

24 February 2015 | 4QFY14 Results Review

Perdana Petroleum Bhd

Low crude oil price to affect new project awards

Downgrade to NEUTRAL

(previously BUY)

Revised Target Price (TP): RM1.26

(previously RM1.33)

INVESTMENT HIGHLIGHTS

- **Perdana Petroleum's (Perdana) FY14 earnings came in below ours and consensus expectations due to -31.4%yoy decline in 4QFY14 performance.**
- **The lower 4QFY14 earnings were mainly due to the impairment losses on goodwill amounting to RM16.8.**
- **We are revising downwards our earnings forecasts for FY15 and FY16 both by -5%.**
- **Our change in forecasts is based on the expected slower vessel activities in 2015 due to the low crude oil price.**
- **We downgrade Perdana to NEUTRAL with a revised TP of RM1.26.**

Below expectations. Perdana's normalised net profit for FY14 came in below expectations, accounting for 85.5% and 86.7% of ours and consensus full year estimates respectively.

FY14 expectations not met due to 4QFY14's earnings decline.

4QFY14 earnings declined -31.4%yoy to RM15.0m due to the impairment losses on goodwill of RM16.8m recognized in the quarter. This impairment loss was due to the excess of the acquired subsidiaries' carrying values over their recoverable amount. The acquisition of the subsidiaries namely, Perdana Marine Offshore Pte Ltd and Ampangship Marine Sdn Bhd, were valued at RM6.7m and RM10.1m respectively. These assets were first 70% acquired in 2005 and later fully acquired in 2007.

Yet, FY14 normalised net earnings surged. The group's normalised net earnings surged +32.7%yoy to RM81.9m mainly due to the higher vessel utilization and increase in number of vessels. Perdana's average vessel utilization for FY14 increased by 12ppt to 92% from 80% in FY13. The number of vessels also increased by two (2) with the addition of the workbarges Perdana Resolute and Perdana Emerald, translating to a total of 17 vessels. Perdana's normalized earnings was RM81.9m (as opposed to reported earnings of RM88.0m), which included the recognition of foreign exchange gain of RM19.4m and accretion of refundable deposit of RM3.6m resulted from the termination of vessels under sales and leaseback arrangement in 4QFY13.

RETURN STATS	
Price (23 February 2014)	RM1.19
Target Price	RM1.26
Expected Share Price Return	+6.10%
Expected Dividend Yield	+1.75%
Expected Total Return	+7.85%

STOCK INFO	
KLCI	1809.39
Bursa / Bloomberg	7229/ PETR MK
Board / Sector	Main/Industrial Sector
Syariah Compliant	No
Issued shares (mil)	738.6m
Par Value (RM)	0.50
Market cap. (RM'm)	878.9
Price over NA	1.43x
52-wk price Range	RM0.99- RM1.98
Beta (against KLCI)	1.75
3-mth Avg Daily Vol	2.28m
3-mth Avg Daily Value	RM2.62m
Major Shareholders (%)	
Dayang Enterprise Holdings	28.61
LTH	8.42
Kho Poh Eng	5.27
EPF	4.90

Change in forecasts. We are revising downwards our earnings forecasts for FY15 and FY16 both by -5%. Our change in forecasts is based on the expected slower vessel activities in 2015 due to the low crude oil price. As the oil price environment remains uncertain, any prolonged and continued decline in the oil price could result in oil companies cutting back on exploration budgets and moderating development capital expenditures. This could lead to a slowdown in new project awards.

Downgrade to NEUTRAL. We downgrade our stance to **NEUTRAL** from BUY with a revised target price of **RM1.26** from RM1.33 per share. The target price is based on EPS15 of 12.6sen pegged to PER15 of 10x. Our target PER15 of 10x is the average trading PER of the company during the oil price slump of 2008 to the recovery in 2009.

Since our initiation report on 27 January 2015 with a BUY recommendation on a TP of RM1.33 per share, Perdana's stock price has appreciated steeply by +10.4% and reached a high of RM1.27 in just a span of 2.5 weeks. As such, we are now recommending investors to lock-in profits hence downgrading the stock to NEUTRAL with a positive bias. Investors who are currently invested may also stay long to enjoy decent dividend yields from the stock. 

INVESTMENT STATISTICS

FYE Dec (RMm)	FY2013	FY2014	FY2015F	FY2016F
Revenue	274.7	347.2	363.2	381.8
Gross profit	92.1	158.7	175.7	182.5
Other income	27.1	36.9	36.3	38.2
PBT	65.5	89.5	110.4	112.6
PAT	62.0	88.0	103.2	105.3
Basic EPS (sen)	8.7	12.0	12.6	12.9
Dividend per share (sen)	0.0	2.0	2.0	2.0
PBT margin (%)	23.8	25.8	30.4	29.5
PAT margin (%)	22.6	25.4	28.4	27.6
PE Ratio (x)	13.8	10.0	9.4	9.2
Dividend yield (%)	0.0	1.7	1.7	1.7

Source: Company, MIDFR

DAILY PRICE CHART



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4QFY14 RESULTS REVIEW

FYE Dec (RMm)	Quarterly results					Cumulative results		
	4QFY14	3QFY14	4QFY13	QoQ (%)	YoY (%)	FY14	FY13	YoY (%)
Revenue	77.5	93.8	78.1	(17.3)	(0.6)	347.2	274.7	26.4
Cost of sales	(46.7)	(46.2)	(47.6)	1.0	(1.9)	(188.5)	(182.5)	3.3
Gross profit	30.8	47.6	30.4	(35.2)	1.4	158.7	92.1	72.2
Other income	32.1	1.0	10.5	3177.2	205.9	36.9	27.1	36.1
Operating expenses	(38.8)	(13.8)	(11.7)	181.5	232.0	(74.1)	(35.2)	110.6
Finance costs	(8.8)	(7.1)	(8.0)	24.9	9.8	(32.0)	(18.6)	71.8
PBT	15.3	27.7	21.2	(44.8)	(27.9)	89.5	65.5	36.7
Income tax expense	(0.3)	(0.7)	0.1	(59.8)	(426.4)	(1.5)	(3.5)	(57.9)
PAT	15.0	27.0	21.3	(44.4)	(29.5)	88.0	62.0	42.1
Minority interests	0.0	(0.0)	(0.6)	(100.0)	(100.0)	(0.0)	0.3	(100.6)
PATAMI	15.0	27.0	21.9	(44.4)	(31.4)	88.0	61.7	42.8
Basic EPS (sen)	2.0	3.7	3.0	(44.5)	(32.6)	12.0	8.7	38.2
Fully diluted EPS (sen)	2.0	3.6	2.9	(44.5)	(31.5)	11.6	8.2	40.3
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	0.4	0.5	0.4	(0.1)	0.0	0.5	0.3	0.1
PBT margin (%)	0.2	0.3	0.3	(0.1)	(0.1)	0.3	0.2	0.0
PAT margin (%)	0.2	0.3	0.3	(0.1)	(0.1)	0.3	0.2	0.0
PATAMI margin (%)	0.2	0.3	0.3	(0.1)	(0.1)	0.3	0.2	0.0
Tax rate (%)	(0.0)	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.1)	0.0
Segmental breakdown								
<i>Revenue</i>								
Marine offshore support services	77.5	93.8	78.1	(17.3)	(0.6)	347.2	274.7	26.4
Investment Holding	4.7	2.2	7.8	113.0	(40.1)	11.3	8.1	39.6
Eliminations	(4.7)	(2.2)	(7.8)	113.0	(40.1)	(11.3)	(8.1)	39.6
<i>Profit before tax</i>								
Marine offshore support services	21.8	68.2	29.7	(68.1)	(26.7)	110.5	89.8	23.1
Investment Holding	(46.3)	0.1	4.1	n.a.	n.a.	(52.5)	(8.4)	526.7
Eliminations	39.8	(0.1)	(12.6)	n.a.	n.a.	31.4	(16.0)	(296.8)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.