

Q2CY2008 Results - Below estimates

24th July 2008

BUY

Price	Target Price
Rs127	Rs168

Sensex – 14,942

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(20)	(39)	(44)
Rel. to Sensex	(13)	(10)	(28)	(41)

Source: Bloomberg

Stock Details

Sector	Offshore Oil Field Services		
Reuters	SEAM.BO		
Bloomberg	SEAM@IN		
Equity Capital (Rs mn)	339		
Face Value (Rs)	10		
No of Shares o/s (mn)	34		
52 Week H/L(Rs.)	305/116		
Market Cap (Rs bn/USD mn)	4/95		
Daily Avg Vol. (No of shares)	37789		
Daily Avg Turnover (US\$ mn)	0.1		

Shareholding Pattern (%)

	30/06/08	31/03/08	31/12/07
Promoters	78.2	78.2	78.2
FII/NRI	2.0	1.8	1.7
Institutions	5.0	5.7	4.9
Private Corp	2.9	2.8	3.2
Public	11.9	11.6	12.1

Source: Capitaline

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Seamec has reported pre-exceptional net profit Rs144.2 mn in Q2CY2008 which is below our expectation on account of lower than expected revenue for the quarter and the dry dock expenses for Seamec - II & Seamec III charged off during the quarter even when the vessels was not operational during the entire quarter. The topline for the quarter stood at Rs607 million registering a growth of 30% yoy as Seamec princess commenced operation at a Day rate of USD 105000. Excluding the Rs43.4 mn on account of provision for bad debts, operating profit for the quarter decline by 12% to Rs203 million. The sharp decline in operating profit is on account of a steep 61% jump in staff cost and 134% in cost of stores consumed. Depreciation jumped 47% on account of commencement of operation by Seamec Princess. The company has made Rs25 million as provisions on account of repairs for vessel Seamec II. Since the provision is temporary in nature and would be reversed back after full settlement of claim from hull & machinery insurance we have treated it as extraordinary expenditure. After adjusting this extraordinary expenditure, the net profit for the quarter stood at Rs144.2 mn registering a decline of 26% yoy. SEAMEC II, which met commenced operation after it repairs, has again met an accident at the clients' site. Also Seamec III after its periodic dry dock is unlikely to earn revenue in absence of contract. On account of these two material events we are downgrading our earnings estimates for CY2008 by 29% to Rs15.1 per share. We are also downgrading our earnings estimates for CY2009 by 20% which now stands at Rs24 per share. At current levels event though the stock is trading at 8.3X its CY2008 earnings and 5.2X its CY2009 earnings, we believe the stock is likely to languish on the back of erratic quarterly performance and lack of any acquisitions upside. We maintain our BUY recommendation with a price revised target of Rs168. We have valued the stock on 7X its CY2009 earnings of Rs24 per share.

Result Highlights

- The topline for the quarter stood at Rs607 million registering a growth of 30% yoy as Seamec princess commenced operation at with Sime Darby at a day rate of USD 105000. the contract will expire in Dec 2008, following which it will perform next contract at day rate of USD 68000. However the revenues we re below expectation on account of pre-mature termination of contract of Seamec III.
- SEAEMC III contract was prematurely terminated in April 2008 following non payment by client. Since then the client has filed for Bankruptcy in US. The total outstanding on this contract was Rs175 mn, out of which Seamec had provided for Rs131 million in Q1CY2007 and the balance Rs43.4 mn is provided during this quarter. The company is approaching authorities in US to recover its dues.
- Excluding the provisions done in Q2CY2008, operating profit for the quarter decline by 12% to Rs203 million. The sharp decline in operating profit is on account of a steep 61% jump in staff cost and 134% in cost of stores consumed. Consequently OPMs declined by 1590 bps to 33.5%.
- Depreciation jumped 47% on account of commencement of operation by Seamec Princess.
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- After adjusting this extraordinary expenditure, the net profit for the quarter stood at Rs144.2 mn registering a decline of 26% yoy. Reported net profit at Rs75.8 mn declined by 61%.

Result Table

	Q208	Q207	VAR [%]
Net Sales	607.2	467.3	29.9%
Consumables	59.9	25.6	134.0%
Staff Cost	230.9	143.6	60.8%
Other Exp	77.2	67.0	15.2%
Dry Dock	35.8	0.0	
Total Expenditure	403.8	236.3	70.9%
EBIDTA	203.4	231.0	-12.0%
Other Income	9.4	16.9	-44.5%
Interest	0.9	0.9	-2.2%
Depreciation	65.7	44.7	47.1%
EBT	146.2	202.4	-27.7%
Tax	2.0	6.6	-69.7%
Pre-exceptional net profit	144.2	195.8	-26.3%
Extra-ordinary Items	68.4	0.0	
Reported Profit After Tax	75.8	195.8	-61.3%
Margin			
OPM	33.5%	49.4%	
EBIDTA	35.0%	53.1%	
EBT	24.1%	43.3%	
EAT	23.7%	41.9%	

Downgrading Earnings by 29% for CY2008 & 20% for CY2009

SEAMEC II, which met commenced operation after it repairs, has again met an accident at the clients' site. Also Seamec III after its periodic dry dock is unlikely to earn revenue in absence of contract. On account of these two material events we are downgrading our earnings estimates for CY2008 by 29% to Rs15.1 per share. We are also downgrading our earnings estimates for CY2009 by 20% which now stands at Rs24 per share. At current levels event though the stock is trading at attractive valuations of 8.3X its CY2008 earnings and 5.2X its CY2009 earnings, we believe the stock is likely to languish on the back of erratic quarterly performance and lack of any acquisition upside. We maintain our BUY recommendation with a price revised target of Rs168. We have valued the stock on 7X its CY2009 earnings of Rs24 per share.

Income Statement

Y/E, Dec (Rs. m)	CY06	CY07	CY08E	CY09E
Net Sales	1593.4	1704.5	2200.9	2682.7
Growth (%)	93.7	7	29.1	21.9
Total Expenditure	883.6	1196.3	1481.5	1628.5
Growth (%)	60.5	35.4	23.8	9.9
Manpower Costs	455.9	589.6	806	926.9
% of sales	28.6	34.6	36.6	34.6
Victualling Exps	35.5	67	70	75
% of sales	2.2	3.9	3.2	2.8
Repairs & Maint	63.6	55.6	48	50
% of sales	4	3.3	2.2	1.9
Other Fleet Oper Exps	242.1	356.1	477.9	429.8
% of sales	15.2	20.9	21.7	16
Admin & Other Exps	86.5	128	79.7	146.8
% of sales	5.4	7.5	3.6	5.5
EBIDTA	709.9	508.1	719.4	1054.2
Growth (%)	160.6	-28.4	41.6	46.5
EBIDTA %	44.5	29.8	32.7	39.3
Other income	45	88.4	50	50
Interest	2.7	4.2	0.5	0.5
Depreciation	149.2	189.5	235.2	250.2
EBT	603	402.8	533.7	853.5
Tax	15.3	32.5	21.3	42.7
EAT	587.7	370.3	512.4	810.8
Growth (%)	224.6	-37	38.4	58.3
EAT (%)	36.9	21.7	23.3	30.2
E/O items				
Adjusted PAT	587.7	370.3	512.4	810.8

Balance Sheet

Y/E, Dec (Rs. m)	CY06	CY07E	CY08E	CY09E
Equity share capital	339	339	339	339
Reserves & surplus	2037.2	2407.5	2919.8	3730.6
Net worth	2376.2	2746.5	3258.8	4069.6
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
Loan Funds	0	0	0	0
Total Liabilities	2376.2	2746.5	3258.8	4069.6
Gross Block	2717.5	2771.8	3919.8	4169.8
Less: Depreciation	1232.4	1409.5	1644.7	1894.9
Net block	1485.2	1362.4	2275.2	2275
Capital WIP	63.9	1030.2	0	0
Investment	0	1.1	1.1	1.1
Current Assets	1078.9	1038.8	1357.7	2247.9
Inventories	125.8	183.5	241.2	294
Sundry debtors	293.8	268.6	361.8	441
Cash & bank balance	623.6	547.2	715.2	1473.4
Loans & advances	35.7	39.5	39.5	39.5
Current Liab & Prov	251.8	686.1	375.2	454.4
Current liabilities	241.7	672.7	361.8	441
Provisions	10.1	13.4	13.4	13.4
Net current assets	827.1	352.7	982.5	1793.5
Misc Exp not w/off	0	0	0	0
Total Assets	2376.2	2746.5	3258.8	4069.6

Cash Flow	CY06	CY07E	CY08E	CY09E
Net Profit after Tax	587.7	370.3	512.4	810.8
Add : Depreciation	149.2	189.5	235.2	250.2
Add : Misc exp w/off	0	0	0	0
changes in debtors	-67	25.2	-93.2	-79.2
changes in inventories	-20.7	-57.7	-57.7	-52.8
changes in L & A	-9.2	-3.8	0	0
changes in creditors	161.3	431	-310.9	79.2
changes in provisions	2.8	3.3	0	0
Net changes in WC	67.2	398	-461.8	-52.8
Operational Cash Flows	804.1	957.7	285.7	1008.2
Capital expenditure	-954.8	-1020.6	-117.8	-250
Investments	0	-1.1	0	0
Investing Cash Flows	-954.8	-1021.8	-117.8	-250
Borrowings	0	0	0	0
dividend paid	0	0	0	0
Issue of shares	0	0	0	0
Financing Cash Flows	0	0	0	0
changes in cash	-150.7	-64	168	758.2
Opening balance	780	623.6	547.2	715.2
Closing balance	629.3	559.6	715.2	1473.4

Key ratios	CY06	CY07E	CY08E	CY09E
EPS (Rs)	17.3	10.9	15.1	23.9
CEPS (Rs)	21.7	16.5	22.1	31.3
Book Value Per Share (Rs)	70.1	81	96.1	120
Dividend Per Share (Rs)	0	0	0	0
Valuations Ratios (x)				
PER	7.2	11.4	8.3	5.2
P/CEPS	5.8	7.6	5.7	4
P/BV	1.8	1.5	1.3	1
EV/EBIDTA	5.1	7.3	4.9	2.6
EV/Sales	2.3	2.2	1.6	1
M-Cap/EBIDTA	5.6	7.1	5.5	3.8
M-Cap/sales	2.7	2.5	1.9	1.6
Financial ratios				
RoCE (%)	33.8	20.9	26.8	36
RoNW (%)	24.7	13.5	15.7	19.9
Net debt/ Equity	-0.3	-0.2	-0.2	-0.4
Total Debt/Equity	0	0	0	0
Dividend yield (%)	0	0	0	0

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