



(Investment Idea)

South East Asia Marine Engineering & Construction (Seamec)

Seamec has reported decent performance for Q1 CY 2007.

Y-o-Y Net Sales more than doubled to Rs. 56.1 crore (Rs. 27 crore) due to continuous deployment of 3 vessels with increased charter hire rates. OPM% declined sharply to 48.2% (61.28%) as Seamec Princess, 4th ship acquired in June 2006, is presently abroad for conversion to MSV and is expected to be completed during later part of H1 CY 2007. Expenses of this ship (~ Rs. 4-5 crore) were there in Q1 CY 2007 however commensurate income was not there. Despite substantial higher depreciation of Rs. 4.45 crore (Rs. 2.79 crore) PBT soared up by 60.6% to Rs. 25.17 crore (Rs. 15.68 crore) and PAT spurted up by 61.5% to Rs. 24.41 crore (Rs. 15.11 crore).

4th vessel (GWT - 11,121 mt) is much bigger in size compared to existing fleet. Earlier it was used for cable laying. Now Seamec is converting the same to MSV with diving support system @ cost of ~ US \$ 5-10 million (Rs. 23-46 crore). Company hopes to deploy this vessel in use by July 2007. As it is much bigger in size compared to existing fleet, charter rates are expected to be 10-20% higher than for existing vessels. Once deployed, Seamec Princess will boost earnings significantly.

Oil & Gas Exploration and development is at all time high and expected to remain so for next few years. Moreover, oil exploration companies are going for more and more deep-water locations to secure future supplies of oil and natural gas as onshore oilfields are exploited. Thus prospects of offshore support industry in India as well as overseas are bright and Seamac (with 4 vessels) is well positioned take advantage of this increasing demand.

However, there are 2 concerns - Seamac I & II are scheduled for periodic maintenance during Q2 and Q3 CY 2007, on which cost of US \$ 6-7 million would be incurred. A sharp appreciation of the rupee could be a potential risk.

At CMP of Rs. 205.80, share is trading at 8.23 times CY 2007 expected EPS of Rs. 25/- and 5.88 times CY 2008 expected EPS of Rs. 35/-. In view of promising future prospects, we recommend to **“BUY”** the share at current market price.

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