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21 April 2014

# Alam Maritim

*Navigating its way to Pan Malaysia jobs*

RECOM	Buy
PRICE	RM1.55
MKT CAPITALISATION	RM1,242m
BOARD	Main (Syariah stock)
SECTOR	Oil & Gas
INDEX COMPONENT	Nil

AMRB MK / ALMT.KL

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## Investment highlights

- Maintain BUY.** In an interview with The Edge published over the weekend, Alam's CFO Soffan Affendi Aminuddin said that the company is eyeing a slice of the sub-contracting works in relation to the RM10bn Pan Malaysia offshore transport and installation (T&I) jobs. We are encouraged that Alam is actively pursuing the sub-contracting works, which could boost the company's EPS by 12% in FY14, 22% in FY15 and 22% in FY16 if it is successful. For now, we maintain our forecasts and target price of RM2.00. We continue to value the stock at 15.8x CY15 P/E, which is still at a 30% discount to the P/E of the oil & gas big caps. We maintain our Buy recommendation. A successful bid for T&I sub-contracting works and improvements in utilisation and charter rates are the stock's potential re-rating catalysts.
- In talks with contract winners.** To recap, in Dec 2013, Petronas awarded four T&I packages, worth about RM10bn, to three parties, namely Barakah (package A), Puncak Niaga's Global Offshore (package B) and SapuraKencana (packages C and D). Alam is in talks with these three parties to become their sub-contractor. Alam's pipelay barge, 1MAS300, which is owned on a 50:50 basis with Swiber, is on standby for the potential jobs. The three parties are awaiting word from Petronas on the timing to mobilise their assets. Once they get the instruction, Alam can fill the slot by providing its asset for the job. Work is expected to start in 3Q14.
- 12-24% potential EPS boost.** YTD, 1MAS300 has been idle after Alam did not make the cut to secure package A. The company is no stranger to sub-contracting works, having been involved in the earlier T&I job and netting about RM20m p.a. in profit. A contribution of RM20m in net profit could enhance Alam's EPS by 12-24% in FY14-16. However, there could be competition as Perisai's pipelay barge, E3, has also been unemployed after the company missed out on package A. Like Alam, Perisai had also worked on sub-contracting packages in the earlier T&I job.

### Key stock statistics

	2013	2014F
FYE Dec		
EPS (sen)	10.0	12.0
P/E (x)	15.5	12.9
Dividend/Share (sen)	0.0	0.5
NTA/Share (RM)	0.70	0.74
Book Value/Share (RM)	0.70	0.74
Issued Capital (m shares)	799.6	801.5
52-weeks Share Price Range (RM)	RM0.875/RM1.67	
Major Shareholders:	%	
SAR Venture Holdings (M) Sdn. Bhd.	43.8	
Lembaga Tabung Haji	10.4	

### Per share data

FYE Dec	2011	2012	2013	2014F
Book Value (RM)	0.65	0.68	0.70	0.74
Cash Flow (sen)	22.1	24.2	26.1	28.7
Earnings (sen)	3.6	7.6	10.0	12.0
Dividend (sen)	0.0	0.0	0.0	0.5
Payout Ratio (%)	0.0	0.0	0.0	4.2
P/E (x)	43.4	20.3	15.5	12.9
P/Cash Flow (x)	7.0	6.4	5.9	5.4
P/Book Value (x)	2.4	2.3	2.2	2.1
Dividend Yield (%)	0.0	0.0	0.0	0.3
ROE (%)	5.5	11.2	14.2	16.1
Net Gearing (%)	131.7	137.6	143.5	149.4

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

## Recent developments

Soffan also mentioned in the interview that Alam is planning to acquire a US\$80m diving support vessel (DSV) for underwater inspection, repair and maintenance (IRM) works in anticipation of 3-year RM2bn IRM works to be awarded in Malaysia. The company is currently evaluating a proposal for the acquisition of a DSV. It has an option of acquiring the vessel on its own, or through a JV with a foreign partner, with Alam holding the controlling stake.

## Earnings outlook

1MAS300 aside, Alam's offshore support vessels have continued to enjoy high demand, driving Alam's average utilisation to an estimated 80% in FY13, up from 76% in FY12 and 70% in FY11. We expect the utilisation rate to average around 85% this year given the pick-up in offshore activities. Charter rates have also been on the rise. Alam now fetches a rate of around US\$2/HP, an improvement on the year-ago rate of US\$1.75-1.80/HP.

Figure 1: P&L analysis (RM m)

FYE Dec	2011	2012	2013	2014F
Revenue	308.1	502.0	432.9	427.3
Operating Profit (EBIT)	50.4	57.2	35.9	138.3
Depreciation	(34.2)	(36.8)	(38.7)	(40.5)
Interest Expenses	(18.5)	(25.2)	(22.9)	(34.2)
Pretax Profit	13.3	57.1	83.0	120.4
Effective Tax Rate (%)	19.0	0.3	19.0	19.0
Net Profit	12.9	60.0	80.0	96.2
Operating Margin (%)	16.4	11.4	8.3	32.4
Pretax Margin (%)	4.3	11.4	19.2	28.2
Net Margin (%)	4.2	12.0	18.5	22.5

Source: Company, CIMB estimates

## Recommendation

**Maintain Buy.** We maintain our forecasts and target price of RM2.00. We continue to value the stock at 15.8x CY15 P/E, which is still at a 30% discount to the P/E of the oil & gas big caps. We maintain our Buy recommendation. A successful bid for T&I sub-contracting works and improvements in utilisation and charter rates are the stock's potential re-rating catalysts.

Figure 2: Share price chart (RM)



Source: Bloomberg

## Financial summary

<b>FYE Dec</b>	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue (RM m)	502.0	432.9	427.3	488.7	532.0
EBITDA (RM m)	45.5	74.6	137.3	152.2	163.3
EBITDA margins (%)	9.1	17.2	32.1	31.1	30.7
Pretax profit (RM m)	57.1	83.0	120.4	124.4	131.7
Net profit (RM m)	60.0	80.0	96.2	100.5	106.0
Core net profit (RM m)	60.0	80.0	96.2	100.5	106.0
EPS (sen)	7.6	10.0	12.0	12.5	13.2
EPS growth (%)	+361%	+31%	+20%	+4%	+5%
P/E (x)	20.3	15.5	12.9	12.4	11.7
Core EPS (sen)	7.6	10.0	12.0	12.5	13.2
Core EPS growth (%)	+114%	+31%	+20%	+4%	+5%
Core P/E (x)	20.3	15.5	12.9	12.4	11.7
Gross DPS (sen)	-	-	0.5	0.5	0.5
Dividend yield (%)	-	-	0.3	0.3	0.3
P/NTA (x)	2.3	2.2	2.1	2.0	1.9
ROE (%)	11.2	14.2	16.1	15.9	15.8
Net gearing (%)	137.6	143.5	149.4	155.1	160.7
P/CF (x)	6.4	5.9	5.4	4.9	4.5
EV/EBITDA (x)	43.5	27.5	15.5	14.6	14.2
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.97	0.98	1.01

Source: Company, CIMB Research, Bloomberg

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