

29 January 2008

BUY

Price	Target Price
Rs875	Rs1,087

Sensex	18,092
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	10	10	0
Rel. to Sensex	5	21	(6)	(7)

Source: Capitaline

Stock Details

Sector	Offshore Oil Field Services
Reuters	GOF.S.BO
Bloomberg	GOFF@IN
Equity Capital (Rs mn)	381
Face Value (Rs)	10
52 Week H/L	1,150/502
Market Cap (Rs bn)	30.6
Daily Avg Vol. (No of shares)	228368
Daily Avg Turnover (US\$m)	5.5

Shareholding Pattern (%)

(31st Dec.'07)	
Promoters	20.6
FII/NRI	13.7
Institutions	21.4
Private Corp.	8.0
Public	36.3

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Great Offshore

Q3FY08 Results in line with expectation

Result
Update

Great Offshore's Q3FY2008 results are in line with our estimates. Revenues for the quarter have grown by a healthy 30.8% yoy to Rs1.9 bn on the back of 6 additional vessels and higher day rates for the fleet. The topline growth is decent even after a massive 12.5% appreciation of rupee against USD. Direct operating expenses degrew by 19% on account of absence of any chartering expenses and the repairs and maintenance witnessed a fall of 8.9% as there were lesser dry docking expenses. Accordingly operating profit increased by a strong 40.2% yoy to Rs 1.01 bn and operating profit margin increased by 348 bps to 52.2%. Other income (excl. foreign exchange gain of Rs 36.3 mn) has shown a 6.6x increase to Rs 40.3 mn. Interest cost (adjusted for Rs 50 mn FCCB expense) increased by 68.6% yoy to Rs 160.8 mn on account of increase in debt and depreciation increased by 35.9% yoy to Rs 262.7 mn on account of vessel addition. PAT grew by a strong 50.3% yoy to Rs 564.1 mn and PATM increased by a huge 376 bps to 29.1%. With strong demand for offshore rigs and supply vessels coupled with supply constraints in view of long gestation period for new builds, we see the global offshore oil field services market is currently at one of its strongest points in the past decade. We believe that offshore oilfield service's industry fundamentals remain compelling and valuations attractive. At current price of Rs875, the stock is trading at attractive valuations of 11.1x FY09E and 8.3x FY10E earnings. We maintain our buy call with a price target of Rs1087.

Result analysis:

- GOL's Q3FY08 revenues registered a growth of 30.8% yoy to Rs1.9 mn on the back of 6 additional vessels and higher day rates for the fleet. The topline growth is decent even after a massive 12.5% appreciation of rupee against USD.
- Operating profit grew by 40.2% yoy to Rs1.01 bn on account of a drop witnessed in direct operating expenses and repairs and maintenance expenses. The direct operating expenses fell by 19% yoy to Rs 101.5 mn on account of absence of any chartering expenses. Repairs and maintenance degrew by 8.9% yoy as dry docking expenses were incurred for two small vessels compared to four large vessels in Q3FY07. The operating profit margin increased by a strong 348 bps yoy to 52.2%.
- Other income (excluding foreign exchange gain of Rs 36.3 mn) has shown a 6.6x increase to Rs 40.3 mn.
- GOL's Q3FY08 interest charges (adjusted for Rs 50 mn FCCB expense written off during the quarter) has increased by 68.6% yoy on account of addition of 6 new vessels to the fleet. During the quarter, GOL issued USD 42 mn FCCB convertible at Rs 875 and YTM of 7.25%. This is on back of issuance of 10% optionally convertible redeemable pref shares to the tune of Rs1.5 bn.
- Depreciation expense has grown by 35.9% to Rs262.7 mn primarily on account of addition of 6 vessels to GOL fleet.
- PBT grew by 40% yoy to Rs 615 mn and PAT grew by 50.3% yoy to Rs 564.1 mn. PATM increased by a strong 376 bps to 29.1%.

Recent developments:

- In a move that will transform the entire operation capabilities of Great Offshore, the company is to take a controlling stake in SeaDragon Offshore a company UK based offshore drilling company. According to media reports the company would acquire close to 90% in SeaDragon Offshore. The acquisition size is close to USD 1.4 billion.

- SeaDragon is constructing two sixth generation, deepwater, harsh environment semisubmersible drilling rigs capable of drilling in up to 10,000ft. These rigs are world-class rigs capable of drilling upto 10000 feet of water depth. The First rig named Oban II is expected to get delivered by Q4CY2009 and the second rig by September 2010.

Outlook

GOL is a strong player in the offshore oilfield services arena having presence in all the verticals of the business. GOL has a fleet size of 41 vessels and the acquisition of SeaDragon will catapult GOL in the extremely lucrative deepwater drilling segment. Considering the strong demand for offshore assets given the hydrocarbon deficit nature of our economy, we remain bullish on this entire sector. We maintain our buy call with a price target of Rs1087.

Results Table

(Y/E Mar, Rs mn)	Q3FY08	Q3FY07	yoy (%)	Q2FY08	qoq (%)
Net Sales	1939.9	1482.7	30.8%	1523.3	27.3%
Expenditure	928.1	760.9	22.0%	800.9	15.9%
Staff costs	390.8	305.7	27.8%	372.6	4.9%
Repairs and maintenance- fleet and rigs	161.3	177	-8.9%	174.1	-7.4%
Direct operating exps	101.5	125.3	-19.0%	67.8	49.7%
Other exps	274.5	152.9	79.5%	186.4	47.3%
Operating Profit	1011.8	721.8	40.2%	722.4	40.1%
Other Income	40.3	6.1	560.7%	69.5	-42.0%
PBIDT	1052.1	727.9	44.5%	791.9	32.9%
Interest	160.8	95.4	68.6%	145.1	10.8%
PBDT	891.3	632.5	40.9%	646.8	37.8%
Depreciation	262.7	193.3	35.9%	231.4	13.5%
PBT	628.6	439.2	43.1%	415.4	51.3%
Tax	64.5	63.8	1.1%	23.1	179.2%
Current tax	71.9	70.1	2.6%	28.7	150.5%
Provision for deferred tax	-9.4	-9	4.4%	-7.1	32.4%
Fringe Benefit Tax	2	2.7	-25.9%	1.5	33.3%
PAT	564.1	375.4	50.3%	392.3	43.8%
Extraordinary Items	-13.7	0		103.8	
PAT (after Extra-ordinary)	550.4	375.4	46.6%	496.1	10.9%
Equity Capital	381.2	381.2		381.2	
EPS	14.8	9.8	50.3%	10.3	43.8%
EPS (after extra-ordinary)	14.4	9.8	46.6%	13.0	10.9%
Margin					
OPM (%)	52.2	48.7		47.4	
PBIDTM (%)	54.2	49.1		52.0	
PBDTM (%)	45.9	42.7		42.5	
PBTM (%)	32.4	29.6		27.3	
PATM (%)	29.1	25.3		25.8	
PATM (after EO) (%)	28.4	25.3		32.6	
Tax Rate (%)	10.3	14.5		5.6	

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