Aban Offshore ABAN IN

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India
Energy/Oil & Gas Services

Change in Numbers
30 September 2008

SO WHAT? THE BNP PARIBAS ANGLE — INDUSTRY OUTLOOK: ←→

- As opposed to consensus, assuming declining EBITDA margins.
- Addressing key investor concerns of higher borrowing costs, lower utilization rates and debt servicing.
- Lowering TP by 24%.

Net Profit 09 ....INR11.0b
..........................(From INR11.2b)

Diff from Consensus (15.5)%
Consensus (mean) INR13.0b
Consensus (momentum) .... ↓

Target Price . INR2,614.00
......................(From INR3,437.00)

Diff from Consensus (25.0)%
Consensus (median) INR3,484.44
Consensus (momentum)........... ↓

Current Price INR2,103.95
Upside/(Downside).............24.2%

BUY
(Unchanged)

Recs in the Market
Positive 13
Neutral 2
Negative 0
Consensus (momentum)........... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- **Lowering TP by 24% on increasing borrowing costs, lower utilization rates; debt servicing still not an issue.**
- **Recent sell-off on concerns over Aban's leverage and LIBOR revision over done.**
- **Maintain BUY rating, stock due for re-rating as investors begin to appreciate the importance of recent contract wins.**

Conservative amidst chaos

Lowering our utilisation rates on new spot orders

We have reduced our utilisation rates on Aban's spot fleet to 89% due to shorter nature of the contracts, while keeping utilisation rates for the contracted fleet unchanged. This results in our EBITDA margins declining from 68%-58% over FY09-FY12 to 68%-55% over the same period. Our revision of utilisation rates addresses investor concerns on possible decline in jack-up demand which is also supported by the fact that majority of the jack-up contracts globally within the last three-four months have been short term in nature.

Global credit squeeze – increases cost of borrowing

Aban has borrowed most of its USD1.7b of ECB debt at the three-month LIBOR + 325bps. The recent revision in the three-month LIBOR from about 3.22% to about 3.80% results in increased cost of borrowing. In addition, the somber outlook for the credit market further substantiates our assumption of increasing cost of borrowing going forward. Despite this, we believe Aban will be able to service it debt, primarily due to increased visibility coming from 42% of its total revenue, which is contracted until FY12.

Valuation – lowering our TP by 24% to INR2,614

We are witnessing a liquidity squeeze in the Asian markets which has resulted in multiple contraction and we are seeing healthy companies trading at lower multiples. We are revising our target price on account of increase in cost of borrowing and also conservatively pricing Aban's future prospects. We continue to like the stock as we believe our revised TP factors in a significantly higher cost of borrowing, steep decline in EBITDA margins, while still maintaining acceptable levels of debt servicing – addressing all key investor concerns for the stock. We believe the recent sell-off in the stock was a reaction to the fact that the company is highly levered and not a result of fundamental weakness in the company's business. Sensitivity analysis shows that a one quarter delay in repricing of all the upcoming jack-ups (DeepDriller series) impacts our TP by about 5%. Our revised DCF based TP of INR2,614 assumes an 11.2% WACC vs previous WACC assumption of 10.6%.

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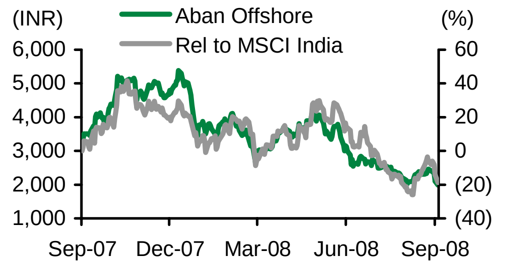
Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	20,211	40,233	51,668	51,875
Reported net profit	2,016	10,909	15,937	15,324
Recurring net profit	2,079	10,972	16,000	15,387
Previous rec net profit	2,079	11,222	18,825	18,107
Chg from previous (%)	—	(2.2)	(15.0)	(15.0)
Recurring EPS (INR)	54.61	284.76	415.28	399.37
Prev rec EPS (INR)	54.61	291.26	488.59	469.96
Rec EPS growth (%)	neg	421.4	45.8	(3.8)
Recurring P/E (x)	38.5	7.4	5.1	5.3
Dividend yield (%)	0.2	0.3	0.3	0.2
EV/EBITDA (x)	15.2	7.3	5.8	5.5
Price/book (x)	9.9	3.9	2.2	1.6
ROE (%)	31.0	76.1	56.0	35.0
Net debt/equity (%)	1527.0	561.5	271.2	155.2

Sources: Aban Offshore; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	October 2008
Market cap (USD m)	1,742
12m avg daily turnover (USD m)	17.6
Free float (%)	34
Major shareholder	India Offshore Inc (22%)
12m high/low (INR)	5,389.20/2,024.60
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

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All share prices are as at market close on 26 September 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.