Company Focus

20 November 2007 | 38 pages

Great Offshore (GOFS.BO)

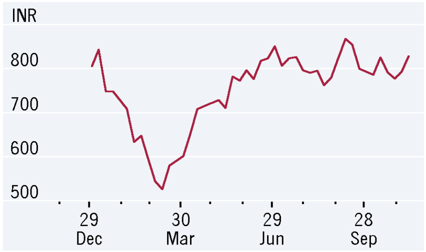
Initiation of coverage

Initiating at Buy: The Tide Is High

- **Initiating at Buy (1M)** — Great Offshore, one of India's leading integrated offshore oilfield services providers, looks well positioned to capitalize on the strong cyclical uptrend in domestic and global offshore services, ensuring robust demand and high utilizations for the company's assets. Initiate with Buy/Medium Risk and Rs1,195 target implying 41% upside from current levels.
- **Well-timed capacity expansion** — The company has nearly tripled its total vessel fleet over the last 10 years to 40 currently, with another 2 vessels now under construction. Contribution from the new assets is the key driver of the 30% EPS CAGR that we forecast over FY07-11E. With utilization at 90%+ for most assets, day rates should remain strong in the medium term. Entry into the offshore construction business, albeit in a small way, adds another leg.
- **High earnings visibility** — A large part of the fleet is locked into long-term contracts, providing comfort to our estimates. Sustained growth in earnings and improving margins would be share price drivers. TP of Rs1,195 is based on DCF as near-term earnings fail to capture contribution from new assets.
- **Value accretive acquisitions are key** — Leveraging the balance sheet (D/E 1.0x in FY08E) and using cash flow generated for value accretive acquisitions could be key to driving future growth and share price performance, in our view.
- **Key risks to our recommendation** — (1) E&P activity decline; (2) delays in newbuild deliveries; (3) acquisition risks; and (4) currency fluctuations.

Buy/Medium Risk	**1M**
Price (19 Nov 07)	Rs857.55
Target price	Rs1,195.00
Expected share price return	39.4%
Expected dividend yield	1.5%
Expected total return	**40.8%**
Market Cap	Rs32,689M US$833M

Price Performance (RIC: GOFS.BO, BB: GOFF IN)



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	971	25.47	na	33.7	6.5	na	0.6
2007A	1,452	38.09	49.6	22.5	5.3	26.0	0.9
2008E	2,253	53.99	41.7	15.9	4.1	32.0	1.4
2009E	2,548	61.06	13.1	14.0	3.0	26.4	1.5
2010E	3,566	85.46	40.0	10.0	2.4	28.0	2.1
2011E	4,604	110.33	29.1	7.8	1.9	28.9	2.7

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	33.7	22.5	15.9	14.0	10.0
EV/EBITDA adjusted (x)	na	14.3	11.6	9.6	6.9
P/BV (x)	6.5	5.3	4.1	3.0	2.4
Dividend yield (%)	0.6	0.9	1.4	1.5	2.1
Per Share Data (Rs)					
EPS adjusted	25.47	38.09	53.99	61.06	85.46
EPS reported	25.47	38.09	53.99	61.06	85.46
BVPS	131.15	162.01	207.63	285.75	354.86
DPS	5.11	8.00	11.82	12.79	17.91
Profit & Loss (RsM)					
Net sales	3,885	5,822	7,498	8,794	11,458
Operating expenses	-2,716	-3,903	-4,852	-5,621	-7,229
EBIT	**1,169**	**1,919**	**2,646**	**3,173**	**4,229**
Net interest expense	-173	-361	-631	-624	-504
Non-operating/exceptionals	31	79	531	331	306
Pre-tax profit	**1,027**	**1,638**	**2,546**	**2,880**	**4,031**
Tax	-56	-186	-294	-332	-465
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**971**	**1,452**	**2,253**	**2,548**	**3,566**
Adjusted earnings	971	1,452	2,253	2,548	3,566
Adjusted EBITDA	1,618	2,628	3,528	4,309	5,695
Growth Rates (%)					
Sales	na	49.9	28.8	17.3	30.3
EBIT adjusted	na	64.2	37.9	19.9	33.3
EBITDA adjusted	na	62.5	34.2	22.1	32.2
EPS adjusted	na	49.6	41.7	13.1	40.0
Cash Flow (RsM)					
Operating cash flow	**1,572**	**1,953**	**2,985**	**3,605**	**4,769**
Depreciation/amortization	449	709	882	1,135	1,466
Net working capital	90	-208	-150	-78	-263
Investing cash flow	**-2,195**	**-5,778**	**-4,859**	**-3,120**	**-1,480**
Capital expenditure	-2,195	-5,778	-4,859	-3,120	-1,480
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,080**	**3,306**	**3,480**	**-1,581**	**-2,813**
Borrowings	1,257	3,654	2,493	-1,000	-2,000
Dividends paid	-222	-348	-514	-581	-813
Change in cash	**457**	**-519**	**1,605**	**-1,096**	**475**
Balance Sheet (RsM)					
Total assets	**9,921**	**15,214**	**21,327**	**22,510**	**23,761**
Cash & cash equivalent	1,024	576	2,182	1,087	1,562
Accounts receivable	764	1,240	1,665	1,884	2,490
Net fixed assets	7,817	12,890	16,867	18,851	18,866
Total liabilities	**4,921**	**9,039**	**11,912**	**11,128**	**9,626**
Accounts payable	608	1,286	1,543	1,697	2,121
Total Debt	3,812	7,466	9,959	8,959	6,959
Shareholders' funds	**4,999**	**6,176**	**9,415**	**11,382**	**14,135**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	41.7	45.1	47.1	49.0	49.7
ROE adjusted	na	26.0	32.0	26.4	28.0
ROIC adjusted	na	16.6	15.5	15.5	19.3
Net debt to equity	55.8	111.6	82.6	69.2	38.2
Total debt to capital	43.3	54.7	51.4	44.0	33.0

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Contents

Investment Thesis

Initiating coverage with a Buy/Medium Risk rating and Target Price of Rs1,195

We initiate coverage of Great Offshore, one of India's leading integrated offshore oilfield services providers, with a Buy/Medium Risk rating. Our DCF-based valuation approach yields a target price of Rs1,195, providing 41% upside from current levels, and captures the robust 30% EPS CAGR that we expect the company to deliver over FY07-11E, buoyed by the strong day rate environment, high utilizations, sustainable business model generating strong and recurring cash flows, visible earnings growth and revenue contribution from the new and upcoming fleet.

Robust operating environment

Our analysis indicates that the global offshore services industry is not nearing the end of its growth cycle. Strong demand for offshore services would continue to be driven by the enduring growth prospects of the deepwater market, while the shallow water replacement market offers further growth opportunities. In addition, domestic E&P spending is on the rise, with India still remaining relatively unexplored. Combined with recent world-class discoveries that will drive a sharp increase in development capex over the next decade, the ongoing favorable operating environment for Great Offshore is likely to continue over the next few years.

Well-timed capacity expansion to drive near-term earnings...

The company has aggressively grown its fleet size from 13 offshore vessels in 1997 to 40 vessels currently through purchase of newbuilds as well as acquisition of secondhand vessels. With a well-timed fleet expansion, Great Offshore looks well positioned to capitalize on the strong cyclical uptrend in the global offshore services industry. With 2 more vessels currently on order, a healthy mix of long-term contracts (adding visibility to earnings) and spot contracts (exploiting short-term opportunities), and continued strength in day rates, Great Offshore looks well on course to drive a robust 23% revenue CAGR over FY07-11E.

...Though inorganic growth holds the key to future growth

Strong balance sheet (D/E of 1.05x in FY08E, reducing to 0.2x in FY11E) provides a significant opportunity, in our view. Combined with adequate funding and strong cash flow generation as new assets start contributing to earnings, Great Offshore is well positioned to pursue inorganic growth opportunities, as has been confirmed by management. Media reports suggest that the company is looking to acquire assets in the offshore drilling space, which we view as positive given the extremely strong ongoing day rate environment for such assets and Great Offshore's relatively lower exposure to this segment of the offshore services value chain. Value accretive acquisitions hold the key to drive future growth and share price performance, in our view.

Valuation

Our target price of Rs1,195 is based on our DCF fair value for Sep-08E. We use DCF to value the company as near-term earnings multiples fail to capture the contribution from new assets as well as the impact of repricing of older assets. Our DCF is based on 5 years of explicit cash flow forecasts and the following key assumptions:

- Day rates to remain strong but relatively flat for most vessels over the forecast horizon, as illustrated in detail in Figure 14
- Newbuild jackup and MSV to start contributing in FY10E at day rates of US$146K and US$90K respectively
- Operating costs to increase at 5% annually
- Dry docking of 11-12 vessels per year
- Construction business revenues to increase progressively from Rs0.6bn to Rs1.6bn over FY08-12E, with operating margins increasing from 10% to 14% over the same period
- Consolidated operating margins to increase from 45% in FY07 to 52% in FY11E
- WACC of 10.5% (risk free of 8%, risk premium of 6%, beta of 0.7x, target D/E of 30%).

Figure 1. Great Offshore – DCF Valuation

	FY08E	FY09E	FY10E	FY11E	FY12E	Terminal
EBIT	2,646	3,173	4,229	5,126	4,701	4,842
Less: Tax	(267)	(302)	(423)	(546)	(540)	(581)
Add: Depreciation	882	1,135	1,466	1,600	1,637	1,637
Add: Decrease in net WC	(176)	(108)	(305)	(190)	(31)	(100)
Less: Capex	(4,859)	(3,120)	(1,480)	(600)	(600)	(600)
Free Cash Flow to Firm	(1,775)	778	3,487	5,390	5,168	5,198
NPV of cash flows		741	3,003	4,202	3,646	3,320
Terminal Value						44,402
Total firm value	55,995					
Less: Net Debt	6,118					
Total equity value	49,877					
No. of shares	41.7					
Value per share (Rs)	**1,195**					

Source: Citi Investment Research estimates

Sensitivity to day rates

Our DCF value is highly sensitive to our day rate assumptions for the various asset classes. Though an academic exercise to some extent, in our view, given the long-term nature of many of Great Offshore's contracts, a 5% increase in day rates across the board for all the assets could increase our DCF value to Rs1,300, as shown in Figure 2 below.

Figure 2. Sensitivity to day rates

	-5% change in average day rates*	Base case	+5% change in average day rates*
DCF value	1,090	**1,195**	1,300

Source: Citi Investment Research estimates. *Assuming changes to day rates only in FY10E and beyond; no change assumed to jackup Samed Shikhar's day rate which is fixed for 5 years.

We prefer DCF to value the company as near-term multiples would not be able to effectively capture the robust earnings growth (EPS CAGR of 30% over FY07-11E) since the expanded fleet would contribute fully to earnings only by FY11E. The following table figuratively illustrates the source of incremental revenues each year from the various assets.

Figure 3. Asset additions contribute to revenue growth till FY11E

FY07	FY08E	FY09E	FY10E	FY11E
PSV Malaviya Twenty Nine (acquired in FY07)	FFSV Malaviya Twenty Five (acquired in FY07, full impact in FY08)	MSV Malaviya Thirty Six (acquired in FY07, full impact in FY09 post-refurbishment)	Jackup 'Samed Shikhar' (delivery in end-FY09, full impact in FY10)	MSV Malaviya Thirty Two (delivery in 1QFY10, full impact in FY11)
PSV Malaviya Thirty (acquired in FY07)	AHTSV Malaviya Twenty Eight (acquired in FY07, full impact in FY08)	Drill barge 'Badrinath' (full impact in FY09 post-refurbishment)		Repricing of jackup 'Kedarnath'
FFSV Malaviya Twenty Seven (acquired in FY07)	AHTSV Malaviya Thirty Four (acquired in FY07, impact in FY08)			
	AHTSV Malaviya Twenty Three (acquired in FY08)			

Source: Citi Investment Research

On a P/E basis, Great Offshore would trade at PER of ~14x FY10E and ~11x FY11E on our target price. We prefer looking at fully evolved FY11E earnings by which time all the assets of the company, recently acquired as well as under construction, would contribute fully to earnings.

Figure 4. Global Valuation Comps

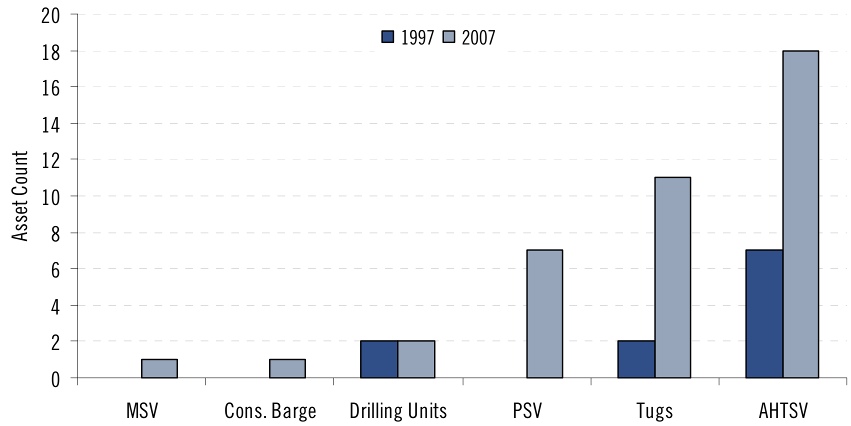
Company Name	Rating	RIC Code	Share Price (LC)	Mkt cap (US$m)	P/E FY08E	P/E FY09E	P/E FY10E	P/BV FY08E	P/BV FY09E	P/BV FY10E	ROE FY08E	ROE FY09E	ROE FY10E	EPS CAGR FY08-10E
Great Offshore	1M	GOFS.BO	854.50	834	15.3	14.0	10.0	4.1	3.0	2.4	32.9%	26.2%	27.8%	23.7%
Bourbon SA	1M	GPBN.PA	43.18	3,496	19.9	16.2	12.8	2.3	2.0	1.8	17.5%	13.7%	15.2%	24.8%
Tidewater Inc	NR	TDW.N	48.87	2,681	8.2	7.8	7.0	1.5	1.3	1.1	17.8%	17.3%	16.2%	8.4%
SEACOR Holdings Inc	NR	CKH.N	90.60	2,097	10.8	10.0	na	1.2	1.1	na	12.9%	11.2%	na	na
Hornbeck Offshore Services	NR	HOS.N	42.50	1,101	12.2	10.4	9.0	2.0	6.3	na	14.3%	13.0%	na	16.5%
GulfMark Offshore Inc	NR	GLF.N	43.31	995	9.8	8.2	7.9	1.5	1.3	1.1	17.9%	16.9%	13.6%	11.2%
Trico Marine Services Inc	NR	TRMA.OQ	38.34	575	12.6	11.2	na	1.7	1.8	na	15.3%	18.9%	na	na
Solstad Offshore ASA	NR	SOFF.OL	151.00	1,043	8.8	9.4	9.0	1.5	1.3	1.2	21.9%	15.1%	13.1%	-1.0%
Deep Sea Supply PLC	NR	DESSC.OL	24.80	590	7.8	6.2	6.2	2.1	1.9	1.5	27.9%	35.5%	27.7%	12.1%
DOF Subsea	NR	DOFSUB.OL	39.00	803	20.6	11.1	6.5	1.3	1.2	1.0	12.4%	12.0%	16.7%	78.5%
Eidesvik Offshore ASA	NR	EIOF.OL	50.00	275	9.7	9.3	10.1	0.9	0.9	0.8	13.5%	9.1%	8.0%	-1.9%
Farstad Shipping ASA	NR	FAR.OL	136.00	969	8.2	6.8	6.7	1.4	1.1	1.0	18.2%	20.1%	15.9%	10.9%
Havila Shipping AS	NR	HAVI.OL	100.50	293	8.7	7.4	6.8	1.3	1.1	1.0	25.8%	17.7%	15.8%	13.0%
Siem Offshore Inc	NR	SIOFF.OL	18.90	773	12.6	11.7	10.9	1.9	1.6	1.4	30.9%	15.0%	15.1%	7.6%
Ezra Holdings	NR	EZRA.SI	3.68	1,486	20.8	15.9	11.0	3.2	2.8	2.3	42.8%	19.1%	24.4%	37.4%
Jaya Holdings	NR	JAYA.SI	1.87	991	11.0	9.8	8.0	3.3	2.9	2.5	33.8%	33.6%	33.1%	17.1%
ASL Marine Holdings Ltd	NR	ASLM.SI	5.81	315	9.0	9.3	8.1	na	1.9	1.6	na	24.8%	22.9%	5.1%
CH Offshore	NR	CHOF.SI	0.87	420	16.3	10.5	10.4	3.2	2.6	2.3	21.5%	30.2%	22.4%	25.1%

Source: I/B/E/S and Citi Investment Research estimates

An Integrated Offshore Services Company

Great Offshore is an offshore services provider offering drilling and offshore support services to E&P companies, besides port and terminal and construction services. It started out as the offshore division of Great Eastern Shipping Co. and purchased India's first private sector OSV in 1983. The company's drilling operations began in 1987. It was also the first private company in India to own a PSV (platform supply vessel) and an FFSV (fire fighting support vessel). Over the years, its fleet size has increased steadily, rising from 13 offshore vessels in 1997 to 40 vessels currently, with another 2 vessels currently under construction. After demerging from Great Eastern Shipping, Great Offshore added 7 vessels in FY07 and another one in FY08.

Figure 5. Great Offshore: Asset Build-up



Source: Company Reports. Note: Does not include 2 newbuilds currently under construction (1 jackup rig + 1MSV)

Asset Profile

Great Offshore currently has a fleet of 40 vessels comprising drilling assets, offshore supply vessels, platform supply vessels, and other vessels, with 2 more to be delivered over the next 2 years. The average age of the assets is ~14 years, as shown in Figure 6 below.

Figure 6. Great Offshore: Asset Profile

Drilling Assets	Number	Description	Water Depth	Drilling Depth	Age	Clients
Kedarnath	1	Independent leg jack-up rig	300 ft	20,000 ft	32	ONGC Videsh Ltd.
Badrinath*	1	Drill Barge	600 ft	20,000 ft	34	ONGC
Other Vessels	**Number**	**Description**	**Average DWT (tons)**	**Average BHP**	**Average Age**	**Client**
Gal Constructor	1	Construction Barge	4802		29	British Gas
Highend AHTSV	9	Anchor Handling Tug and Supply Vessel, Offshore Supply Vessel and Fire Fighting Supply Vessel	2009	8028	8	Transocean, ONGC, Aramco
Lowend AHTSV	9	Anchor Handling Tug and Supply Vessel	919	5264	23	
PSV	7	Platform Supply Vessel	3309	5691	3	Apache, Reliance, ONGC
MSV	1	Multi-role Supply Vessel	1800	3252	20	ONGC
Tugs	11	Harbour Tug	125	2967	11	Gujarat Ambuja, Gujarat Pipapav Port, Mumbai Port Trust
Total	**40**				**14**	

Source: Company Reports and Citi Investment Research. *Badrinath is owned by Deep Water Services, a 100% subsidiary of Great Offshore.

Existing assets – healthy mix of long-term and spot contracts

Great Offshore owns a jack-up rig ('Kedarnath'), a drill barge ('Badrinath'), a construction barge, 18 AHTSVs (anchor handling tug and supply vessels), which include fire fighting supply vessels and offshore supply vessels, 7 PSVs (platform supply vessels), a multi-role supply vessel and 11 harbour tugs. A detailed explanation of the different vessel types has been provided in the Appendix.

Of these, 'Badrinath' and 'Kedarnath' have both been contracted out to ONGC for long-term contracts till mid-CY10 and end-CY09, respectively. 'Badrinath', which had a major refurbishment in 1HCY07 and commenced operations in Sep-07, will fully contribute to revenues from FY09E. 'Kedarnath' was dry docked in FY06 and currently operates at near full utilization. Most of the other assets of the company are also currently operating under long-term contracts.

Revenues from contracted assets have increased from 66% in FY06 to 74% in FY07, providing strong revenue visibility over our forecast horizon. Most of the newly acquired assets have already entered into contracts for 3-5 years, as shown in Figure 7 below. These assets alone would contribute ~30% of FY09E charter revenues on our estimates. However, given the strong day rate environment in markets such as the North Sea, the company has also been chartering some of its older OSVs (primarily the lower-end AHTSVs) in the spot market, a strategy we agree with given the possibility of exploiting opportunities created by short-term demand-supply imbalances.

Figure 7. Most of Great Offshore's newly acquired assets have been contracted out on a long-term basis at high day-rates

Asset Name	Category	Build	Delivery Date	Contract Start	Contract Duration	Day rate (US$)	Client	Deployment	Contribution to revenues
Malaviya Twenty Nine	PSV	Newbuild	Jun-06	Jul-06	5 yrs	14,950	Reliance	Indian East Coast	FY07
Malaviya Thirty	PSV	Newbuild	Sep-06	Sep-06		Spot	Apache	North Sea	FY07
Malaviya Twenty Seven	FFSV	Newbuild	Sep-06	Sep-06	5 yrs	15,300	ONGC		FY07
Malaviya Twenty Five	FFSV	Newbuild	Mar-06	Oct-06	5 yrs	15,300	ONGC		FY07 (partial), FY08 (full)
Malaviya Twenty Eight	Highend AHTSV	Newbuild	Dec-06	Dec-06	3 yrs	14,400	Transocean		FY07 (partial), FY08 (full)
Malaviya Thirty Four	Highend AHTSV	Second-hand	Dec-06	Apr-07	3 yrs	11,250	Aramco		FY08
Malaviya Twenty Three	AHTSV	Newbuild	May-07	May-07	2 yrs	20,500	GSPC	Indian East Coast	FY08
Malaviya Thirty Six	MSV	Second-hand	Oct-06	Sep-07	5 yrs	58,500	ONGC		FY08

Source: Company Reports and Citi Investment Research

Two newbuilds currently on order

In addition, Great Offshore has two assets on order from Bharati Shipyard:

- Jackup 'Samed Shikhar' – This is a 350' self-propelled (cantilever type) independent leg jackup rig. The rig is scheduled to be delivered in 3QFY09E. It has already been contracted by ONGC at an operating day rate of US$146K beginning 1QFY10. The cost of the vessel is ~US$160m.
- MSV Malaviya Thirty Two – This high-end vessel is scheduled to be delivered in 1QFY10. The total cost of this vessel is c.US$65m and it is likely to earn a day rate of ~US$90K, on a conservative basis, when contracted out.

Robust Day Rate Environment

Given the upswing in the E&P business, Great Offshore has seen an increase in day rates for its entire OSV fleet. According to management, average day rates for its PSV vessels have risen by nearly 60% over the past few years (see Figure 8 below), while the day rates for the high-end AHTS vessels have gone up by nearly 50% in the same time. Low-end AHTS vessel day rates have risen even more rapidly, and have more than doubled in the past few years. A more detailed discussion of the operating environment has been provided in the section titled 'OSV Industry Outlook'.

Figure 8. Rise in day-rates for Great Offshore's assets

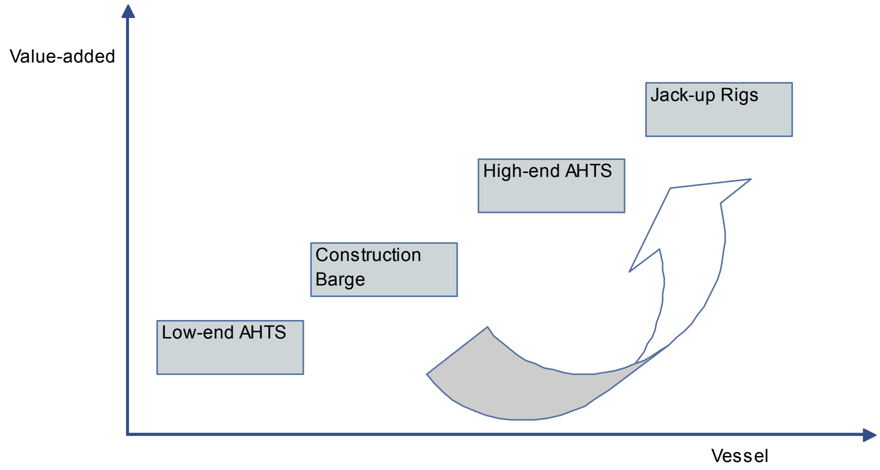
US$/day	CY05	Current
Highend AHTSVs	11,000-12,000	17,000-18,000
Lowend AHTSVs	3,500-4,000	8,500-9,000
PSVs	11,000-12,000	17,000-19,000

Source: Company Reports

Improving Revenue Mix

Great Offshore has, over the years, increased its focus on more advanced vessels such as high-end AHTSVs (9 in all with an average age of 8 years), multi-role support vessels (1 currently + 1 on order), and offshore drilling assets (2 currently + 1 on order). We view the move toward higher value-added segments of the offshore services value chain as positive, based on our robust global outlook for the sector (refer to the section titled 'International Jackup Outlook Remains Favorable' for a more detailed discussion of the same).

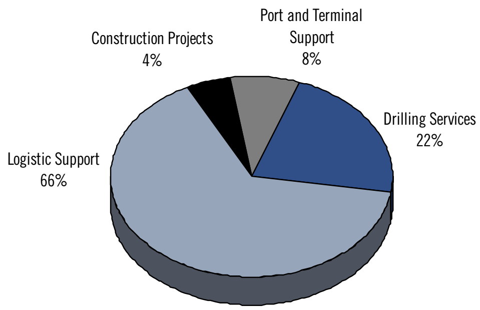
Figure 7. Moving Toward Higher Value-Added Segments



Source: Citi Investment Research

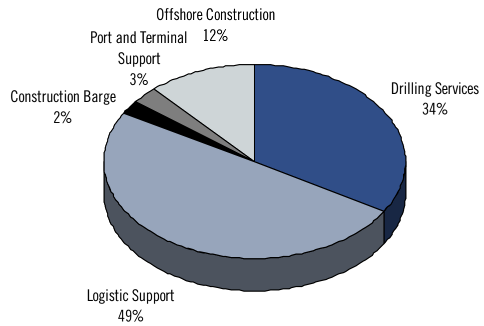
The result is an improvement in revenue mix, with higher-margin drilling services expected to contribute 34% of total sales in FY11E, on our estimates, from 22% in FY07. The uptrend in margins is discussed in more detail in the section titled 'Financial Overview'.

Figure 9. Revenue Breakup – FY07



Source: Company Reports and Citi Investment Research

Figure 10. Revenue Breakup – FY11E



Source: Citi Investment Research estimates

Focus on Safety and Quality

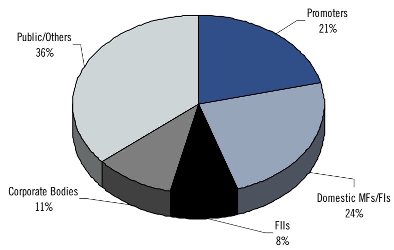
The cost of hiring an offshore vessel is relatively small compared to a drilling rig's total cost of production. However, offshore vessels are essential in building and maintaining sub-sea and surface offshore equipment. Furthermore, the costs associated with production delays are too important for oil producers to take unconsidered risks. Thus, oil producers will not take the risk of working with unreliable vessels, and clients are willing to pay for reliability and quality. Great Offshore's track record as regards safety and reliability has enabled the company to be granted major contracts with some of the most demanding players in the oil sector such as Transocean, British Gas, Aramco, etc. The company is ISO 9001:2000, ISO 14001:2004, and OHSAS 18001:1999 certified.

History

Great Offshore began operations in 1983 as part of Great Eastern Shipping Co. Ltd. and was promoted by the Mulji (Sheth) brothers and Bhiwandiwalla family. The company commenced business by purchasing Malaviya One, India's first offshore support vessel. Subsequently, the company opened offices in Dubai and Malaysia and started operations in Qatar and South Africa. On 16 October 2006, the offshore division of Great Eastern Shipping was demerged to form Great Offshore, 1 April 2005 being the effective date. As part of the demerger, Mr. Vijay Sheth, the managing director of Great Offshore, acquired around 14% of Great Offshore's equity from cousins Mr. Bharat Sheth and Mr. Ravi Sheth and uncle Mr. Kanaiyalal M. Sheth. The stake was picked up by Meltar Trading & Investment Company Pvt Ltd, a company controlled by Mr. Vijay Sheth.

Management and Shareholding Profile

Figure 11. Great Offshore – Shareholding Structure (post-issue to Exim Bank)



Source: Company Reports

Great Offshore is promoted by the Sheth family. The promoters, including Mr. Vijay Sheth and family, hold a 21% stake in the company. In Jul-07, Carlyle, a private equity fund, picked up about a 5% stake in Great Offshore from the open market. Mr. Sevantilal J. Parekh is the Chairman of the company with experience in the barging and cargo handling business. Mr. Vijay K. Sheth, the Managing Director, has been associated with Great Eastern Shipping since 1977 and has extensive experience and expertise in drilling, oil & gas exploration, and marine logistic. The Board of Directors comprises the Chairman, Managing Director, and five independent members, including a representative of the Carlyle Group, as shown in Figure 12 below.

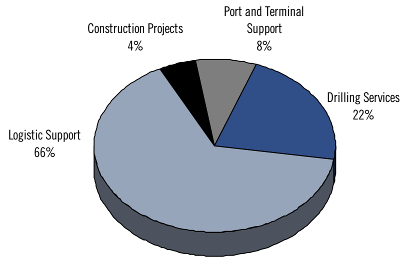
Figure 12. Great Offshore – Board of Directors

S. No.	Name	Designation
1	Mr. Sevantilal J Parekh	Chairman
2	Mr. Vijay Kantilal Sheth	Managing Director
3	Mr. Naresh Chandra	Director (IAS)
4	Mr. Shailesh V Haribhakti	Director (Chartered Accountant)
5	Mr. Rajiv K Luthra	Director (Attorney at law)
6	Mr. Suresh Balasubramanian	Director (Chartered Accountant)
7	Mr. Madhava Menon Shankar Narayanan	Director (Carlyle Group)

Source: Company Reports

In Jul-07 the company's board passed a resolution to increase the investment limit for FIIs from 24% to 49% of the equity capital and also issued 1.5m preference shares of Rs1,000 each to Exim Bank, thereby raising Rs1.5bn. In addition, the company also raised FCCBs worth US$42m in Oct-07. Both the preference shares and the FCCBs are convertible into equity at a conversion price of Rs875 per share.

Figure 13. FY07 Revenue Break-up



Source: Company Reports

Business Segments

Great Offshore operates in five major businesses:

- Offshore drilling services – charter hire of offshore drilling units for carrying out offshore E&P, with ONGC being the principal client.
- Offshore logistic support services – production support, diving support, supply duties for personnel and materials, anchor handling, towing, mooring, rig moving, emergency response/rescue, and fire fighting operations. Major clients in India include ONGC, GSPC, Reliance Industries, British Gas, and Hardy Oil, while international clients include BP, Aramco, Petronas, PetroSA, etc.
- Marine construction projects and services – services of the construction barge, which include crane operations, supplies, accommodation, fire-fighting, and emergency assistance.
- Port and terminal support services – services of the tugs for port operations such as berthing/unberthing, towing of vessels, and emergency fire fighting.
- Engineering services – services for the offshore E&P industry such as project management, offshore installation, maintenance, repairs, etc. The company only recently began offering these services.

Financial Overview

Strong revenue CAGR of 23% over FY07-11E

We forecast operating revenues (from charter hire of vessels and marine construction services) to increase from Rs5.7bn in FY07 to Rs12.8bn in FY11E, a CAGR of 23%. The increase is driven by a combination of increase in day rates, new assets coming on stream, as well as increased contribution from the marine construction business, as explained in more detail below. Figure 14 illustrates the key assumptions behind our forecasts.

Figure 14. Great Offshore – Asset-wise Day Rate and Capacity Utilization Assumptions

Asset Category	Asset Name	No.	Average day rates (US$ '000)					Average capacity utilization (%)				
I. EXISTING ASSETS			FY07E	FY08E	FY09E	FY10E	FY11E	FY07E	FY08E	FY09E	FY10E	FY11E
Drilling												
Jack up rig	Kedarnath	1	50.0	45.0	45.0	58.8	100.0	95%	95%	95%	75%	95%
Drill Barge	Badrinath	1	35.0	80.0	80.0	80.0	80.0	90%	50%	95%	95%	95%
Marine construction												
Construction Barge	Gal Constructor	1	27.0	31.0	31.0	31.0	31.0	70%	70%	70%	70%	65%
Offshore support vessels												
Highend AHTSVs	Malaviya Nine, Ten, Twenty One, Twenty Three, Twenty Eight, Thirty Four, Twenty Five, Twelve, Twenty Seven	9	11.7	16.1	16.1	16.1	16.2	67%	90%	92%	92%	93%
Lowend AHTSVs	Malaviya One, Two, Three, Four, Five, Six, Gal Beaufort Sea, Gal Ross Sea, Sangita	9	6.4	7.9	8.5	8.5	8.5	85%	89%	89%	89%	89%
PSVs	Malaviya Sixteen, Eighteen, Nineteen, Twenty, Twenty Four, Twenty Nine, Thirty	7	16.6	17.5	18.3	18.3	18.3	78%	90%	90%	89%	91%
MSVs	Malaviya Thirty Six	1	na	58.5	58.5	58.5	58.5	na	48%	95%	95%	95%
Port and terminal support												
Harbour tugs	Birsingha, Ananya, Purnima, Vahbiz, Kumari Tarini, Kanti, Sudhir Mulji, Anasuya, Jyotsna S., Malini, Rishabh	11	2.5	2.5	2.5	2.5	2.5	92%	93%	93%	93%	92%
II. NEWBUILDS												
Jackup rig	Samed Shikhar	1	na	na	na	146.0	146.0	na	na	0%	87%	95%
MSV	Malaviya Thirty Two	1	na	na	na	90.0	90.0	na	na	na	63%	95%

Source: Citi Investment Research estimates

Drilling assets: 'Kedarnath', a 300' independent leg jackup rig, is currently contracted out to ONGC till end-CY09 at a day rate of c.US$45K. The day rate on re-pricing has been assumed at US$100K, a conservative assumption in our view. However, the full impact of the re-pricing will only be felt on FY11E revenues. 'Badrinath', a 600' drilling barge, was till recently being dry docked (total dry docking expense of ~US$10m in FY08E) and has re-commenced operations in Sep-07. The barge has been contracted out to ONGC for a 3-year contract that ends in mid-CY10 at a day rate of c.US$80K.

Offshore support vessels: The company categorizes its OSVs into four broad segments – high-end AHTSVs (9), low-end AHTSVs (9), PSVs (7), and MSVs (1).

The high-end AHTSVs are currently on hire under longer-term contracts (~2-5 years duration), with companies such as ONGC, Transocean, Aramco, etc. as opposed to their lower-end counterparts that have primarily been chartered out on a spot basis (<1 year). Due to their technical capabilities, the higher-end vessels command significantly higher rates of US$16-17K/day on an average vis-à-vis 8-9K for the lower-end vessels. However, the longer-term nature of some of these contracts does reduce the company's flexibility in benefiting from opportunities where brief periods of supply side constraints might lead to significant spurts in day rates for some of the higher-end vessels (for instance, North Sea day rates for large AHTSVs and PSVs averaged £54K and £33K, respectively, in August). To counter this, the company has adopted the strategy of chartering the lower-end vessels on a spot basis to benefit from any short-term re-rating of day rates. The flip side to spot contracts is the lower effective utilization of the asset during the year due to the possibility of time lost during switchover of contracts, which we have built into our forecasts. We have assumed day rates to remain relatively flat over our forecast horizon, a conservative assumption, in our view.

The 7 PSVs are chartered out at both spot and firm contracts. One of the vessels, for instance, is on a spot contract in the North Sea attracting day rates of c.US$30K but at lower utilizations, while 3 vessels operate on a pooled basis in the North Sea attracting slightly lower day rates of c.18K but with relatively higher effective utilizations. Two of the remaining assets are on longer-term contracts at day rates of 15-16K while a third asset is likely to come up for repricing within the next 6 months at a higher day rate of US$13K, in our view.

The MSV, Malaviya Thirty Six, was originally an AHTSV purchased at c.US$35m which was recently upgraded and converted into an MSV at an additional cost of c.US$18m. The asset has been chartered out at a high rate of US$58.5K/day for a 5-year contract with ONGC that commenced in Sep-07.

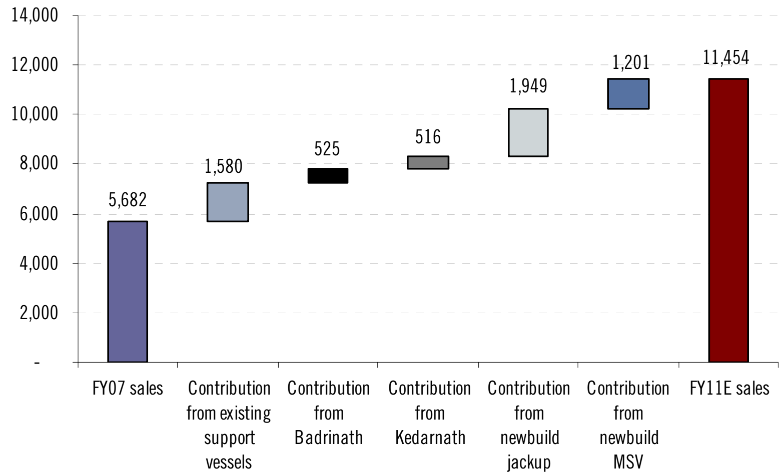
Marine construction: Great Offshore operates one construction barge, the Gal Constructor, which offers services such as crane operations, supplies, accommodation, fire-fighting, and emergency assistance. We have assumed the day rate earned to be constant at c.US$31K over our forecast horizon, though utilizations are significantly lower at c.70%, as indicated by management.

Port and terminal support vessels: Great Offshore operates 11 harbour tugs that provide services such as berthing and unberthing, towing and pushing of ships, emergency fire fighting, etc. A majority of these tugs are on longer term contracts (up to 5 years) earning c.US$2-2.5K/day while two tugs that are on spot contracts earn significantly higher rates of c.US$3-4K, which we have assumed to continue over our forecast horizon.

Newbuilds: Great Offshore also has two newbuilds that are currently under construction at Bharati Shipyard. 'Samed Shikhar', a 350' self-propelled, cantilever type, independent leg jackup rig was recently awarded a 5-year contract with ONGC commencing in May-09 at an effective day rate of US$146K. The asset is likely to be delivered by 3QFY09E but will start contributing to revenues only in FY10E. While the day rate achieved is slightly below the prevailing rate for similar assets, it does lock in the asset for a long period of time, providing strong visibility to earnings.

MSV Malaviya Thirty Two is another newbuild, also currently under construction at Bharati Shipyard with delivery expected in 1QFY10E. The prevailing day rates for assets of similar specs are ~US$100K, though we have conservatively assumed a day rate of US$90K for the same. Revenues from this asset will likely start flowing in only from 2QFY10E.

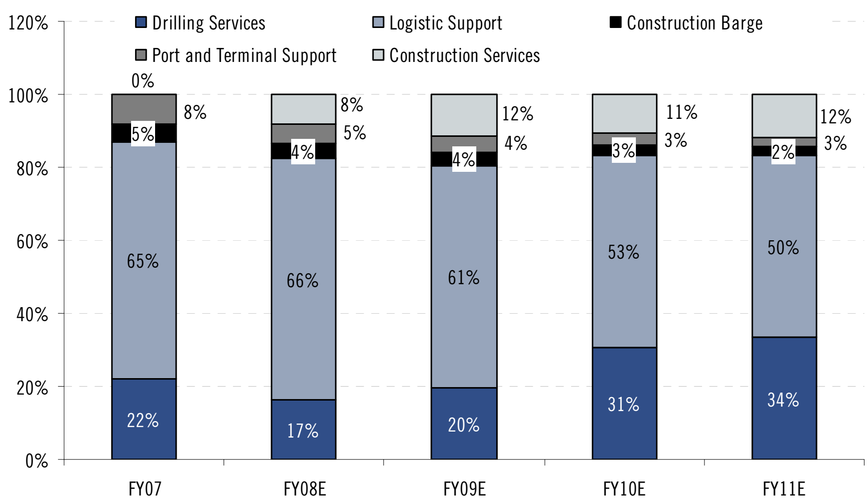
Figure 15. Operating revenue (charter hire only) buildup from FY07-11E



Source: Citi Investment Research estimates

Over our forecast horizon, as the newbuild jackup is delivered and starts contributing to revenues, proportion of revenues from drilling is expected to increase from 22% in FY07 to 34% in FY10E with a corresponding decline in contribution from logistic support services. Offshore construction services are also likely to become a meaningful contributor by FY11E (12% of revenues on our estimates), as shown in Figure 16 below.

Figure 16. Changing Revenue Profile



Source: Company Reports and Citi Investment Research estimates

Marine Construction Business Adds Another Leg

Besides the construction barge that Great Offshore owns and operates, the company has also recently ventured into EPC projects for the oil & gas industry. The scope of activities includes project management, pre-engineering surveys, design engineering, procurement, fabrication, transportation, offshore installation and commissioning. The company would initially focus on brownfield projects (i.e., maintenance, upgradation, and modification of offshore platforms) till it develops the capability to execute greenfield projects (L&T and Punj Lloyd being the key players in this space). The company's current order book stands at c.Rs0.6bn executable over the next c.12 months. We have assumed revenues from this business to gradually increase over our forecast horizon to Rs1.5bn by FY11E (12% of FY11E consolidated sales). Operating margins in this business are significantly lower than the charter hire business, as shown in Figure 17 below, mitigating to some extent the improvement in margins from the other businesses, as explained in more detail in the following section.

Figure 17. Offshore construction business – key assumptions

Rs m	FY07	FY08E	FY09E	FY10E	FY11E
Revenues from offshore construction	-	600	1,000	1,200	1,500
EBITDA contribution	-	540	890	1,056	1,305
EBITDA margin	-	*10.0%*	*11.0%*	*12.0%*	*13.0%*

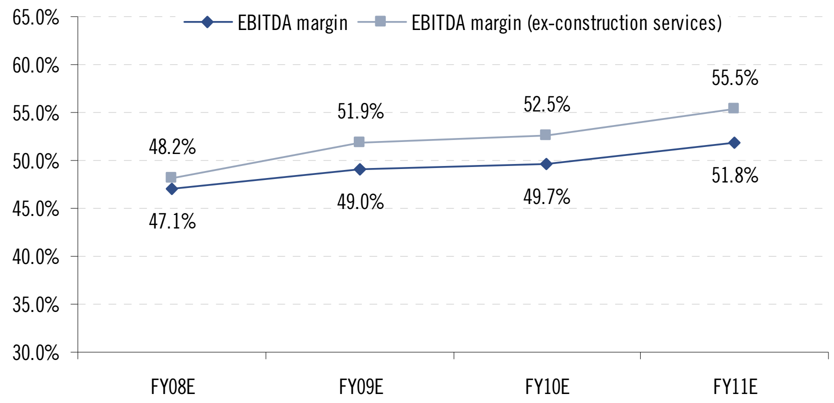
Source: Citi Investment Research estimates

The outlook for the offshore construction market in India remains extremely robust, the main drivers being revamping and redevelopment of ONGC's facilities and development of new discoveries such as those of RIL, ONGC and GSPC. In addition, India's energy security concerns and high oil prices will sustain the momentum in production and development spending over the next decade. With limited domestic competition in this segment (primarily L&T and Punj Lloyd), offshore construction presents a meaningful business opportunity for Great Offshore, in our view, and could become a significant contributor to revenues in the medium term.

Strong Margin Improvement Ahead

With the ongoing strength in day rates, high capacity utilizations, and addition of new assets to its fleet, we expect Great Offshore's operating margins to exceed the 45% levels achieved in FY07. On our estimates, consolidated operating margins will increase to 52% in FY11E, which we believe is a fair estimate and could even be on the conservative side if day rates and/or capacity utilizations achieved are higher than forecast by us. However, the construction business with lower operating margins (gradually increasing from 10% to 13% over our forecast horizon) will, to a certain extent, be a drag on overall margins. Excluding this segment, operating margins of the company from the chartering business alone would increase from 48% in FY08E to 55% by FY11E on our estimates.

Figure 18. Great Offshore – EBITDA margins trends



Source: Citi Investment Research estimates

The operating costs for the various vessels have been assumed on a per day basis, with annual inflation assumed at c.5%. The other significant cost item is the total expense to be incurred on dry docking of vessels during the year. Given that the average age of the company's fleet is high for most categories of vessels and based on our discussions with management, we have assumed 11-12 vessels to be dry docked every year at a total cost of c.Rs0.2bn per year (the company has dry docked 8 vessels in FY08TD).

Figure 19. Operating cost assumptions

Vessel	Average operating cost (US$/day)
High-end AHTSVs	4,500
Low-end AHTSVs	3,200
PSVs	4,000
Harbour tugs	800
MSV	30,000
Gal Constructor	11,000
Badrinath (drilling barge)	26,000
Kedarnath (jackup rig)	20,000
Samed Shikhar (jack up rig on order)	28,000
Malaviya Thirty Two (MSV on order)	35,000

Source: Citi Investment Research estimates. Note: Operating costs are assumed to increase @ 5% p.a. from the above base.

Debt, Internal Accruals to Finance Capex; No Further Dilution Assumed

Great Offshore's current capex plans involve the acquisition of 2 newbuild assets – a jackup rig ('Samed Shikhar') for US$160m and an MSV (Malaviya Thirty Two) for US$65m. The orders for both these assets have been placed with Bharati Shipyard, with likely deliveries in 3QFY09E and 1QFY10E, respectively. With the recent preferential allotment to Exim Bank (Rs1.5bn raised) and the FCCB issue (US$42m raised), the company is adequately funded to finance these capex plans. The FY08E debt/equity ratio of 1.05x

(0.9x excluding the FCCB) would reduce to a comfortable 0.2x by FY11E on our estimates. We have assumed no further debt or equity infusion in our estimates, as cash flows combined with internal accruals would be sufficient, in our view, to meet the company's current capex plans.

Figure 20. Capex and leverage – key assumptions

Rs m	FY08E	FY09E	FY10E	FY11E
Capital expenditure	4,859	3,120	1,480	600
Total debt	9,959	8,959	6,959	2,959
- ow FCCB	1,659	1,659	1,659	1,659
Debt/Equity	105.2%	78.4%	49.1%	16.7%
Debt (ex-FCCB)/Equity	87.6%	63.9%	37.4%	7.3%

Source: Citi Investment Research estimates

Summary Financials

Figure 21. Great Offshore Consolidated Income Statement – FY06-11E (Rupees in Millions)

Year to 31-Mar	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Income						
Charter Hire	3,767	5,682	6,751	7,641	10,097	11,305
Other operating income (construction)	-	-	600	1,000	1,200	1,500
Miscellaneous receipts	1	5	5	5	5	5
Share of Joint Venture	117	135	141	148	156	164
Total income	**3,885**	**5,822**	**7,498**	**8,794**	**11,458**	**12,974**
Expenditure						
Operating expenses	1,939	2,772	3,489	3,941	5,165	5,590
Admin, sales, & other expenses	327	422	481	544	598	657
Total expenditure	**2,267**	**3,194**	**3,969**	**4,485**	**5,763**	**6,247**
EBITDA	**1,618**	**2,628**	**3,528**	**4,309**	**5,695**	**6,726**
EBITDA margin	*41.7%*	*45.1%*	*47.1%*	*49.0%*	*49.7%*	*51.8%*
EBITDA margin (ex-construction)	*39.8%*	*42.8%*	*48.2%*	*51.9%*	*52.5%*	*55.5%*
Interest & Finance Charges	173	361	631	624	504	264
Depreciation	449	709	882	1,135	1,466	1,600
Other income	31	79	531	331	306	342
Profit before tax	**1,027**	**1,638**	**2,546**	**2,880**	**4,031**	**5,204**
Provision for tax	56	186	294	332	465	600
Current tax	45	247	267	302	423	546
Deferred tax	11	(61)	26	30	41	54
Tax rate	*5.4%*	*11.3%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*
Profit after tax	**971**	**1,452**	**2,253**	**2,548**	**3,566**	**4,604**
% yoy	*na*	*49.6%*	*55.2%*	*13.1%*	*40.0%*	*29.1%*

Source: Company Reports and Citi Investment Research estimates

Figure 22. Great Offshore Consolidated Balance Sheet – FY06-11E (Rupees in Millions)

Year to 31-Mar	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Net Block	**5,988**	**9,669**	**10,067**	**15,931**	**18,266**	**17,265**
Ships under construction	1,829	3,221	6,800	2,920	600	600
Goodwill (on consolidation)	1	1	1	1	1	1
Deferred Tax Assets	-	33	33	33	33	33
Cash and Bank Balances	1,024	576	2,182	1,087	1,562	1,980
Net Current Assets	**(5)**	**142**	**318**	**425**	**730**	**920**
Current Assets	1,076	1,715	2,245	2,538	3,299	3,692
- Inventories	73	63	92	105	138	155
- Sundry Debtors	764	1,240	1,665	1,884	2,490	2,788
- Loans and advances	240	406	473	535	656	735
- Other Current Assets	-	6	15	15	15	15
Current Liabilities and Provisions	1,081	1,573	1,927	2,113	2,569	2,772
- Creditors	608	1,286	1,543	1,697	2,121	2,333
- Other current liabilities	438	260	342	358	372	343
- Provisions	35	27	42	58	76	96
Misc. exp. not written off	3	0	-	-	-	-
Total Assets	**8,839**	**13,641**	**19,400**	**20,397**	**21,191**	**20,799**
Shareholders' Funds	**4,999**	**6,176**	**7,915**	**11,382**	**14,135**	**17,689**
- Share Capital	381	381	381	398	398	398
- Reserves and Surplus	4,618	5,795	7,534	10,984	13,737	17,290
Preference shares	-	-	1,500	-	-	-
Borrowings	**3,812**	**7,466**	**9,959**	**8,959**	**6,959**	**2,959**
- FCCB	-	-	1,659	1,659	1,659	1,659
Debt/Equity	*76.2%*	*120.9%*	*105.8%*	*78.7%*	*49.2%*	*16.7%*
Debt (ex-FCCB)/Equity	*76.2%*	*120.9%*	*88.2%*	*64.1%*	*37.5%*	*7.3%*
Deferred Tax Liabilities	29	-	26	56	97	151
Total Liabilities	**8,839**	**13,641**	**19,400**	**20,397**	**21,191**	**20,799**

Source: Company Reports and Citi Investment Research estimates

Figure 23. Great Offshore Consolidated Cash Flow Statement – FY07-11E (Rupees in Millions)

	FY07	FY08E	FY09E	FY10E	FY11E
Net cash income	1,452	2,253	2,548	3,566	4,604
Deprec., amort.	709	882	1,135	1,466	1,600
Net change in WC	(146)	(176)	(108)	(305)	(190)
Cash from ops.	**2,014**	**2,959**	**3,576**	**4,727**	**6,014**
Capital expenditure	(5,778)	(4,859)	(3,120)	(1,480)	(600)
Cash from investing	**(5,778)**	**(4,859)**	**(3,120)**	**(1,480)**	**(600)**
Change in borrowings	3,654	2,493	(1,000)	(2,000)	(4,000)
Equity raised	-	1,500	-	-	-
Dividends paid	(348)	(514)	(581)	(813)	(1,050)
Other financing	(62)	26	30	41	54
Cash from financing	**3,245**	**3,506**	**(1,551)**	**(2,772)**	**(4,996)**
Net cash flow	**(519)**	**1,605**	**(1,096)**	**475**	**418**

Source: Company Reports and Citi Investment Research estimates

Recent financials

Figure 24. Great Offshore – Quarterly results (Rupees in Millions)

Year to 31-Mar	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	% yoy
Operating Revenues	**1,122**	**1,271**	**1,483**	**1,493**	**1,450**	**1,523**	**19.9%**
Expenditure:							
-Staff Cost	224	294	306	331	313	373	26.8%
-Repairs and maintenance	94	85	177	187	147	174	103.9%
-Direct operating expenses	110	139	125	120	107	68	-51.3%
-Other expenses	116	128	153	174	244	186	46.0%
Total expenditure	543	646	761	812	810	801	23.9%
EBITDA	**579**	**624**	**722**	**681**	**640**	**722**	**15.7%**
EBITDA margin	*51.6%*	*49.1%*	*48.7%*	*45.6%*	*44.1%*	*47.4%*	
Interest	58	73	95	133	136	145	99.6%
Depreciation	137	147	193	220	236	231	57.8%
Other income	36	9	6	27	290	173	nm
Profit before tax	421	414	439	354	557	519	25.4%
Tax	70	26	64	54	(4)	23	-11.8%
Tax rate	*16.6%*	*6.3%*	*14.5%*	*15.4%*	*-0.8%*	*4.4%*	
Profit after tax	**351**	**388**	**375**	**299**	**562**	**496**	**27.9%**
PAT margin	*31.3%*	*30.5%*	*25.3%*	*20.0%*	*38.7%*	*32.6%*	

Source: Company Reports. Note: Standalone figures (excluding financials of Deep Water Services, the subsidiary that owns Badrinath).

Inorganic Growth – The Way Forward

According to media reports over the last few months (*Economic Times, Business Standard*), Great Offshore has been actively exploring various inorganic growth opportunities. Significant among these were reports of acquiring Scorpion Offshore (SRPOF.PK - US$14.45; Not Rated), a Norwegian company with 2 jackup rigs in operation and 3 more under construction) and Petrojack (JACK.OL - NKr19.50; Not Rated), another Norwegian company with 2 jackup rigs under construction. The tables below highlight the key assets owned by these companies.

Figure 25. Scorpion Offshore – Asset Profile

Asset Name	Type	Water Depth	Drilling Depth	Delivery Date	Shipyard	Contract Start Date	Client	Contract Duration	Contract Value(US$m)	Price/Day (US$ '000)
Offshore Courageous	Independent-leg, cantilever	350'	30,000'	Jun-07	Keppel, Texas	Oct-07	Cairn (Cambay Basin)	4 mths	35	292
Offshore Defender	Independent-leg, cantilever	350'	30,000'	4QCY07	Keppel, Texas	Nov-07		19 mths	119	209
Offshore Resolute	Independent-leg, cantilever	350'	30,000'	2QCY08	Keppel, Texas	2QCY08	Petrobras (Brazil)	24 mths	144	200
Offshore Vigilant	Independent-leg, cantilever	350'	30,000'	2QCY08	Keppel, Texas					
Offshore Intrepid	Independent-leg, cantilever	350'	30,000'	4QCY08	Keppel, Texas					
Offshore Freedom	Independent-leg, cantilever	350'	30,000'	Mar-09	Lamprell, Dubai					

Source: Company Reports and Citi Investment Research

Figure 26. Petrojack – Asset Profile

Asset Name	Design	Type	Water Depth	Drilling Depth	Delivery Date	Shipyard	Contract
Petrojack I	Baker Marine Pacific	Independent-leg, cantilever	375'	30000'	1QCY08	Jurong, Singapore-	-
Petrojack IV	Baker Marine Pacific	Independent-leg, cantilever	375'	30000'	4QCY08	Jurong, Singapore	-

Source: Company Reports and Citi Investment Research

Given the highly speculative and preliminary nature of these reports, it would be premature to hazard a guess on the possible value accretion to Great Offshore if it were to successfully bid for any offshore assets. However, given the comfortable gearing levels, strong cash flow generation and limited presence in higher value-added segments such as offshore drilling, we believe that a value accretive acquisition could provide a significant boost to future earnings growth and be positive for investor sentiment and stock performance.

OSV Industry Outlook

Background

Offshore supply or support vessels (OSVs) are essential to the operations of the offshore oil & gas industry. They comprise a wide range of vessels that assist in offshore exploration, production, and development of oil and natural gas by carrying the supplies such as drilling equipment, cement and spare machinery, oil and lubricants, food and water, men, etc. for the rig that is probably anchored several hundred kilometers offshore. The market for OSVs can be dividend into two main areas: (1) towing and anchor handling and (2) general supply to drilling rigs and fixed installations.

AHTS: An Anchor Handling Tug Supply Vessel (AHTS) is an offshore supply vessel specially designed to provide anchor-handling services and to tow offshore platforms, barges and production vessels. The AHTS is also able to carry wet and dry supplies, in addition to deck cargo, to platforms. Some of the larger vessels are built to perform tasks in connection with subsea activities.

PSV: A Platform Supply Vessel (PSV) is a vessel specially designed for transport of supplies to and from offshore installations. The main function is to bring supplies to fields in production and exploratory and development drilling rigs. This involves the transport of individual items, mainly in containers on deck.

Strong Outlook

The offshore market is a highly cyclical industry. Demand for OSV is a function of oil companies' offshore exploration and production spending. Global requirements for oil and gas influence current and expected oil and gas prices which, combined with the availability of acreage and fields profitable to develop, determine E&P spending. In offshore drilling, rig utilizations and operating day rates have soared over the last few years and the tightness in the market is likely to continue. As a result, the largest beneficiaries are not only the rig owners but also those involved in the construction, refurbishment, and repair of rigs. Further down the chain, the offshore vessel market has also witnessed a strong upcycle driven by higher oil prices, higher E&P activities, higher rig activity levels, the strong asset replacement cycle, and increased technological requirements in response to the higher level of activities in deeper water areas.

Demand for OSVs is primarily driven by all major segments of the oil & gas production chain viz. exploration, development and production.

Exploration: Offshore exploration is dependent on OSVs primarily for rig movements. As more offshore exploration is conducted in deep or ultra-deep waters, AHTSVs and PSVs will be utilized more extensively because of the type of work involved and the distances over which they are employed. Further, increased supply of new deepwater rigs, which typically require support by more and/or larger vessels than for jackups, will increase demand for OSVs.

Development: Offshore development is another demand driver for OSVs, comprising towage of development drilling rigs as well as development of fields and infrastructure such as pipelines, pumping stations and loading buoys. Also included are vessels engaged in activities associated with subsea, cable laying, etc.

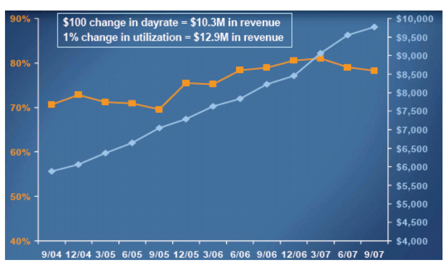
It is estimated that the Indian offshore segment will attract investments in excess of US$20bn over the next five years. Of this, ~US$12bn could be expected to be directed towards platforms and other offshore structures, with the balance to be spent toward exploration capex on E&P blocks. The main drivers of the offshore construction market in India are revamping and redevelopment of ONGC's facilities and development of new discoveries such as those of RIL, ONGC, and GSPC, which will consequently be a strong demand driver for OSVs.

Production: The largest demand driver for OSVs is production support. Supply services for producing fields include transportation of general cargo on deck and various liquid and dry bulk products in dedicated tanks.

Firm Day Rates

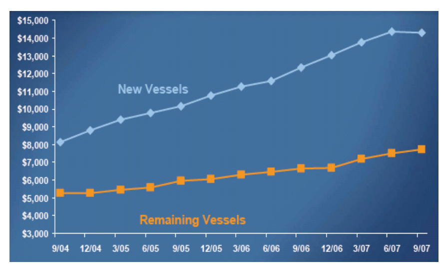
Vessel day rates and utilization are generally affected by vessel demand, availability of vessels in the region and other factors such as size, capacity, horsepower, age, and whether a vessel has equipment such as sophisticated dynamic positioning and fire-fighting systems. The Gulf of Mexico OSV market has remained relatively stable over the last few months, while demand in the international market remains strong. In the GOM market, the stagnant jackup demand likely over the next year or so might result in additional vessels being chartered in international waters, maintaining the demand-supply balance. However, international OSV demand remains strong as newbuild deliveries continue to get absorbed into the global fleet to ease shortages in various regions, resulting in long-term contracts continuing to get repriced at higher rates.

Figure 27. Tidewater: International vessel utilizations



Source: Tidewater

Figure 28. Tidewater: International vessel dayrates



Source: Tidewater

A Growing Offshore Wave

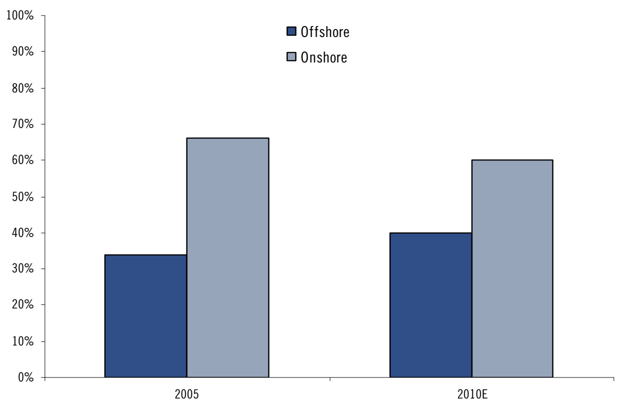
According to our European analyst, Sebastien Lalevee, the offshore oil and gas business is set to remain buoyant driving a sustained growth rate for OSVs. The following is an extract from his report titled, "Bourbon SA: Buy 2010 Vintage Bourbon," published 12 March 2007.

A booming deepwater offshore market

Of vital importance to the OSV sector is that oil activities have moved into steadily deeper and more demanding waters. This has resulted in changed requirements regarding the vessels' engine capacities, crane and winch capacities, maneuverability, and mechanized handling equipment onboard.

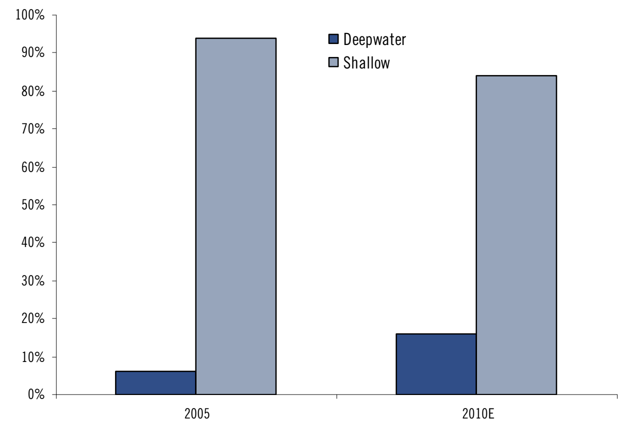
The deepwater offshore market is to remain strong. Why? Because offshore represented 34% of total oil production in 2005 and this ratio should increase close to 40% in 2010 according to Douglas Westwood (the World Offshore Oil and Gas forecast 2005-2015).

Figure 29. Offshore as % of worldwide oil demand in 2010E vs. 2005



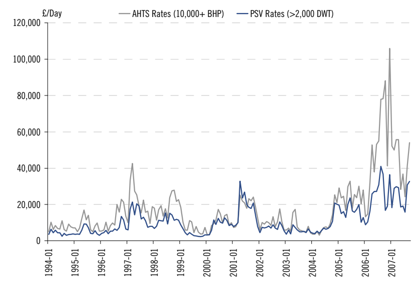
Source: Douglas-Westwood, The World Offshore Oil and Gas forecasts 2005-2015

Figure 30. Deepwater as % of worldwide oil demand in 2010E vs. 2005



Source: Douglas-Westwood, The World Offshore Oil and Gas forecasts 2005-2015

Figure 31. AHTS and PSV spot rates (North Sea)



Source: Clarksons

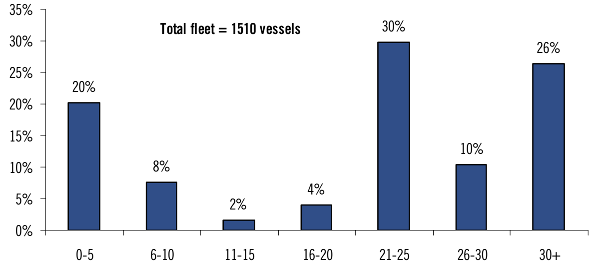
When looking in more details, deepwater offshore should increase from 6% of total oil production in 2005 to 16% in 2010. As a result, the deepwater oil production is expected to grow 16% per annum in the next four years. This trend is also highlighted by the increase in offshore drilling activity.

Despite relative softness in the US Gulf of Mexico, all other regions are currently experiencing very strong activity. Europe/Mediterranean Sea, West Africa, and Asia are operating at full capacity. We see utilization rates to remain as strong in the coming years and we expect an increase in rigs in high growth regions such as Southeast Asia, West Africa, and the Middle East. Furthermore, the industry continues to enjoy high spot rates in the North Sea (see Figure 31) which reflect the health of the offshore industry prospects.

Newbuilds only meet replacement needs

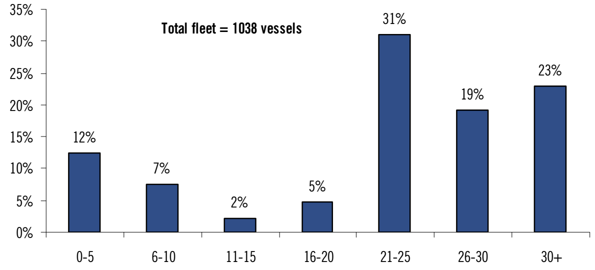
The offshore business should be supported by the ageing vessels operating in the shallow water market. Indeed, historical OSV deliveries were concentrated in 1974-1984 so that a large part of the worldwide OSV fleet is older than 20 years old, as shown in Figure 32 and Figure 33 below.

Figure 32. Age profile of the global AHTSV fleet



Source: Clarksons

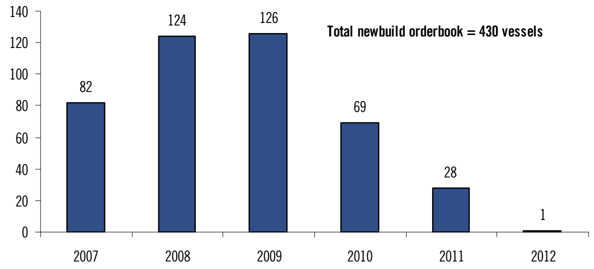
Figure 33. Age profile of the global supply vessel fleet



Source: Clarksons

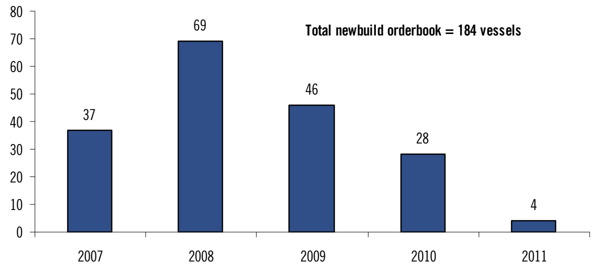
While ~400 AHTSV deliveries are likely in the next 3 years of the total orderbook of 430 (see Figure 34 below), this represents only ~26% of the current AHTSV fleet. Given that nearly 26% of the fleet is over 30 years old (see Figure 32 above), delivery of these vessels will simply replace the older vessels. The same also holds true for platform supply vessels. As a result, the market should be able to absorb steady OSV deliveries in 2007-10 to help alleviate shortages in various regions. Bourbon (GPBN.PA - €43.05; 1M) expects the overall market to increase by 12% p.a. driven by the deepwater (+10% p.a.) and the shallow water segments (+16% p.a.).

Figure 34. Global AHTSV newbuild deliveries



Source: Clarksons

Figure 35. Global PSV newbuild deliveries



Source: Clarksons

Barriers to entry

Given the sound growth prospects of the offshore oil and gas market, we believe that the OSV players should enjoy healthy growth in the next four years. Both the high growth deepwater segment and the more mature shallow water segment offer significant opportunities for incumbents like Great Offshore. The overall OSV industry should benefit from structural barriers to entry in the coming years. There are currently bottlenecks in the OSV production supply chain and all shipyards are currently running at full capacity worldwide and taking orders for deliveries in 2012. This means that the OSV industry growth is capped by production constraints and that the only companies that will be able to benefit from the booming offshore sector are those that have secured their new vessel deliveries.

International Jackup Outlook Remains Favorable

The following is extracted from Geoff Kieburtz's reports, "Offshore Drilling 3Q07 Preview: Divergence Continues," published 14 October 2007 and "Offshore Drilling 2Q07 Preview: Jackup Market in Focus," published 17 July 2007.

As we noted recently ("Avoiding a Rush to Judgment: Fears of a Collapse in International Jackup Day Rates Are Premature," published September 17, 2007), potential open demand for jackups over the next 12 months of about 185 rigs exceeds jackup availability of about 135 units (excluding out of service rigs and those located in the U.S. Gulf of Mexico) over the same time frame, even after accounting for the 20 jackups expected to be delivered over the next 12 months that are still without contracts.

The concern among investors is on the supply side and the fear that an influx of new capacity over the next 3+ years will dampen day rates. As we note below, it appears at this time that there is sufficient demand to absorb new construction without pushing rates lower. The current jackup supply and demand figures outside the U.S. Gulf of Mexico are 330 and 320, respectively, resulting in utilization of 97%. Of the 80 jackups under construction, 60 are without a contract. Assuming a worst case scenario that none of these jackups are contracted upon exiting the shipyard, supply and demand would be 410 and 340, with utilization of 83%. If we were to assume that half of the 60 jackups under construction without contracts remain idle after delivery, demand would be 370 rigs and utilization would be 90%.

Given the level of oil prices and indications of higher exploration and production spending on the part of operators it seems unlikely that all of the jackups being built without contracts will remain idle, in our view. Even half of the 60 remaining idle appears to be a conservative assumption, but if this were to happen jackup utilization would likely be high enough (90%) to prevent a collapse in day rates.

Our optimistic outlook is further buoyed by recent contracts received by several speculative jackups prior to exiting the shipyard. Petrobras recently agreed to a two-year contract for jackup Offshore Defender that begins in first quarter 2008 at a day rate of $185,000. Premier has contracted jackup WilBoss for six months in second quarter 2008 at a $220,000 day rate.

In addition, tight shipyard and vendor capacity is resulting in rig delivery delays, as highlighted by Noble's recent announcement that two of its jackups under construction, Noble Hans Deul and Noble Scott Marks, will likely go on day rate five months and three months later than expected, respectively. Noble has a reputation for delivering rigs on time and within budget, so the fact that it is experiencing delays suggests that other contractors may be as well, particularly speculative contractors with little rig construction experience.

Figure 36. Worldwide offshore rig supply and demand – utilizations to remain high

Worldwide	2006	2007E	2008E	2009E	2010E
Beginning supply	668	675	694	742	790
Add: Additions	12	24	53	53	25
Less: Retirements	(5)	(5)	(5)	(5)	(5)
Ending supply	675	694	742	790	810
Average supply	672	685	718	766	800
Average demand	613	625	665	712	748
Utilization	**91.2%**	**91.3%**	**92.7%**	**93.0%**	**93.5%**

Source: ODS-Petrodata and Citi Investment Research. Data as of September 2007.

Figure 37. Newbuilds by delivery date

Year	Jackups	Semis	Ships	Others	Total
2007	6	1	1	1	9
2008	35	14	3	1	53
2009	29	16	8	1	54
2010	8	11	9	-	28
Undetermined	2	1	3	-	6
Total	**80**	**43**	**24**	**3**	**150**
% uncontracted	75.0%	20.9%	50.0%	33.3%	54.7%

Source: ODS-Petrodata and Citi Investment Research. Data as of September 2007.

Floater Market Remains the Most Attractive and Appears Poised to Remain So for the Foreseeable Future

The floating rig market remains the most attractive offshore drilling sector, in our view, and appears poised to remain so as demand is far outstripping supply even after accounting for newbuilds under construction. Essentially all currently active floaters are contracted and day rates remain at record levels. Notably, drillship Stena DrillMax III, which was built on speculation, recently received a five-year, $520,000 commitment for work beginning in July 2009.

GlobalSantaFe's recent announcement that it would undertake a $740 million drillship newbuild program, with delivery in third quarter 2010, without a contract in hand is the latest sign of market tightness. The company indicated that assuming no new discoveries there will be a 40-50 deepwater rig shortage in 2010. Pride International is also constructing two drillships on speculation, with deliveries scheduled in 2010. The decision to go forward with construction on speculation is a reflection of tight shipyard and vendor capacity, which has resulted in construction options that move faster than customers' tender processes.

Recent data points appear to support GlobalSantaFe's and Pride's view of a constrained floating rig market. Open demand for floaters in 2008 alone could be approximately 45 rig years, according to ODS-Petrodata, while availability is estimated to be just 25 years, assuming options to extend contracts are exercised. This supply/demand imbalance should ensure continued high rig utilization and robust day rates, in our view.

Domestic E&P Spending on an Upswing

India's domestic E&P spend is on the rise, with the conceptualization and implementation of the NELP having increased private sector participation significantly. Although the NELP has brought hitherto unexplored areas under coverage, India still remains relatively unexplored. This, coupled with the current stock of exploration blocks, will likely up E&P spend.

With onland and shallow water basins being relatively better explored, offshore, especially deep water, is an emerging frontier in India which has attracted huge interest over the last few years. Recent world class discoveries in the Krishna-Godavari, Mahanadi, and Cauvery basins have validated the prospectivity of these resources and will drive a sharp increase in capex for the development of these blocks when they come up for production, likely over the next 5-10 years.

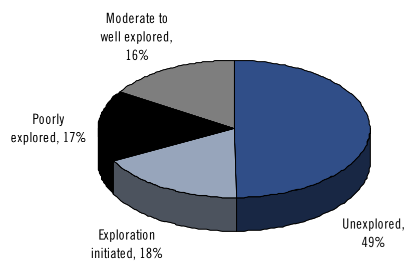
NELP: Beginning of an Era

India's heavy dependence on crude imports (around 75% of its crude requirements is imported) and low levels of exploration (one of the lowest well density per 1,000km) meant large capital investment both from the National Oil Companies (NOCs) as well as private-sector oil companies. Against this background, NELP was formulated by the government in 1997-98 to provide a level playing field in which all parties could compete for exploration acreage. Some of the attractive features of NELP are:

NELP has had the desired impact on the level of E&P activity and investments. It has resulted in increased spending by attracting risk capital and also led to improved technology.

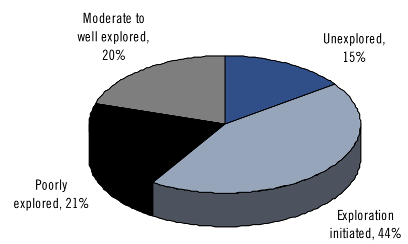
- It has reduced the sedimentary areas (total 3.14m sq. km) that still await exploration from 49% in 1995-96 to 15% in 2005-06. The remaining areas are likely to be awarded for exploration in subsequent NELP rounds, which will thus sustain the momentum of exploration expenditure in the medium to long term. Also, exploration has been initiated in about 44% of unexplored areas as against 18% in 1995-96.

Figure 38. India Relatively Unexplored (1995-96)



Source: DGH

Figure 39. India Relatively Unexplored (2005-06)



Source: DGH

- Under NELP (I, II, III, IV, V), 110 blocks have been awarded as against 28 in the pre-NELP rounds in 11 years. Under NELP-VI, additional 55 blocks were offered.

- Exploration expenditure in the first five NELP rounds (2000-06) at US$1.5bn is well ahead of the spend in pre-NELP blocks between 1993 and 2006 (US$0.78bn).

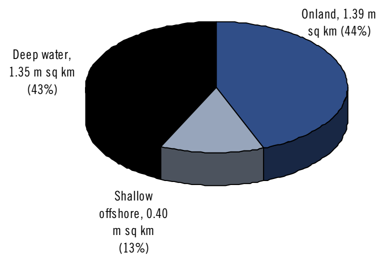
- The increased expenditure has borne fruit as well. In 2003-04 for example, the country's reserve accretion stood at 348 MMT of O+OEG from all the blocks — three times higher than the average annual average of 115 MMT of O+OEG during 1992-2000 (pre-NELP period).

Offshore Is the Way to Go, Share of Deepwater on the Rise

Of the area offered under NELP-VI, around 89% was in offshore basins and the remainder in onland basins. Within offshore, the share of shallow offshore has been giving way to deepwater blocks in successive rounds of NELP.

As the offshore blocks under NELP reach development stage, the offshore construction market in India is expected to get a big boost. With exploration cycle of ~7 years for offshore blocks, majority of the blocks with adequate reserves will reach development post-2010, driving strong demand for offshore production systems such as FPSO conversions, fixed production platforms, and other well head structures.

Figure 40. Acreage Portfolio (total sedimentary area = 3.14 mn sq km)



Source: DGH

ONGC Still a Dominant Player

The NELP rounds have seen increased participation from the private sector, with Reliance and Cairn Energy emerging as the main bidders. However, ONGC still remains the dominant player with 54% of the exploration acreage.

Figure 41. Private sector participation has increased

	Exploration area	
Company	**sq. km.**	**%**
ONGC	575,046	53.9%
RIL	329,684	30.9%
OIL	38,260	3.6%
HOEC	33,923	3.2%
Cairn	30,926	2.9%
Others	58,729	5.5%
Total	**1,066,568**	**100.0%**

Source: DGH

We estimate ONGC and Reliance Industries to spend over US$2bn each per year over FY08-09E toward exploration, production, and development capex. According to our 2007 Midyear E&P survey, spending mix of oil companies varies globally, with development activity constituting anywhere between 40% and 70% of the total spend of these companies – at the higher end for US and Canada where a marked increase in development and workover activity, away from exploration, is slated, and at the lower end for the relatively under-explored basins outside North America. A read off to the Indian companies would imply total development and workover capex of at least ~US$2bn/year over the next few years (50% of the total spend) and another ~US$2bn/year on exploration.

Appendix: Vessel Descriptions

Offshore Support Vessels

Offshore support vessels provide transportation services to offshore drilling rigs, fixed platforms, and floating platforms. The main services provided are:

- Delivering drilling supplies, fuel, water, and food
- Moving personnel to, from, and between offshore installations
- Towing rigs from one location to the next and placing or retrieving its anchors
- Providing safety and emergency response services
- Supporting offshore construction projects

AHTSV: An Anchor Handling Tug Supply Vessel (AHTSV) is an offshore supply vessel specially designed to provide anchor-handling services and to tow offshore platforms, barges, and production vessels. The AHTSV is also able to carry wet and dry supplies, in addition to deck cargo, to platforms. Some of the larger vessels are built to perform tasks in connection with subsea activities. AHTS vessels are usually split into the following categories:

- Large vessels with engines > 15,000 BHP
- Medium vessels with engines between 10-15,000 BHP
- Small vessels with engines < 10,000 BHP

PSV: A Platform Supply Vessel (PSV) is a vessel specially designed for transport of supplies to and from offshore installations. The main function is to bring supplies to fields in production and exploratory and development drilling rigs. This involves the transport of individual items, mainly in containers on deck. PSVs are usually split into the following categories:

- Large vessels > 3,500 DWT
- Medium vessels between 2-3,500 DWT
- Small vessels < 2,000 DWT

MSV: A Multi-role Supply Vessel (MSV) can provide a combination of remote subsea intervention services, remote operated vehicle operations, deep-water lifting & installation, delivery of supplies, fire fighting, and oil spill recovery.

Tugs: Tugs are used to maneuver, primarily by towing or pushing, other vessels in harbours, over the open sea or through rivers and canals. They are also used to tow barges, disabled ships, or other equipment like towboats. **Harbor tugs** are the most typical of the tug vessels and are used to move ships in and out of berths and to move industrial barges around waterfront business complexes.

Great Offshore

Company description

Great Offshore is an integrated offshore oilfield services provider offering services to upstream oil and gas producers to carry out offshore exploration and production (E&P) activities. Great Offshore began operations in 1983 as the offshore division of Great Eastern Shipping but was demerged in October 2006. The company currently owns and operates a fleet of 40 vessels comprising 2 drilling assets, 18 offshore supply vessels, 7 platform supply vessels, 11 harbour tugs, an MSV, and a construction barge, with 2 more vessels to be delivered over the next 2 years.

Investment strategy

We rate Great Offshore as Buy/Medium Risk with a target price of Rs1,195, which reflects the robust 30% EPS CAGR over FY07-11E, long-term sustainability of the business model, and opportunities to grow inorganically. The strong and visible earnings growth is driven by the robust day rate environment, high utilizations, and contribution from the new and upcoming fleet. With a well-timed expansion, Great Offshore looks well positioned to capitalize on the strong cyclical uptrend in the global offshore services industry, which we expect to continue to be driven by the enduring growth prospects of the deepwater market as well as the shallow-water replacement market. In addition, domestic E&P spending is on the rise, with India still remaining relatively unexplored and the recent world class discoveries likely to drive a sharp increase in E&P activity over the next decade. A robust balance sheet and strong cash flow generation makes Great Offshore well positioned to pursue inorganic growth opportunities. Value accretive acquisitions would be key drivers of future growth and share price performance, in our view.

Valuation

Our target price of Rs1,195 is based on our DCF fair value for Sep-08E. Our DCF is based on 5 years of explicit cash flow forecasts and the following key assumptions: day rates to remain strong but relatively flat for most vessels over the forecast horizon; newbuild jackup and MSV to start contributing in FY10E at day rates of US$146K and US$90K respectively; operating costs to increase at 5% annually; dry docking of 11-12 vessels per year; construction business revenues to increase progressively from Rs0.6bn to Rs1.6bn over FY08-12E; operating margins to increase from 45% in FY07 to 52% in FY11E; WACC of 10.5% (risk free of 8%, risk premium of 6%, beta of 0.7x, target D/E of 30%). On a P/E basis, Great Offshore would trade at ~11x FY11E earnings on our target price. We prefer looking at fully evolved FY11E earnings by which time all the assets of the company, recently acquired as well as under construction, would contribute fully to earnings.

Risks

We rate Great Offshore Medium Risk, in line with our quantitative risk-rating system which tracks 260-day historical share price volatility. Key risks that could prevent the share price from reaching our target price are:

- E&P activity decline – our earnings estimates and target price are dependent on the level of E&P activity, both in the domestic as well as global markets, which could be affected by adverse changes in oil and gas prices.

- Delays in deliveries – the newbuild jackup and MSV currently under construction at Bharati Shipyard are slated for delivery in 3QFY09E and 1QFY10E. Significant delays in completing shipyard work could result in the assets going on day rates later than expected, which could result in lower than expected earnings. In addition, higher than-anticipated shipyard costs could adversely affect cash flows. Management has, however, demonstrated its ability to successfully acquire and integrate new assets at reasonable costs in the past.

- Repricing risks – Great Offshore's mix of contracts is skewed toward long-term contracts. This provides greater predictability of utilization rates and revenues vs. operating in a short-term market. However, long-term day rates would vary with the demand-supply scenario in the rest of the world. Besides, Great Offshore has gradually been exposing a part of its fleet to the spot market to take advantage of the day rate upside. A slowdown in offshore spending could result in contracts coming up for renewal to be repriced at lower than expected rates.

- High dependence on one client – Great Offshore derives a significant (c.50%) part of revenues from ONGC. High degree of exposure to ONGC makes Great Offshore susceptible to an unanticipated decline in the former's overall offshore spend.

- Currency fluctuations – many of Great Offshore's contracts are US$-denominated which expose the company to adverse fluctuations in the exchange rate. However, US$-denominated operating expenses and interest costs provide some cushion.

- Value destructive acquisitions – Great Offshore is actively pursuing inorganic opportunities to further grow its fleet size, especially in the higher value offshore drilling segment. Though the management has a conservative track record, any value destructive acquisitions pose a risk to our target price.

If any of these risk factors have a greater impact than we anticipate, the share price will likely have difficulty attaining our target price.

Upside risks include value accretive acquisitions and continued tightness in the offshore market leading to an increase in day rates.

Bourbon SA (GPBN.PA - €43.28; 1M)

Valuation

Our valuation approach acknowledges the company's long-term growth prospects. We value Bourbon' core divisions using a DCF-based SOTP (WACC of 7.5%, beta of 1.1, long term growth rates individually for each division) as we believe that this methodology is the most appropriate when valuing Bourbon's assets. Indeed, following a heavy capex program in 2007-2010, Bourbon should benefit from a sustainable business model generating strong and recurring free cash flows. Following the disposal of the Towage activities, we value the Towage business at selling price. We derive a target price of €58.3 from our SOTP.

Risks

We have a Medium Risk code based on our assessment of industry and company-specific risk factors that could prevent the achievement of our target price:

- Exposure to EUR/USD rates - Bourbon generates a major portion of its revenues in USD. The group benefits from some natural currency hedging thanks to the payment of expenses in USD (especially capex), though it remains heavily dependent on the EUR/USD rate.
- Delays in vessel deliveries - Bourbon selects a limited number of shipyards so that there is a certain degree of dependence on these shipyards (especially in China). Delays in vessel delivery could reduce Bourbon's prospects.
- Oil and gas producers - The oil price, E&P spending, the rate of discovery of new oil and gas reserves, the global demand for energy as well as political conditions might reduce Bourbon's prospects.
- Global trade and the volatility of market rates - The amount of business of Bourbon depends on the degree of global trade and economic growth and on the volatility of market rates.
- Human resources - Bourbon needs to crew its new vessels with skilled and experienced people. The company admits that doubling the number of its employees over the next four years represents one of its major challenges.
- Client concentration – In the Bulk division, 50% of sales is generated with a single client. In the Offshore division, the top 10 clients represent 67% of sales.

Appendix A-1

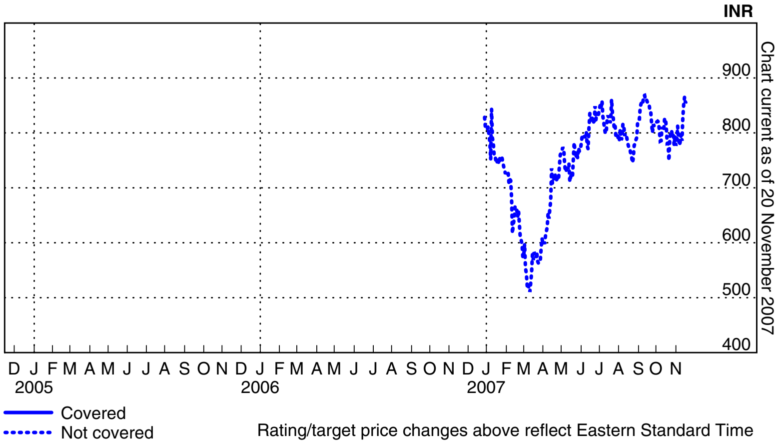
Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Great Offshore (GOFS.BO)

Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price

*Indicates change.

Bourbon SA (GPBN.PA)

Ratings and Target Price History - Fundamental Research

Analyst: Sebastien Lalevee (covered since March 13 2007)

#	Date	Rating	Target Price	Closing Price
1:	9 Nov 05	1M	36.05	31.64
2:	10 Feb 06	1M	*46.50	38.18
3:	13 Sep 06	1M	46.50	34.32
4:	13 Oct 06	Coverage suspended		
5:	12 Mar 07	*1M	*55.45	42.76
6:	21 Mar 07	1M	*56.36	45.46
7:	20 Jun 07	1M	56.36	48.00
8:	31 Aug 07	1M	*58.30	48.26

*Indicates change.

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Data current as of 30 September 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3358)	50%	38%	12%
% of companies in each rating category that are investment banking clients	53%	55%	42%

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