

Aban Offshore Ltd (ABALLO)

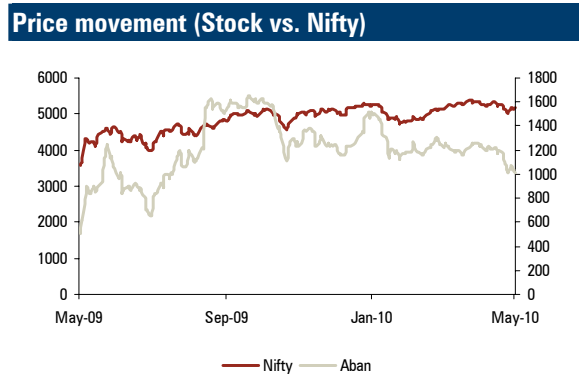
Rs 831

Rating matrix	
Rating	: Add
Target	: Rs 874
Target Period	: 12 months
Potential Upside	: 5.1%

Key Financials				
(Rs crore)	FY09	FY10E	FY11E	FY12E
Net Sales	3050.1	3146.2	3569.3	3619.9
EBITDA	1776.8	1924.8	2111.4	2036.7
Net Profit	540.7	353.0	358.2	656.3

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	5.8	10.2	10.1	5.5
Target PE (x)	6.1	10.8	10.6	5.8
EV to EBITDA (x)	11.1	9.3	7.6	7.3
Price to book (x)	1.8	1.3	1.2	1.0
RoNW (%)	24.6	7.7	8.1	12.0
RoCE (%)	6.4	8.4	10.1	9.9

Stock data	
Market Cap.	Rs. 3614 crore
Debt (FY10E)	Rs. 14491 crore
Cash (FY10E)	Rs. 287 crore
EV	Rs. 17818 crore
52 week H/L	Rs. 1680 / 460
Equity capital	Rs. 8.7 crore
Face value	Rs.2
MF Holding (%)	14.5
FII Holding (%)	9.6



Analyst's name	
Bharat Chhoda	bharat.chhoda@icicisecurities.com
Jehangir Master	jehangir.master@icicisecurities.com
Prerna Jhunjhunwala	prerna.jhunjhunwala@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 1448 to Rs 874
EPS (FY11E)	Changed from Rs 332 to Rs 82
EPS (FY12E)	Changed from Rs 280 to Rs 151
RATING.....	Changed from Strong Buy to Add

Loss of Aban Pearl a big blow...

Aban Offshore Ltd (Aban) lost its prime asset Aban Pearl that was the only semi submersible rig in the company's asset portfolio. It was the highest revenue earning asset for the company with a rate of \$3,58,000 per day and ~80% operating margin with the contract extending up to October 2014. With the loss of this asset the earnings visibility has been severely impacted. This will also delay the recovery for Aban.

Loss of Aban Pearl to severely impact the performance

Aban Pearl was deployed off the coast of Venezuela with PDVSA and was the highest earning asset for the company earning \$3,58,000 per day with 80% operating margin. The loss of the asset would impact the revenues (11 months) for FY11 by ~ Rs 505 crore and lead to a drop in EBITDA of ~ Rs 404 crore. It has also wiped out the future earnings potential from the asset. The loss could not have come at a worse time as the company is currently under strain due to its large debt and servicing capabilities.

Valuation

Loss of Aban Pearl would severely impact the earnings and profitability over the next two years and lead to reduced earnings visibility. However, the current market price has factored in the impact of the loss. We have valued Aban at 14% discount on a P/BV basis and 26% discount on a P/E basis to its global peers. We have also revised our rating from STRONG BUY to **ADD** with a price target of Rs **874**. Any further dip in the stock price from the current level can be used to accumulate the stock.

Exhibit 1: Aban Pearl key facts

Year Built & Type	1977 - Semisubmersible Rig
Capacity & Shipyard	1250 ft - Keppel Shipyard (Singapore)
Cost for ABAN	~ Rs 1150 crores
Depreciation policy	SLM on balance useful life i.e. 20 years
Depreciation per year	~ Rs 58 crores
Balance value of asset in books	~ Rs 1029 crores
Insurance claim	~ Rs 772 crores (i.e 75% of asset value)
Extraordinary Profit	~ Rs 772 crores
Amount to be deducted from gross block	~ Rs 1029 crores
Extraordinary Loss	~ Rs 1029 crores

Source: Company, ICICIdirect.com Research

As the rig was insured we have assumed that 75% of the value of the asset would be recovered as insurance claim, hence leading to an extraordinary loss of Rs 257 crore

The loss could increase if the claim received is lesser than 75%

The company has no loss of profit policy and hence no protection from loss of revenue

■ Insurance status check

Aban Pearl was a 32 year old semi submersible rig that was acquired in Q3FY08 and refurbished. The value of the asset was ~Rs 1150 crore. The company had provided depreciation of ~ Rs 121 crore till date. Balance value in the books was ~ Rs 1029 crore, which would be reduced from the gross block of assets and charged as extraordinary loss in FY11.

As the rig was insured by Aban we have assumed that 75% of the asset value would be recoverable i.e. ~Rs 772 crore. This would be set off from the extraordinary loss. Hence, the actual loss could be to the tune of ~ Rs 257 crore. It appears from the preliminary reports and our interaction with the management that the accident could be due to technical reasons and not negligence. Hence we are fairly confident that insurance claim would materialise.

However, in the event the company receives a lesser amount as compensation then the earnings could be further impacted on the downside.

In the event that Aban has to incur expenses to retrieve the debris of the wreckage, it can recover the same from the insurance companies.

However, the company does not have insurance for loss of profit. Hence, it does not have any protection from the loss of earnings.

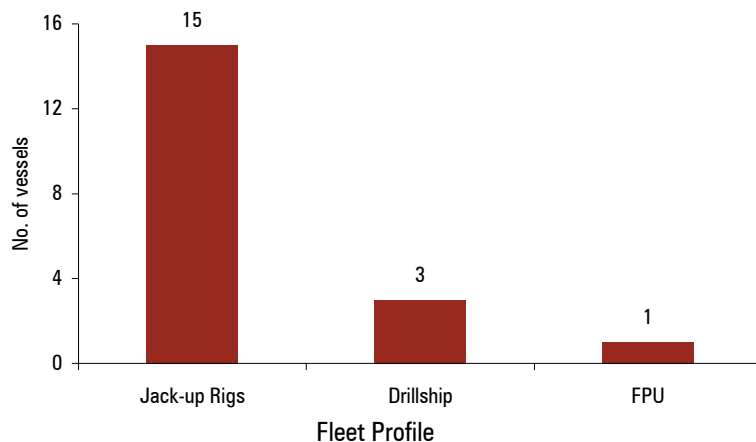
■ Present fleet status

After the loss of Aban Pearl, the present fleet of Aban comprises 15 jack-up rigs, three Drillships and one Floating production unit. Out of the current fleet, three vessels are idle and contracts for another two vessels are expiring in May 2010 and June 2010. Hence, five out of its 19 vessels i.e. almost 1/4 of its fleet would be idle. All the idle vessels are currently under marketing and are expected to be placed on long-term contracts during the course of FY11.

After the loss of Aban Pearl the fleet size of Aban consists of 19 vessels, which include 15 jack-up rigs, three Drillships and one floating production unit

Of this, three vessels are currently idle while another two would also come off contract in the next two months

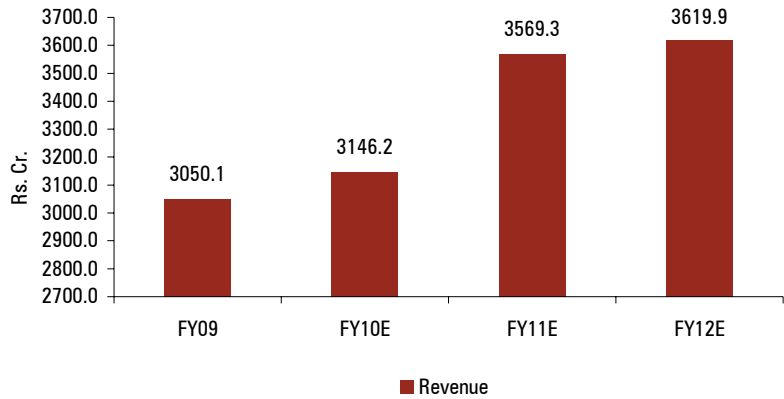
Exhibit 2: Fleet size post Aban Pearl



Source: Company, ICICIdirect.com Research

Revenue in FY11 for Aban is expected to decline by Rs 505 crore due to the loss of Aban Pearl. However, despite that, revenue on a YoY basis is expected to rise by 13.4% in FY11 on account of deployment of Deep Driller 1 and Deep Driller 8 both of which have secured long-term contracts at \$118000 per day and \$115000 per day

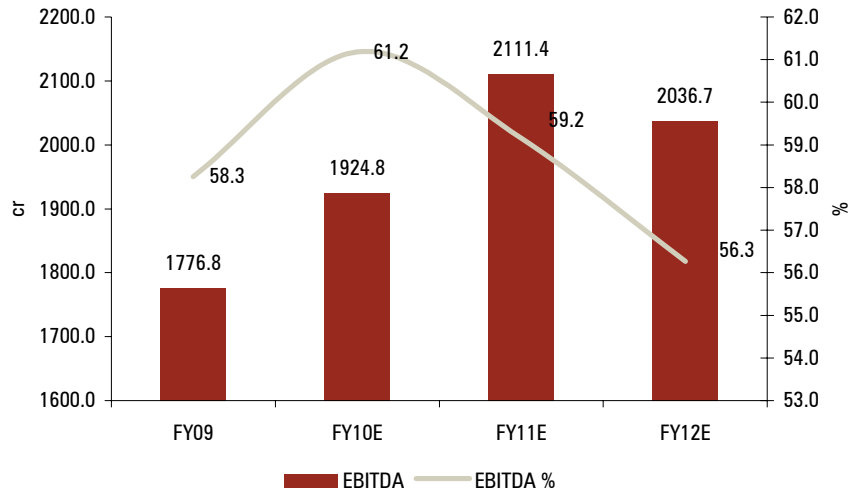
Exhibit 3: Revenue in FY11 would grow despite Aban Pearl incident



Source: Company, ICICIdirect.com Research

The new contracts for deployment of the rigs have been signed at lower rates compared to the previous rates commanded by the company. In addition, the loss on Aban Pearl that commanded 80% margin would combine to exert pressure on the operating margin for Aban

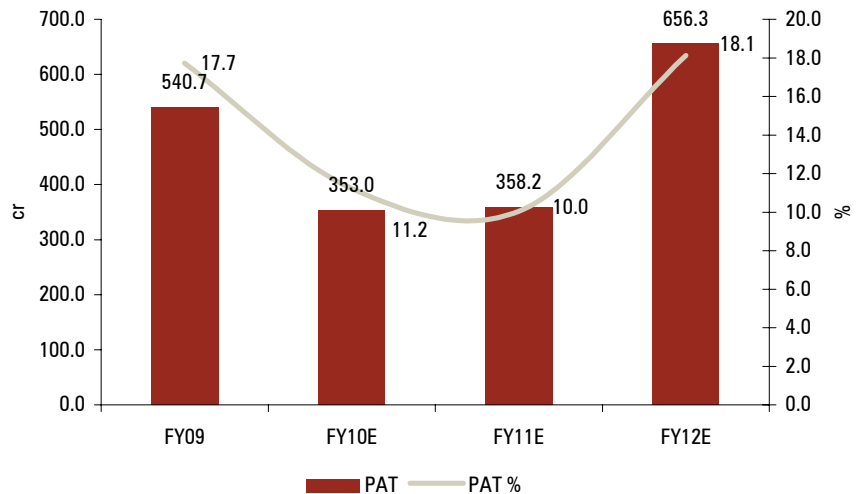
Exhibit 4: Operating margin likely to be under pressure



Source: Company, ICICIdirect.com Research

With the loss of Aban Pearl, the net profit of the company would continue to be under pressure for FY11 as well and the revival would get delayed by at least a year. However, we expect the company to post a recovery in FY12 when the net profit is expected to expand significantly

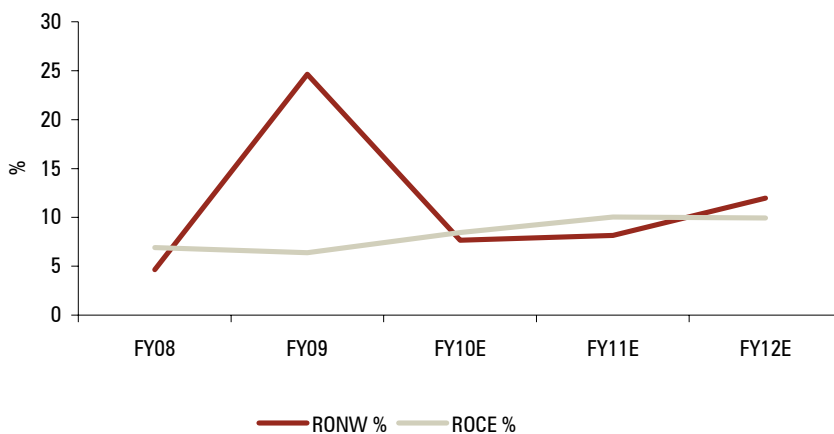
Exhibit 5: FY11 to be painful but FY12 likely to show signs of revival



Source: Company, ICICIdirect.com Research

Return ratios of the company are likely to post a very modest recovery

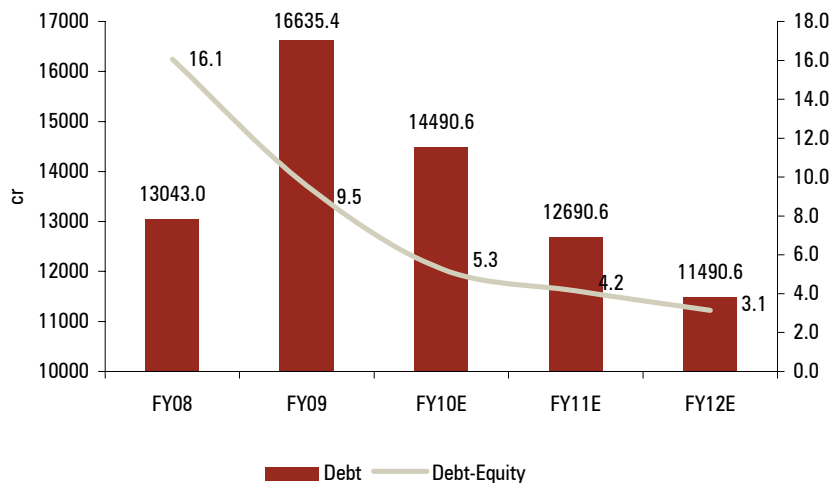
Exhibit 6: Return ratios to take longer to revive



Source: Company, ICICIdirect.com Research

With the placement of idle rigs we expect the cash flows to improve. This will enable the company to reduce its debt. The debt equity ratio is expected to improve from 9.5 in FY10E to 3.1 in FY12E

Exhibit 7: Debt equity ratio to gradually improve



Source: Company, ICICIdirect.com Research

At CMP of Rs 831, the stock has priced in the negative event of sinking of Aban Pearl and is fairly valued at the current price

Detailed Valuation

The loss of Aban Pearl would severely impact the earnings and profitability over the next two years and lead to reduced earnings visibility. However, the current market price has factored in the impact of the loss. We have valued Aban at a 14% discount on a P/BV basis and 26% discount on a P/E basis to its global peers. We have also revised our rating from STRONG BUY to **ADD** with a price target of Rs **874**. Any further dip in the stock price from the current levels can be used to accumulate the stock.

Exhibit 8: Valuation parameters

	Global average	Target Multiples	Target Price
PE multiple (x)	8.2	6.0	905
Price to book value (x)	1.2	1.0	842
Average Target Price			874
Current Price			831
Upside (%)			5.1

Source: Company, ICICIdirect.com Research

Exhibit 9: Valuation

	Sales (Rs. cr)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBIDTA (X)	RoNW (%)	RoCE (%)
FY10E	3146.2	3.3	81.2	44.0	10.2	9.3	7.7	8.4
FY11E	3569.3	13.4	82.4	1.5	10.1	7.6	8.1	10.1
FY12E	3619.9	1.4	150.9	83.2	5.5	7.3	12.0	9.9

Source: Company, ICICIdirect.com Research

Exhibit 10: Revision of estimates

	Old		New	
	FY11E	FY12E	FY11E	FY12E
Sales	5243.0	4815.4	3569.3	3619.9
EBITDA	3110.9	2701.0	2111.4	2036.7
Net Profit	1445.3	1218.7	358.2	656.3
EPS	332.4	280.3	82.4	150.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe
Domestic Peers

			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
ESPLL								
Idirect Code	ESSSHI CMP (Rs.)	86 FY10E	2731.9	0.0	-3465.9	0.0	-1.9	-0.9
	Target (Rs.)	92 FY11E	3184.5	0.0	-	0.0	-	-0.1
MCap	5295.9 % Upside	7 FY12E	4478.6	0.0	-	1847.4	-	1.6
G.E Shipping								
Idirect Code	GESHIP CMP (Rs.)	308 FY10E	2830.2	30.9	10.0	7.9	8.3	3.9
	Target (Rs.)	387 FY11E	3232.9	37.2	8.3	6.1	9.2	5.9
MCap	4681.6 % Upside	26 FY12E	3800.7	59.0	5.2	4.3	12.9	7.5
Mercator Lines								
Idirect Code	MERLIN CMP (Rs.)	53 FY10E	1831.0	2.0	26.0	6.2	2.1	5.2
	Target (Rs.)	74 FY11E	1956.6	3.3	16.2	5.3	3.3	5.9
MCap	1250.8 % Upside	40 FY12E	2180.6	7.9	6.7	3.7	7.4	7.6
SCI								
Idirect Code	SCI CMP (Rs.)	165 FY10E	3485.6	7.9	20.9	15.7	5.3	5.9
	Target (Rs.)	159 FY11E	3590.9	8.5	19.4	14.5	5.6	6.0
MCap	6987.8 % Upside	-4 FY12E	3738.8	7.3	22.7	11.2	4.7	5.4
Varun Shipping								
Idirect Code	VARSHI CMP (Rs.)	48 FY10E	679.5	-	-	16.5	-	5.8
	Target (Rs.)	40 FY11E	771.8	-	-	10.3	-	9.6
MCap	720.0 % Upside	-17 FY12E	819.0	1.7	28.8	9.4	3.3	10.5
Aban Offshore								
Idirect Code	ABALLO CMP (Rs.)	831 FY10E	3146.2	81.2	10.2	9.3	7.7	8.4
	Target (Rs.)	874 FY11E	3569.3	82.4	10.1	7.6	8.1	10.1
MCap	3141.2 % Upside	5 FY12E	3619.9	150.9	5.5	7.3	12.0	9.9
Garware Offshore								
Idirect Code	GARSHI CMP (Rs.)	153 FY10E	232.3	17.4	8.8	9.1	15.4	7.9
	Target (Rs.)	182 FY11E	234.7	21.3	7.2	7.8	16.2	9.3
MCap	364.1 % Upside	19 FY12E	230.0	21.6	7.1	7.4	14.4	9.2
Great Offshore								
Idirect Code	GREOFF CMP (Rs.)	438 FY10E	1172.7	54.7	8.0	6.7	22.1	13.1
	Target (Rs.)	468 FY11E	1275.7	49.6	8.8	5.4	17.2	12.2
MCap	1625.0 % Upside	7 FY12E	1408.0	69.0	6.3	4.0	19.9	14.5
Bharati Shipyard								
Idirect Code	BHASHI CMP (Rs.)	265 FY10E	1349.0	47.4	5.6	8.3	16.0	10.3
	Target (Rs.)	327 FY11E	1334.1	55.6	4.8	7.6	10.1	10.1
MCap	731.4 % Upside	23 FY12E	1287.2	74.5	3.6	7.4	8.4	9.7

Source: Company, ICICIdirect.com Research

Global Peers

Company	Country	P/BV (x)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E
Offshore													
Transocean*	USA	1.1	1.0	0.9	5.8	8.1	6.7	5.1	6.1	5.5	18.7	12.8	14.5
Hercules Offshore*	USA	0.3	0.4	0.5	-	-	-	7.1	7.2	5.8	-	-	-
ENSCO*	USA	1.1	1.0	0.9	8.0	10.8	8.9	4.6	5.9	5.0	14.9	9.6	11.6
Diamond Offshore*	USA	2.8	2.6	2.4	7.4	9.0	8.8	4.9	5.3	5.1	39.8	30.7	31.3
Aban Offshore#	India	1.0	0.0	0.0	5.5	0.0	0.0	7.3	0.0	0.0	12.0	0.0	0.0
Great Offshore#	India	1.7	1.6	1.3	8.3	12.4	6.2	7.0	6.4	4.4	20.9	12.8	20.8
Garware Offshore#	India	1.5	1.3	1.1	9.5	7.8	7.6	9.1	7.8	7.4	15.4	16.2	14.4

*consensus

With regards to Indian companies, three year data represents FY10, FY11 and FY12 (financial year ending in March)

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Add: Up to 10%;

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
7th Floor, Akruti Centre Point,
MIDC Main Road, Marol Naka
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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