

Aban Offshore (ABALLO)

₹ 428

WHAT'S CHANGED...

PRICE TARGET..... Changed from ₹ 446 to ₹ 456
EPS (FY12E)..... Changed from ₹ 115.2 to ₹ 93.8
EPS (FY13E)..... Changed from ₹ 81.2 to ₹ 116.7
RATING..... Changed from Buy to Hold

Enhanced fleet utilisation to drive growth...

Aban Offshore (Aban) reported a below estimate performance on both the revenue as well as profitability front. On a QoQ basis, revenues reported a 4% increase to ₹ 762.6 crore (I-direct estimate: ₹ 811.5 crore) while net profit declined by 10.7% ₹ 79.3 crore (I-direct estimate: ₹ 112.9 crore). Aban's EBITDA margin declined on a QoQ basis by 257 bps to 60.2% (I-direct estimate: 63.6%). The lower-than-expected revenues can be attributed to lower fleet utilisation owing to lesser operating days for FPU Tahara and Aban Abraham. The decline in EBITDA margin on a QoQ basis has been due to higher staff costs (up 5% to ₹ 80.3 crore) and increased expense on insurance (up 20% to ₹ 36 crore) due to a rise in insurance premiums. Interest and depreciation have increased by 6% and 8%, respectively, which has further led to subdued net profit.

▪ Fleet utilisation to improve

During Q2FY12, Aban V and Aban VII were under marketing while Aban 3, which has secured a contract from ONGC, was under refurbishment and is expected to be deployed by the end of November 2011. Aban II and FPU Tahara are also expected to be contracted by Q4FY12. With the deployment of these assets, fleet utilisation is expected to improve from H2FY12 onwards.

▪ Earnings revision

We have revised earnings estimates for Aban to factor the impact of a) lower-than-expected performance in H1FY12, b) expected higher fleet utilisation in H2FY12 and FY13E c) change in exchange rate assumptions for FY12E and FY13E and d) some other minor changes. We have revised our earning estimate for FY12E down by 19% to ₹ 93.8 and raised FY13E earning estimate by 43.7% to ₹ 116.7.

Valuation

At the CMP of ₹ 428, the stock is trading at 3.7x FY13E EPS of ₹ 116.7 and 0.66x FY13E book value of ₹ 651. We have valued the stock at 0.70x FY13E book value to arrive at a price target of ₹ 456 and recommend a **HOLD** rating. Existing investors can also continue to **HOLD** the stock.

Exhibit 1: Financial Performance

(₹ cr)	Q2FY12	Q2FY12E	Q2FY11	Q1FY12	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	762.6	811.5	828.1	731.3	-7.9	4.3
EBITDA	458.8	516.0	556.3	458.9	-17.5	0.0
EBITDA Margin (%)	60.2	63.6	67.2	62.7	(701 bps)	(257 bps)
Depreciation	133.7	120.0	123.0	123.1	8.6	8.5
Interest	229.9	225.0	240.6	216.6	-4.4	6.1
Reported PAT	79.3	112.9	75.2	88.6	5.4	-10.6
EPS (₹)	18.2	25.9	17.3	20.4	5.4	-10.6

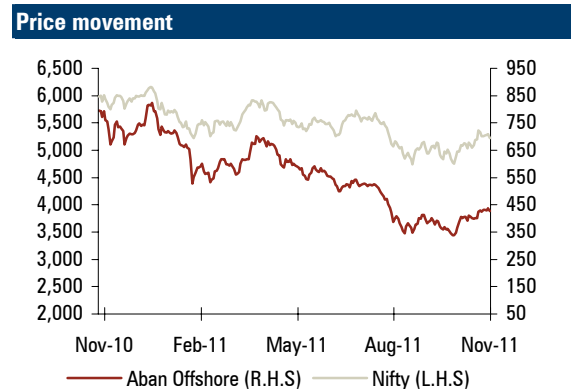
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 456
Target Period	: 12 months
Potential Upside	: 7%

Key Financials				
(₹ cr)	FY10	FY11	FY12E	FY13E
Net Sales	3358.7	3347.2	3223.9	3296.0
EBITDA	2100.8	2185.9	1958.3	2005.3
Net Profit	311.0	144.9	408.0	507.6

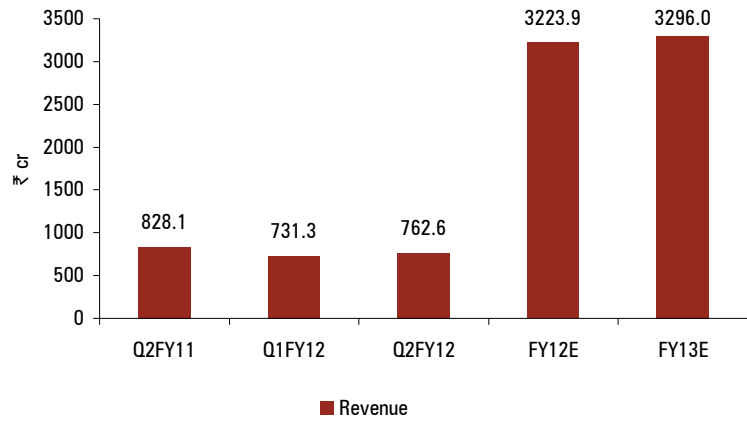
Valuation summary				
	FY10	FY11	FY12E	FY13E
PE (x)	6.0	12.8	4.6	3.7
Target PE (x)	6.4	13.7	4.9	3.9
EV to EBITDA (x)	7.5	6.5	6.8	6.2
Price to book (x)	1.0	1.0	0.8	0.7
RoNW (%)	15.3	6.5	16.0	16.9
RoCE (%)	10.0	11.1	9.5	10.5

Stock data	
Market Cap. (₹ cr)	1871
Debt(FY11) (₹ cr)	13047
Cash (FY11) (₹ cr)	595
EV (₹ cr)	14323
52 week H/L (₹ cr)	868 / 332
Equity capital (₹ cr)	8.7
Face value (₹)	2
DII Holding (%)	3.7
FII Holding (%)	6.1



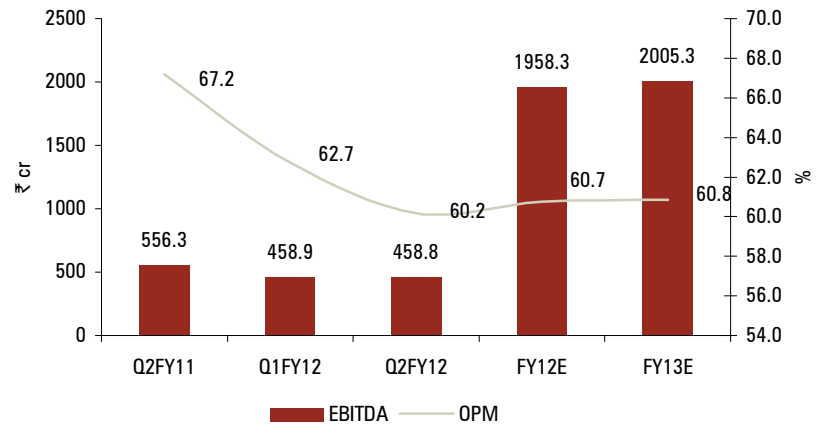
Analyst's name	
Bharat Chhoda	bharat.chhoda@icicisecurities.com

Exhibit 2: Topline performance trend



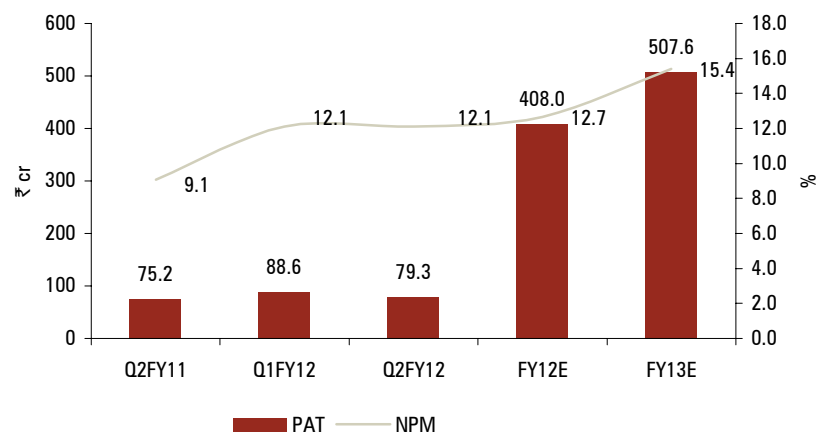
Source: Company, ICICIdirect.com Research

Exhibit 3: EBITDA performance trend



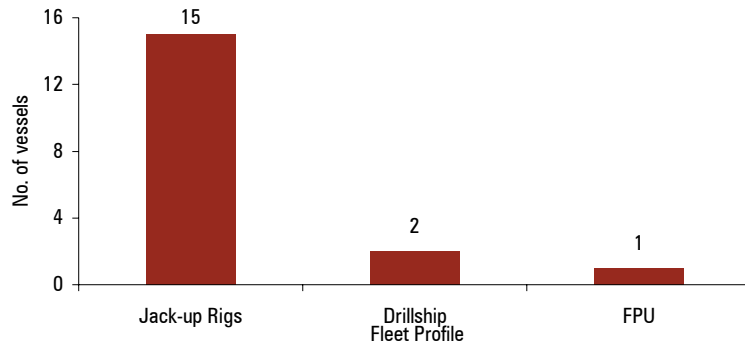
Source: Company, ICICIdirect.com Research

Exhibit 4: PAT performance trend



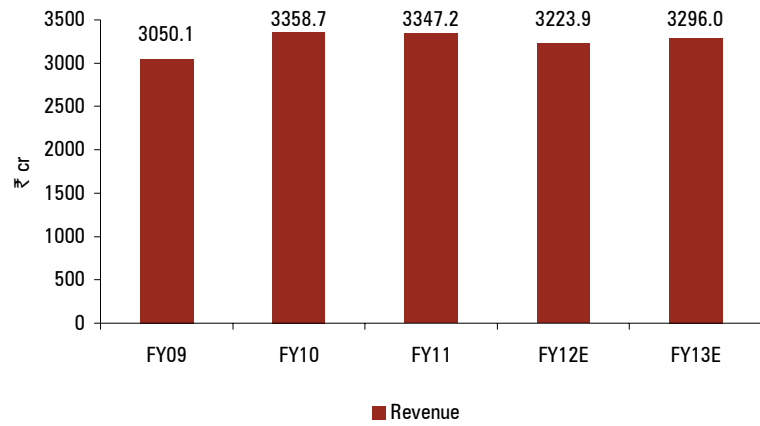
Source: Company, ICICIdirect.com Research

Exhibit 5: Current fleet profile



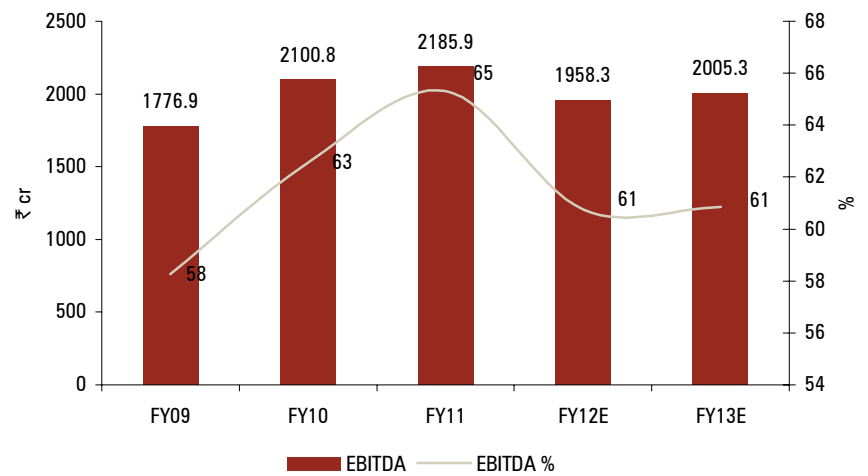
Source: Company, ICICIdirect.com Research

Exhibit 6: Revenue expected to decline in FY12 and improve in FY13



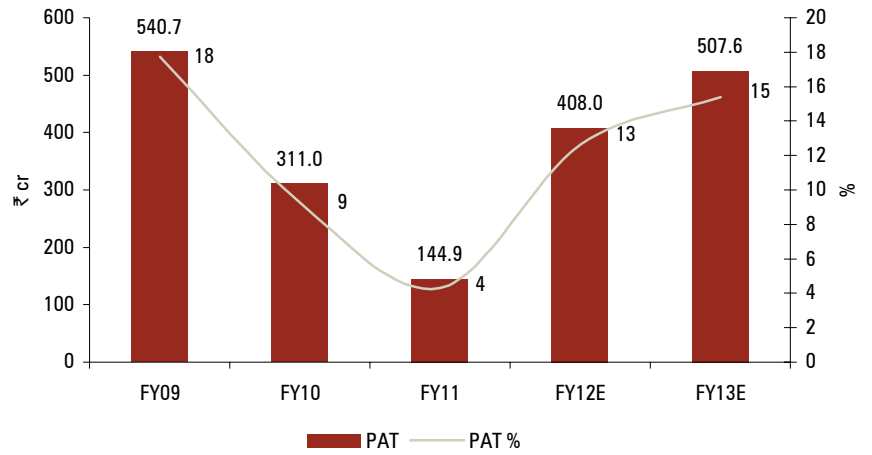
Source: Company, ICICIdirect.com Research

Exhibit 7: Operating margin to stabilise after declining in FY12



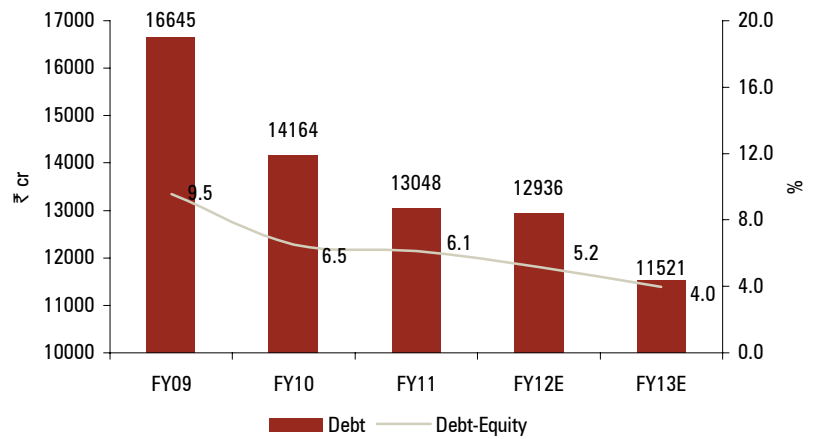
Source: Company, ICICIdirect.com Research

Exhibit 8: PAT expected to recover in FY12 and improve further in FY13



Source: Company, ICICIdirect.com Research

Exhibit 9: Debt equity ratio to improve, going ahead



Source: Company, ICICIdirect.com Research

Aban is expected to report a significantly higher net profit in FY12 in the absence of the extraordinary loss that was incurred in FY11 on account of the sinking of Aban Pearl. However, we remain cautious on account of concerns relating to the repayment of ~ ₹ 2000 crore of debt in FY12. The company has sought shareholder's approval for raising funds by way of FCCBs, GDRs, ADRs and QIP. This could lead to a substantial dilution of equity capital and a resultant dilution of earnings.

At the CMP of ₹ 428, the stock is trading at 3.7x FY13E EPS of ₹ 116.7 and 0.66x FY13E book value of ₹ 651. We have valued the stock at 0.70x FY13E book value to arrive at a price target of ₹ 456 and recommend a **HOLD** rating. Existing investors can also continue to hold the stock.

Exhibit 10: Valuation parameter

Valuation based on	Global average	Target multiple	Target price (₹)
PE multiple (x)	10.4	-	-
Price to book value (x)	1.1	0.70	456
Average target price (₹)			456
Current market price (₹)			428
Upside (%)			7

Source: ICICIdirect.com Research

Exhibit 11: Valuation

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY11	3347.2	10.1	33.3	-53.4	12.8	6.5	6.5	11.1
FY12E	3223.9	-3.7	93.8	181.5	4.6	6.8	16.0	9.5
FY13E	3296.0	2.2	116.7	24.4	3.7	6.2	16.9	10.5

Source: Company, ICICIdirect.com Research

Exhibit 12: Revised estimates

(₹ cr)	Old		New	
	FY12E	FY13E	FY12E	FY13E
Sales	3277.5	2907.5	3223.9	3296.0
EBITDA	2059.2	1767.2	1958.3	2005.3
Net Profit	501.2	353.1	408.0	507.6
EPS	115.2	81.2	93.8	116.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Shipping)

Essar Ports					Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ESSSHI	CMP (₹)	83	FY12E	1103.7	2.9	20.6	8.2	6.5	9.9
		Target (₹)	107	FY13E	1392.6	5.8	10.3	6.3	11.7	12.0
MCap	3457	% Upside	29							
G.E Shipping										
Idirect Code	GESHIP	CMP (₹)	230	FY11	2432.9	30.8	8.3	8.9	7.8	4.4
		Target (₹)	288	FY12E	2917.9	44.6	5.7	6.2	10.3	6.6
MCap	3496	% Upside	25	FY13E	3267.8	50.9	4.8	4.9	10.7	7.8
Mercator Lines										
Idirect Code	MERLIN	CMP (₹)	26	FY11	2828.9	1.9	13.7	5.2	2.1	5.8
		Target (₹)	40	FY12E	3257.7	3.8	6.8	3.7	4.1	7.3
MCap	614	% Upside	54	FY13E	3863.7	7.5	3.5	2.8	7.5	9.0
SCI										
Idirect Code	SCI	CMP (₹)	71	FY10	3543.4	12.2	6.0	8.4	7.4	2.0
		Target (₹)	80	FY11E	3355.9	4.2	17.3	11.5	2.7	1.1
MCap	3307	% Upside	13	FY12E	3520.7	4.7	15.6	7.5	3.0	2.7
Varun Shipping										
Idirect Code	VARSHI	CMP (₹)	17	FY11	491.4	1.0	19.3	137.9	1.8	-4.4
		Target (₹)	17	FY12E	466.4	-21.2	-	-98.2	-65.2	-4.9
MCap	255	% Upside	0	FY13E	528.3	-14.9	-	53.6	-86.0	-2.4
Aban Offshore										
Idirect Code	ABALLO	CMP (₹)	428	FY11	3347.2	33.3	12.8	6.5	6.5	11.1
		Target (₹)	446	FY12E	3223.9	93.8	4.6	6.8	16.0	9.5
MCap	1862	% Upside	4	FY13E	3296.0	116.7	3.7	6.2	16.9	10.5
Global Offshore										
Idirect Code	GARSHI	CMP (₹)	84	FY11	200.5	9.3	8.8	9.0	7.9	5.5
		Target (₹)	101	FY12E	198.1	6.7	12.2	8.6	5.5	5.3
MCap	200	% Upside	20	FY13E	197.1	7.0	11.7	7.9	5.5	5.6
Great Offshore										
Idirect Code	GREOFF	CMP (₹)	130	FY11	996.2	36.9	3.2	5.6	11.1	6.7
		Target (₹)	266	FY12E	940.4	37.5	3.1	4.3	10.1	8.4
MCap	482	% Upside	105	FY13E	987.9	39.5	3.0	3.4	9.7	8.6
SEAMEC										
Idirect Code	PEESHI	CMP (₹)	102	FY11	102.4	-	-	-	-	-
		Target (₹)	-	FY12E	169.0	4.6	22.1	3.0	3.4	1.5
MCap	346	% Upside	-	FY13E	161.3	4.5	22.7	1.8	3.2	0.7
ABG Shipyard										
Idirect Code	ABGSHI	CMP (₹)	413	FY11	2136.9	38.1	10.6	7.3	15.3	12.7
		Target (₹)	338	FY12E	2420.4	44.7	9.0	6.8	15.6	13.9
MCap	2102	% Upside	-18	FY13E	2575.8	50.5	8.0	5.5	15.3	15.6
Bharati Shipyard										
Idirect Code	BHASHI	CMP (₹)	100	FY11	1581.1	51.1	1.8	7.8	15.7	10.3
		Target (₹)	92	FY12E	1248.6	18.6	5.0	6.7	5.4	10.7
MCap	292	% Upside	-8	FY13E	1266.5	23.9	3.9	7.8	6.5	10.0

Global Valuation (Shipping)

Company	Country	P/BV (x)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY10E	CY11E	CY12E	CY10E	CY11E	CY12E	CY10E	CY11E	CY12E	CY10E	CY11E	CY12E
Offshore													
Diamond Offshore*	USA	2.9	2.1	2.0	11.9	10.0	13.0	6.3	5.7	6.7	24.5	21.9	15.4
ENSCO*	USA	1.4	1.0	1.0	16.2	15.9	8.9	9.1	13.3	7.3	9.0	7.6	12.0
Hercules Offshore*	USA	0.7	0.6	0.7	-	-	-	8.7	8.7	7.8	-	-	0.0
Transocean*	USA	1.2	0.7	0.7	13.3	15.7	9.2	7.2	6.9	5.4	8.7	4.9	8.0
Aban Offshore#	India	1.0	0.8	0.7	12.8	4.6	3.7	6.5	6.8	6.2	6.5	16.0	16.9
Global Offshore#	India	0.7	0.7	0.6	8.8	12.2	11.7	9.0	8.6	7.9	7.9	5.5	5.5
Great Offshore#	India	0.4	0.3	0.3	3.2	3.1	3.0	5.6	4.3	3.4	11.1	10.1	9.7
SEAMEC#	India	0.8	0.8	0.8	-	22.1	22.7	-	3.0	1.8	-	3.4	3.2

*consensus

With regards to Indian companies, three year data represents FY11, FY12 and FY13 (financial year ending in March)

Exhibit 13: Recommendation History



Exhibit 14: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Oct-10	Q2FY11 Preview	869	947	HOLD
11-Nov-10	Q2FY11 Result Update	842	889	HOLD
10-Jan-11	Q3FY11 Preview	842	889	HOLD
3-Feb-11	Q3FY11 Result Update	588	539	HOLD
8-Apr-11	Q4FY11 Preview	588	539	HOLD
6-May-11	Q4FY11 Result Update	561	511	HOLD
10-Aug-11	Q1FY12 Result Update	400	446	BUY

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively;
Buy: Between 10% and 15%/20% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Bharat Chhoda MBA* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Bharat Chhoda MBA* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Bharat Chhoda MBA* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.