

EVENT UPDATE ✓

# Aban Offshore (ABALLO)

## WHAT'S CHANGED...

|                   |                                     |
|-------------------|-------------------------------------|
| PRICE TARGET..... | Changed to Rs 1309 from Rs 975      |
| EPS (FY10E).....  | Changed to Rs 169.7 from Rs 134.9   |
| EPS (FY11E).....  | Changed to Rs 188.5 from Rs 118.0   |
| RATING.....       | Changed from Underperformer to Hold |

|                                 |                                   |
|---------------------------------|-----------------------------------|
| <b>Current Price</b><br>Rs 1210 | <b>Target Price</b><br>Rs 1309    |
| <b>Potential upside</b><br>8%   | <b>Time Frame</b><br>12-15 months |

## Visibility improves...

Aban Offshore (Aban) has secured contracts for deployment of four rigs from the Deep driller series. The first contract is for the deployment of three new build jack-up rigs in the Middle East for three years each. The estimated revenue from this contract over the three-year period is Rs 2925 crore. The contract is scheduled to commence from Q3FY10.

The second contract is for the deployment of a new built Jack-up in Latin America for 25 months. The estimated revenue from the contract is Rs 446 crore and the deployment is likely to commence in Q3FY10.

We have factored in the impact of the new orders and revised upwards our earning estimates by 26% and 60% for FY10E and FY11E, respectively.

## Valuations

Aban being able to secure these contracts addresses a major concern of low fleet utilisation and is a significant positive for the company enhancing the revenue visibility. We believe that with higher fleet utilisation and refinancing of its immediate debt obligations the scenario is improving for Aban.

We have valued the stock on multiple valuation parameters using global benchmarks. We are upgrading the rating from UNDERPERFORMER to **HOLD** with a target price of Rs 1309

**HOLD**

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## Exhibit 1: Key financials

|                                  | (Rs Crore) |         |        |        |             |            |        |        |        |
|----------------------------------|------------|---------|--------|--------|-------------|------------|--------|--------|--------|
|                                  | Q1FY10A    | Q1FY10E | Q1FY09 | Q4FY09 | YoY Gr. (%) | QoQ Gr.(%) | FY09   | FY10E  | FY11E  |
| Net Sales                        | 793.7      | 980.0   | 748.8  | 772.8  | 6.0         | 2.7        | 3183.6 | 3802.7 | 4051.1 |
| EBITDA                           | 469.2      | 559.5   | 400.9  | 432.0  | 17.0        | 8.6        | 1765.9 | 2197.6 | 2257.7 |
| EBITDA Margin (%)                | 59.1       | 57.1    | 53.5   | 55.9   | 560bps      | 320bps     | 55.5   | 57.8   | 55.7   |
| Depreciation                     | 98.9       | 116.4   | 93.2   | 274.1  | 6.1         | -63.9      | 608.3  | 465.5  | 468.8  |
| Interest                         | 236.4      | 240.9   | 159.1  | 225.8  | 48.6        | 4.7        | 791.9  | 963.6  | 838.6  |
| Other Income/ Extraordinary item | 9.9        | 38.2    | 21.4   | 2.9    | -53.6       | 239.9      | 345.9  | 95.1   | 101.3  |
| Reported PAT                     | 110.9      | 178.2   | 123.7  | -92.6  | -10.4       | LP         | 444.4  | 529.3  | 642.2  |
| EPS (Rs)                         | 29.3       | 47.2    | 32.7   | -24.5  | -10.4       | LP         | 138.7  | 169.7  | 188.5  |
| Valuation                        |            |         |        |        |             |            |        |        |        |
| PE                               | -          | -       | -      | -      | -           | -          | 8.7    | 7.1    | 6.4    |
| Target PE                        | -          | -       | -      | -      | -           | -          | 9.4    | 7.7    | 6.9    |
| EV to EBITDA (x)                 | -          | -       | -      | -      | -           | -          | 9.9    | 7.6    | 28.1   |
| Price to book                    | -          | -       | -      | -      | -           | -          | 3.8    | 2.7    | 2.0    |
| RoNW (%)                         | -          | -       | -      | -      | -           | -          | 36.7   | 31.3   | 28.1   |
| RoCE (%)                         | -          | -       | -      | -      | -           | -          | 10.5   | 12.8   | 14.3   |

Source: ICICIdirect.com Research, Company

## Higher day rates than expected

Aban was able to deploy four rigs out of the total six idle rigs. Three rigs will be deployed at a rate of ~ US\$186,000 per day for three years each with a total contract value of US\$603 million. This is significantly higher than our expectation. Further, one more got a contract of US\$92 million for 776 days at a day rate of US\$120,000. Aban has not specified the name of the rigs that have been contracted but said these are from the Deep Driller series.

*Out of the six idle rigs four will get deployed by Q3CY09, which is a big positive for Aban*

## Detailed valuations

Aban being able to secure these contracts addresses a major concern of low fleet utilisation and is a significant positive for the company enhancing the revenue visibility. We believe that with higher fleet utilisation and refinancing of its immediate debt obligations, the scenario is improving for Aban. We have valued the stock on multiple valuation parameters using global benchmarks. We are upgrading the rating from UNDERPERFORMER to **HOLD** with a target price of Rs 1309.

### Exhibit 2: Valuation parameters

| Valuation based on                | Global average | Target multiple | Target price (Rs) |
|-----------------------------------|----------------|-----------------|-------------------|
| EV/EBITDA (x)                     | 6.9            | 6.5             | 920               |
| Price to book value (x)           | 1.6            | 1.5             | 900               |
| Mcap/revenues average (x)         | 2.6            | 2.0             | 2120              |
| PE multiple (x)                   | 8.4            | 8.1             | 1294              |
| <b>Average target price (Rs.)</b> | -              | -               | <b>1309</b>       |
| Current market price (Rs)         |                |                 | 1210              |
| Upside (%)                        |                |                 | 8                 |

Source: Company, ICICIdirect.com Research

### Exhibit 3: Valuations

|              | Sales (Rs crore) | Sales growth (%) | EPS (Rs.) | EPS Growth (%) | PE (x) | EV/EBITDA (X) | RoNW (%) | RoCE (%) |
|--------------|------------------|------------------|-----------|----------------|--------|---------------|----------|----------|
| <b>FY09</b>  | 3183.6           | 57.5             | 138.7     | 466.8          | 8.7    | 9.9           | 36.7     | 10.5     |
| <b>FY10E</b> | 3802.7           | 19.4             | 169.7     | 22.3           | 7.1    | 7.6           | 31.3     | 12.8     |
| <b>FY11E</b> | 4051.1           | 6.5              | 188.5     | 11.1           | 6.4    | 7.0           | 28.1     | 14.3     |

Source: Company, ICICIdirect.com Research

### Exhibit 4: Revision of estimates

|                   | Old      |          | New      |          |
|-------------------|----------|----------|----------|----------|
|                   | FY10E    | FY11E    | FY10E    | FY11E    |
| Sales             | 3,478.93 | 3,382.08 | 3,802.68 | 4,051.11 |
| EBITDA            | 1,980.50 | 1,820.93 | 2,197.62 | 2,257.72 |
| EBITDA Margin (%) | 57       | 54       | 58       | 56       |
| PAT               | 394.20   | 370.05   | 529.33   | 642.15   |
| EPS               | 134.96   | 118.02   | 169.67   | 188.54   |

Source: Company, ICICIdirect.com Research

## ICICIdirect.com Coverage Universe

### Exhibit 5: Universe matrix

| <b>Aban Offshore</b>    |                         |                   | <b>Sales (Rs. Crore)</b> | <b>EPS (Rs.)</b> | <b>PE (x)</b> | <b>EV/EBITDA (x)</b> | <b>RoNW (%)</b> | <b>RoCE (%)</b> |
|-------------------------|-------------------------|-------------------|--------------------------|------------------|---------------|----------------------|-----------------|-----------------|
| <b>Idirect Code</b>     | ABALLO <b>CMP (Rs.)</b> | 1210 <b>FY09E</b> | 3183.6                   | 138.7            | 8.7           | 9.9                  | 36.7            | 10.5            |
|                         | <b>Target (Rs.)</b>     | 1309 <b>FY10E</b> | 3802.7                   | 169.7            | 7.1           | 7.6                  | 31.3            | 12.8            |
| <b>MCap</b>             | 9147.6 % <b>Upside</b>  | 8 <b>FY11E</b>    | 4051.1                   | 188.5            | 6.4           | 7.0                  | 28.1            | 14.3            |
| <b>Mercator Lines</b>   |                         |                   | <b>Sales (Rs. Crore)</b> | <b>EPS (Rs.)</b> | <b>PE (x)</b> | <b>EV/EBITDA (x)</b> | <b>RoNW (%)</b> | <b>RoCE (%)</b> |
| <b>Idirect Code</b>     | MERLIN <b>CMP (Rs.)</b> | 58 <b>FY09E</b>   | 2210.9                   | 16.0             | 3.6           | 4.6                  | 16.7            | 16.3            |
|                         | <b>Target (Rs.)</b>     | 65 <b>FY10E</b>   | 2019.4                   | 8.5              | 6.8           | 6.4                  | 9.4             | 12.0            |
| <b>MCap</b>             | 1368.8 % <b>Upside</b>  | 13 <b>FY11E</b>   | 2149.1                   | 10.4             | 5.6           | 5.8                  | 10.4            | 13.2            |
| <b>G.E Shipping</b>     |                         |                   | <b>Sales (Rs. Crore)</b> | <b>EPS (Rs.)</b> | <b>PE (x)</b> | <b>EV/EBITDA (x)</b> | <b>RoNW (%)</b> | <b>RoCE (%)</b> |
| <b>Idirect Code</b>     | GESHIP <b>CMP (Rs.)</b> | 264 <b>FY09E</b>  | 3791.6                   | 93.1             | 2.8           | 3.9                  | 27.1            | 16.2            |
|                         | <b>Target (Rs.)</b>     | 276 <b>FY10E</b>  | 2891.9                   | 41.2             | 6.4           | 6.5                  | 10.2            | 9.7             |
| <b>MCap</b>             | 4039.2 % <b>Upside</b>  | 4 <b>FY11E</b>    | 3527.5                   | 64.2             | 4.1           | 4.7                  | 14.1            | 12.2            |
| <b>Varun Shipping</b>   |                         |                   | <b>Sales (Rs. Crore)</b> | <b>EPS (Rs.)</b> | <b>PE (x)</b> | <b>EV/EBITDA (x)</b> | <b>RoNW (%)</b> | <b>RoCE (%)</b> |
| <b>Idirect Code</b>     | VARSHI <b>CMP (Rs.)</b> | 55 <b>FY08</b>    | 914.7                    | 8.2              | 6.7           | 7.6                  | 13.5            | 12.7            |
|                         | <b>Target (Rs.)</b>     | 59 <b>FY09E</b>   | 932.9                    | 4.8              | 11.4          | 8.9                  | 7.5             | 10.6            |
| <b>MCap</b>             | 822.8 % <b>Upside</b>   | 8 <b>FY10E</b>    | 968.5                    | 6.8              | 8.1           | 8.4                  | 9.9             | 11.3            |
| <b>Great Offshore</b>   |                         |                   | <b>Sales (Rs. Crore)</b> | <b>EPS (Rs.)</b> | <b>PE (x)</b> | <b>EV/EBITDA (x)</b> | <b>RoNW (%)</b> | <b>RoCE (%)</b> |
| <b>Idirect Code</b>     | GREOFF <b>CMP (Rs.)</b> | 525 <b>FY09E</b>  | 1139.3                   | 74.1             | 7.1           | 6.7                  | 29.3            | 18.1            |
|                         | <b>Target (Rs.)</b>     | 431 <b>FY10E</b>  | 1151.8                   | 51.0             | 10.3          | 7.4                  | 17.3            | 15.6            |
| <b>MCap</b>             | 1947.0 % <b>Upside</b>  | -18 <b>FY11E</b>  | 1402.4                   | 75.2             | 7.0           | 5.9                  | 21.0            | 17.5            |
| <b>Garware Offshore</b> |                         |                   | <b>Sales (Rs. Crore)</b> | <b>EPS (Rs.)</b> | <b>PE (x)</b> | <b>EV/EBITDA (x)</b> | <b>RoNW (%)</b> | <b>RoCE (%)</b> |
| <b>Idirect Code</b>     | GARSHI <b>CMP (Rs.)</b> | 181 <b>FY09E</b>  | 180.1                    | 17.9             | 10.1          | 11.1                 | 19.6            | 11.3            |
|                         | <b>Target (Rs.)</b>     | 177 <b>FY10E</b>  | 249.6                    | 32.2             | 5.6           | 7.4                  | 27.2            | 15.2            |
| <b>MCap</b>             | 431.4 % <b>Upside</b>   | -2 <b>FY11E</b>   | 290.4                    | 35.2             | 5.1           | 6.5                  | 23.9            | 15.2            |

Source: Company, ICICIdirect.com Research

## Peer Valuation

### Exhibit 6: Valuation Matrix

|                       | CMP (USD)   | M Cap<br>(USD million) | EPS (USD)  |            |            | P/E (x)    |            |            | EV/EBITDA (x) |            |            | ROE (%)     |             |             |
|-----------------------|-------------|------------------------|------------|------------|------------|------------|------------|------------|---------------|------------|------------|-------------|-------------|-------------|
|                       |             |                        | CY08       | CY09E      | CY10E      | CY08       | CY09E      | CY10E      | CY08          | CY09E      | CY10E      | CY08        | CY09E       | CY10E       |
| Noble Corp            | 35.6        | 9510.0                 | 5.7        | 6.2        | 5.2        | 6.3        | 5.7        | 7.8        | 4.2           | 3.9        | 5.6        | 30.3        | 25.6        | 18.3        |
| Transocean            | 82.1        | 26420.0                | 14.2       | 12.7       | 12.1       | 5.8        | 6.4        | 7.9        | 5.3           | 5.6        | 7.7        | 29.6        | 20.4        | 16.7        |
| Diamond Offshore      | 94.4        | 12860.0                | 9.9        | 10.1       | 9.7        | 9.5        | 9.2        | 9.6        | 6.0           | 5.8        | 6.8        | 42.2        | 37.4        | 36.1        |
| EnSCO International   | 41.5        | 5590.0                 | 8.6        | 5.6        | 4.1        | 4.8        | 7.1        | 9.5        | 3.1           | 4.3        | 6.2        | 26.4        | 15.0        | 11.2        |
| Seadrill              | 19.8        | 6840.0                 | 1.3        | 2.5        | 2.9        | 15.2       | 7.3        | 7.5        | 16.8          | 8.6        | 8.4        | 12.4        | 29.9        | 29.4        |
| <b>Aban Offshore*</b> | <b>24.8</b> | <b>1844.0</b>          | <b>2.8</b> | <b>3.5</b> | <b>3.9</b> | <b>8.7</b> | <b>7.1</b> | <b>6.4</b> | <b>9.9</b>    | <b>7.6</b> | <b>7.0</b> | <b>36.7</b> | <b>31.3</b> | <b>28.1</b> |

\*FY09, FY10, FY11

Source: Bloomberg, ICICIdirect.com Research

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**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

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