(Member of Alliance Bank group)

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19 November 2012

Initiating Coverage

Perisai Petroleum Teknologi — Strong Buy

Oil & Gas — *Bloomberg Ticker: PPT MK | Bursa Code: 0047*

Analyst
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12-month upside potential

Target price	1.46
Current price (as at 16 Nov)	1.12
Capital upside (%)	30.4
Net dividends (%)	0.0
Total return (%)	30.4

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	954.0
Shares outstanding (m)	851.8
Free float (%)	47.0
52-week high / low (RM)	1.12 / 0.63
3-mth avg volume ('000)	5,547.0
3-mth avg turnover (RM m)	5.4

Share price performance

	1M	3M	6M
Absolute (%)	5.7	16.1	28.0
Relative (%)	7.7	17.5	20.9

Share price chart

Source: Bloomberg

Major shareholders	%
Ezra Group	16.1
Mercury Pacific	10.4
Lynear Corp	8.2
Zainol Izzet Ishak	7.8

Firing on all cylinders

We are initiating coverage on Perisai with a STRONG BUY call and a TP of RM1.46. FY12 is set to see record y-o-y core EPS growth of 114% and this will bring P/E valuation down to an attractive 9.9x. A potential investment into an FPSO by mid-2013 and a new rig to be delivered in 2QFY14 could see the group chart growth of 50% or more in FY14. A strong working relationship with major shareholder Ezra Holdings will open more doors of opportunity going forward.

Simple and effective business model

- Perisai Petroleum Teknologi is a Malaysia based upstream oil & gas service provider. Perisai's key assets are:- (1) Enterprise 3 derrick lay barge (DLB), (2) 8 offshore support vessels (OSV) via a 51% equity interest in Intan Offshore, (3) Rubicone mobile offshore production unit (MOPU), and (4) a jack up drilling rig which is still under construction. Perisai capitalises on these assets by chartering them out to other service providers, or chartering them out directly to oil & gas production companies. The company has also, via an associate, recently become an agent for an FPSO (floating production, storage and offloading vessel) to be chartered out in mid-2013.

Strong growth in FY11 will continue in FY12 and potentially FY13

- Perisai saw strong EPS growth of 20.2% in FY11 from the acquisition of Intan Offshore which was completed in August 2011.
- For FY12, with the addition of the Rubicone MOPU and also from a full year contribution from Intan Offshore, Perisai is expected to hit record earnings of RM90.6m with EPS growth of 114%. Although earnings growth for FY13 will be flat, the potential acquisition of a minority stake in the Lewek Arunothai FPSO could accrete FY13 earnings by 12.3%.

Jacking up earnings in FY14, FPSO could boost earnings further

- Earnings growth will continue in FY14 and we expect a 27.7% EPS growth as the jack up drilling rig will be delivered in July 2014. This is based on our assumption of 5 months of operations in FY14, at a rate of USD150k/day. Growth will continue in FY15 (est. another 27.6%) due to a full year earnings contribution by the new jack up drilling rig.
- Assuming that a 30% direct stake in the FPSO was purchased by mid-2013, we calculate that it could raise FY14 earnings by another 24% resulting in >50% growth in FY14.

Renewals for the E3 and MOPU coming up in FY13

- Key events to watch out for in FY13 are contract renewals/extensions. The E3 derrick lay barge will complete its term with SapuraKencana Petroleum in May 2013, and the Rubicone MOPU will finish its 2-year fixed term at Bekok-C field in September 2013. It is crucial for contract renewals/extensions of these two assets to be timely, as they contribute more than 70% of group earnings for FY13.

Valuation and recommendation

- Perisai has made a major transformation since listing in 2004 and is fast becoming a prominent asset owner in Malaysia. FY12 is set to see record y-o-y core EPS growth of 114% and this will bring P/E valuation down to an attractive 9.9x.
- We initiate coverage on Perisai with a STRONG BUY and a target price of RM1.46. This is derived from ascribing a 13.7x P/E to FY13 EPS. 13.7x is a peak cycle P/E multiple of O&G peers Dayang Enterprises and Wah Seong which are closest to Perisai's market capitalisation range. We believe this is justified by strong 4-year earnings CAGR of 16%.
- Our target price could potentially by raised by 12% if the FPSO acquisition materialises.
- Key investment risks include (1) fall in crude oil price which may curtail O&G capex, (2) non-renewal and/or delay in renewal of contracts, and (3) delay in delivery of the new jack-up drilling rig.

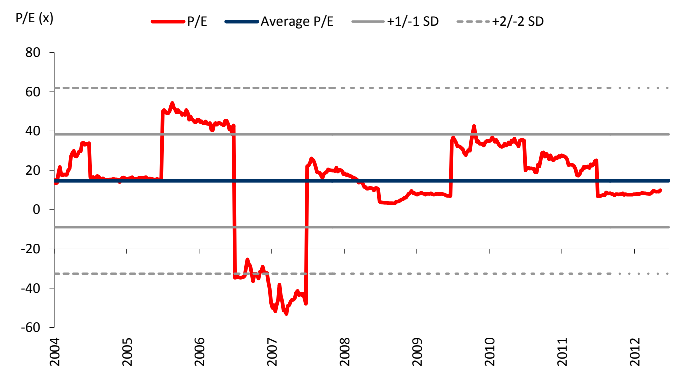
SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 31 Dec	FY10	FY11	FY12F	FY13F	FY14F
Revenue (RM m)	75.2	82.4	185.8	188.8	255.5
EBITDA (RM m)	35.1	53.0	141.1	147.1	181.5
EBIT (RM m)	19.3	32.0	113.7	115.8	144.2
Pretax profit (RM m)	9.8	26.9	102.8	103.2	129.7
Reported net profit (RM m)	10.3	21.2	90.6	90.9	116.1
Core net profit (RM m)	29.1	39.8	90.6	90.9	116.1
EPS (sen)	1.6	2.8	11.3	10.7	13.6
Core EPS (sen)	4.4	5.3	11.3	10.7	13.6
Alliance / Consensus (%)			101.6	99.2	119.8
Core EPS growth (%)	(19.9)	20.2	113.9	(5.4)	27.7
P/E (x)	25.5	21.2	9.9	10.5	8.2
EV/EBITDA (x)	27.7	17.1	7.9	9.5	7.9
ROE (%)	4.4	6.6	19.0	16.0	17.0
Net gearing (%)	0.7	0.7	0.8	0.7	0.6
Net DPS (sen)	-	-	-	-	-
Net dividend yield (%)	-	-	-	-	-
BV/share (RM)	0.35	0.43	0.59	0.67	0.80
P/B (x)	3.2	2.6	1.9	1.7	1.4

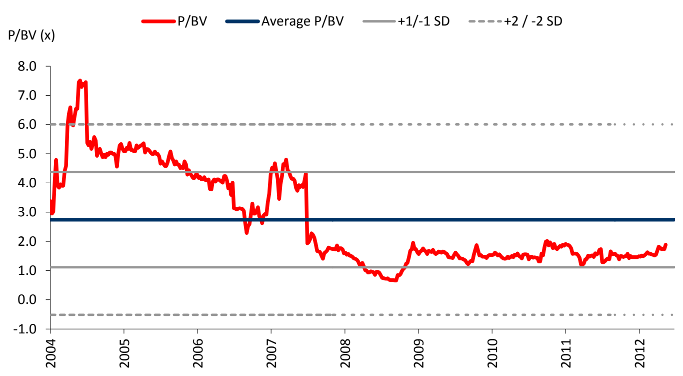
Source: Alliance Research, Bloomberg

Figure 2 : Forward P/E trend



Source: Alliance Research, Bloomberg

Figure 3 : Forward P/B trend



Source: Alliance Research, Bloomberg

Figure 4 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%) CY12	EPS Growth (%) CY13	P/E (x) CY12	P/E (x) CY13	P/BV (x) CY12	P/BV (x) CY13	ROE (%) CY12	ROE (%) CY13	Net Dividend Yield (%) CY12	Net Dividend Yield (%) CY13
SapuraKencana	Strong buy	4.07	2.88	14,412.6	13.7	44.0	28.7	19.9	2.4	2.2	8.4	11.0	0.6	1.0
Bumi Armada	Buy	4.90	3.87	11,335.7	39.3	42.9	22.6	15.8	2.9	2.4	12.8	15.5	0.6	0.6
MMHE	Sell	4.19	4.90	7,840.0	-11.2	18.5	27.7	23.4	3.1	2.7	11.1	11.7	0.4	0.4
Perisai Petroleum	Strong buy	1.46	1.12	954.0	113.9	-5.4	9.9	10.5	1.9	1.7	19.0	16.0	0.0	0.0
Deleum	Neutral	1.93	1.83	274.5	6.7	7.0	8.9	8.3	1.1	1.0	12.1	12.1	5.4	5.8
Average					18.4	34.9	24.7	18.3	2.7	2.4	10.8	12.7	0.6	0.8

Source: Alliance Research, Bloomberg *Share price date: 16 November 2012*

OVERVIEW

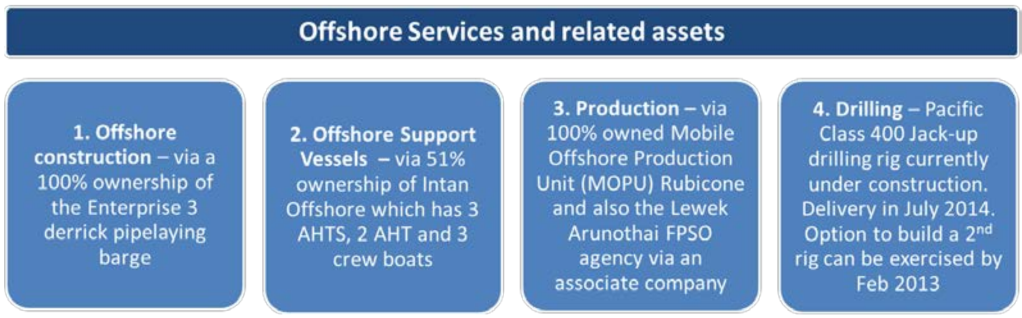
Simple and effective business model

Strategic asset owner

Perisai Petroleum Teknologi is a Malaysia based upstream offshore oil & gas service provider. The company has assets suited for use throughout the upstream O&G value chain encompassing exploration, development, production, and decommissioning. Assets owned by the group include:- (1) Enterprise 3 derrick lay barge (DLB), (2) 8 offshore support vessels (OSV) via a 51% equity interest in Intan Offshore, (3) Rubicone mobile offshore production unit (MOPU), and (4) a jack up drilling rig which is still under construction. Perisai capitalises on these assets by chartering them out to other service providers, or chartering them out directly to oil & gas production companies. The company does not involve themselves in the operation of the said assets as their charters are bareboat charters. On top of that, Perisai recently became an agent for the Lewek Arunothai FPSO (floating production storage and offloading vessel) via their 40%-owned associate company Larizz Petroleum.

Figure 5 : Perisai's business overview

The group's assets cater to 4 broad segments of the O&G upstream value chain



Source: Company, Alliance Research

Transformed from a convoluted past

Perisai was originally involved in the corrosion control business

But diversified their income soon after listing

Perisai was listed on the MESDAQ back in June 2004 as an oil and gas service provider involved in corrosion control services. In March 2005, it purchased a 55% stake (for RM29.7m) in Allied Marine and Equipment Sdn Bhd (AME) which was in the business of diving support services. The AME business was then sold in July 2007 for RM39.5m after it had performed poorly in 2006, dragging group earnings down as major unplanned maintenance had to be carried out on the vessels owned by AME.

The E3 was purchased in 2008

Corrosion control business divestment started in 2008

2 old jack up drilling rigs were purchased in 2009

In 2008, Perisai embarked on acquisitions again and bought a 100% equity stake in SJR Marine, which owned a DLB called the Enterprise 3 (E3) for USD42m (RM126m). The deal was funded by cash and shares, and resulted in a new major shareholder, Mercury Pacific Marine Pte Ltd (25.95% stake). The barge was immediately earnings accretive as it was chartered to SapuraKencana's TL Offshore for USD95k/day on a 4.5-year fixed charter. In 2008, Perisai started to sell off its corrosion related businesses. Interests in two key subsidiaries were sold for RM42.5m during the year (a 60% stake in Corro-Shield and 100% stake in Orinippon). 2009 saw more disposals of corrosion control businesses. Two other subsidiaries were sold for RM3.8m. Towards the end of 2009, the group then purchased 2 old jack-up drilling rigs, the Hercules 191 and Hercules 255, for USD10m (RM30m).

Ezra entered as a shareholder in 2010, and Encik Izzet was appointed MD

In 2010, the company continued its transformation programme. This started with the entry of Singapore based Ezra Group (via HCM Logistics) in April 2010 as the second largest shareholder in Perisai with a 19.9% stake. The stake was purchased from ex-MD and major shareholder Mr Nagendran Nadarajah. Besides that, Encik Zainol Izzet was also appointed to the board of Perisai and also as its managing director. Encik Zainol Izzet brought with him a wealth of experience in the O&G service industry given his previous appointment as managing director of SapuraCrest Petroleum.

The drilling rigs were sold in 2010

Disposal of non-core businesses continued in 2010, as the group disposed of its saturation diving system equipment (RM11.5m) and the two drilling rigs just purchased a year before for RM30m. The rigs were sold to former major shareholder Mr. Nagendran Nadarajah whose intention was to convert at least 1 of the rigs into a mobile offshore, production and storage unit (MOPSU/MOPU).

Through the new relationship with Ezra, Perisai bought a 51% stakes in Intan Offshore in 2011

It was widely speculated that the entry of Ezra would see a change in business direction for the group and also asset injections. Thus, in August 2011, Perisai completed the purchase of a 51% stake in Intan Offshore from Ezra's Emas Offshore for RM42.5m. Intan Offshore had 8 offshore support vessels which were fully chartered out.

Later that year, the group signed a deal to purchase a MOPU which has since been deployed

In mid-2011, it was announced that Perisai was negotiating a deal with Mr. Nagendren Nadarajah to purchase a MOPU called the Rubicone. The MOPU was under construction at the time of negotiation and it was ready with a PETRONAS contract starting September 2011. With the purchase price of USD70m satisfied by cash and shares, this deal was completed in Jan 2012.

Perisai's latest interest is in the FPSO business

A new deal was announced on 14 Nov 2012 when Perisai announced that their 40% owned associate company, Larizz Petroleum, had received a letter of award from Hess Exploration for the provision and lease of a FPSO (called the Lewek Arunothai). The FPSO would be assisting Hess's operations at the Kamelia field in the North Malay Basin. Larizz Petroleum (which is 60% owned by Encik Zainol Izzet) currently acts as an agent for the vessel but it has been announced that Perisai or a subsidiary/associate will be taking an equity stake in the vessel soon. An announcement will be made when the terms of the proposed acquisition is finalised.

Major shareholders

- Ezra Group – 16.05% via HCM Logistics and Emas Offshore. Ezra became a shareholder in 2010 when they bought a 19.9% stake in Perisai from Mr. Nagendran Nadarajah. Their stake was then raised to 23.8% in late 2010 with the injection of Intan Offshore into Perisai. However, this has reduced to 16.05% as Encik Zainol Izzet has just exercised a call option granted by HCM Logistics to purchase a 7.75% stake.
- Mercury Pacific Marine Pte Ltd – 10.39%. Mercury became a major shareholder via a share swap when they sold the Enterprise 3 DLB to Perisai in 2008.
- Lynear Plus Limited – 8.19%. A private investor registered in the British Virgin Islands. They purchased their stake from Mercury in 2011.
- Encik Zainol Izzet Ishak – 7.75%. Encik Zainol Izzet recently bought his 7.75% stake in Perisai via a call option with HCM Logistics. He purchased 66m shares at RM0.485/share, the same price that HCM purchased their shares at from Mr. Nagendran back in 2010.

PERISAI'S ASSETS

The Enterprise 3

From 2008-mid 2011, the E3 was the anchor asset of the group

The vessel is chartered to SapuraKencana for RM70m per annum since 2008

As mentioned above, Enterprise 3 (E3) is a derrick pipe lay barge which was purchased from private investors in 2008. The vessel has a 800-tonne lifting capacity, can lay pipes ranging from 6-36 inches (outside diameter), and house 300 men. The vessel was the first Malaysian flagged DLB. When it came into the market, it was quickly snapped up by SapuraCrest, now SapuraKencana Petroleum Bhd (SAKP). The vessel is currently still engaged with SAKP on a 4.5-year contract which commenced in November 2008. The charter rate for the vessel amounts to roughly RM70m per annum (or RM260k/day) for 270 days p.a. of operations. If the vessel works more than 270 days per year, then a rate of USD20k/day will be charged for every additional working day. The E3 currently contributes to roughly RM20m in profits per annum, assuming no additional working days during the given year.

Figure 6 : The Enterprise 3 DLB (E3)

Source: Company

The contract ends in May 2013 and we expect an extension or new job to be announced next year

The contract for the E3 expires in May 2013 and we gauge that the group is already shopping for new jobs. Nevertheless, SAKP may also extend their contract for the E3, as SAKP's Pan Malaysia pipe laying contract extends until end 2013 and the company has been actively using the E3 to carry out this contract. Should there be no renewal from SAKP, we view that the chances of E3 obtaining more work in Malaysia is good. Active pipe replacement and new pipe and construction activities in Malaysian waters will see enough contracts available for vessels like the E3.

Intan Offshore

Intan Offshore owns 8 offshore support vessels

These vessels are fully chartered out for the next 3 years at RM40m per annum

51% owned Intan Offshore owns 8 vessels as per the figure below. These vessels include two anchor handling tug (AHT) vessels, three anchor handling tug and supply (AHTS) vessels and three crew boats. The vessels had recently come off charter but this was swiftly replaced with a new contract at the same rates. The bareboat charter contract for these 8 vessels was renewed for a sum of RM120m and a period of 3 years starting 1 September 2012. The vessels were chartered to Emas Offshore, which also has a 47% stake in Intan Offshore. Intan Offshore will continue to contribute some RM40m to group revenue in the coming three financial years and we expect margins of up to 50% at gross level.

Figure 7 : Intan Offshore's 8 offshore support vessels (OSV)

Source: Company, Alliance Research

The Rubicone

The Rubicone was the third major addition to Perisai's asset base

Perisai completed the purchase of the Rubicone MOPU in January 2012 for USD70m (RM210m). The MOPU had a ready bareboat charter contract of USD25m p.a. (RM75m p.a.) from PETRONAS Carigali. Currently working at the Bekok-C offshore production site, the MOPU came with an annual profit after tax guarantee of USD16.67m/annum (RM50m) for the 2-year fixed term contract. Further to this, a vendors cash guarantee of USD8m (RM24m) was built into the contract, and is to be paid at the end of year two of the fixed term contract. To note, the contract has 2 options for yearly extensions. As such, come September 2013, we would expect a contract extension from Petronas Carigali. Otherwise, the MOPU would be deployed to another development.

Figure 8 : The Rubicone MOPU

Source: Company

The rationale behind a MOPU is, as its name suggests, mobility. It has proven so far to be a cost effective solution for marginal production in shallow Malaysian waters and is also a cheaper solution than a jack up drilling rig. With the advent of enhanced oil recovery projects as well as marginal field developments in Malaysia, we expect demand for MOPU will be healthy in years to come. The Rubicone has a 15-year useful life so we foresee more years of steady income from it going forward.

Perisai has an option for a second MOPU which expires by Feb 2013

As mentioned earlier in the report, Perisai had in 2010 sold two old jack-up drilling rigs to Mr. Nagendran but only one of these has been converted into the now named Rubicone MOPU. Going forward, we do not rule out the possibility that Perisai could invest in a second MOPU, given their familiarity with the vendor and also considering the demand for MOPU in Malaysia. The group has an option with Mr Nagendren to purchase a second MOPU. This option expires in February 2013.

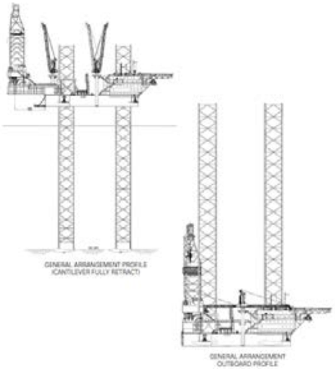
Newbuild jack-up drilling rig

Soon after the MOPU acquisition, Perisai ventured into the drilling industry

The first rig will be delivered in July 2014

On 27 April, Perisai's wholly-owned subsidiary Perisai (L) Inc had entered into a rig construction contract with PPL Shipyard Pte Ltd (PPL) to design, construct, equip, commission and deliver a jack-up drilling rig to Perisai Labuan. The rig ordered is a Pacific Class® 400 jack-up drilling rig with technologically advanced drilling capabilities. Designed and equipped to drill high pressure and high temperature wells as deep as 30,000 feet, the rig is capable of operating in water depths of up to 400 feet and has full service accommodation for 150 personnel. The purchase price of the rig was USD208m (RM630m) and 20% of this amount has already been paid to PPL. The remaining 80% will be paid when the rig is delivered by end July 2014.

Figure 9 : Engineering design of the Pacific Class® rig



Source: Company

Figure 10 : Mock-up of the Pacific Class® rig

Source: Company

The rig is being built in Singapore

PPL is a subsidiary of Singapore's Sembcorp Marine Ltd. This yard is renowned for its experience in rig design and construction and has built and delivered over 25 Pacific Class® jack-up drilling rigs over the past 25 years. This rig type that Perisai has ordered will be the second of its kind globally. The first Pacific Class® 400 was delivered to Transocean in December 2011. Transocean is the world's largest rig owner.

A milestone for Perisai, as they enter the drilling market

We view this rig as a major milestone for Perisai as it marks their entry into the drilling market for shallow and deeper wells. Rig owners in Malaysia are currently limited to SapuraKencana Petroleum, which has 6 self-erecting tender assisted rigs, and UMW which has 3 rigs (2 jack-ups and 1 semi-submersible). The fact that both companies have their rigs fully chartered out on long term contracts is testament to the healthy demand for rigs in the Asia Pacific drilling market, in our opinion. Rig data from Rigzone indicates that current utilisation for rigs in South East Asia is healthy at 80.4%, up from 71.7% a year ago.

EARNINGS CATALYSTS

FPSO could bump up FY13 and FY14 earnings

Perisai, via their 40% associate company has recently become an agent for a FPSO

Perisai recently announced that their 40% owned associate company, Larizz Petroleum, had received a letter of award (LoA) from Hess Exploration for the provision and lease of a FPSO vessel called the Lewek Arunothai. The FPSO would be assisting Hess's operations at the Kamelia field in the North Malay Basin. The vessel is owned by Ezra's 45.7% owned associate company, EOC Limited which is listed in Oslo. As such, Larizz will be (for now) acting as an agent for the vessel.

The contract is sizeable at RM830m for a 3-year fixed term

The terms of the LoA provides for a firm charter duration of 3 years with extension options of up to 3 years. It requires the vessel to be deployed, operated, and maintained as part of a fast-track gas production project from mid-2013. The LoA has a value of USD272.1m (RM830m) with potential for another USD271.1m (RM827m) should full extension be exercised.

The group is now in discussion with EOC to take an equity stake in the FPSO

We see significant earnings accretion if the group takes a 30% direct stake

As noted in the announcement on 14 Nov, Perisai or one of its subsidiaries/associates has commenced negotiation with EOC to acquire a stake in the said FPSO. We view that when finalised, Perisai is likely to take a minimum 30% minority stake in the vessel. Based on our back of envelope calculations, we view that an acquisition of a direct 30% stake would bump up FY13 earnings by 12.3% and an indirect 30% stake via Larizz would result in 4.9% earnings accretion. Contributions would be more significant in FY14. A direct 30% stake would bump up FY14 estimates by 24% and an indirect stake would bump up earnings by 9.6%.

Figure 11 : Potential earnings accretion from the FPSO in FY13 (6 months contribution)

Potential impact to FY13 earnings

	30% direct stake	30% stake via Larizz (12% indirect stake)
Revenue from FPSO (RM m)	138.32	138.32
EBIT margin %	40.0%	40.0%
Less 6% finance cost on RM300m borrowings (RM m)*	18.0	18.0
Net profit (RM m) ^	37.33	37.33
Perisai's share (RM m)	11.20	4.48
% accretion to existing FY13 earnings estimate	12.3%	4.9%

**We assume the vessel is worth RM1bn and the group takes RM300m debt financing*
^The group is likely not to pay corporate tax if the vessel is registered in Labuan.

Source: Alliance Research

Figure 12 : Potential earnings accretion from the FPSO in FY14 (12 months contribution)

Potential impact to FY14 earnings

	30% direct stake	30% stake via Larizz (12% indirect stake)
Revenue from FPSO (RM m)	276.64	276.64
EBIT margin %	40.0%	40.0%
Less 6% finance cost on RM300m borrowings (RM m)*	18.0	18.00
Net profit (RM m) ^	92.65	92.65
Perisai's share	27.80	11.12
% accretion to existing FY14 earnings estimate	24.0%	9.6%

**We assume the vessel is worth RM1bn and the group takes RM300m debt financing*
^The group is likely not to pay corporate tax if the vessel is registered in Labuan.

Source: Alliance Research

In the event the proposed acquisition of the FPSO does not materialise, Perisai, via Larizz, will only earns agency fees of 1-2% from the contract value of the FPSO. A 2% agency fee would see RM2.2m in profits from associates per annum from the FPSO. We have yet to factor this amount into our estimates as we await news on the proposed acquisition.

Jacking up earnings in FY14

Jack-up rates can be in access of USD150k/day

Our latest check on rig rates on Rigzone indicates average rate of USD150k/day (RM455k/day) for jack-up drilling rigs with 300ft water depth capability. Considering that Perisai's rig will be able to handle deeper depth at 400ft of water and drill up to 30,000ft, we believe that daily charter rates could be in excess of USD150/day.

Significant earnings growth when the rig comes on-stream in 3QFY14

FY14 EPS will grow 27% y-o-y, while FY15 will grow by 28% y-o-y

That said, we stay on the conservative side for our FY14 estimates for now. We are factoring in rates of only USD150k/day. Assuming that the rig is delivered in July and starts working by August 2014, we expect a profit contribution of RM26m from the first 5 months of operation, which underpins Perisai FY14 EPS growth of 27.7%. Going into FY15, the rig is expected to contribute up to RM60m of group profits, underpinning another 27.6% of EPS growth. We assume healthy margins of up to 45% at gross level for the rig, similar to margins achieved by SapuraKencana Petroleum for their tender rigs.

Multitude of opportunities in the market

The O&G industry continues to be healthy, with plenty of spending in Malaysian waters

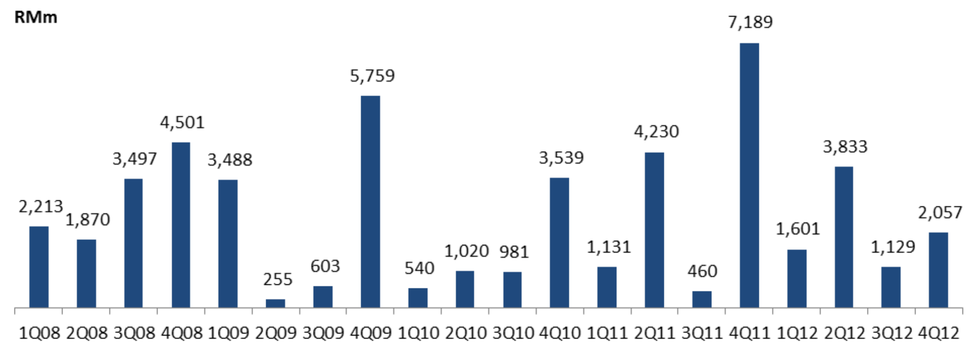
The current climate of the O&G industry is conducive for service providers like Perisai. Crude oil prices appear to be sustained at high levels and production companies are actively spending to increase and/or sustain hydrocarbon output. In Malaysia itself, offshore spending is rife with PETRONAS's RM300bn capex plan, ExxonMobil (RM37bn) and Shell's (RM3.5bn) investments into enhanced oil recovery (EOR) and also new developments like the North Malay Basin (RM15bn).

Based on our quarterly compilation, contract awards have been flowing in consistently this year and is expected to peak in 4Q12. We expect similar patterns going into 2013 and possibly 2014 given the development plans put forth by production companies in Malaysia.

We view that marginal fields are an area of opportunity for Perisai

With the current health of the industry, we view that it would be in the group's best interest to increase their asset base to capitalise on new developments. We view that marginal fields are also an area of opportunity for Perisai. In Malaysia, there are some 106 marginal fields identified of which 25% are to be developed. Several marginal field risk service contracts have been awarded so far (Berantai, Balai and KBM Cluster) and more are expected to come through in the coming years. It was reported that the next marginal fields up for award are Tembikai and Cenang, and Perisai is likely to be an interested party as they have assets coming off charter, like the MOPU, which can be deployed for marginal fields.

Figure 13 : Contracts awarded to Malaysian O&G service providers



Source: Bursa Malaysia

FINANCIAL HIGHLIGHTS

We forecast a 114% core EPS growth in FY12 largely due to earnings from the Rubicone MOPU

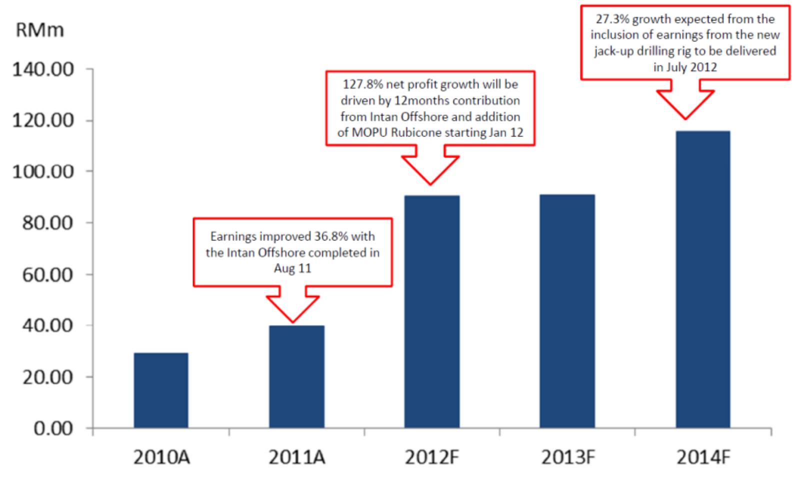
Perisai's earnings have been fairly resilient starting 2008 onwards due to the purchase of the Enterprise 3 DLB. In FY11, the group saw a step up in earnings (+20.2% core EPS growth) as the acquisition of a 51% stake in Intan Offshore was completed in August 2011. A further boost to step up has been seen from 1H12 results as the acquisition of the Rubicone MOPU was completed in Jan 2012. For 1H12, group net profits have grown by 210%, driven by earnings from the Rubicone and consolidation of Intan Offshore's earnings. For the full year of FY12, we expect the group to see record core net profit of RM90.6m with core EPS growth of 113.9%.

Flat earnings growth in FY13 as we have not factored in potential earnings of the FPSO

28% core EPS growth in FY14 from the new drilling rig

For FY13 however, we are expecting a flat y-o-y core earnings for now until details on the FPSO acquisition are finalised. Earnings growth will resume in FY14. We expect the jack-up drilling rig to commence charter from August onwards at a rate of USD150k/day and this will lead core EPS higher by 27.7%. For FY15, we expect another 27.6% of growth from 12-month contributions of the drilling rig.

Figure 14 : Core net profits

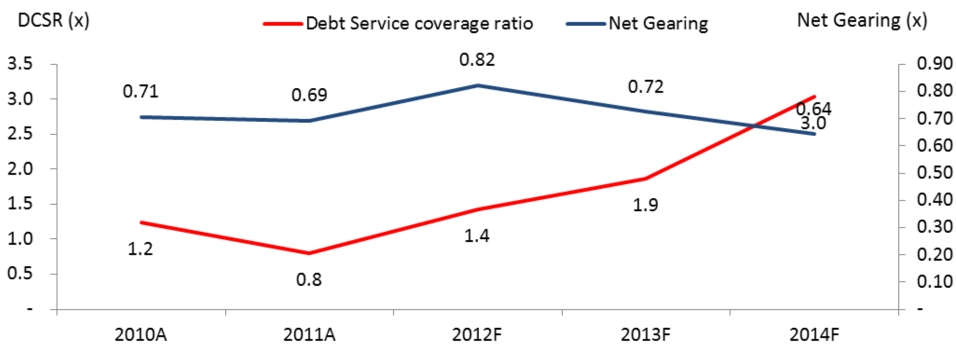


Source: Company, Alliance Research

Manageable gearing

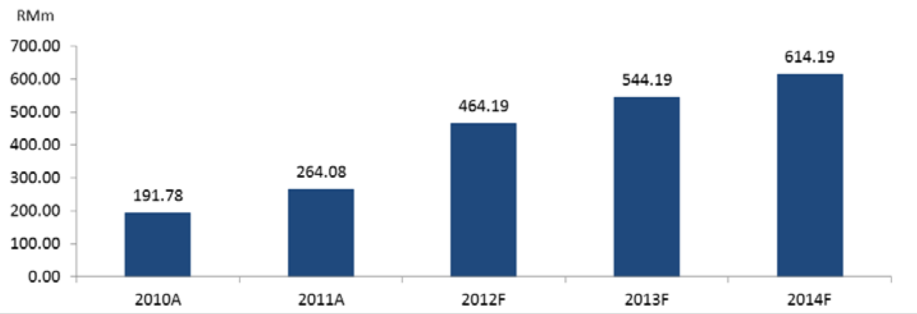
As of 30 June 2012, Perisai's net gearing stood at 0.75x, an increase from 0.6x a year ago. The increase was due to the purchase of the Rubicone MOPU and also downpayment for the jack-up drilling rig. We view that this level of gearing is manageable for Perisai as cashflow from their assets is strong and debt service cover (DCSR) is comfortable at 1.4x. DCSR further improves to 1.9x in FY13. We understand that the group is not opposed to taking on more borrowings to purchase more assets and they have guided a net gearing cap of 1.2x going forward. Our assumptions include increased borrowings to cover the cost of the new jack-up drilling rig, or to fund the FPSO or other acquisitions.

Figure 15 : Net gearing ratio and debt service cover ratio



Source: Company, Alliance Research

Figure 16 : Gross borrowings



Source: Company, Alliance Research

INVESTMENT RISKS

Decline in crude oil prices

Perisai is susceptible to industry downcycles

A sustained decline in crude oil prices due to waning global demand does not bode well for Perisai, we believe. Lower crude oil prices typically induce a pullback in offshore capex and this is risky for Perisai which has new assets coming on-stream in FY14 and also assets up for contract renewal/extension in FY13. For now, only Intan Offshore provides the group with secure earnings for the next 3 years.

Non-renewal and/or delay in renewal of contracts

The group has crucial contract renewal/extensions in FY13

FY13 will see contracts for the E3 and Rubicone coming to an end in May 2013 and September 2013 respectively. As such, there is risk of non-renewal and/or delay in renewal of contracts for these assets. This is a risk to FY13 earnings as we have assumed a smooth transition into new contracts or extensions for both these assets. The E3 and Rubicone will contribute to more than 70% of group earnings in FY13.

Late delivery of jack-up drilling rig

Late delivery of assets could result in penalties or fines

Any late delivery of the new jack-up drilling rig will be a dampener to our FY14 earnings estimate. Furthermore, if Perisai manages to secure a contract ahead of the delivery, the group may be subject to penalty due to the late delivery of the rig.

VALUATION AND RECOMMENDATION

Initiating with a STRONG BUY

Strong margins and potential for strong earnings growth going forward

We initiate coverage on Perisai with a STRONG BUY call. Perisai's simple own-and-charter business model has proven to be very lucrative. The group's net profit margins are in excess of 45% and the group has recurring income from long term contracts. Earnings are expected to be flat over FY13 until details on the proposed FPSO acquisition are finalised. We expect strong earnings growth of 27.7% in FY14 from the delivery and subsequent charter of the new jack-up drilling rig. Perisai has a strong 4-year earnings CAGR of 16%.

More positive news from contract renewals and asset acquisition

Besides strong earnings growth, we expect more positive newsflow ahead which will underpin strong share price performance. Besides newsflow on contract renewals for the E3 DLB and Rubicone MOPU, investors should also watch out for newsflows on further asset acquisition as Perisai continues to expand their portfolio of assets to capitalise on the O&G capex upcycle.

Target price of RM1.46

With strong EPS growth of 114% in FY12F, Perisai's valuations shrink to 9.9x from 21.2x if based on FY11 earnings. We view the group to be attractively priced at these levels especially with a strong 4 year earnings CAGR of 16% going into FY15. Compared to listed peers, Perisai is also attractively priced. Smaller cap offshore support vessel players Alam Maritim and Perdana Petroleum trade at 10x and 20.3x respectively on FY12F earnings. Large cap installation, drilling and FPSO companies like SapuraKencana and Bumi Armada trade in excess of 20x. Slightly above Perisai's market cap range, Dayang Enterprises and Wah Seong Corporation trade at 13x and 13.8x respectively on FY12F earnings. For FY13x, their valuations are still above Perisai's at <11x while Perisai is at 10.5x for now excluding potential earnings from the potential FPSO stake acquisition.

We peg the group to a peak cycle P/E 13.7x

This is representative of companies within Perisai's market capitalization range

We ascribed a target price of RM1.46 on Perisai. Our valuation is based on FY13 EPS of 11.3sen pegging a P/E target of 13.7x. This is derived from tabulating average peak cycle valuations (+1 std dev) of Dayang Enterprises and Wah Seong Corporation. We have used both of these companies for deriving our P/E target not because of the similarity in business models but because of the market capitalisation range. Current market capitalisation of Perisai is just shy of the RM1bn mark at [RM954m] as compared to Dayang RM1,227m and Wah Seong RM1,387m. We view that Perisai should eventually catching up to these peers on the valuation front given its solid earnings and also growth potential.

Figure 17 : P/E valuation (period 2012 YTD)

Company	Market Cap USD m	+2 std dev	+1 std dev	Average	-1 std dev	-2 std dev
Perisai	310.7	9.6	9.0	8.4	7.8	7.2
Dayang Enterprise	399.5	12.5	11.9	11.4	10.8	10.3
Wah Seong	451.8	16.2	15.4	14.6	13.8	13.0
Ezra	797.5	16.8	15.1	13.4	11.7	10.1
Average	489.9	13.8	12.9	11.9	11.0	10.1
Average ex-Perisai	549.6	15.1	14.1	13.1	12.1	11.1
Average ex-Perisai & Ezra	**425.7**	**14.3**	**13.7**	**13.0**	**12.3**	**11.6**

Source: Bloomberg

Perisai Petroleum Teknologi **Financial Summary** **Price Date: 16 November 2012**

Balance Sheet

FY 31 Dec (RM m)	2010A	2011A	2012F	2013F	2014F
PPE	269.5	500.8	635.1	752.1	896.1
Inventories	-	-	-	-	-
Receivables	40.6	92.5	127.3	129.3	175.0
Other assets	97.4	139.0	291.8	291.8	291.8
Deposit, bank and cash	26.2	40.9	72.3	132.9	174.8
Total Assets	**433.7**	**773.2**	**1,126.4**	**1,306.2**	**1,537.7**
LT borrowings	138.0	138.8	288.5	318.5	368.5
ST borrowings	53.7	125.3	175.6	225.6	245.6
Payables	8.1	115.0	106.9	108.6	147.0
Other liabilities	0.1	20.8	20.8	20.8	20.8
Liabilities	**199.9**	**399.9**	**591.9**	**673.6**	**782.0**
Share capital	66.2	75.4	85.1	85.1	85.1
Reserves	167.5	246.9	391.3	482.2	598.3
Shareholders' equity	**233.8**	**322.3**	**476.4**	**567.3**	**683.4**
Minority interest	-	51.0	58.1	65.2	72.3
Total Equity	**233.8**	**373.3**	**534.5**	**632.5**	**755.7**
Total Equity and Liabilities	**433.7**	**773.2**	**1,126.4**	**1,306.2**	**1,537.7**

Cash Flow Statement

FY 31 Dec (RM m)	2010A	2011A	2012F	2013F	2014F
Pretax profit	9.8	26.9	102.8	103.2	129.7
Depreciation & amortisation	20.4	21.4	27.3	31.3	37.3
Change in working capital	10.8	(8.3)	(42.9)	(0.3)	(7.3)
Net interest received / (paid)	(8.0)	(4.7)	(10.9)	(12.6)	(14.5)
Tax paid	(0.4)	0.1	(5.1)	(5.2)	(6.5)
Others	43.1	14.7	20.8	11.5	13.3
Operating Cash Flow	**75.7**	**50.2**	**91.9**	**127.9**	**152.0**
Capex	(18.7)	(46.7)	(50.0)	(100.0)	(150.0)
Others	11.1	-	(273.8)	-	-
Investing Cash Flow	**(8)**	**(47)**	**(324)**	**(100)**	**(150)**
Issuance of shares	-	-	63.6	-	-
Changes in borrowings	(49.3)	11.5	199.6	32.8	39.9
Dividend paid	-	-	-	-	-
Others	-	-	-	-	-
Financing Cash Flow	**(49.3)**	**11.5**	**263.2**	**32.8**	**39.9**
Net cash flow	18.9	15.1	31.4	60.7	41.9
Forex	-	-	-	-	-
Beginning cash	7.4	25.8	40.9	72.3	132.9
Ending cash	**26.2**	**40.9**	**72.3**	**132.9**	**174.8**

Income Statement

FY 31 Dec (RM m)	2010A	2011A	2012F	2013F	2014F
Revenue	75.2	82.4	185.8	188.8	255.5
EBITDA	35.1	53.0	141.1	147.1	181.5
Depreciation & amortisation	(15.8)	(21.0)	(27.3)	(31.3)	(37.3)
Net interest expense	(10.9)	(5.1)	(10.9)	(12.6)	(14.5)
Share of associates	1.5	(0.0)	(0.0)	(0.0)	(0.0)
Pretax profit	9.8	26.9	102.8	103.2	129.7
Taxation	0.4	(3.2)	(5.1)	(5.2)	(6.5)
Minority interest	-	(2.5)	(7.1)	(7.1)	(7.1)
Net profit	10.3	21.2	90.6	90.9	116.1
Core net profit	29.1	39.8	90.6	90.9	116.1

Key Statistics & Ratios

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
Growth					
Revenue	-25.7%	9.6%	125.4%	1.6%	35.3%
EBITDA	-48.5%	50.8%	166.1%	4.3%	23.4%
Pretax profit	-73.7%	173.3%	282.7%	0.4%	25.7%
Net profit	-71.7%	106.0%	327.9%	0.3%	27.7%
Core EPS	-19.9%	20.2%	113.9%	-5.4%	27.7%
Profitability					
EBITDA margin	46.7%	64.3%	75.9%	77.9%	71.0%
Net profit margin	38.7%	48.3%	48.8%	48.1%	45.4%
Effective tax rate	-5.3%	11.8%	5.0%	5.0%	5.0%
Return on assets	2.4%	2.7%	8.0%	7.0%	7.5%
Return on equity	4.4%	6.6%	19.0%	16.0%	17.0%
Leverage					
Total debt / total assets (x)	0.44	0.34	0.41	0.42	0.40
Total debt / equity (x)	0.82	0.82	0.97	0.96	0.90
Net debt / equity (x)	0.71	0.69	0.82	0.72	0.64

Key assumptions

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
E3 base charter rate (RMm)	68.40	68.40	68.40	68.40	68.40
MOPU annual charter (RMm)	76.25	76.25	76.25	76.25	76.25
Jack up daily charter (RMm)	-	-	-	-	0.45

Valuation

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
EPS (sen)	1.6	2.8	11.3	10.7	13.6
Adj EPS (Sen)	4.4	5.3	11.3	10.7	13.6
P/E (x)	25.5	21.2	9.9	10.5	8.2
EV/EBITDA (x)	27.7	17.1	7.9	9.5	7.9
Net DPS (sen)	-	-	-	-	-
Net dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
BV per share (RM)	0.35	0.43	0.59	0.67	0.80
P/BV(x)	3.2	2.6	1.9	1.7	1.4

DISCLOSURE

Stock rating definitions

Strong buy	-	High conviction buy with expected 12-month total return (including dividends) of 30% or more
Buy	-	Expected 12-month total return of 15% or more
Neutral	-	Expected 12-month total return between -15% and 15%
Sell	-	Expected 12-month total return of -15% or less
Trading buy	-	Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

Overweight	-	Industry expected to outperform the market over the next 12 months
Neutral	-	Industry expected to perform in-line with the market over the next 12 months
Underweight	-	Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation

EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax

PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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