Aban -- Upgrade to OUTPERFORM

New report: Leverage from good to bad; concerns on debt and day rates more than in the price **EPS: ▼ TP: ▼**

Sanjay Mookim / Research Analyst / 91 22 6777 3806 / sanjay.mookim@credit-suisse.com
Prashant Gokhale / Research Analyst / 852 2101 6944 / prashant.gokhale@credit-suisse.com
Rajasa K / Research Analyst / 91 22 6777 3932 / rajasa.k@credit-suisse.com

- Aban is down 80% since January, trading at a discount to peers compared to a premium then. We reduce our target price from Rs3,600 to Rs1,261 and upgrade to OUTPERFORM (from Neutral). At 2.7x FY10E EPS, concerns on debt rollover and day rates are more than factored in the price.
- Most of Aban's lenders are Indian banks that may have better appetite for Indian debt. Lack of options limits lenders' ability to withdraw funding. Aban should have funds till operations ramp up.
- Utilisation rates for jack-ups and day rates are likely to contract with falling demand and increase in jack-up supply. Aban has most of its capacity for FY09 and FY10 contracted, tying up US$3 bn in revenue. Sensitivity to day rates is thus lower near term. Outside of a rapid deterioration in day rates, its earnings should grow.
- Leverage and high earnings sensitivities imply stock volatility. Reduction of debt and the announcement of new contracts should cause the volatility to reduce and valuation discount to contract. We cut day rate estimates and our FY09E and FY10E EPS by 43% and 13%, respectively.

Bbg/RIC	**ABAN IN / ABAN.BO**	**Price (11 Nov 08, Rs)**			**1,012.10**
Rating (prev. rating)	**O (N) [V]**	**TP (Rs) (prev. TP)**			**1,261 (3,600)**
Shares outstanding (mn)	37.74	Est. pot. % chg. to TP			25
Daily trad vol–6m avg (mn)	0.4	52-wk range (Rs)			5379.40 - 652.85
Daily trad val–6m avg (US$ mn)	19.5	Mkt cap (Rs/US$ mn)			38,192.6/ 807.3
Free float (%)	37.6	**Performance**	**1M**	**3M**	**12M**
Major shareholders	India Offhsore Inc.	Absolute	(8.9)	(59.4)	(79.3)
		Relative	(9.0)	(41.6)	(62.5)

Year	**3/07A**	**3/08A**	**3/09E**	**3/10E**	**3/11E**
Revenues (Rs mn)	7,187	20,211	43,120	53,953	51,474
EBITDA (Rs mn)	3,474	10,536	28,590	36,582	33,327
Net profit (Rs mn)	(140)	1,230	7,132	13,615	10,081
EPS (Rs)	(4)	33	189	360	267
- Change from prev. EPS (%)	n.a.	n.a.	-43	-13	n.a.
- Consensus EPS (Rs)	n.a.	n.a.	427	520	0
EPS growth (%)	n.a.	n.a.	479.9	90.9	(26.0)
P/E (x)	n.m.	31.1	5.4	2.8	3.8
Dividend yield (%)	0.3	0.4	0.0	0.0	0.0
EV/EBITDA (x)	38.4	15.4	6.7	4.4	4.5
P/B (x)	7.2	4.7	2.6	1.4	1.0
ROE (%)	(6.5)	4.6	49.0	48.8	26.6
Net debt/equity (%)	1795	1526	1051	445	296

Note 1: Aban is the largest private offshore drilling company in India. With the acquisition of Sinvest, it is now amongst the ten largest jackup operators globally.

From premium to discount – valuations now inexpensive

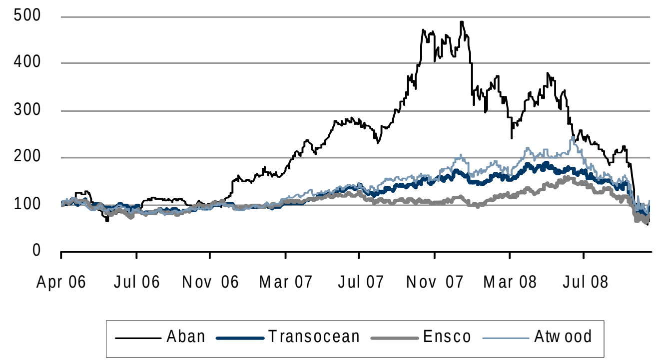
Expectations of day rate increases, deep water asset growth and high valuations of the Singapore subsidiary propelled Aban's stock valuations to a significant premium to peers in January. Oil prices have corrected sharply from peak and the financial crisis has brought global demand in question. Aban has corrected sharply and now trades at a discount to its global peers.

Large debt should be manageable till operations ramp up

With its high leverage, the ability of the company to repay/roll-over debt under tight liquidity conditions has been a key concern. We estimate a repayment profile for Aban's debt book and believe repayment requirements are higher near term. In combination with higher near-term capex and low cash flow, debt roll-over requirements are front-ended.

Apart from the bonds listed in Norway, most of Aban lenders are Indian banks. These are likely to have better appetite for Indian corporate debt. Aban currently does not have resources to repay large amounts. Even after factoring moderate cuts in day rates, the company should be able to demonstrate adequate interest coverage to banks; that will have little excuse to pull the trigger. Funding should be available to the company till its operations ramp up.

Figure 1: With the rapid fall, Aban's relative outperformance has eroded



Source: Bloomberg, Credit Suisse estimates.

Day rates should fall, but moderate cuts are manageable

Falling oil prices and slowing global E&P capex imply slowing demand for jack-ups – at a time when supply is increasing. Utilisation rates for jack-ups is likely to fall, hurting rig rates. We reduce 375'+ jack-up day rate estimates from the current US$200,000 to US$153,000 per day from CY10 onwards. We estimate Aban remains profitable for day rates above US$110,000 per day. The company has most near-term capacity contracted. We believe risk of contract cancellation is low.

Sensitivity of earnings to day rate movements is low in the near term. Signed contracts represent US$3 bn in revenue, which should help in reducing debt.

Newer contracts; de-leveraging to act as catalysts

Announcement of new contracts will assure debt repayment. Lower forecast debt levels will reduce sensitivity of earnings to day rates. This should reduce stock price volatility and valuation discounts; helping stock price.

We reduce our day rate estimates, increase interest spreads, and cut FY09E and FY10E EPS by 43% and 13%, respectively. We reduce our target price from Rs3,600 to Rs1,261 and upgrade to OUTPERFORM (from Neutral).

Companies Mentioned *(Price as of 11 Nov 08)*
Aban Offshore Ltd (ABAN.BO, Rs974.15, OUTPERFORM [V], TP Rs1261.00)

Disclosure Appendix

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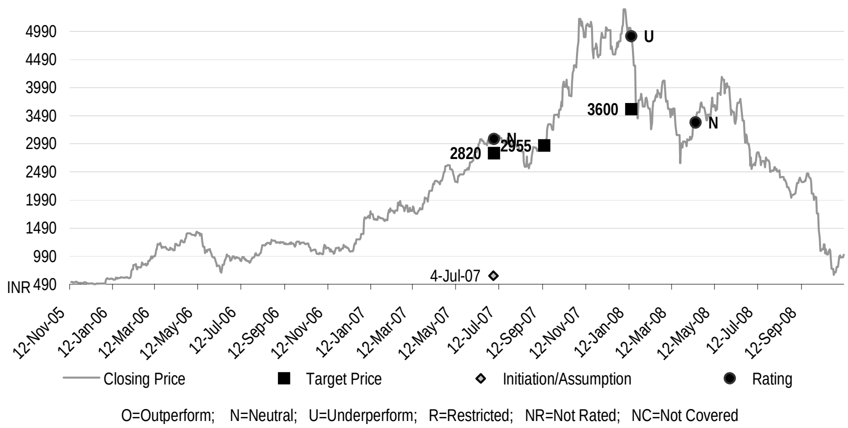
3-Year Price, Target Price and Rating Change History Chart for ABAN.BO

ABAN.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
4-Jul-07	3,095.85			X
5-Jul-07	3,073.8	2820	N	
14-Sep-07	3,044.6	2955		
15-Jan-08	4,902.65	3600	U	
15-Apr-08	3,368.2		N	



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Price Target: (12 months) for (ABAN.BO)

Method: Our target price of Rs.1261 per share for ABAN.BO is based on 3.5x FY10E EPS of Rs.360; which is when all jackups are expected to contribute to earnings. The multiple we use is at a discount to global comparables in light of its higher leverage..

Risks: The primary risk to our target price of Rs.1261 for ABAN.BO is a decline in jackup day rates before all contracts that are up for negotiation in the next few quarters are signed. The high leverage with the company increases EPS sensitivity to changes in day rates. Delay in delivery of jackups will also affect the earnings of the company.

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