

Aban OffshoreRs2315
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs85.6bn; US\$2.04bn

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Result: Q4FY07**Comment:** Higher other income and lower tax rates boost profitability**Last report:** 17 October 2006 (Price Rs1149; Recommendation: Outperformer)

Key valuation metrics (Consolidated)

Year to Mar (Rs m)	Net sales	yoy change (%)	Net profit	yoy chg (%)	EPS	EV/E (x)	PER (x)
FY06	4,902	69.3	823	59.2	21.0	59.6	110.1
FY07E	11,501	134.6	2730	231.8	66.2	21.7	32.3
FY08E	25,631	122.9	5855	114.5	141.9	9.3	15.1
FY09E	38,722	51.1	14,105	140.9	341.9	5.8	6.2

Aban Offshore (Aban) has reported standalone numbers of Q4FY07 results – net profit up 34.2%qoq to Rs296m, which is ahead of our expectations. Net profit is up sequentially primarily on the back of higher other income and lower tax rates. During the quarter, Aban booked some profits on mutual fund investments as also because of lower tax rates (37.7% in Q4FY07 vis-à-vis 45.6% in Q4FY06). Aban II will commence operations during the April end with ONGC at \$84600/day for a three year period. Remaining assets in the standalone account will get re negotiated during the course of the year. Going forward, capacity constraints given the long gestation period of 2-3 years for a new rig, coupled with rising proportion of long-term contracts and timely addition of new rigs, give earnings visibility over FY07-09 (consolidated earnings growth estimated at 127.3% CAGR). Reiterate Outperformer.

KEY HIGHLIGHTS

Aban has reported Q4FY07 operating results, which is ahead of our expectations. While operating profits were below our expectation as it was down 4.4%qoq in the quarter to Rs641m (after factoring in Rs 180m from forex earnings). EBIDTA was down as the company incurred Rs 35m towards FCCB expenses and paid Rs 40m towards upfront payments for issue of preferential shares. However, at the net level, the results are ahead of our estimate due to higher other income (up 354.3% yoy to Rs 169m) that includes profit on sale of mutual fund investments along with lower tax charges of 37.7% as against 45.6% in Q4FY06 that helped profit growth of 34.5%yoy to Rs 296m.

The salient points of the result are as follows:

- In the absence of asset addition and contracts renegotiation and Aban II commencing operations from April end, top line fell 1.3%yoy to Rs1,187m. With Aban VII been transferred to the Singapore subsidiary at the end of Q2FY07, standalone numbers looked pale.
- Other overheads went up 58.6% yoy to Rs 280m as the company provided Rs 35m towards FCCB expenses and incurred Rs 40m towards upfront payments for issue of preferential shares.
- Other income was up 354.3% yoy to Rs169m as the numbers included profit from sale of mutual funds. Financing cost however went up 41.9% qoq to Rs 120m as the company resorted to debt to part finance Sinvest acquisition.
- Tax rate stood at 37.7% in the quarter as against 45.6% in Q4FY06 as the deferred tax component came off.

- Aban Singapore has successfully completed the acquisition of outstanding shares in Sinvest ASA. Sinvest acquisition helps the company skirt the long gestation period required to acquire a new asset as also it gives access to advanced rigs.

□ Earnings estimates maintained; reiterate Outperformer

We maintain our fully diluted consolidated earnings forecast (after factoring in USD100m dilution at a conversion price of Rs1000/share) for FY08 and FY09 at Rs141.9 and Rs341.9 respectively. Capacity constraints, given the long gestation period of 2-3 years for a new rig, as also rising proportion of long-term contracts and timely addition of new rigs give earnings visibility (127.3% CAGR growth in consolidated earnings over FY07-09). Reiterate Outperformer.

Quarterly results*

Year to 31st March (Rs mn)	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
Net sales	1,027	1,218	1,274	1,207	1,202	1,238	1,289	1,261	1,187
<i>yoy change (%)</i>	52.6	89.7	98.5	110.6	17.1	1.6	1.1	4.5	(1.3)
Total expenditure	435	525	570	524	531	572	677	586	545
Operating profit	592	693	704	683	671	666	612	676	641
<i>yoy change (%)</i>	97.7	126.8	113.8	144.9	13.3	(3.9)	(13.1)	(1.1)	(4.4)
Other income	20	40	45	31	37	32	155	56	169
Interest	99	129	107	116	85	99	129	96	120
Depreciation	200	238	249	243	220	241	262	241	216
PBT	314	365	394	355	404	357	375	394	474
Tax rate (%)	36.7	43.5	41.9	47.9	45.6	46.5	40.9	47.2	37.7
Tax	115	159	165	170	184	166	154	186	179
Net profit	199	206	229	185	220	191	222	208	296
<i>yoy change (%)</i>									
Operating parameters									
OPM (%)	57.7	56.9	55.3	56.6	55.8	53.8	47.5	53.6	54.0
NPM (%)	19.4	16.9	17.9	15.3	18.3	15.4	17.2	16.5	24.9
Valuation									
Outstanding shares (m)	74	74	74	74	74	74	74	74	74
EPS (Rs)	5.4	5.6	6.2	5.0	6.0	5.2	6.0	5.7	8.0
Cash EPS (Rs)	10.8	12.1	13.0	11.6	11.9	11.7	13.1	12.2	13.9

*standalone

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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