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12-month upside potential

Target price	1.25
Current price (as at 16 May)	0.95
Capital upside (%)	31.6
Net dividends (%)	0.0
Total return (%)	31.6

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	969.8
Shares outstanding (m)	1,020.8
Free float (%)	59.8
52-week high / low (RM)	1.03 / 0.65
3-mth avg volume ('000)	8,744.1
3-mth avg turnover (RM m)	8.1

Share price performance

	1M	3M	6M
Absolute (%)	2.2	-1.6	1.6
Relative (%)	0.1	-4.6	-3.3

Share price chart


Source: Bloomberg

TH Heavy Engineering

Oil & Gas

Buy

Bloomberg Ticker: RH MK | 4588

Secures RM2.7bn FPSO contract

- **Secured RM2.7bn FPSO leasing contract from JX Nippon for a 7+10 year charter**
- **Contract value is within expectations and will commence from FY16 onwards**
- **Long term earnings visibility enhanced with more fabrication jobs expected in the near term**
- **Maintain BUY and RM1.25 TP**

EPCIC and FPSO contract secured. TH Heavy Engineering has received a letter of award from JX Nippon Oil & Gas Exploration (JXN) for the provision of engineering, procurement, construction, installation and commissioning (EPCIC) and leasing of the floating production storage and offloading vessel, Deep Producer 1 (DP1), for the Layang Development Project, offshore Sarawak.

7+10 year contract worth RM2.7bn. The FPSO leasing contract is for a fixed term of 7 years (USD372m or RM1.2bn) with 10 annual optional extensions (USD475m or RM1.47bn). The charter is slated to commence in FY16.

Improves long term earnings visibility. The contract is positive for TH Heavy as it ensures stable recurring income from FY16 onwards. The daily charter rate works out to be RM470k/day for the fixed term which is within expectation. As such, we maintain our estimates, which already assume that earnings from the FPSO commence in FY16, and will generate an estimated profit of RM55m per annum. We expect minimal profit recognition from the EPCIC works as the vessel is 80%-owned by TH Heavy.

Fund raising needed. The EPCIC is likely to require USD120-150m of capex to prepare the vessel's topsides for the contract. At this juncture, the funding structure for the capex has yet to be finalised. However, we see potential for a rights issue in the coming months.

Maintain BUY. We maintain our BUY recommendation on TH Heavy and target price of RM1.25 which is based on FY15F PE of 15x. TH Heavy is expected to secure more fabrication jobs this year of up to RM300m with their partner, McDermott International which has a 30% stake in the group's Pulau Indah Yard. Latest orderbook is RM400m excluding the FPSO contract.

**Figure 1 : Financial summary**

FYE Dec (RM m)	2012A	2013A	2014F	2015F
Turnover	190	260	585	965
EBITDA	32	11	104	168
Pre-tax profit	30	-1	84	145
Net profit	24	8	61	104
Net Pft (Pre Ex.)	24	8	61	104
EPS (sen)	2.6	0.8	4.8	8.2
EPS Pre Ex. (sen)	2.6	0.8	4.8	8.2
EPS Gth (%)	nm	-70	528	70
EPS Gth Pre Ex (%)	nm	-70	528	70
Diluted EPS (sen)	2.6	0.8	4.8	8.2
Net DPS (sen)	0.0	0.0	0.0	1.2
BV Per Share (sen)	33.5	31.8	38.4	45.4
PE (X)	36.5	123.4	19.6	11.5
PE Pre Ex. (X)	36.5	123.4	19.6	11.5
P/Cash Flow (X)	51.7	nm	12.4	5.9
EV/EBITDA (X)	22.9	121	13.8	8.2
Net Div Yield (%)	0.0	0.0	0.0	1.3
P/Book Value (X)	2.8	3.0	2.5	2.1
Net Debt/Equity (X)	CASH	0.5	0.4	0.2
ROAE (%)	10.4	2.4	14.1	19.7

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- 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 > -10% over the next 12 months
- SELL - negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Sector rating definitions

- OVERWEIGHT - Industry expected to outperform the market over the next 12 months
- NEUTRAL - Industry expected to perform in-line with the market over the next 12 months
- UNDERWEIGHT - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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