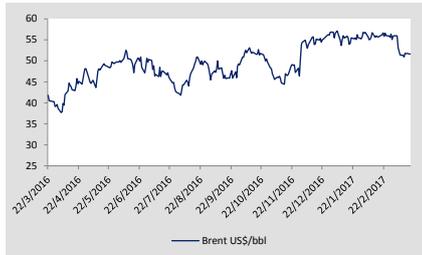


Oil prices have stabilised



Source: Bloomberg

Positive signs in offshore & marine sector

Event

Transocean (RIG US), a major offshore drilling contractor in the O&M industry, announced yesterday that it was selling 15 high-specification jackups to Borr Drilling for US\$1.35 bn. The transaction includes the remaining yard instalments for five jackups ordered with Keppel Corp (KEP SP, HOLD TP S\$6.50). The five jackup rigs, which had previously been deferred for a 2020 delivery, have been rescheduled to earlier dates: three rigs for delivery in 2017 and the remainder in 2020. The sale of the 15 jackups is the biggest acquisition in the offshore drilling sector since the downturn began in 2014.

Impact

The news is positive for KEP and other oil-related plays. We believe the increased activity in asset acquisitions indicates the price mismatch between buyers and sellers are narrowing – a sign that industry players are beginning to turn positive. In addition, there are pockets of orders returning in the sector, such as CSE Global’s (CSE SP, not-rated) latest S\$42 mn order win for two deepwater offshore projects.

Valuation & Action

We expect increasing M&A activity and order wins to help drive industry valuations higher over the next few quarters. To ride the upside, we would prefer companies in net cash positions (or very low debt) to take advantage of asset acquisitions in this environment. In our Singapore O&M universe, we would accumulate Mermaid Maritime (MMT SP, not-rated) and CH Offshore (CHO SP, not-rated) among the offshore support vessel (OSV) owners and operators. Among the yards, we would accumulate KEP below S\$6.50 and Sembcorp Marine (SMM, HOLD TP S\$1.63) below S\$1.50.

Cash-rich companies with short-term catalysts include Baker Technology (BTL SP, not-rated), which we believe is ready to make acquisitions this year (see our non-rated note published on March 6). We also like PEC (PEC SP, not-rated) for its growing recurring revenue streams and potential upside from project wins. Among situational plays, we had previously highlighted Civmec (CVL SP, not-rated) as a proxy for Australian defence spending and infrastructure projects.

We remain cautious on highly leveraged companies, including Nam Cheong (NCL SP, HOLD TP S\$0.07) and Pacific Radiance (PACRA SP, HOLD TP S\$0.17) as we believe that risk of a cash call have increased given their weak balance sheets and negative cash flows over the last eight quarters. We remain negative on Ezion (EZI SP, SELL TP S\$0.20) on asset quality concerns and risks of further impairments this year.

Risks

Breakdown of OPEC production cut agreement in 2H17 may see downward pressure on oil prices.

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See the last page for important disclosures.

Figure 1: Stick to those with little or no debt (net gearing column) as they are well positioned for M&A activities

Company	Bloomberg Ticker	Price (Lcl curr)	Mkt Cap (\$m)	P/E (x) (hist)	P/B (x)	ROE (%)	EV/EBITDA (x) (ttm)	EV/EBITDA (x) (fwd)	EV/EBITDA (x) (fwd 1 yr)	Net Gearing (%)	Dvd Yld (%)	BETA
MARINE AND OFFSHORE YARDS												
Keppel Corp	KEP SP	6.92	12545	16.0	1.1	7	16.8	15.5	14.8	54.3	2.9	1.6
Sembcorp Marine	SMM SP	1.91	3989	50.5	1.6	3	17.9	17.5	16.0	112.7	1.3	1.9
Yangzijiang	YZJSGD SP	1.13	4330	12.2	0.9	8	3.3	5.4	5.7	NC	3.5	1.2
Cosco	COS SP	0.30	672	-	1.1	(65)	-	21.7	19.2	559.0	-	-
Vard	VARD SP	0.25	289	-	0.8	(5)	46.4	70.6	779.8	262.2	-	1.8
Nam Cheong	NCL SP	0.03	59	-	0.1	(3)	45.3	-	-	118.0	-	1.7
ASL Marine	ASL SP	0.14	90	-	0.2	(1)	7.1	-	-	110.3	-	0.6
Triyards	ETL SP	0.29	92	4.8	0.3	6	6.5	7.8	9.1	66.3	-	1.5
SIMPLE AVERAGE				20.9	0.8	(9)	20.5	23.1	140.7	200.1	2.6	1.5
RIG OWNERS												
Ezion	EZI SP	0.34	705	-	0.4	(2)	9.4	8.3	7.3	97.8	-	1.5
Mermaid Maritime	MMT SP	0.23	325	13.7	0.7	5	9.0	6.1	5.7	8.2	-	1.3
KS Energy	KST SP	0.08	41	-	0.7	(98)	-	-	-	489.7	-	1.0
Marco Polo Marine	MPM SP	0.05	18	-	0.1	(8)	36.1	-	-	146.6	-	0.1
Jasper Investment	JASP SP	0.03	135	848.0	-	-	380.9	-	-	-	-	0.8
Falcon Energy Group	JASP SP	0.03	135	848.0	-	-	380.9	-	-	-	-	0.8
SIMPLE AVERAGE				430.9	0.5	(26)	108.8	7.2	6.5	185.6	1.9	0.9
OSV OWNERS												
Ezion	EZI SP	0.34	705	-	0.4	(2)	9.4	8.3	7.3	97.8	-	1.5
POSH	POSH SP	0.35	626	-	0.6	(42)	31.9	18.7	13.0	100.7	-	1.0
Nam Cheong	NCL SP	0.03	59	-	0.1	(3)	45.3	-	-	118.0	-	1.7
Ezra	EZRA SP	0.01	32	-	0.1	(133)	-	-	-	307.1	-	1.9
Pacific Radiance	PACRA SP	0.14	101	-	0.2	(34)	-	-	43.3	160.5	7.1	1.3
CH Offshore	CHO SP	0.29	204	48.0	0.9	2	7.6	-	-	NC	-	0.2
Vallianz	VALZ SP	0.02	75	3.5	0.2	6	6.9	5.4	5.1	108.6	3.6	1.6
Marco Polo Marine	MPM SP	0.05	18	-	0.1	(8)	36.1	-	-	146.6	-	0.1
Atlantic Navigation	ATL SP	0.15	39	12.9	0.3	2	10.7	-	-	80.6	-	-
SIMPLE AVERAGE				21.5	0.3	-22.6	21.1	10.8	17.2	159.5	4.2	1.2
O&G ENGINEERING AND SERVICES												
Boustead	BOCS SP	0.86	446	15.8	1.4	9	6.4	7.0	6.2	NC	2.9	0.8
Rotary Engineering	RTRY SP	0.41	230	19.9	1.4	5	10.1	-	-	NC	1.2	1.0
Civmec	CVL SP	0.69	343	33.1	2.0	6	15.9	-	-	12.8	1.0	0.3
Dyna-Mac	DMHL SP	0.19	191	-	1.2	(9)	10.4	-	-	NC	-	1.3
Baker Technology	BTL SP	0.73	148	-	0.7	(4)	-	-	-	NC	3.4	0.5
Gaylin	GHL SP	0.10	44	83.3	0.4	1	33.6	-	-	80.0	-	-
PEC	PEC SP	0.71	181	10.8	0.8	8	1.4	2.1	1.4	NC	2.8	0.5
Nordic Group	NRD SP	0.32	126	9.7	1.9	20	6.8	-	-	NC	4.0	0.7
EMAS	EMAS SP	0.05	22	-	-	(85)	-	-	-	881.3	-	1.5
AusGroup	AUSG SP	0.05	38	-	-	-	-	-	-	-	-	2.2
KS Energy	KST SP	0.08	41	-	0.7	(98)	-	-	-	489.7	-	1.0
Mencast	MCAST SP	0.17	72	-	0.6	(22)	58.5	-	-	160.9	-	-
MTQ Corp	MTQ SP	0.45	69	-	0.7	(23)	-	-	-	5.3	-	0.8
SBI Offshore	SBIO SP	0.09	22	-	0.8	(19)	-	-	-	-	-	-
Federal International	FEDI SP	0.34	47	6.5	0.6	8	7.4	-	-	25.5	4.5	1.3
Viking Offshore	VOML SP	0.03	26	-	0.4	(19)	-	-	-	43.8	-	1.4
BH Global	BHGM SP	0.22	26	-	0.4	(15)	-	-	-	12.6	-	-
SIMPLE AVERAGE				25.6	0.9	(14)	16.7	4.5	3.8	176.1	2.8	1.0

NC-Net Cash

Source: Bloomberg, KGI Research

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HOLD	-10% to +10% total return over the next 12 months
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