

11 July 07

**Buy**

Price	Target Price
<b>Rs 248</b>	<b>Rs 260</b>

Sensex - 14,911

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	34	24	36	93
Rel. to Sensex	27	10	22	37

Source: Bloomberg

**Stock Details**

Sector	Offshore Oilfield Services
Reuters	SEAM.BO
Bloomberg	SEAM@IN
Equity Capital (Rs mn)	339
Face Value	10
52 Week H/L	255/124
Market Cap (Rs bn)	8.4
Daily Avg Vol (No of shares)	93005
Daily Avg Turnover (US\$ mn)	0.5

**Shareholding Pattern (%)**

(31st Dec.'06)

Promoters	78.2
FII/NRI	1.5
Institutions	5.7
Private Corp.	4.3
Public	10.3

Source: Capitaline

**Cruise all the way**

We recently spoke to the management of SEAMEC to appraise ourselves on the latest developments. SEAMEC Sea Princess which has undergone major refurbishments will join the fleet in September 2007 and is likely to earn day rates of USD 65000 and OPM of 75% as opposed to the existing 45%. This we believe will be a major earnings kicker for SEAMEC. SEAMEC I is under dry docking and SEAMEC II will go for periodic dry docking in September 2007. Hence we expect Q3CY2007 to be affected by higher dry docking expenses and a steep increase in staff costs. In spite of the muted numbers in Q3FY2007, we remain bullish on the strong fundamentals of the company. We expect SEAMEC's revenue to grow at a CAGR of 35 % and it's earnings to grow at a CAGR of 38% over CY2006-08E. We expect SEAMEC to generate free cash flows of around Rs.1.8 bn by the end of CY2008. With its debt free status and free cash of more than Rs1.8 billion by CY2008, the possibility of further vessel addition cannot be ruled out, which in turn would further boost Seamec's earnings. At the CMP of Rs248, the stock is trading at 7.5x its CY2008E earnings and 5.1x its CY2008E EBITDA. The stock is close to our DCF based price target of Rs260. We are awaiting developments on acquisition of new vessels and also quarterly results for revising our price target.

**About SEAMEC**

South East Asia Marine Engineering & Construction (Seamec) earlier known as Peerless Shipping, is a 78.24% subsidiary of Coflexip Stena Offshore Mauritius Ltd (CSO), which in turn is owned by Technip S.A of France. The CSO group is a global leader in sub-sea engineering and contracts and has a complete dominance of deep-sea underwater pipeline business in the world. CSO's international network along with access to CSO's technology and experience, have strengthened Seamec's position as the leading sub-sea contractor in India.

We had initiated coverage on South East Asia Marine Engineering & Construction (Seamec) at a price of Rs185 and the stock has delivered handsome returns of close to 35% in a short period. We spoke to the management of the management of the company to appraise our self on the status of operations of the vessels. The key highlights of the same are presented below.

**Fleet Contract Status****SEAMEC I**

Seamec I which is under a two year long term charter with Dolphin Offshore is currently under dry dock. We expect dry dock cost of approximately USD 2.5 million, which would be written off in Q3CY2007. The vessel is on a 6 months contract with Dulam International Dubai, UAE. The day rate for this contract is close to USD36000-38000 per day. This contract is schedule to be over by 31st October 2007

**Key Financials**

Y/E, Dec	Net sales	EBIDTA	EBIDTA (%)	PAT	EPS (Rs.)	EPS growth (%)	ROCE (%)	PE (x)
CY05	822.8	272.4	33.1	194.1	5.7	-53.9	10.7	43.3
CY06	1593.4	709.9	44.5	587.7	17.3	202.9	33.8	14.3
CY07E	2201.0	735.6	33.4	595.8	17.6	1.4	31.5	14.1
CY08E	2882.7	1284.8	44.6	1119.6	33.0	87.9	56.6	7.5

Ajit Motwani

[ajit.motwani@emkayshare.com](mailto:ajit.motwani@emkayshare.com)

+91 22 6612 1255

**SEAMEC II**

SEAMEC II which is currently working under a long term contract with Condux SA de CV Protexa at a charter rate of USD 45000-47000 would undergo periodic dry dock in September 2007. We expect a dry dock cost of approximately USD 2.5 million, which would be written off in Q3CY2007. The vessel started operations in Mid August 2006 and with the exercise of a 6 month option for extension of contract, the vessel would complete its current contract by Jan 2008 and will be available for new contracts.

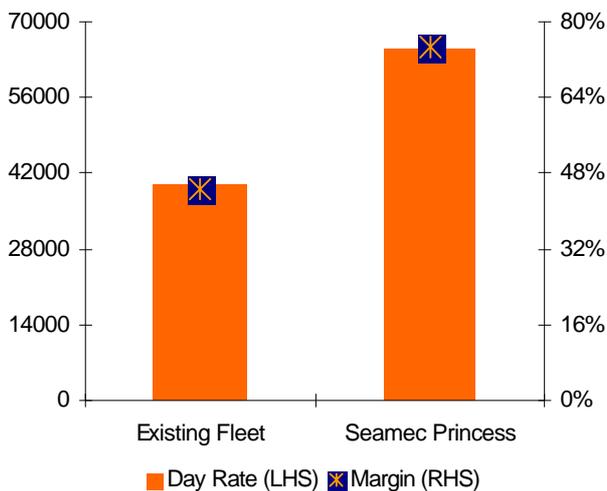
**SEAMEC III**

SEAMEC III is currently working under a long term contract with Offshore Technology Solutions Limited, Trinidad at a charter rate of USD 45000-47000. The vessel started operation in end July 2006. The initial term of the contract is one year with an option of extension by one more year. Hence if the option is exercised the vessel would be deployed with Offshore Technology till June 2008, post which the vessel would be available for new contracts.

**Seamec Princess**

Seamec Princess, the company's fourth MSV is currently under upgradation and the vessel shall be ready for deployment by September 2007. With huge upgradation, Seamec Princess is likely to get a day rate of USD 65000 and the estimated operating cost (Opex) on the same is approximately USD16500. With this Seamec Princess is expected to generate operating margin of huge 75% as opposed to 45% for Seamec's existing fleet. This we believe would be a big revenue and earnings kicker for Seamec. Further as the total investment for purchase and upgradation of Seamec princess is just USD 36 million, the pay back period from the date of commencement of operation is as short as 2.2 years.

**Seamec Princess to have an operating margin of 75%**



**Seamec Princess to have payback period of less than 3 years**

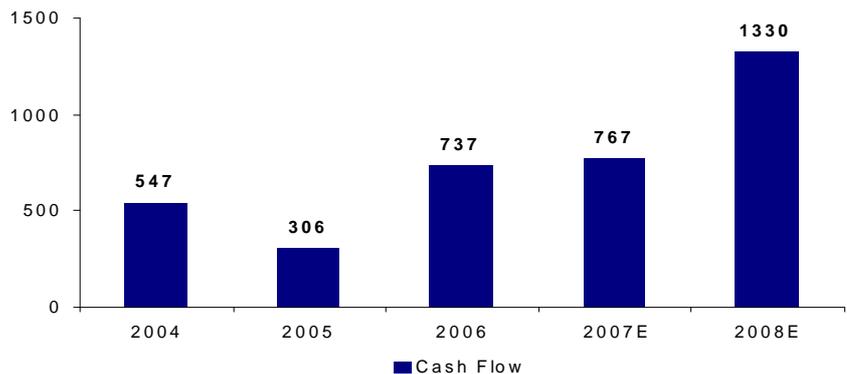
	USD million
Day Rate (USD)	65000
Operational days in a year	350
Revenue	22.8
Opex (USD)	16500
Cost	5.775
EBIDTA	17.0
Interest (Debt free company)	0
EBDT	17.0
Depreciation	4.9
EBT	12.1
Tax (implied tax rate of 2.5% under tonnage tax regime)	0.3
EAT	11.8
Cash flow per year	16.7
Investment	36
No of year to recover initial investment	2.2

(Source: Emkay Research)

**Strong cash flow could be used for more acquisition**

Given the fact that the company has switched to the strategy of deploying vessels on long-term charters as against deploying them in the spot market, the cash flow for the next two years is fairly predictable. Based on its CY2007 and CY2008 earnings estimates, we expect the company to have free cash of around Rs1.8 billion or USD 45 million on its books at the end of CY2008. Considering this and the company's debt-free status, we do not rule out acquisition of new vessel which would further boost its growth.

**Strong cash generation**



(Source: Emkay Research)

**Earnings to grow at a CAGR 38% over CY2006-08E**

With all its MSVs locked in long term contracts at higher day rates and with the addition of new vessel to its fleet, we expect Seamec's revenue to grow sharply at a CAGR of 35% over CY2006-08E. With improvement in operating margins on account of higher day rates, we expect Seamec's earnings to grow at a CAGR of 38% over CY2006-08E with an EPS of Rs33 in CY2008.

**Q3CY2007 results could be subdued**

Even though Seamec's fleet would enjoy benefits of higher charter rates for its fleet, the company Q3CY2007 results could be a bit subdued for the following reasons.

- 1) First Seamec I and Seamec II would go for a periodic dry dock in Q3CY2007 which will not only result in revenue loss but also incur dry dock expenses to the tune of Rs200 million.
- 2) Seamec staff cost (including cost of crew) has gone up 280% on account of sharp rise in salaries paid to crew. Globally there has been an acute shortage of marine engineers and other skilled staff for supply vessels which in turn has resulted in higher staff cost.

**Valuations undemanding - Maintain Buy**

At the CMP of Rs248, the stock is trading at 7.5x its CY2008E earnings and 5.1x its CY2008E EBIDTA. Compared with its peers, Seamec is trading at a huge discount of 40%. Seamec EBIDTA margins at 45% are pretty much comparable to its peers. With an RoCE of 34% and an RoE of 25%, Seamec boasts of the best return ratios. With its debt free status and free cash of more than Rs1.8 billion by CY2008, the possibility of further vessel addition cannot be ruled out, which in turn would further boost Seamec's earnings. The stock is close to our DCF based price target of Rs260. We are awaiting developments on acquisition of new vessels and also quarterly results for revising our price target.

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