

March 13, 2009

Stock Rating  
**Overweight**

Industry View  
**In-Line**

## Aban Offshore Ltd

### At a P/E of 1x; Concerns Overdone

#### Quick Comment – Why are investors concerned?:

Aban Offshore has been facing rig re-deployment issues, with four of its assets currently idle and three of them coming up for renewal in the next six months. Investors are concerned given Aban's high leverage and ability to deploy its rigs. We stress tested Aban's earnings, and believe that although concerns are real, they are overdone at the current stock price.

**Aban stress analysis:** We have assumed the following three scenarios in our stress analysis:

- 1) **If the assets currently awaiting deployment/assets coming up for re-deployment are contracted at US\$75K/day instead of our base-case assumptions of US\$105-10kpd** for F2010, the EBITDA and net profit for the company are affected by 10% and 23%, respectively, for F2010. On the stressed earnings, Aban would trade at a P/E of 1.0x and an EV/EBITDA of 3.0x F2010 earnings.
- 2) **If all four of the assets currently lying idle are not deployed in F2010**, our F2010 EBITDA and net profit estimates would be affected by 16% and 30%, respectively. Despite this, the stock is trading at a P/E of 1.2x and an EV/EBITDA of 3.6x F2010 earnings.
- 3) In the worst-case scenario with **the five assets that currently do not have long-term contracts remaining idle in F2010**, our EPS would reduce to Rs80.

**Will Aban default on its high debt?** Aban has gross debt of US\$3.3bn with an obligation to repay US\$600mn in F2010. We expect the company to refinance US\$150mn in December 2009 from domestic banks to repay its US\$1.5bn NOK liabilities.

**With the devaluation of the rupee, we expect Aban to have a notional net loss of US\$400mn on its foreign currency debt on the balance sheet side;** 90% of Aban's revenues and costs are linked to the dollar and hence every 1% appreciation in the USD viz. the rupee increases Aban's profitability by 3.9% on the P&L side, on our estimates.

#### Key Ratios and Statistics

Reuters: ABAN.BO Bloomberg: ABAN IN

##### India Oil & Gas

Price target	Rs591.00
Upside to price target (%)	132
Shr price, close (Mar 13, 2009)	Rs254.55
52-Week Range	Rs4,292.00-224.10
Sh out, dil, curr (mn)	38
Mkt cap, curr (mn)	Rs9,618
EV, curr (mn)	Rs131,888
Avg daily trading volume (mn)	Rs390

Fiscal Year ending	03/08	03/09e	03/10e	03/11e
ModelWare EPS (Rs)	28.08	228.65	347.98	320.28
Prior ModelWare EPS (Rs)	-	257.06	424.77	417.05
Consensus EPS (Rs)§	37.08	213.96	318.27	278.58
Revenue, net (Rs mn)	20,211	34,291	49,422	48,390
EBITDA (Rs mn)	12,543	19,254	30,978	29,448
ModelWare net inc (Rs mn)	1,061	8,639	13,148	12,101
P/E	107.7	1.1	0.7	0.8
P/BV	22.6	0.7	0.4	0.2
RNOA (%)	2.1	8.6	15.6	14.7
ROE (%)	47.2	170.6	96.0	45.1
EV/EBITDA	18.9	6.2	3.4	3.0
Div yld (%)	0.1	0.0	0.0	0.0
FCF yld ratio (%)	(29.3)	90.6	144.5	152.9
Leverage (EOP) (%)	2,541.1	850.6	377.1	218.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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**Aban Offshore has been facing issues on rig re-deployment, with four of its assets currently idle and three more coming up for renewal in the next six months.**

The assets currently lying idle consist of two high-end assets (DD6 and DD7) and two older assets (Aban 7 and Murmansakya). However, its deep-water assets, Aban Abraham and Aban Pearl, are in the deployment stage.

**Aban Abraham is currently in the deployment stage.** The unit is currently on deployment in West Africa, and we expect the rig to start functioning by the end of the month.

**Aban Pearl** is awaiting mobilization to Latin America for a contract with PDVSA, which we expect to be done by the end of March 2009.

**Deep Driller 8**, the last of the Sinvest assets to be delivered to Aban, was delivered by Keppels on February 6, and was to start its contract with HOEC in March for six months at a contracted day rate of US\$200k/day.

**Will Aban default? Highly Unlikely; Concerns Likely Overdone:** Aban has comfortable interest coverage of 2x; hence, we do not believe the company will default on any of its interest payments. The company has an obligation to repay US\$600mn in F2010. We expect it to refinance US\$150mn in December 2009 from domestic banks, when it will have to repay its US\$1.5bn NOK liabilities.

**Will Debt Refinancing Be Required? Aban Likely to Require Debt Raising/Refinancing in December 2009:** Aban has gross debt of US\$3.3bn with an obligation to repay US\$600mn in F2010. As noted above, we expect the company to refinance US\$150mn in December 2009 from domestic banks when it will have to repay its US\$1.5bn NOK liabilities.

Exhibit 1

**Aban Offshore: Assets Deployment Status**

Assets Not Contracted	Assets Coming up for Renewal	Assets Currently Being Deployed
Aban VII	Deep Driller 1	Aban Abraham
Murmanskaya	Deep Driller 2	Aban Pearl
Deep Driller 6	Deep Driller 4	
Deep Driller 7		

Source: Company data, Morgan Stanley Research

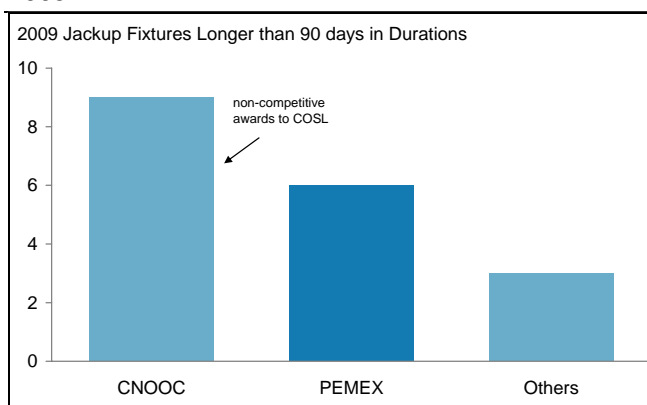
**Where Is the Demand? Middle East and Mexico Seeing Demand at Lower Rates:** Middle East (outside Saudi Arabia) and Mexico are the markets where we currently witnessing some jackup demand. We have seen deployment of ultra-premium jackups in the ME market, at significantly lower rates, however. We have Gilbert Rowe (350 IC, M.E.), which

signed a contract of around US\$100kpd for a year, revealing a big expected drop in jackup rates, regardless of specifications. **We expect the Aban's deep driller assets to be deployed in the ME market at rates similar to ENSCO of US\$100K/day.** ODS –Petrodata reported that DD6 and DD7 had been warm stacked in Persian waters, and the potential clients include NIOC and other state-run oil companies.

**Mexico Is “Hot” for Jackups:** There are tenders in Mexico from PEMEX for four to five jackups with specifications in the range of 250ft to 350ft. We believe that Aban has two or three assets that meet the requirements for these tenders. See Exhibit 2.

Exhibit 2

**PEMEX: Primary Sources of Competitive Work in 2009**



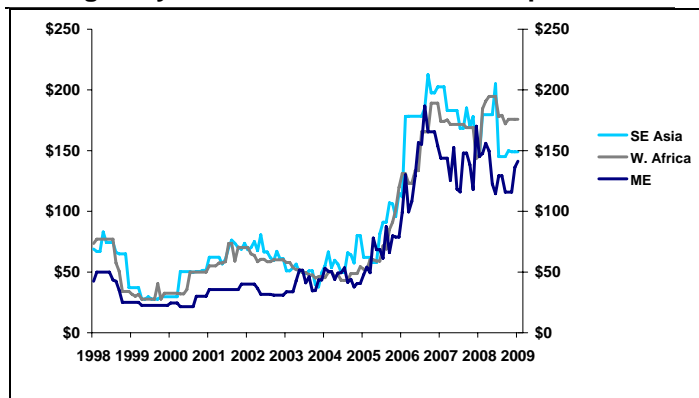
Source: ODS-Petrodata, Morgan Stanley Research

**What's Hurting Aban More? Wait-and-see Attitude of Operators:** Most operators are currently adopting a wait-and-see attitude to how demand will shape up in 2010 as most offshore rigs are facing re-deployment issue. If demand picks up, so would the rig count; but if demand and hence crude oil prices remain at low levels for a prolonged period of time, we may see operators reducing their rig fleets further. Saudi Aramco has already radically scaled back its rig count and is likely to release 10 jackups by the end of the year.

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Exhibit 3

## Average Dayrates for International Jackups

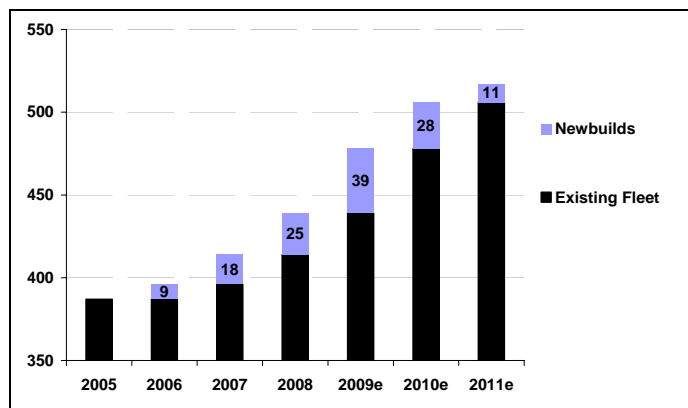


Source: ODS-Petrodata, Morgan Stanley Research

**New Jackup Deliveries Seeing Cancellations/Delayed Deliveries, but new Deliveries Still High:** Most of the shipyards are seeing cancellations of contracts and delays in payments from jackup operators. Also, some of the speculative jackups that were to be delivered are no longer under construction. Keppel's Singapore, one of the biggest yards, has seen cancellations and delays in payments as well as jackup operators delaying deliveries. This is positive for the jackup market, but **we believe that 18 new high specification rigs will be delivered in 1H09, which may further put pressure on the declining rig rates.** See Exhibit 4.

Exhibit 4

## Jackup Supply



e = Morgan Stanley Research estimates  
Source: Company data, ODS-Petrodata, Morgan Stanley Research

**Positive Long Term Due to Supply-side Constraints:** Although spare oil production capacity has been on the increase as of late due to collapsing demand, we believe the supply side will contract sufficiently to re-balance the global oil

market as soon as demand stabilizes. **Longer term, we believe there will be considerable supply challenges for both oil and natural gas.**

Exhibit 5

## Aban Offshore: Stress Analysis

Rs Million	F2009e	F2010e	F2011e
EBITDA	19,254	30,978	29,448
Net Profit	8,639	13,148	12,101
EPS	229	348	320
<b>New Assets deployed at 75k/day</b>			
EBITDA	19,254	27,814	22,641
Net Profit	8,639	10,117	6,382
EPS	229	268	169
<b>% Change</b>			
EBITDA (%)	0.0	-10.2	-23.1
Net Profit (%)	0.0	-23.0	-47.3
EPS (%)	0.0	-23.0	-47.3
<b>Debt Refinancing Required ( US\$ Million)</b>			
Current	15	200	75
<b>Cash Flow</b>			
Current	294	292	306
New Assets deployed at 75k/day	294	237	181
<b>Valuation</b>			
<b>EV/EBITDA</b>			
Current	6.60	3.60	3.20
New Assets deployed at 75k/day	6.60	3.0	3.61
Change	0	-12	-31
<b>P/E</b>			
Current	1.64	0.71	0.82
New Assets deployed at 75k/day	1.64	1.0	0.96
Change	0	-23	-54

e = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research



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	Count	% of Total	Count	Total IBC	% of Rating Category
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<b>Total</b>	<b>2,257</b>		<b>571</b>		

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Company (Ticker)	Rating (as of)	Price (03/13/2009)
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Cairn India Ltd. (CAIL.BO)	U (02/03/2009)	Rs169.75
GAIL (India) (GAIL.BO)	O (04/05/2007)	Rs210.25
Hindustan Petroleum (HPCL.BO)	O (02/03/2009)	Rs241.45
Indian Oil Corp (IOC.BO)	O (02/03/2009)	Rs403.05
Oil & Natural Gas Corp. (ONGC.BO)	U (02/03/2009)	Rs705.95
Reliance Industries (RELI.BO)	O (06/15/2006)	Rs1,282.35
Reliance Petroleum Limited (RPET.BO)	E (02/03/2009)	Rs78.5
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