

## Aban Offshore (ABALLO)

**Rs 869**

### WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 884 to Rs 947
EPS (FY11E) .....	Changed from Rs 127 to Rs 83.3
EPS (FY12E) .....	Changed from Rs 166 to Rs 190.3
RATING.....	Book Profit to Add

### Disappointing performance but on path to recovery...

Aban Offshore Ltd (Aban) reported disappointing results with drop in topline along with margin contraction. The company posted a loss of Rs 143.9 crores after last four profitable quarters but the loss was on account of Rs 349.6 crores provision towards loss of Aban Pearl and investment in Petrojack. In the last quarter, Aban secured contracts for deployment of 3 of its assets i.e. Deep Driller 1 and Deep Driller 6 to be deployed from July 2010 and Deep Driller 8 to be deployed from October 2010.

#### Operating performance deteriorates led by drop in crude carrier rates

Aban reported 17.5% q-o-q drop in revenue at Rs 842.5 crore in Q1FY11. The main factor contributing to the drop in revenue was the loss of Aban Pearl at the start of the quarter. It also contributed to q-o-q fall in operating margin from 65% to 62% as Aban Pearl was the highest margin generator for the company. Aban posted a loss of Rs 143.9 crores in Q1FY11 which was after making provisions of Rs 335.9 crores towards the difference between the book value of the asset and the insured value. In addition the company also provided Rs 13.7 crores for its investment in Petrojack. Excluding the above two extra-ordinary items the company would have posted a profit of Rs 205.7 crores. Receipt of insurance claim by the company towards Aban Pearl was another positive development during the quarter.

### Valuation

Aban is expected to post higher PAT in FY12 as there would be no extraordinary provisions and earnings visibility is likely to improve with the deployment of its idle assets. We have valued the company on multiple valuation parameters and recommend **ADD** with price target of Rs 947.

#### Exhibit 1: Financial Performance

	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	842.5	984.0	793.5	1021.0	6.2	-17.5
EBITDA	520.2	628.1	468.9	659.8	10.9	-21.2
EBITDA Margin (%)	61.7	63.8	59.1	64.6	260 bps	(290 bps)
Depreciation	129.1	123.0	98.9	128.1	30.5	0.8
Interest	227.2	229.5	236.4	219.4	-3.9	3.5
Reported PAT	-143.9	-92.9	110.8	39.8	PL	PL
EPS (Rs)	-	-	29.3	9.1	PL	PL

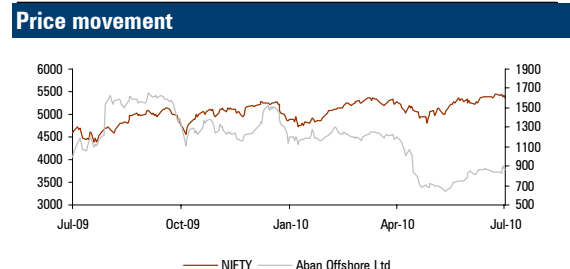
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 947
Target Period	: 12 months
Potential Upside	: 9%

Key Financials				
(Rs crore)	FY09	FY10	FY11E	FY12E
Net Sales	3050.1	3358.7	3527.6	3627.5
EBITDA	1776.9	2100.9	2221.3	2265.1
Net Profit	540.7	311.1	362.3	827.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	6.1	12.1	10.4	4.6
Target PE (x)	6.6	13.2	11.4	5.0
EV to EBITDA (x)	11.2	8.4	6.9	6.1
Price to book (x)	1.9	1.7	1.5	1.2
RoNW (%)	31.0	14.3	14.5	25.3
RoCE (%)	6.4	10.0	11.9	12.7

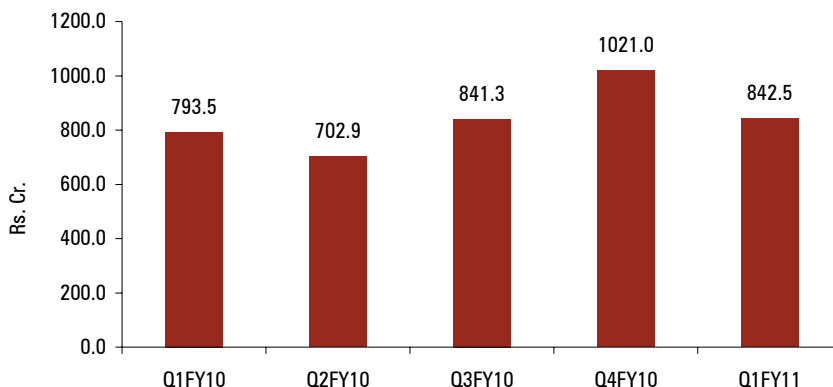
Stock data	
Market Cap.	Rs. 3818.1 crore
Debt( FY10)	Rs. 14209.6 crore
Cash (FY10)	Rs. 381.6 crore
EV	Rs. 17646.1 crore
52 week H/L	Rs. 1680 / 637
Equity capital	Rs. 8.7 crore
Face value	Rs.2
MF Holding (%)	14.5
FII Holding (%)	9.6



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Topline registered 17.5% drop on account of loss of Aban Pearl

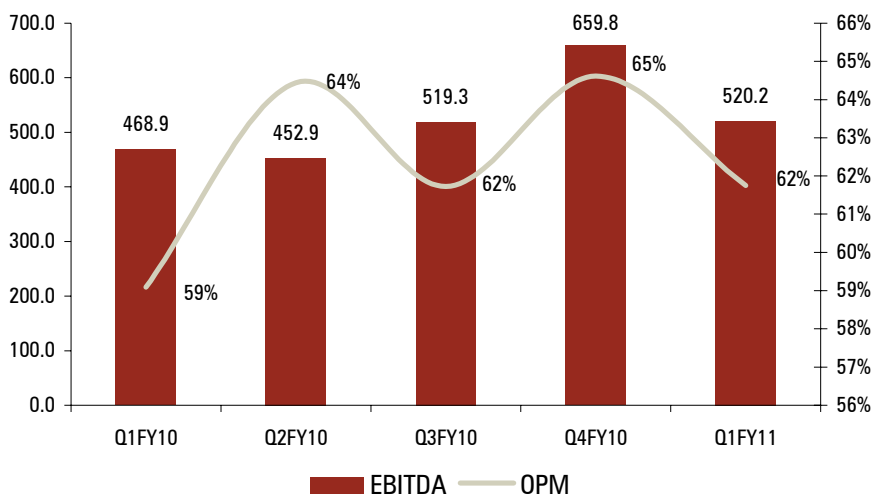
**Exhibit 2: Topline performance**



Source: Company, ICICIdirect.com Research

EBITDA margin contracted to 62% in Q1FY11 from 65% in the previous quarter. The chief reason for the contraction of margin was the loss of its prime asset Aban Pearl which was the highest margin generator for the company

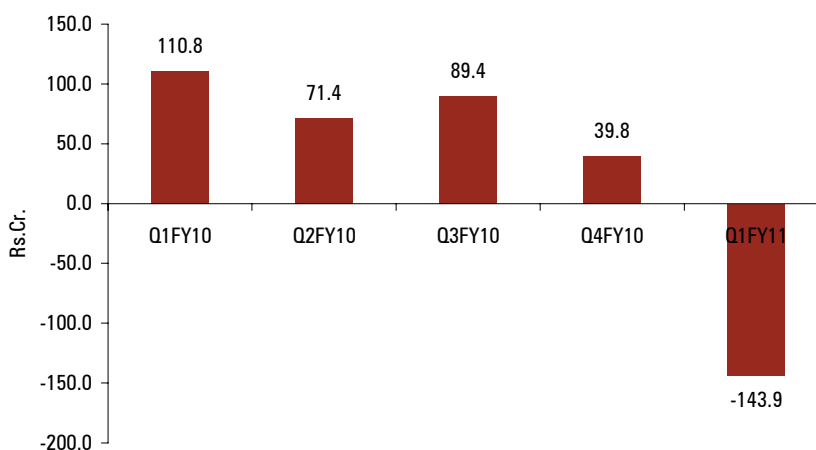
**Exhibit 3: EBITDA performance**



Source: Company, ICICIdirect.com Research

The company posted a loss of Rs 143.9 crores which was after making a provision of Rs 336 crores on account of Aban Pearl and Rs 14 crores provision for its investment in Petrojack. Excluding this extra ordinary item the company has posted an operating profit of Rs 206 crores

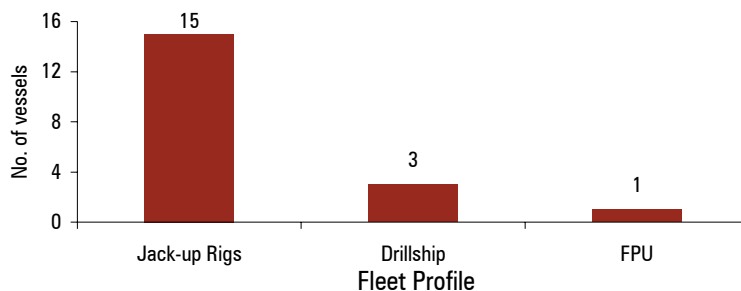
**Exhibit 4: PAT performance**



Source: Company, ICICIdirect.com Research

**Exhibit 5: Current fleet**

Current fleet includes 15 Jack up Rigs 3 Drillships and 1 Floating Production Unit



Source: Company, ICICIdirect.com Research

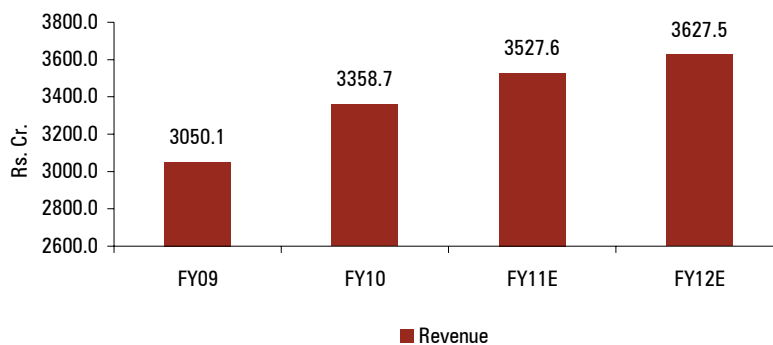
**Exhibit 6: Rig wise deployment data**

15 out of its 19 assets are deployed on long term contracts across the globe

No.	Fleet	Vessel Type	Depth	"	Location	Age
<b>I Jack Up Rigs</b>						
1	Aban 2	Jack up	Shallow	350	-	28
2	Aban 3	Jack up	Shallow	350	India	35
3	Aban 4	Jack up	Shallow	350	India	26
4	Aban 5	Jack up	Shallow	350	India	27
5	Aban 6	Jack up	Shallow	350	Middle East	34
6	Aban 7	Jack up	Shallow	350	-	36
<b>II Jack Up Rigs-KFLES Superb class</b>						
1	Deep Driller 2	Jack up	Shallow	350	Middle East	2
2	Deep Driller 3	Jack up	Shallow	350	Malaysia	2
3	Deep Driller 5	Jack up	Shallow	350	Middle East	2
4	Deep Driller 6	Jack up	Shallow	350	Middle East	1
5	Deep Driller 8	Jack up	Shallow	350	Brunei	1
<b>III Jack Up Rig-BMC Pacific 375 Class</b>						
1	Deep Driller 1	Jack up	Shallow	350	India	2
2	Deep Driller 4	Jack up	Shallow	350	Middle East	2
3	Deep Driller 7	Jack up	Shallow	350	Mexico	1
4	Aban 8	Jack up	Shallow	350	Middle East	1
<b>IV Drillship</b>						
1	Aban Ice	Drillship	Deep water	2000	India	50
2	Aban Abraham	Drillship	Deep water	6600	-	33
3	Deep Venture	Drillship	Deep water	4200	-	28
<b>V FPU</b>						
1	Tahara	FPU	Floater		India	36

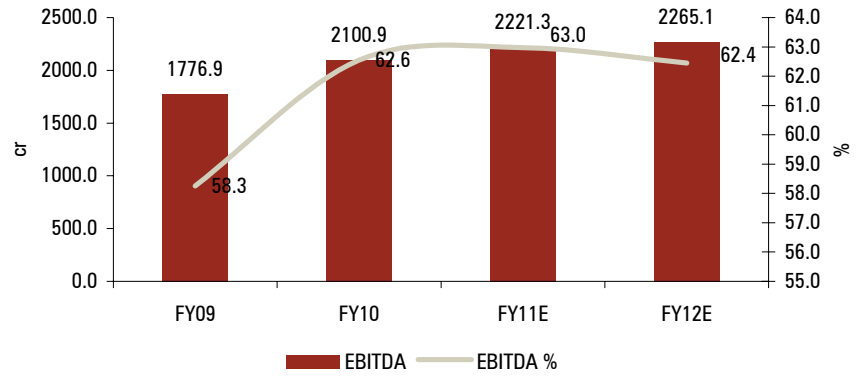
Source: Company, ICICIdirect.com Research

**Exhibit 7: Revenue expected to gradually rise**



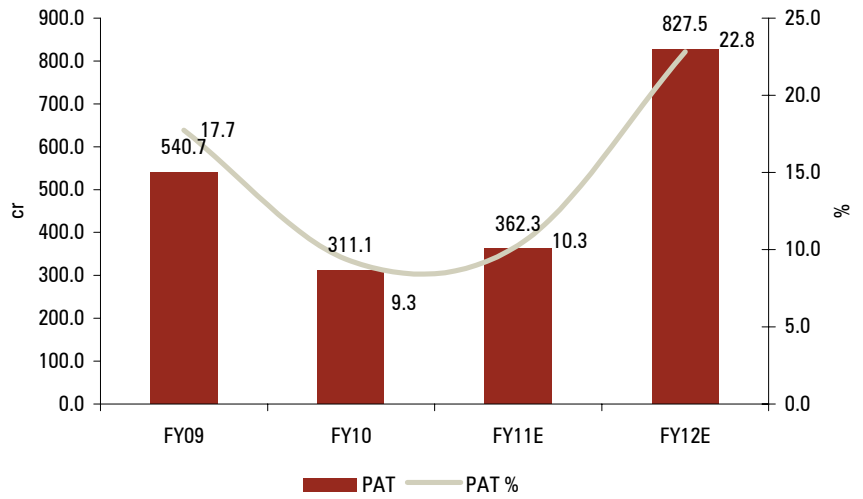
Source: Company, ICICIdirect.com Research

**Exhibit 8: Operating margin likely to sustain at current level**



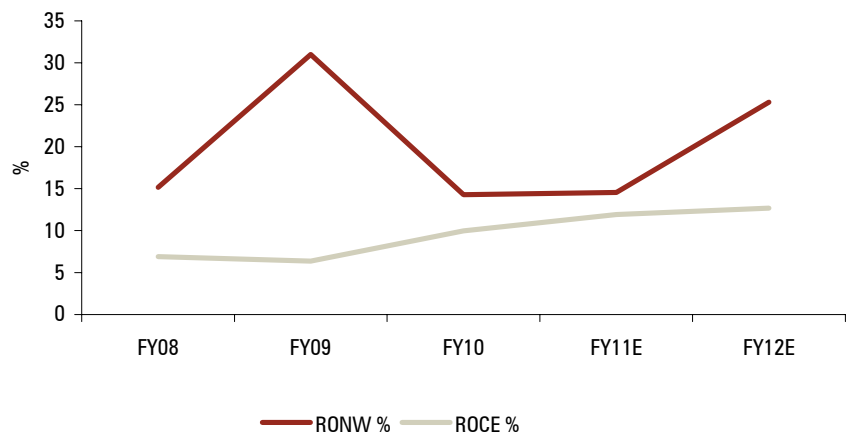
Source: Company, ICICIdirect.com Research

**Exhibit 9: PAT to rise sharply in FY12**

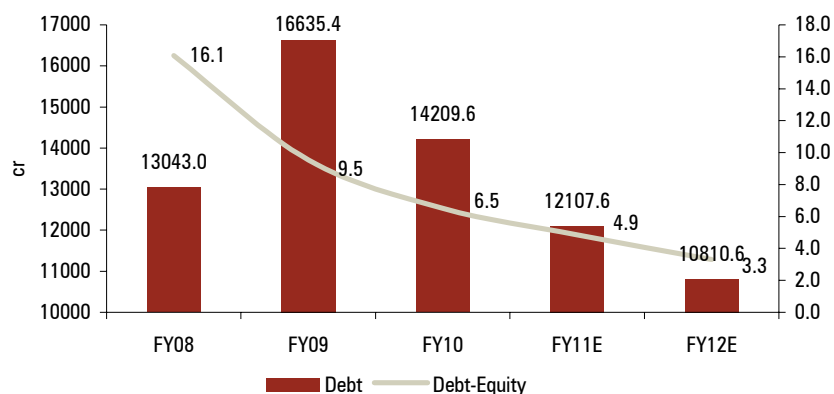


Source: Company, ICICIdirect.com Research

**Exhibit 10: Return ratio to improve sharply in FY12**



Source: Company, ICICIdirect.com Research

**Exhibit 11: Steady improvement in debt equity ratio**

Source: Company, ICICIdirect.com Research

Currently 15 out of 19 vessels are deployed on long term contracts with 4 idle vessels. In the last quarter, Aban secured contracts for deployment of 3 of its assets i.e. Deep Driller 1 and Deep Driller 6 to be deployed from July 2010 and Deep Driller 8 to be deployed from October 2010. Deployment of the above assets improves earnings visibility in FY11 & FY12. Four of its idle assets are under marketing and likely to secure long term contracts within the next 6 months.

We believe that FY11 would be a year when the company cleans up its balance sheet and most of the provisions have been made in Q1FY11. Except some minor provision in respect of its investment in Petrojack there should be no more surprises going forward. We have valued the company on multiple valuation parameters and recommend **ADD** with price target of Rs **947**.

**Exhibit 12: Valuation parameters**

	Global average	Target Multiples	Target Price
PE multiple (x)	7.94	6.00	1,142
Price to book value (x)	1.01	1.00	751
<b>Average Target Price</b>			<b>947</b>
Current Price			869
Upside (%)			8.9

Source: Company, ICICIdirect.com Research

**Exhibit 13: Valuation**

	Sales (Rs. cr)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>FY10</b>	3358.7	10.1	71.5	-50.0	12.1	8.4	14.3	10.0
<b>FY11E</b>	3527.6	5.0	83.3	16.5	10.4	6.9	14.5	11.9
<b>FY12E</b>	3627.5	2.8	190.3	128.4	4.6	6.1	25.3	12.7

Source: Company, ICICIdirect.com Research

**Exhibit 14: Revised Estimates**

	Old		New	
	FY11E	FY12E	FY11E	FY12E
<b>Sales</b>	3617.3	3610.1	3527.6	3627.5
<b>EBITDA</b>	2165.5	2073.7	2221.3	2265.1
<b>Net Profit</b>	552.6	721.3	362.3	827.5
<b>EPS</b>	127.0	166.0	83.3	190.3

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Shipping)

					Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>ESPLL</b>										
<b>Idirect Code</b>	ESSSHI	<b>CMP (Rs.)</b>	83	<b>FY10</b>	3000.5	1.5	52.6	12.4	1.2	3.7
		<b>Target (Rs.)</b>	93	<b>FY11E</b>	3416.7	2.9	89.5	11.8	0.9	3.7
<b>MCap</b>	5111.1	<b>% Upside</b>	12	<b>FY12E</b>	4511.0	6.7	20.9	9.0	3.3	5.2
<b>G.E Shipping</b>										
<b>Idirect Code</b>	GESHIP	<b>CMP (Rs.)</b>	285	<b>FY10</b>	2856.5	33.7	8.5	8.3	9.0	4.8
		<b>Target (Rs.)</b>	334	<b>FY11E</b>	3194.7	36.7	7.8	7.1	9.1	6.5
<b>MCap</b>	4332.0	<b>% Upside</b>	17	<b>FY12E</b>	3687.5	45.4	6.3	5.6	10.4	8.7
<b>Mercator Lines</b>										
<b>Idirect Code</b>	MERLIN	<b>CMP (Rs.)</b>	46	<b>FY10</b>	1808.7	2.2	20.9	4.8	2.3	5.3
		<b>Target (Rs.)</b>	61	<b>FY11E</b>	1826.2	1.3	35.4	4.7	1.3	4.6
<b>MCap</b>	1085.6	<b>% Upside</b>	33	<b>FY12E</b>	2103.8	5.0	9.2	3.3	4.9	6.4
<b>SCI</b>										
<b>Idirect Code</b>	SCI	<b>CMP (Rs.)</b>	161	<b>FY10</b>	3485.6	7.9	20.4	15.7	5.3	5.9
		<b>Target (Rs.)</b>	159	<b>FY11E</b>	3590.9	8.5	18.9	14.5	5.6	6.0
<b>MCap</b>	6818.4	<b>% Upside</b>	-1	<b>FY12E</b>	3738.8	7.3	22.1	11.2	4.7	5.4
<b>Varun Shipping</b>										
<b>Idirect Code</b>	VARSHI	<b>CMP (Rs.)</b>	40	<b>FY10</b>	666.2	0.8	52.5	12.9	1.5	0.1
		<b>Target (Rs.)</b>	36	<b>FY11E</b>	667.7	-	-	11.0	-	1.0
<b>MCap</b>	600.0	<b>% Upside</b>	-10	<b>FY12E</b>	734.7	-	-	8.2	-	3.5
<b>Aban Offshore</b>										
<b>Idirect Code</b>	ABALLO	<b>CMP (Rs.)</b>	869	<b>FY10</b>	3358.7	71.5	12.1	8.4	14.3	10.0
		<b>Target (Rs.)</b>	947	<b>FY11E</b>	3527.6	83.3	10.4	6.9	14.5	11.9
<b>MCap</b>	3284.8	<b>% Upside</b>	9	<b>FY12E</b>	3627.5	190.3	4.6	6.1	25.3	12.7
<b>Garware Offshore</b>										
<b>Idirect Code</b>	GARSHI	<b>CMP (Rs.)</b>	127	<b>FY10</b>	163.2	17.8	7.1	9.1	15.4	7.9
		<b>Target (Rs.)</b>	182	<b>FY11E</b>	232.3	17.4	7.3	7.8	16.2	9.3
<b>MCap</b>	302.3	<b>% Upside</b>	43	<b>FY12E</b>	234.7	21.1	6.0	7.4	14.4	9.2
<b>Great Offshore</b>										
<b>Idirect Code</b>	GREOFF	<b>CMP (Rs.)</b>	412	<b>FY10</b>	1172.7	54.6	7.5	7.5	19.4	12.2
		<b>Target (Rs.)</b>	468	<b>FY11E</b>	1198.9	39.7	10.4	5.7	17.8	11.1
<b>MCap</b>	1528.5	<b>% Upside</b>	14	<b>FY12E</b>	1515.9	69.3	5.9	4.4	20.0	15.1
<b>ABG Shipyard</b>										
<b>Idirect Code</b>	BHASHI	<b>CMP (Rs.)</b>	237	<b>FY10</b>	1812.4	42.8	5.5	7.2	19.6	13.3
		<b>Target (Rs.)</b>	239	<b>FY11E</b>	2307.8	41.7	5.7	6.0	17.2	13.8
<b>MCap</b>	654.1	<b>% Upside</b>	1	<b>FY12E</b>	2452.0	43.0	5.5	5.4	15.7	13.7
<b>Bharati Shipyard</b>										
<b>Idirect Code</b>	BHASHI	<b>CMP (Rs.)</b>	228	<b>FY10</b>	1349.0	47.4	5.0	8.3	16.0	10.3
		<b>Target (Rs.)</b>	327	<b>FY11E</b>	1334.1	55.6	4.3	7.6	10.1	10.1
<b>MCap</b>	629.3	<b>% Upside</b>	43	<b>FY12E</b>	1287.2	74.5	3.2	7.4	8.4	9.7

## RATING RATIONALE

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