

15 October 2007

Buy

Price	Target Price
Rs4, 002	Under Review

Sensex	18,419
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Price Performance

(%)	1M	3M	6M	12M
Absolute	32	28	72	234
Rel. to Sensex	11	5	25	127

Source: Capitaline

Stock Details

Sector	Oil Field Services
Reuters	ABAN.BO
Bloomberg	ABAN @IN
Equity Capital (Rs mn)	74
Face Value (Rs)	2
52 Week H/L	4,245/1,010
Market Cap (Rs bn)	147.5
Daily Avg Vol. (No of shares)	162198
Daily Avg Turnover (US\$m)	13.2

Shareholding Pattern (%)(30th June '07)

Promoters	62.4
FII/NRI	16.4
Institutions	2.6
Private Corp.	2.9
Public	15.8

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Aban Offshore**Ahead of expectation**Result
Update

Aban Offshore Q2FY2008 standalone net profit at Rs472 millions is ahead of our expectations primarily because of higher than expected fleet utilisation, lower insurance cost and higher other income. With two of its assets operating at re-priced contract day rate (Aban II and FPU Tahara) Aban has reported a smart 28.3% growth in its topline (Rs1653 million) despite of rupee appreciation against USD by 12.5%. With operating leverage of the higher day rate coming into play, Aban's EBIDTA for the quarter grew by 34% to Rs Rs840 million. Apart from the higher day rates, EBIDTA for the quarter also got a boost from 36% decline in insurance cost and 32% decline in rentals for the machinery. With the boost from the other income and lower depreciation, Aban's Q2FY2008 pre-exceptional net profit increased by a staggering 257% to Rs472 million. Q2FY2007 includes one time gain of Rs90 million on account of transfer of Aban VII to its Singapore subsidiary and hence reported net profit grew 112.6% yoy. On the back of strong demand momentum in the global offshore rig market, Aban offshore has bagged a whopping USD 950 contracts for 7 of its rigs during Q2FY2008. This coupled USD 460 million contracts bagged in Q1FY2008, Aban now has extended its contract backlog by staggering USD1.4. With the global offshore rig market continuing to witness shortage on account of long gestation period for new rigs, the day rates for these rigs in the short to medium term would witness further upside. Hence Aban that still has 1 contracts to be re-negotiate in the standalone entity and 4 fresh contracts for its new generation premium Jack ups rigs, is in a sweet spot to exploit the strong demand for offshore rigs. Aban is currently trading at 10.8 X its FY2009 earnings and 8.5X its FY2010 earnings. On price to cash flow basis the stock is trading at 7.3X for FY2009 and 5.9X for FY2010. We maintain our Buy recommendation on the stock. The stock has reached our price target and the same is under review.

Results Highlights

- Aban Offshore Q2FY2008 standalone net profit at Rs472 millions is ahead of expectations primarily because of higher than expected fleet utilisation, lower insurance cost and higher other income.
- During the quarter Aban II, after the refurbishment was operational for the entire quarter on new contract day rate with ONGC. Also FPU Tahara continued its operation with Hardy Exploration but at a re-priced day rate of USD 87500 as compared to USD27000 per day for its earlier contract.
- With two of its assets operating at re-priced contract day rate (Aban II and FPU Tahara) Aban has reported a smart 28.3% growth in its topline (Rs1653 million) despite of rupee appreciation against USD by 12.5%.
- Q2FY2008 is the first quarter where Aban's standalone results are showing first signs of impact of re-pricing on its topline and bottomline. With just two of its rigs operating on re-priced day rate, the topline has grown a healthy 28% and bottomline growth of close to 250%.
- With operating leverage of the higher day rate coming into play, Aban's EBIDTA for the quarter grew by 34% to Rs Rs840 million. Apart from the higher day rates, EBIDTA for the quarter also got a boost from 36% decline in insurance cost and 32% decline in rentals for the machinery.
- Other income for the quarter grew by 240% on account of some treasury gains and some gains on forex.

- Depreciation for the quarter declined by 18.2% yoy, even as the size of the fleet remained constant yoy. The reason for lower depreciation is that, the company does not charge depreciation on the assets, which are already depreciated to the extent of 95% of its cost.
- With the boost from the other income and lower depreciation Aban's Q2FY2008 pre-exceptional net profit increased by a staggering 257% to Rs472 million. Q2FY2007 includes one time gain of Rs90 million on account of transfer of Aban VII to its Singapore subsidiary. Hence reported net profit for the quarter stood at 112.6% yoy.

Result Table

Rs million	Q22008	Q22007	YoY(%)
Net sales	1653	1288.6	28.3%
Total Expenditure	812.6	660.8	23.0%
Consumption of Stores	185.3	155.5	19.2%
As % of Sales	11.2%	12.1%	
Staff cost	132.5	88.7	49.4%
As % of Sales	8.0%	6.9%	
Rental charges to machinery	101.6	42.6	138.5%
As % of Sales	6.1%	3.3%	
Repairs to machinery	45.6	67.6	-32.5%
As % of Sales	2.8%	5.2%	
Insurance	52.08	81.5	-36.1%
As % of Sales	3.2%	6.3%	
other expenditure	295.5	224.9	31.4%
As % of Sales	17.9%	17.5%	
Total Expenditure	812.58	660.8	23.0%
As % of Sales	49.2%	51.3%	
EBIDTA	840.4	627.8	33.9%
Other Income	220	64.6	240.6%
Interest	127.17	129.2	-1.6%
Depreciation	214.3	262.0	-18.2%
PBT before amortisation	719.0	301.2	138.7%
Goodwill amortised	15.7	15.7	
PBT	703.3	285.5	146.3%
Tax	231.3	153.5	50.7%
PAT	472.0	132.0	257.4%
Extra-ordinary Items expenses			
Extra-ordinary Items income		90	
Reported PAT	472.0	222.0	
Margins			
EBIDTA	50.8%	48.7%	
PBT	43.5%	23.4%	
PAT	28.6%	10.2%	

Developments in Q2FY2008

Aban bags USD 950 million contracts during the Q2FY2008

On the back of strong demand momentum in the global offshore rig market, Aban offshore has bagged a whopping USD 775 million contracts for 7 of its rigs during Q2FY2008. Including options the contacts bagged jumps to USD950 million. This coupled USD 380 million contracts bagged in Q1FY2008, Aban now has extended its contract backlog by staggering USD1.15 billion (USD 1.4 billion with option).

Aban extends its contract backlog by USD 1.4 in H1FY2008

	Firm Revenue (USD millions)	Revenue with options (USD millions)
Contracts bagged In Q2FY2008		
Aban III	167	167
Aban IV	167	167
Aban V	167	167
FPU Tahara	64	64
Aban VI	95	190
DD4	80	160
DD5	36.28	36.28
Total	776.28	951.28
Contracts bagged In Q1FY2008		
Deep Venture	220	220
Marmuskaya	19.5	31.2
Deep Driller 1	141	211.5
Total	380.5	462.7
Contracts bagged in H1FY2008	1156.78	1413.98

(Source: Company announcements)

Aban enters into MOA for acquisition of Bulford Dolphin.

Continuing its ferocious acquisition spree, and its intent to increase its deepwater drilling capability, Aban Offshore has entered into memorandum of agreement with Bulford Dolphin Pte Ltd for the purchase of its semi-submersible rig "Bulford Dolphin". Aban would pay a consideration of USD 211 million for the rig and the rig is expected to join the fleet in Q4CY2007. Bulford Dolphin is a 2nd generation Semi-submersible with rated water depth of 1250 ft and drilling depth of 25000 ft. The rig was built in 1977 and the same was upgraded during the year 2003. With the acquisition Aban has clearly shown its appetite for inorganic growth and its intent to be among the top drilling entities in the world.

Bulford to have a pay back period of 4.5 years

Bulford is likely to get a day rate of USD250000-260000 and opex of USD70000. Hence, the pay back period for Bulford works out to a very lucrative 4.5 years

Outlook positive - maintain BUY

We believe with the global offshore rig market continuing to witness shortage on account of long gestation period for new rigs, the day rates for these rigs in the short to medium term would witness further upside. Hence Aban that still has 1 contract to be re-negotiate in the standalone entity and 4 fresh contracts for its new generation premium Jack ups rigs, is in a sweet spot to exploit the strong demand for offshore rigs. We believe that offshore oilfield service's industry fundamentals remain compelling and valuations attractive. Aban is currently trading at 10.8 X its FY2009 earnings and 8.5X its FY2010 earnings. On price to cash flow basis the stock is trading at 7.3X for FY2009 and 5.9X for FY2010. We maintain our Buy recommendation on the stock. The stock has reached our price target and the same is under review.

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