THE BUSINESS TIMES
SINGAPORE

SE Singapore Markets

HD **Brokers' Take**

WC 1,025 words

PD 11 July 2014

SN Business Times Singapore

SC STBT

LA English

LP

Offshore Oil and Gas Services

DBS Group Research, July 9

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WE hosted some of Singapore's premier offshore support companies at our Pulse of Asia conference last week which attracted many investors.

The companies agree that the offshore support vessel (OSV) market remains strong with continued enquiries for tonnage, and rates are stable. There have been concerns about possible capital expenditure cuts by some international oil companies, but what most experts agree on is that development and production operating expenditures remain buoyant, and even big exploration players like Petrobras cannot afford to ignore its production assets in the Campos basin.

This is supporting sustainable demand for inspection, repair & maintenance assets including liftboats, subsea vessels, accommodation barges and semis.

With energy reforms underway in the country, a large number of new rigs are expected to enter the Mexican market over the next few years, leading to demand for OSVs.

Pacific Radiance has recently set up a joint venture in Mexico to explore the possibility of deploying some of its existing orderbook, while Nam Cheong has sold four vessels in this market already.

PACC Offshore is an established player in the market, and despite facing near term issues at its joint venture, is likely to keep a presence there.

Contract awards in Indonesia are expected to gain traction in 2015 as the (ongoing) general election has caused delays in approvals for some long term projects.

But charter rates are still about 10-20 per cent higher than the rest of the region, especially for shorter term contracts.

Top picks are Ezion and Nam Cheong. We raised our target price for Nam Cheong to S$0.52 after we roll over the valuation base to blended FY2014/15 earnings, in line with better visibility and continued vessel sale momentum.

United Envirotech

July 10 close: S$1.425

DBS Group Research, July 10

THERE is more than meets the eye. Despite trading at above its historical average, United Envirotech (UENV) recently announced that it has been approached by an interested party to explore a potential share sale. We are not surprised by the interests in UENV but we did not expect the potential buyer to be undeterred by the stock's seemingly high valuations.

To close the deal at this level, we feel the interested party is confident of either: 1) further re-rating of UENV's membrane/technology business, or 2) potential value-unlocking of UENV's businesses.

As China continues to tighten discharge limits, the push for more membrane-based water plants in China will accentuate UENV's membrane bioreactor (MBR) capability and assets, which deserves higher valuations than water peers with conventional or municipal water plants. Apart from being able to integrate a MBR system, UENV also stands out from the rest for owning a membrane operation, which enables it to be more vertically integrated.

As we re-rate UENV's EPC (engineering, procurement and construction) and membrane earnings to closer peers, our sum-of-the-parts valuation is lifted to S$1.66.

Possible ways to unlock value include spinning off its membrane operations to China, where such companies garner steeper valuations. It is also conceivable to securitise UENV's water portfolio into a trust.

Upgrade to "buy" (from "hold") for long-term investment horizon. During this phase of massive expansion and development, we observe that valuations are running ahead of growth. However, we believe valuations will remain elevated as long as the Chinese government is keen to develop environmentally and continue to support the industry with favourable policies and directives.

BUY

Tat Hong Holdings

July 10 close: S$0.88

OCBC Investment Research, July 10

SINCE a disappointing FY2014 (ended March 2014), Tat Hong has undertaken a series of disposals totalling S$72.9 million. This is a sizeable amount that is 124.4 per cent of cash balance as of March 2014.

The disposal deals comprise: 1) a S$17.2 million cash consideration for 31.27 per cent interest in Kian Ho Bearings Ltd, 2) cash consideration of S$20.6 million for 70 per cent interest in Hup Hin Transport Co Pte Ltd, and 3) cash consideration of A$30 million (about S$35.1 million) for a conditional sale and leaseback agreement with TransLinQ Income Pty Ltd in relation to five Australian properties.

We believe the disposals will make Tat Hong more asset-light and allow the company to refocus on sustainable core business in the face of a faltering Australian mining economy. We note that the disposals consist of both non-core (Kian Ho Bearings and Australian properties) and less profitable core (Hup Hin Transport) assets.

Based on management outlook, Hong Kong and Thailand will be growth areas, whereas Singapore and Malaysia are likely to see flat growth. Despite the re-strategising, we do not anticipate core earnings to bounce back to 2013 levels given that combined revenue from Southeast Asia and Hong Kong is only about a third of that from Singapore and Australia.

We think most of the proceeds will be used for debt reduction ... Maintain "hold" with S$0.89 fair value estimate; we look to accumulate if share price drops below S$0.81.

HOLD

- Compiled by CAI HAOXIANG

Glossary:

EPS - earnings per share

Ebit - earnings before interest & tax

Ebitda - earnings before interest, tax, depreciation & amortisation

FY - fiscal/financial year

H1, H2 - first or second half

NAV - net asset value

9M - nine months

P/B - price/book value (ratio)

PE - price/earnings (ratio)

Q1, Q2, Q3 - first, second, or third quarter

q-o-q - quarter-on-quarter

ROE - return on **equity**

RNAV - revised net asset value

TP - target price

y-o-y - year-on-year

YTD - year to date

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PUB Singapore Press Holdings Limited

AN Document STBT000020140710ea7b0000t