

# Singapore Company Guide

## Ezion Holdings

Version 19 | Bloomberg: EZI SP | Reuters: EZHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Feb 2019

### HOLD (Downgrade from BUY)

Last Traded Price (4 Feb 2019): S\$0.05 (STI : 3,184.56)  
Price Target 12-mth : S\$0.06 (11% upside) (Prev S\$0.14)

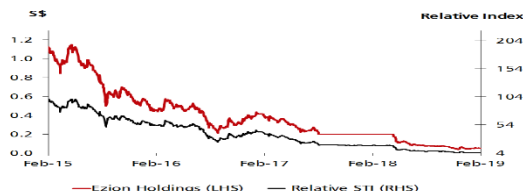
#### Analyst

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#### What's New

- Expect another loss-making quarter; more asset impairments
- Delayed deployment schedule
- Awaiting clearer signs of turnaround
- Downgrade to HOLD; TP lowered to S\$0.06

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2017A	2018F	2019F	2020F
Revenue	193	124	250	293
EBITDA	95	51	138	175
Pre-tax Profit	(1,015)	7	13	43
Net Profit	(1,018)	4	11	40
Net Pft (Pre-Ex, Aft Pref Div)*	(82)	(66)	11	40
EPS (S cts)	(66.5)	0.1	0.4	0.9
EPS Pre Ex, Aft Pref Div (S cts)	(5.4)	(2.4)	0.4	0.9
EPS Gth (%)	(2,933)	nm	165	136
EPS Gth Pre Ex, Aft pref div (%)	nm	55	nm	136
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	19.9	17.0	17.4	22.5
PE (X)	0.0	34.1	12.9	5.5
PE Pre Ex, Aft Pref Div (X)	nm	nm	12.9	5.5
P/Cash Flow (X)	1.2	1.3	1.7	1.7
EV/EBITDA (X)	15.2	29.0	10.8	6.0
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.3	0.3	0.3	0.2
Net Debt/Equity (X)	4.5	2.9	2.9	0.8
ROAE (%)	(125.6)	1.0	2.3	5.5
<b>Earnings Rev (%):</b>	-	-	-	-
<b>Consensus EPS (S cts):</b>		(1.2)	0.3	0.7
<b>Other Broker Recs:</b>		B: 1	S: 2	H: 1

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

### Not out of the woods yet

**Downgrade to HOLD; TP reduced to S\$0.06**, after pegging a lower target multiple of 0.3x on FY19F book value (vs 0.8x previously), given potential asset impairments and slower-than-expected ramp up in utilisation and revenue. While it is darkest before dawn and the stock's valuation has been greatly discounted for the slow recovery, clearer signs of a turnaround are required to re-rate the stock. Downgrade to HOLD.

**Strategic tie-up with China Merchant key to longer term growth prospects.** Ezion has formed a joint venture (JV) with China Merchant Group's 52%-owned subsidiary, TSC Group to cooperate in the ownership and operations of liftboats. We believe such tie-ups with prominent industry players enhance Ezion's growth prospects, which would otherwise be constrained by its high gearing level.

**Where we differ.** We remain hopeful on Ezion's turnaround, though this has been taking longer than expected. 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 better demand/supply outlook relative to other offshore support vessels.

#### Valuation:

We value Ezion based on 0.3x FY19F book value, in anticipation of impairment of shareholder loans and fair value adjustment of vessels, arriving at a target price of S\$ 0.06. Our FY19F book value has only factored in ~US\$1.1bn total impairments made in 2015-2017. We assume full conversion and exercise of bondholders' warrants in 2020.

#### 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 for liftboats. This poses downside risk to our earnings forecasts.

#### At A Glance

Issued Capital (m shrs)	3,593
Mkt. Cap (S\$m/US\$m)	180 / 133
Major Shareholders (%)	
Macarios Pte Ltd	4.2
Dimensional Fund Advisors	3.1
Free Float (%)	95.6
3m Avg. Daily Val (US\$m)	2.4
<b>ICB Industry :</b> Oil & Gas / Oil Equipment; Services & Dist	



## WHAT'S NEW

### Profit warning

**4Q18 in the red; potential impairment on loans to JV:** Ezion expects to record a net loss for 4Q18 and FY18. Operationally, we had expected a sequentially narrower net loss of ~US\$15m in 4Q18 as compared to ~US\$20m a quarter ago. However, it seems that the **losses could now be wider** as management guided for potential impairment on shareholder loans to joint ventures in view of the challenging operating environment.

**Fair value adjustment for vessels.** There could also be an adjustment to reflect a reduction in fair value of vessels made through retained earnings. Ezion has elected the optional exemption in SFRS(I) 1 to value the vessels owned by the Group and will use that fair value as the vessels deemed cost in its SFRS(I) financial statements. While the fair values of the vessels are still under review, the Group expects a significant decrease in the net asset value of the Group from this fair value exercise.

We estimate the book values of liftboats and jackups are approximately US\$620m and US\$540m respectively. We believe the impairment will likely be on jackups, which face challenges to be redeployed. Assuming a 20% decline, this translates to ~ US\$108m reduction in value of jackups. This will be adjusted through retained earnings line and hence no material impact expected on the P&L.

The incremental shareholder loans to JV was ~US\$120m in 3Q18. Assuming impairment of the full amount, together with vessel fair value adjustment, **equity value could be reduced by ~US\$200m or ~50%.**

**Push-back in vessel deployment.** Management provided an update that the loan agreements for certain secured lenders, which were supposed to be completed by end 2018, are still

being finalised. As a result, the delays have severely impacted the deployment of the vessels as the Group is unable to drawdown the required funds.

Deferment in rigs schedule includes the following:

- 2 Liftboats were rejected by a national oil company over concerns relating to operational and maintenance issues arising from the shortage of funds.
- 1 Liftboat and 1 Jack-up Rig are facing delays due to lack of funding to commence modifications required by an oil major.
- 1 Liftboat encountered mechanical issues and requires funding for repairs.
- The builder (under administration) for 1 Liftboat is contesting ownership.
- 1 Jack-up Rig has to be redeployed and requires additional funding due to re-imposed sanctions on the country of deployment

Ezion had 5 liftboats working as of end 3Q18 and was to have 8-9 units contributing by end 2018. With the delays, there will be 7 units (out of a total of 12 units) in operation until the financing issues are resolved.

Ezion has also not been able to achieve meaningful deployment for some of the Jack-up Rigs and is facing payment delays and defaults by customers.

We await better clarity and will fine-tune our forecasts after the release of FY18 results.

## 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.

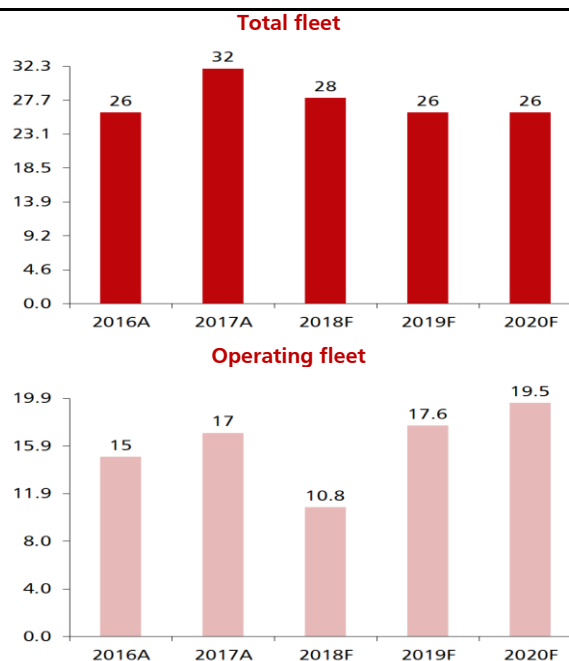
**Strategic partners boost growth prospects.** Successful refinancing is half the battle. Ezion has recently firmed up a JV with China Merchant Group. Having strategic shareholders, be it industrial or financial investors, is a critical weapon required to win the other half of the battle i.e. earnings 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. This is expected to decline to 50% in FY18 and potentially recover to 85% by end FY19. Jackups were only 19% utilised in FY17 but should improve to 30% in 2018 and 50% by 2019. Day rates are now seeing some signs of rate recovery as well. Average day rates for liftboats improved from 2017's estimated ~US\$30k level to US\$40k in 2018.

### 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 a 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.



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. **Net gearing improved to 3.0x in 3Q18, largely attributable to bond conversion to equity.** Assuming full conversion and exercise of all warrants and options, net gearing would fall to 1.0x, though this might take a while given the depressed share price.

**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% in the past three years and are expected to pick up in 2019. Securing new/renewal of charter contracts at good rates is a key earnings driver.

**Key Risks:**

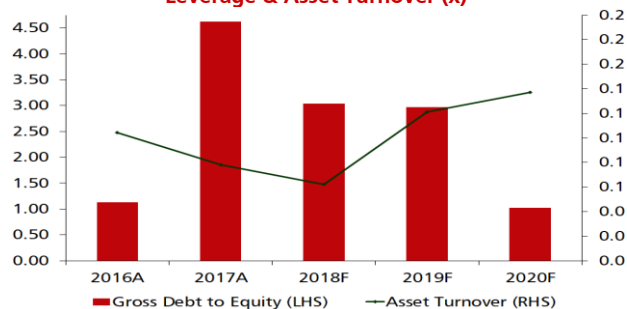
**Slower recovery.** A fall in the oil price to below US\$50/bbl might hit O&G activities, and thus drag demand and day rates improvement for liftboats. This poses downside risks to our earnings forecasts.

**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 a majority is near completion.

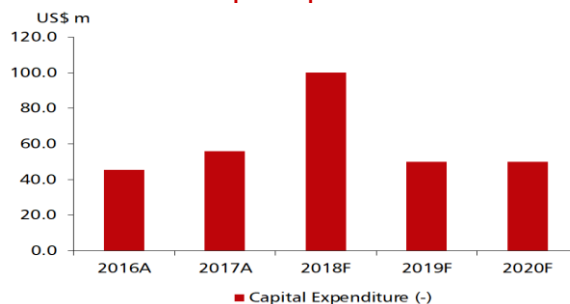
**Company Background**

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 ~10 service rigs in operation as of Dec-2018. It is expected to take delivery of one liftboat in 2019 and dispose of 7 jackup rigs.

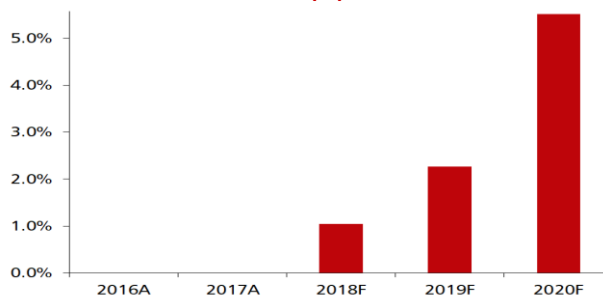
**Leverage & Asset Turnover (x)**



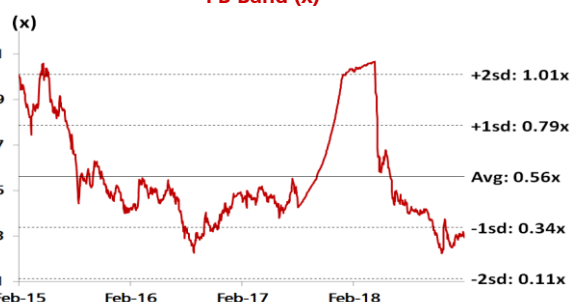
**Capital Expenditure**



**ROE (%)**



**PB Band (x)**



Source: Company, DBS Bank

**Key Assumptions**

FY Dec	2016A	2017A	2018F	2019F	2020F
Total fleet	26.0	32.0	28.0	26.0	26.0
Operating fleet	15.0	17.0	10.8	17.6	19.5

**Segmental Breakdown**

FY Dec	2016A	2017A	2018F	2019F	2020F
<b>Revenues (US\$ m)</b>					
Liftboat	127	96	66	161	179
Jackups	157	76	44	71	100
Offshore Support Vessels	34	21	14	17	14
Others	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>318</b>	<b>193</b>	<b>124</b>	<b>250</b>	<b>293</b>
<b>Gross Profit (US\$ m)</b>					
Liftboat	45	37	11	82	96
Jackups	11	(35)	(24)	(8)	6
Offshore Support Vessels	5	0	2	4	2
Others	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>61</b>	<b>2</b>	<b>(11)</b>	<b>79</b>	<b>103</b>
<b>Gross Profit Margins (%)</b>					
Liftboat	35.8	38.5	16.6	51.0	53.5
Jackups	7.1	(45.8)	(54.5)	(10.7)	5.8
Offshore Support Vessels	13.9	(1.3)	16.5	25.5	12.1
Others	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>19.2</b>	<b>0.9</b>	<b>(8.6)</b>	<b>31.7</b>	<b>35.3</b>

**Income Statement (US\$ m)**

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	318	193	124	250	293
Cost of Goods Sold	(257)	(191)	(139)	(176)	(194)
<b>Gross Profit</b>	<b>61</b>	<b>2</b>	<b>(16)</b>	<b>74</b>	<b>98</b>
Other Opng (Exp)/Inc	(19)	(56)	(13)	(26)	(28)
<b>Operating Profit</b>	<b>42</b>	<b>(54)</b>	<b>(28)</b>	<b>48</b>	<b>70</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	11	7	(7)	(5)	3
Net Interest (Exp)/Inc	(28)	(32)	(28)	(30)	(30)
Exceptional Gain/(Loss)	(56)	(935)	70	0	0
<b>Pre-tax Profit</b>	<b>(31)</b>	<b>(1,015)</b>	<b>7</b>	<b>13</b>	<b>43</b>
Tax	(3)	(3)	(3)	(3)	(3)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>(34)</b>	<b>(1,018)</b>	<b>4</b>	<b>11</b>	<b>40</b>
Net Profit before Except.	23	(82)	(66)	11	40
Preference Dividend	(8)	0	0	0	0
<b>Net Pft Pre-Ex, Aft Pref Div</b>	<b>14</b>	<b>(82)</b>	<b>(66)</b>	<b>11</b>	<b>40</b>
EBITDA	204	95	51	138	175
<b>Growth</b>					
Revenue Gth (%)	(9.4)	(39.3)	(35.9)	101.5	17.3
EBITDA Gth (%)	(23.8)	(53.5)	(45.7)	167.8	27.1
Opg Profit Gth (%)	(61.5)	(228.8)	(48.1)	(270.4)	46.6
Net Profit Gth (%)	nm	(2,928.0)	nm	164.6	280.6
Net Pft Pre-Ex Aft Perf Div Gth (%)	(85.1)	nm	20.3	nm	280.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	19.2	0.9	(12.6)	29.7	33.6
Opg Profit Margin (%)	13.2	(28.1)	(22.7)	19.2	24.0
Net Profit Margin (%)	(10.6)	(527.0)	3.2	4.3	13.8
ROAE (%)	(3.3)	(125.6)	1.0	2.3	5.5
ROA (%)	(1.4)	(41.2)	0.2	0.5	1.9
ROCE (%)	1.5	(2.4)	(0.9)	2.0	3.3
Div Payout Ratio (%)	N/A	N/A	0.0	0.0	0.0
Net Interest Cover (x)	1.5	(1.7)	(1.0)	1.6	2.3

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (US\$ m)**

FY Dec	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Revenue	64	45	38	23	28
Cost of Goods Sold	(62)	(41)	(38)	(34)	(35)
<b>Gross Profit</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>(11)</b>	<b>(7)</b>
Other Oper. (Exp)/Inc	(11)	(16)	(16)	15	(6)
<b>Operating Profit</b>	<b>(10)</b>	<b>(12)</b>	<b>(16)</b>	<b>5</b>	<b>(12)</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	5	0	0	(1)	(2)
Net Interest (Exp)/Inc	(8)	(10)	(7)	(7)	(6)
Exceptional Gain/(Loss)	0	(946)	(22)	91	0
<b>Pre-tax Profit</b>	<b>(13)</b>	<b>(968)</b>	<b>(46)</b>	<b>88</b>	<b>(20)</b>
Tax	0	(1)	(1)	(1)	(1)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>(14)</b>	<b>(969)</b>	<b>(46)</b>	<b>87</b>	<b>(21)</b>
Net profit bef Except.	(14)	(23)	(24)	(4)	(21)
Preference Dividend	0	0	0	0	0
<b>Net Pft (Pre-Ex, Aft Pref Div)</b>	<b>(14)</b>	<b>(23)</b>	<b>(24)</b>	<b>(4)</b>	<b>(21)</b>
EBITDA	32	21	3	26	9

**Growth**

Revenue Gth (%)	(5.5)	(29.9)	(15.5)	(38.7)	21.5
EBITDA Gth (%)	0.4	(34.7)	(84.7)	714.1	(63.3)
Opg Profit Gth (%)	165.5	28.6	30.3	(128.1)	(368.9)
Net Profit Gth (%)	433.3	6,972.2	(95.2)	(287.4)	(124.1)

**Margins**

Gross Margins (%)	2.6	7.5	0.5	(47.2)	(23.4)
Opg Profit Margins (%)	(15.1)	(27.7)	(42.8)	19.6	(43.4)
Net Profit Margins (%)	(21.5)	(2,168.9)	(122.9)	376.0	(74.6)

**Balance Sheet (US\$ m)**

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	2,198	1,390	1,403	1,358	1,306
Invts in Associates & JVs	250	179	292	287	290
Other LT Assets	5	76	76	76	76
Cash & ST Invts	205	46	57	56	175
Inventory	0	0	0	0	0
Debtors	179	82	54	139	183
Other Current Assets	164	163	163	163	163
<b>Total Assets</b>	<b>3,002</b>	<b>1,936</b>	<b>2,045</b>	<b>2,079</b>	<b>2,194</b>
ST Debt	331	1,044	194	194	194
Creditor	112	93	44	67	66
Other Current Liab	49	103	99	99	99
LT Debt	1,160	365	1,217	1,217	817
Other LT Liabilities	34	26	26	26	26
Shareholder's Equity	1,315	305	465	475	991
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>3,002</b>	<b>1,936</b>	<b>2,045</b>	<b>2,079</b>	<b>2,194</b>
Non-Cash Wkg. Capital	182	49	74	136	181
Net Cash/(Debt)	(1,286)	(1,362)	(1,354)	(1,355)	(836)
Debtors Turn (avg days)	213.4	246.1	199.5	140.8	200.5
Creditors Turn (avg days)	391.6	759.9	473.0	251.9	263.0
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)	1.1	0.2	0.8	1.0	1.5
Quick Ratio (x)	0.8	0.1	0.3	0.5	1.0
Net Debt/Equity (X)	1.0	4.5	2.9	2.9	0.8
Net Debt/Equity ex MI (X)	1.0	4.5	2.9	2.9	0.8
Capex to Debt (%)	3.0	4.0	7.1	3.5	4.9

Source: Company, DBS Bank

## Cash Flow Statement (US\$ m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	(31)	(1,015)	7	13	43
Dep. & Amort.	151	142	87	95	102
Tax Paid	(3)	(3)	(6)	(3)	(3)
Assoc. & JV Inc/(loss)	(11)	(7)	7	5	(3)
Chg in Wkg.Cap.	(43)	(28)	(21)	(62)	(45)
Other Operating CF	83	974	32	32	33
<b>Net Operating CF</b>	<b>146</b>	<b>64</b>	<b>105</b>	<b>81</b>	<b>127</b>
Capital Exp.(net)	(45)	(56)	(100)	(50)	(50)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(29)	(19)	(120)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	2	3	0	0	0
<b>Net Investing CF</b>	<b>(72)</b>	<b>(72)</b>	<b>(220)</b>	<b>(50)</b>	<b>(50)</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	(146)	(116)	(23)	0	(400)
Capital Issues	100	0	181	0	475
Other Financing CF	(38)	(37)	(32)	(32)	(33)
<b>Net Financing CF</b>	<b>(84)</b>	<b>(153)</b>	<b>125</b>	<b>(32)</b>	<b>43</b>
Currency Adjustments	(15)	3	0	0	0
Chg in Cash	(25)	(158)	11	(1)	120
Opg CFPS (S cts)	9.1	4.4	3.4	3.9	2.9
Free CFPS (S cts)	4.8	0.4	0.1	0.8	1.3

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Apr 18	0.20	0.13	UNDER REVIEW
2:	10 Apr 18	0.20	0.29	BUY
3:	14 May 18	0.12	0.29	BUY
4:	06 Jul 18	0.08	0.29	BUY
5:	10 Aug 18	0.08	0.21	BUY
6:	12 Nov 18	0.05	0.14	BUY

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

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*

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Dissemination Date: 7 Feb 2019 12:17:09 (SGT)

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