



Indian Equities
Oil & Gas

Quarterly Update

Aban Offshore

HOLD

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| | |
|---------------------|------------------|
| CMP | Rs 462.40 |
| Target Price | Rs 502.00 |
| Sensex | 11,682.99 |
| Nifty | 3,554.60 |

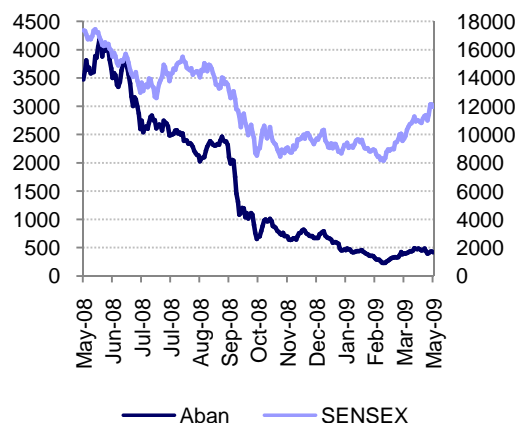
Stock Details

| | |
|----------------------|-------------|
| BSE Code | 523204 |
| NSE Code | ABAN |
| Reuters Code | ABAN.BO |
| Bloomberg Code | ABAN IN |
| Market Cap (Rs Cr) | 1,747.87 |
| Beta | 1.13 |
| 52 W High / Low (Rs) | 4,292 / 224 |
| Avg Daily Volume | 4,05,987 |
| Face Value (Rs) | 2.00 |

Shareholding Pattern (%)

| | |
|---------------------|-------|
| Promoters | 60.83 |
| MF/Banks/Indian FIs | 7.32 |
| FII / NRIs / OCBs | 4.26 |
| Indian Public | 27.59 |

Price Chart



Income from operations in line with our expectations

Aban Offshore (AOL) reported 17% yoy growth in consolidated revenue from operations to Rs 774.1cr which was in line with our expectations. This was due to the redeployment of its rig 'Aban Ice' which is under higher day rate contract. Currently, out of total 21 rigs, only 16 are deployed whereas 5 rigs are lying idle. Idle rigs include Aban VII, Murmanskya, Deep Driller 2, Deep Driller 6, and Deep Driller 7. The inability to get new contracts to these high end assets has restrained revenue generation.

High Impairment charges resulted in Net Loss of Rs 93cr

The impairment of Rs.151.4cr incurred on Murmanskaya, a bareboat chartered jack-up rig, in view of the proposed early termination of bare-boat agreement with the owners of the rig has turned the profit of the company into a net loss of Rs 93cr. This rig was idle since April 2008. Hence, AOL decided to return this rig to its owner and write off the capital expenditure incurred on the bareboat.

Downward revision of EPS by 15.7% for FY2010E and 17.4% for FY2011E

Going forward, we expect the company to incur higher other expenditure and depreciation charges on account of non-deployment of 5 rigs which are currently sitting idle and another 3-4 rigs which are due for contract re-newal. In addition, since the company is carrying high amounts of debt on its balance sheet, the interest charges are also expected to pressurize the earnings. Hence, we have revised our earning estimates downward by 15.7% for FY2010 and 17.4% for FY2011 to Rs 220.5 and Rs 230.3, respectively.

Exhibit 1: Financial Snapshot (Consolidated)

| Particulars | Rs cr | | | | |
|------------------------|---------------|-------------|----------------|--------------|----------------|
| | Q4FY2009 | Q4FY2008 | YoY (%) | Q3FY2009 | QoQ (%) |
| Revenue from Operation | 774.1 | 661.8 | 17.0 | 837.1 | (7.5) |
| Other Income | 1.6 | 1.9 | (20.1) | 162.4 | (99.0) |
| Total Income | 775.6 | 663.8 | 16.9 | 999.5 | (22.4) |
| Total Expenditure | 342.8 | 326.4 | 5.0 | 365.4 | (6.2) |
| Operating Profit | 432.9 | 337.4 | 28.3 | 634.2 | (31.7) |
| Interest | 225.8 | 146.4 | 54.3 | 204.4 | 10.5 |
| PBDT | 207.1 | 191.0 | 8.4 | 429.8 | (51.8) |
| Depreciation | 274.1 | 147.7 | 85.6 | 127.7 | 114.7 |
| Tax | 60.5 | 48.3 | 25.2 | 76.9 | (21.4) |
| Profit After Tax | (127.5) | (4.9) | 2502.4 | 225.2 | (156.6) |
| Share of Profit in JV | 34.4 | 38.8 | (11.2) | 31.4 | 9.8 |
| Net Profit | (93.0) | 33.9 | (374.3) | 256.4 | (136.3) |
| EPS | (24.6) | 9.0 | - | 67.8 | - |

Source: Company, Parsoli Research



Revenue growth was due to the start of new higher day rate contract of Aban Ice

Due to more assets becoming operational in this quarter as compared to corresponding quarter previous year, all the expenses have increased on yoy basis

Impairment cost of Rs 151.4cr included as a depreciation charge increased the yoy depreciation by 85.6%

Performance Highlights

Revenues grew 17% yoy on account of new Singapore rigs and higher rates

In the quarter ended March 2009, AOL posted a revenue growth of 17% yoy. This growth was due to the start of new higher day rate contract of Aban Ice which belongs to the parent company. Also, due to weaker rupee (Rs 50.52) during the quarter as compared to same quarter last year (Rs 39.80) and the impact of new rigs in the Singapore subsidiary, the company earned higher revenues. The contract for Deep Driller 7 expired in December 2008 and the company has not been awarded with any new contracts during the quarter. In Q4FY2009, out of the 21 assets that the company owns or has taken on bareboat, 4 rigs - Murmanskaya, Aban VII, Deep Driller 6, and Deep Driller 7 were in idle status.

OPM improved by 503bps

In Q4FY2009, the operating profit margin (OPM) improved by 503bps to 55.7% as compared to 50.7% in the corresponding quarter last year. The expansion in margin was facilitated by lower consumption of stores, spare parts and fuel and fall in other expenses as percentage of revenue. Consumption of stores, spare parts and fuel as percentage of revenue from the operation decreased by 39bps to 6.7% and other expenses decreased 859bps to 18.6%. Insurance expense remained flat at 2.3%. Due to more assets becoming operational in this quarter as compared to corresponding quarter previous year, all the expenses have increased on yoy basis. As percentage of revenues, staff costs were higher by 276bps at 10.7% and the rental charges on machinery were slightly higher by 117bps at 4%.

Exhibit 2: Cost Analysis as per Income (% of Revenue)

| Particulars | Q4FY2009 | Q4FY2008 | bps |
|------------------------------|----------|----------|-------|
| Consumption | 6.7 | 7.1 | (39) |
| Staff cost | 10.7 | 8.0 | 276 |
| Rental charges for Machinery | 4.0 | 2.8 | 117 |
| Repair & Maintenance | 2.1 | 1.8 | 24 |
| Insurance | 2.3 | 2.3 | 1 |
| Other Expenditure | 18.6 | 27.1 | (859) |

Source: Company, Parsoli Research

Higher Depreciation and Interest costs turned profit into Net Loss of Rs 93cr

The impairment of Rs 151.4cr incurred on the bareboat chartered jack-up rig 'Murmanskaya', in view of the proposed early termination of bareboat agreement with the owners of the rig is included in the depreciation for the quarter ended March 2009. This, as a result, has increased the depreciation by 85.6% on yoy basis. At the same time, the interest expense also remained high at Rs 225.8cr in Q4FY2009 as the company maintained higher debt levels. Also, share of profit in JV declined by 11% to Rs 34.4cr. Considering minority interest, final net profit on a consolidated basis turned into net loss of Rs 93cr compared to profit of Rs 33.9cr in the corresponding quarter last year.

**Exhibit 3: Segmental Analysis****Rs cr**

| Particulars | Q4FY2009 | Q4FY2008 | YoY (%) |
|------------------------------|-----------------|-----------------|----------------|
| Income from Operation | | | |
| Drilling | 772.4 | 658.3 | 17.3 |
| Wind Energy | 1.7 | 3.5 | (52.8) |
| Total | 774.1 | 661.8 | 17.0 |
| PBIT | | | |
| Drilling | 163.3 | 192.1 | (15.0) |
| Wind Energy | (4.6) | (2.3) | 101.3 |
| Total | 158.7 | 189.8 | (16.4) |
| Capital Employed | | | |
| Drilling | 1873.3 | 863.0 | 117.1 |
| Wind Energy | 55.7 | 54.1 | 2.8 |
| Total | 1929.0 | 917.1 | 110.3 |

*Source: Company, Parsoli Research***Key Concerns**

Many exploration and production (E&P) companies have deferred their exploration plans because of decline in crude oil prices and global economic weakness which has, in turn, affected the oil service sector globally .

High Debt Equity ratio

AOL's current fleet of new assets is almost entirely debt-funded. For the acquisition of Sinvest, the company raised high amounts of debt in FY2007. Along with this, AOL also acquired a semi-submersible deep water rig which led to a very high leverage ratio of 20.4 in FY2007 and 16.1 in FY2008. AOL needs to repay about US\$ 435mn out of US\$ 3.2bn debt in FY2010.

Low Day Rates

Currently 5 rigs - Murmanskaya, Aban VII, Deep Driller 2, Deep Driller 6, and Deep Driller 7 are lying idle and another 3-4 are due for contract renewal in FY2010. Thus, the company will have 8-9 rigs to deploy in the next one year. Moreover, most of the rigs under Sinvest are on short term contracts which is again a concern. Also, the day rates of jack-up rigs have decreased in the international market, so any new contract awarded to the company may be low value contract and is likely to impact the cash flows negatively.

AOL needs to repay about US\$ 435mn out of US\$ 3.2bn debt in FY2010

Low day rates coupled with the need for deploying 8-9 rigs in the next one year is expected to keep the cash flows under pressure



AOL's new assets are almost entirely debt-funded and low utilization of these assets will lead to weak cash flows, leading to requirement of higher amounts to re-finance the debt in FY2010

We have revised our rating on the stock from BUY to HOLD with a price target of Rs 502

Outlook and Valuation

Following the decline in oil prices since its peak of US\$ 147 and tight credit conditions, we believe that over the next one year demand for rigs will not be as strong as in the past. Moreover, many exploration and production (E&P) companies have also deferred their exploration plans. Since AOL's current fleet of new assets is almost entirely debt-funded, low utilisation of assets will lead to weak cash flows and hence requirement for higher amounts to re-finance the debt in FY2010. Currently 5 of its rigs - Murmanskaya, Aban VII, Deep Driller 2, Deep Driller 6, and Deep Driller 7 are lying idle and another 3-4 rigs are due for contract renewal in FY2010. Moreover, most of the rigs under Sinvest are on short term contracts which is again a concern. We expect that non-renewal of contracts for deployment of these idle rigs as well as further expected impairment of bareboat chartered jack-up rigs could drive down the company's revenue generation potential. However, most of AOL's contracts are long-term in nature, providing a cushion to its revenue.

At current market price of Rs 462.40, AOL is trading at an valuation of 2.1x FY2010E earnings and 2x FY2011E earnings. On EV/EBIDTA basis, AOL is trading at 6.7x FY2010E. Considering the sudden high impairment charges imposed during the quarter and the expected impairment of idle rigs in future, the company's profitability is likely to be impacted significantly going forward. We have thus revised our estimates downwards leading to lower earnings. **Accordingly, we have downgraded the Target Price to Rs 502 which gives an upside of 8.5% from current market price of Rs 462.40 and recommend a Hold on the stock.**



Financial Statement

| Exhibit 4: Profit & Loss Statement | | | | | Rs cr |
|---|---------------|---------------|----------------|----------------|----------------|
| | FY2007 | FY2008 | FY2009E | FY2010E | FY2011E |
| Income from Operation | 718.7 | 2,021.1 | 3,184.9 | 4,200.1 | 4,314.7 |
| <i>% chg</i> | 46.6% | 181.2% | 57.6% | 31.9% | 2.7% |
| Total Expenditure | 371.3 | 967.5 | 1,413.5 | 1,972.6 | 2,006.3 |
| <i>% chg</i> | 77.0% | 160.6% | 46.1% | 39.6% | 1.7% |
| EBIDTA | 347.4 | 1,053.6 | 1,771.4 | 2,227.5 | 2,308.4 |
| <i>Margin (%)</i> | 48.3% | 52.1% | 55.6% | 53.0% | 53.5% |
| Other Income | 88.1 | 107.0 | 344.6 | 288.1 | 302.0 |
| Depreciation & Amortisation | 120.3 | 307.8 | 608.3 | 524.7 | 611.7 |
| Goodwill Amortized | 6.3 | 6.3 | 6.3 | 6.3 | 6.3 |
| Interest | 268.6 | 665.9 | 791.9 | 840.5 | 804.6 |
| PBT | 40.3 | 180.7 | 709.4 | 1,144.0 | 1,187.8 |
| <i>Margin (%)</i> | 5.6% | 8.9% | 22.3% | 27.2% | 27.5% |
| Total Tax | 74.7 | 143.0 | 265.2 | 434.7 | 451.4 |
| <i>(% of PBT)</i> | 185.2% | 79.2% | 37.4% | 38.0% | 38.0% |
| PAT before Earning in Assc/JVs | (34.4) | 37.7 | 444.3 | 709.3 | 736.4 |
| Earnings in Assc./JVs | 20.4 | 85.3 | 110.9 | 124.3 | 134.2 |
| PAT after Earning in Assc/JVs | (14.0) | 123.0 | 555.2 | 833.6 | 870.6 |
| <i>% chg</i> | -117% | -978% | 351% | 50% | 4% |
| <i>Margin (%)</i> | -1.9% | 6.1% | 17.4% | 19.8% | 20.2% |

Source: Company, Parsoli Research



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