



Perisai Petroleum

PPT MK / PPTB.KL

FLASH NOTE

➤ **Market Cap**
US\$255.9m
RM775.1m


➤ **Avg Daily Turnover**
US\$2.67m
RM8.15m

➤ **Free Float**
55.1%
851.8 m shares

Current **RM0.91**
Target **RM1.50**
Previous Target **RM1.45**
Up/downside **64.5%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL NEUTRAL
UNDERPERFORM

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	6.0	30.6	53.0
Absolute	8.3	36.8	56.9

Major shareholders	% held
Ezra Holdings	25
Mercury Pacific Marine	10.6
Lyneair Plus	9.3

A well-oiled machine takes to the road

Asset acquisitions, contract renewals and funding were among the issues raised by clients during our recent roadshow with Perisai's MD. There is definitely upside to our forecasts if the company expands its fleet further via an acquisition. Watch this space for M&A news.

Even without the new asset, FY12 is already shaping up to be a new record year for Perisai, thanks to maiden full-year contributions from Garuda and Intan. Our target price rises as we now use our revised CY13 target market P/E of 13x (12.6x previously). Perisai remains an Outperform.

What Happened ➤

We took MD Izzet Ishak on a roadshow to Hong Kong and Singapore on 5-6 Mar. This trip was organised following his presentation to 20 fund managers at our luncheon in Kuala Lumpur on 23 Feb. There were no surprises from the meetings with fund managers in Hong Kong and Singapore. Izzet took the opportunity to shed more light on Perisai's operations and growth plans. See overleaf for our observation of Perisai's key strengths and risk factors.

What We Think ➤

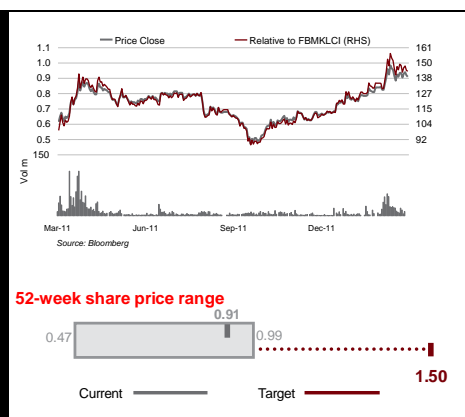
We sense that most fund managers share our positive view of Perisai's

potential acquisition. The company's existing 10 assets are all fully utilised, leaving it with no capacity to take on new jobs. A substantial earnings enhancement is definitely in the pipeline should the M&A be similar to the Garuda acquisition, which comes with a ready asset and a ready contract. We have not imputed the potential new asset in our forecasts.

Izzet did not specify the asset but indicated that it will be a specialised one. A fundraising exercise may be in the cards to facilitate the asset purchase, which may cost US\$100m-200m.

What You Should Do ➤

Investors should accumulate the stock aggressively. Our forecasts of record profits in FY12-14 support our sector-beating 3-year EPS CAGR of 99%. Yet, the stock offers the most share price upside in our oil & gas portfolio and the cheapest FY12-14x P/Es of 7-9 x.



Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (RMm)	75.2	82.4	249.5	274.3	279.5
Operating EBITDA (RMm)	36.6	65.3	131.9	161.6	165.9
Net Profit (RMm)	10.27	21.28	90.42	95.09	96.72
Core EPS (RM)	0.02	0.04	0.11	0.12	0.12
Core EPS Growth	(69%)	163%	168%	5%	2%
FD Core P/E (x)	58.69	20.10	8.31	7.90	7.77
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	20.53	15.62	10.54	8.60	8.51
P/FCFE (x)	102.4	8.4	1.5	7.5	5.9
Net Gearing	71%	58%	166%	133%	114%
P/BV (x)	2.58	2.33	2.02	1.61	1.33
Recurring ROE	4.3%	12.1%	26.0%	22.6%	18.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.02	1.08	1.06

SOURCE: CIMB, COMPANY REPORTS

Highlights from the roadshow ▶

The roadshow in Hong Kong and Singapore was Izzet's first trip with a broker since he joined Perisai in Apr 10. We sat down with eight fund managers in Hong Kong on 5 Mar and 12 fund managers in Singapore on 6 Mar. The funds have assets under management (AUM) ranging from US\$100m to US\$4bn.

Overall, we view Perisai's investment proposition as well-received. It offers a high-growth story and sufficient liquidity that come with cheap valuations. Post-restructuring, the company stepped into a new growth sphere in FY11, resulting in a record core net profit of RM35m (+244% yoy). The company is poised for a new net profit high of RM90m this year, equivalent to 157% yoy growth, thanks to nine new assets. The fact that the company has a lean structure, which eliminates the risks of earning leakages, also sat well with the fund managers.

Many of the fund managers were already familiar with Izzet for his past track record as CEO of a leading oil & gas service provider from Jul 03 until Jan 10.

The following are our observations of Perisai's key strengths and risk factors.

Key strengths ▶

Izzet presented a compelling argument for growth and had active Q&A sessions with the fund managers. Many aspects of the business were discussed but three kept cropping up. Not surprisingly, these three are the ones that give Perisai its edge – Garuda's mobile offshore production unit (MOPU), active fleet expansion, and the relationship with biggest shareholder Ezra (EZRA SP, Outperform).

MOPU and active fleet expansion

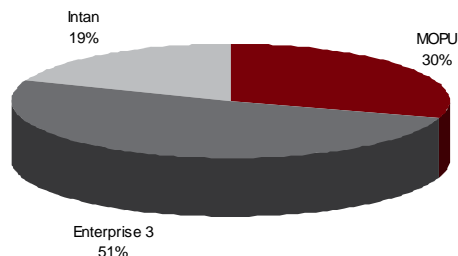
In Apr 10, Ezra bought a 19% stake in Perisai and appointed Izzet as the new MD. Izzet's restructuring of the company in FY10 resulted in a spate of divestments beginning May as he got rid of non-core assets and operations. This time last year, Perisai had only one revenue-generating asset, namely the pipelay barge Enterprise 3 (E3). But the company has scooped up nine new assets since then.

In Aug 11, Perisai bought a 51% stake in Intan Offshore from Emas Offshore, a wholly-owned unit of Ezra. Intan owns eight vessels. Later, in Jan 12, Perisai completed the acquisition of Garuda, which owns a MOPU, from former MD Nagendran Nadarajah. With the inclusion of the MOPU and Intan's eight vessels, Perisai is now owner of ten assets, a significant upgrade from the company's status as a single-asset operator just a year ago. All ten assets are Malaysian-flagged and mobilised in Malaysia.

The MOPU started working for an oil major at the Bekok C field off Terengganu on 1 Oct 11. The asset comes with 2+1+1 contract and an annual profit guarantee of RM50m for the primary term. Izzet gave an assurance to the fund managers that Perisai receives monthly payments directly from the oil major. We understand that the oil major is Petronas.

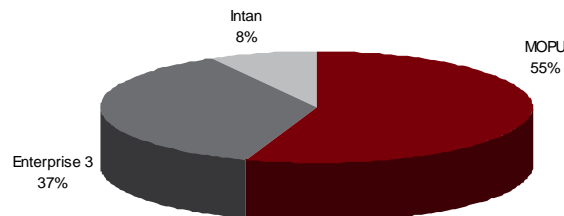
The MOPU was the main discussion point during the roadshow because it is the driving force behind Perisai's anticipated 157% net profit growth this year. The MOPU not only represents a new asset class for Perisai but also helps position the company to offer solutions for marginal field projects. We expect the asset to contribute 30% to FY12 revenue (Figure 1) and 55% to net profit (Figure 2). It also supports our expectation of a blistering 3-year EPS CAGR of 99%, the highest in the sector.

Figure 1: Revenue breakdown, FY12



SOURCES: CIMB, COMPANY REPORTS

Figure 2: Net profit breakdown, FY12



SOURCES: CIMB, COMPANY REPORTS

Relationship with Ezra

Singapore-based Ezra is an integrated offshore support solutions provider for the oil & gas industry. Its backing as Perisai's biggest shareholder is definitely a big stamp of approval and provides a win-win situation for both Perisai and Ezra. Perisai can use an asset-rich major shareholder to help it expand its own asset and revenue base. Indeed, the first move has already been taken. An asset injection of Intan by Ezra has given Perisai a new revenue stream effective 3Q11. Given Ezra's big fleet, Izzet did not rule out the possibility of more asset injections. The asset injection route makes sense given 1) Ezra's extensive fleet of more than 30 vessels of various types, 2) a long construction period (1-2½ years), not inclusive of potential delays, if Perisai commits to newbuilds, and 3) immediate profit contributions when the deals are concluded.

Meanwhile, Ezra can use a Malaysian unit to gain traction in Malaysia and bid for Petronas contracts directly, especially in view of the government's big plans for the oil & gas sector under the Economic Transformation Programme (ETP).

Ezra is not involved in Perisai's daily operations but Ezra's expertise is at Perisai's disposal. Perisai's executive director Adarash Kumar is a representative of Ezra. Izzet has a 2-year call option to purchase 10% of Perisai from Ezra at RM0.485/share. Currently, he is not a shareholder of Perisai.

Key risks ►

It is a major plus point that Perisai's skilled management is backed by Ezra's operational strength. However, our clients voiced concern over the possibility of Ezra selling its stake in Perisai, a move that could change Perisai's focus and put pressure on the share price. Their concern is not unfounded given Ezra's recent share disposal in Ezion (EZI SP, Outperform), an exercise that reduced the former's stake from 14% to 5.6%. Other issues that were raised by our clients were availability of funding for the new asset and contract renewals for Intan's vessels.

Share sale by Ezra

Ezra bought a stake in Perisai with an eye on a stable revenue stream from the Malaysian oil & gas sector. When the acquisition was finalised, Ezra immediately gained access to E3's long-term charter. "Offshore construction work has continued in Malaysia even when oil prices were at US\$10/barrel", Ezra's CEO Lionel Lee was quoted as saying at the time of the stake acquisition. Teaming up with Perisai, a Petronas license holder, also gives Ezra an advantage in bidding for contracts in Malaysia, where local content requirements pose a major hurdle for foreign vessel operators. Based on these reasons, we do not expect Ezra to divest its stake in Perisai in the foreseeable future.

Perisai holds a Petronas license through its 40%-owned associate, Larizz Petroleum Services Sdn Bhd. Izzet owns the remaining stake in Larizz. He and Dato' Dr. Mohamed Ariffin Aton, chairman of Perisai, serve as the directors of Larizz.

New asset and availability of funding

A full utilisation of assets is a double-edged sword. While the investment community takes comfort in Perisai's fleet being 100% mobilised and backed by long-term contracts, there is also concern over the company not having spare capacity to undertake new jobs. Izzet highlighted that management is currently mulling over a potential asset acquisition in 2H12 to reach into new revenue opportunities. A fundraising exercise is possible to facilitate the asset purchase, which may cost US\$100m-200m. Izzet acknowledged that US-dollar loans have been hard to come by of late, but Malaysian and Singaporean financial institutions have been supportive.

The new asset may or may not come with a contract. The asset was not disclosed but Izzet stressed that it will be deployed in Malaysia. The company is content with its single-market operations for now and views that there are more than enough opportunities in Malaysia for a company its size.

Intan's contract renewals

Intan's eight vessels may not make as much profit as the MOPU and E3 (Figure 1 and 2) but they have their own niche and customer base. The vessels, which have an average age of six years, have long-term charters up until Sep 15 (Figure 3). The contracts for five vessels will expire this year. Management is negotiating with Emas on contract renewals and is confident of continued charters for the five vessels.

Figure 3: Intan's vessels

Name	Type	Capacity (HP)	Contract expiry
Bayu Intan	Anchor handling tug	4,200	Nov-12
Lewek Eagle	Anchor handling tug	4,200	Apr-13
Lewek Mallard	Anchor handling tug supply	7,300	Jan-14
Lewek Emerald	Anchor handling tug supply	12,000	Sep-15
Lewek Swift	Anchor handling tug supply	14,000	Dec-12
Sarah Jade	Crew boat (80 pax)	3,210	Aug-12
Sarah Pearl	Crew boat (50 pax)	3,300	Aug-12
Sarah Gold	Crew boat (50 pax)	4,500	Sep-12

SOURCES: CIMB, COMPANY REPORTS

Figure 4: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2011	CY2012		CY2011	CY2012	CY2011	CY2012
Bumi Armada	BAB MK	Outperform	4.23	4.61	4,089	34.4	19.8	32.5%	16.9%	20.6%	0.6%	0.6%
Dialog Group	DLG MK	Outperform	2.38	3.15	1,889	27.8	22.6	23.2%	26.2%	28.0%	1.9%	2.4%
Malaysia Marine & Heavy Eng	MMHE MK	Underperform	5.32	4.50	2,810	23.5	22.4	-12.2%	16.2%	15.8%	1.6%	1.4%
Perdana Petroleum	PETR MK	Trading Buy	0.72	0.85	117	na	10.1	na	-4.3%	5.7%	0.0%	0.0%
Perisai Petroleum	PPT MK	Outperform	0.91	1.50	256	19.6	8.3	99.3%	12.6%	25.4%	0.0%	0.0%
Petronas Dagangan	PETD MK	Outperform	18.50	21.10	6,067	21.2	16.5	14.6%	14.0%	15.5%	4.2%	4.1%
Wah Seong Corp	WSC MK	Outperform	2.05	2.28	510	13.7	10.1	46.4%	23.0%	26.3%	2.8%	3.5%
Malaysia average						24.3	18.0	20.9%	17.1%	19.8%	2.2%	2.2%
ASL Marine	ASL SP	Outperform	0.59	0.72	198	10.0	8.7	10.2%	7.2%	7.9%	2.7%	3.0%
CSE Global	CSE SP	Neutral	0.84	0.90	342	15.5	7.4	10.7%	14.3%	25.2%	2.4%	5.4%
Ezion Holdings	EZI SP	Outperform	0.87	1.09	497	10.6	7.9	37.1%	19.5%	19.3%	0.1%	0.1%
Ezra Holdings	EZRA SP	Outperform	1.17	1.43	806	16.0	11.3	8.7%	6.1%	8.0%	1.6%	2.3%
Mermaid Maritime	MMT SP	Outperform	0.30	0.44	184	na	29.9	na	-0.1%	1.5%	6.0%	0.0%
Otto Marine	OTML SP	Underperform	0.13	0.10	196	na	na	-54.2%	-16.6%	-4.0%	0.0%	0.0%
PEC Ltd	PEC SP	Underperform	0.74	0.82	150	8.0	11.1	-22.2%	11.6%	8.2%	4.0%	4.1%
Rotary Engineering	RTRY SP	Underperform	0.70	0.63	313	12.7	13.2	-15.2%	11.2%	10.0%	4.3%	3.6%
SembCorp Marine	SMM SP	Outperform	5.05	6.28	8,357	13.9	16.2	-2.9%	29.9%	25.5%	6.4%	4.8%
STX OSV	SOH SP	Outperform	1.70	1.84	1,587	5.5	8.3	5.7%	59.0%	28.4%	9.1%	4.7%
Swiber Holdings	SWIB SP	Outperform	0.69	0.94	276	9.1	6.6	58.3%	8.7%	10.8%	0.0%	0.0%
Yangzijiang Shipbuilding	YZJ SP	Underperform	1.25	1.43	3,800	6.0	6.5	6.5%	33.8%	25.7%	4.2%	3.8%
Singapore average						10.0	10.7	4.4%	23.6%	19.6%	5.4%	4.1%
PTT	PTT TB	Outperform	353.0	453.0	32,757	9.5	8.0	17.8%	21.8%	22.3%	2.5%	2.5%
PTT Exploration & Production	PTTEP TB	Trading Buy	180.5	195.0	19,469	13.0	10.4	18.4%	26.2%	25.8%	2.7%	3.4%
Thai Oil	TOP TB	Outperform	71.75	76.00	4,755	9.8	8.6	45.1%	20.5%	20.1%	5.5%	6.2%
Thailand average						10.5	8.7	20.2%	22.7%	23.0%	2.8%	3.2%
Wintermar Offshore Marine	WINS IJ	Outperform	365.0	560.0	142	10.7	7.6	31.7%	10.7%	13.3%	0.0%	0.0%
Indonesia average						10.7	7.6	31.7%	10.7%	13.3%	0.0%	0.0%
Average (all)						11.8	10.2	15.5%	22.0%	21.8%	3.1%	3.1%

SOURCES: CIMB, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCP - Excellent, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, ITD - Good, IVL - Very Good, KBANK - Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good.