gth (%)	(5.6)	(1.8)	(5.5)	(29.9)	(15.5)
EBITDA Gth (%)	(40.1)	1.9	0.4	(44.2)	(82.1)
Opg Profit Gth (%)	(154.1)	(59.1)	165.5	28.6	30.3
Net Profit Gth (%)	(80.9)	(79.8)	433.3	6,782.4	(95.1)

Margins

Gross Margins (%)	12.8	9.9	2.6	7.5	0.5
Opg Profit Margins (%)	(12.9)	(5.4)	(15.1)	(27.7)	(42.8)
Net Profit Margins (%)	(18.6)	(3.8)	(21.5)	(2,110.7)	(122.9)

Balance Sheet (US\$ m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	2,284	2,198	1,390	1,403	1,408
Invt in Associates & JVs	204	250	179	167	161
Other LT Assets	12	5	76	76	76
Cash & ST Invt	230	205	46	177	500
Inventory	0	0	0	0	0
Debtors	193	179	82	120	159
Other Current Assets	186	164	163	163	163
Total Assets	3,108	3,002	1,936	2,106	2,467
ST Debt	375	331	1,044	194	194
Creditor	116	112	93	56	77
Other Current Liab	109	49	103	96	99
LT Debt	1,230	1,160	365	1,000	900
Other LT Liabilities	36	34	26	26	26
Shareholder's Equity	1,241	1,315	305	734	1,171
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	3,108	3,002	1,936	2,106	2,467
Non-Cash Wkg. Capital	153	182	49	131	146
Net Cash/(Debt)	(1,375)	(1,286)	(1,362)	(1,017)	(594)
Debtors Turn (avg days)	183.4	213.4	246.1	153.2	160.1
Creditors Turn (avg days)	345.8	391.6	759.9	346.0	262.8
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.0	1.1	0.2	1.3	2.2
Quick Ratio (x)	0.7	0.8	0.1	0.9	1.8
Net Debt/Equity (X)	1.1	1.0	4.5	1.4	0.5
Net Debt/Equity ex MI (X)	1.1	1.0	4.5	1.4	0.5
Capex to Debt (%)	23.8	3.0	4.0	8.4	9.1
Z-Score (X)	0.6	0.6	0.6	0.6	0.7

Source: Company, DBS Bank

Cash Flow Statement (US\$ m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	38	(31)	(1,015)	(15)	62
Dep. & Amort.	135	151	142	87	95
Tax Paid	(4)	(3)	(3)	(6)	0
Assoc. & JV Inc/(loss)	(23)	(11)	16	12	6
Chg in Wkg.Cap.	(32)	(43)	(28)	(75)	(18)
Other Operating CF	94	83	951	26	29
Net Operating CF	209	146	64	28	174
Capital Exp.(net)	(382)	(45)	(56)	(100)	(100)
Other Invt.(net)	(4)	0	0	0	0
Invt in Assoc. & JV	0	(29)	(19)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	8	2	3	0	0
Net Investing CF	(378)	(72)	(72)	(100)	(100)
Div Paid	(1)	0	0	0	0
Chg in Gross Debt	180	(146)	(116)	(215)	(100)
Capital Issues	(87)	100	0	443	377
Other Financing CF	(38)	(38)	(37)	(26)	(29)
Net Financing CF	54	(84)	(153)	202	249
Currency Adjustments	(27)	(15)	3	0	0
Chg in Cash	(142)	(25)	(158)	130	323
Opg CFPS (S cts)	15.2	9.1	4.4	2.1	2.8
Free CFPS (S cts)	(10.9)	4.8	0.4	(1.5)	1.1

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 May 17	0.30	0.62	BUY
2:	15 Aug 17	0.20	0.13	FULLY VALUED
3:	10 Nov 17	0.20	0.13	FULLY VALUED
4:	04 Apr 18	0.20	0.13	UNDER REVIEW
5:	10 Apr 18	0.20	0.29	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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: 14 May 2018 11:42:28 (SGT)

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