Emkay
Research

Aban Offshore

Another shot in the arm

Event Update

14th September 2007

BUY

Price	Target Price
Rs3,045	Rs 3,355

Sensex - 15,614

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	2	72	150
Rel. to Sensex	3	(9)	38	90

Source: Bloomberg

Stock Details

Sector	Oil Exploration & Drilling
Reuters	ABAN.BO
Bloomberg	ABAN@IN
Equity Capital (Rs mn)	74
Face Value	2
52 Week H/L	3,180/1,010
Market Cap (Rs bn)	112.2
Daily Avg Vol (No of shares)	135357
Daily Avg Turnover (US$ mn)	9.9

Shareholding Pattern (%)
(31st Dec.'06)

Promoters	62.4
FII/NRI	16.4
Institutions	2.6
Private Corp.	2.9
Public	15.8

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What is the event? Aban enters into MOA for acquisition of Bulford Dolphin.

Continuing its ferocious acquisition spree, and its intent to increase its deepwater drilling capability, Aban Offshore has entered into memorandum of agreement with Bulford Dolphin Pte Ltd for the purchase of its semi – submersible rig "Bulford Dolphin". Aban would pay a consideration of USD 211 million for the rig and the rig is expected to join the fleet in Q4CY2007.

How will Aban fund the acquisition?

The company has not revealed the funding source for the rig but the management said that it should not be a problem. We believe immediately Aban might fund a majority of the acquisition cost through debt, but over the medium term it can also utilise the funds raised through listing of its subsidiary Aban Singapore Pte Ltd. (ASPL). As mentioned in our earlier reports Aban is looking to raise USD 500 million by listing of ASPL. Secondly Aban through Sinvest holds close to 19% in Petrojack ASA, a Norwegian company that currently owns two Jack up rigs. According to some media sources Petrojack is to be acquired by another Indian offshore entity Great offshore for USD 500 million. Hence by selling its stake in Petrojack ASA Aban can realise close to USD 100 million and utilise the same to part fund the acquisition of Bulford Dolphin. Also with its 16 rigs on operations Aban at present on a consolidated basis generates a revenue of USD 220 million each quarter and cash flow from operation of approximately USD100 million. Hence we believe that funding of the acquisition of Bulford should not be problem for Aban.

About Bulford Dolphin

Bulford Dolphin is a 2nd generation Semi-submersible with rated water depth of 1250 ft and drilling depth of 25000 ft. The rig was built in 1977 and the same was upgraded during the year 2003.

What does the acquisition mean for Aban?

With acquisition of Bulford Aban has further strengthened its deepwater drilling capability. With the acquisition Aban has clearly shown its appetite for inorganic growth and its intent to be among the top drilling entities in the world.

Bulford to have a pay back period of 4.5 years - FY2009 EPS to be upgraded by 11%

Bulford a 1250 ft water depth 2nd generation semisubmersible is likely to get a day rate of USD250000-260000. Based on assumption of USD250000 as day rate and opex of USD70000, the pay back period for Bulford works out to a very lucrative 4.5 years. Assuming that after the delivery the rig gets operational by April 2008 at a day rate mentioned above; our FY2009 earnings estimates for Aban would get upgraded by 11% (EPS of Rs390) and FY2010 earnings would get upgraded by 8% (EPS of Rs492).

	USD million
Day Rate (USD/Day)	260000
Day of operations (no)	365
Revenue	95
Opex **(USD/Day)**	70000
Opex Cost	26
EBIDTA	69
Interest (assuming 90% Debt)	17
EBDT	52
Depreciation	11
EBT	42
Tax*	5
EAT	36
Investment	211
Cash Flow	47
Pay Back (no of year)	4.5

*(*Note: Bulford likely to be operated under Aban Singapore and hence will have lower tax rate)*

Further trigger for Aban stock lined up

Apart from this acquisition of Bulford, there is some other news flow which could possibly be new positive trigger for Aban stock. These triggers are mentioned below

- 3 more new rigs and 5 old contracts are to be finalized in the near term (over next 12 months).
- Big trigger is round the corner, wherein the co. is looking to list its Singapore offshore subsidiary. Management is targeting a USD3bn valuation for the Singapore sub. We expect local parent Aban Offshore to own about 75% of the Singapore sub post its listing. Aban Offshore's 75% stake in the sub should easily be valued at USD2.25bn (or Rs 2,450 per share of local Aban Offshore). Even if one were to value local parent's FY09E likely EBIDTA at 5x (US$285mn revenue * 65% EBIDTA margin), the local parent's biz can easily be valued at Rs 1,090 per share. A SOTP based on above can easily be Rs 3,500 plus.
- Acquisition of Petrojack ASA by Great offshore (or any one else) for USD 500 million. By selling its stake in Petrojack ASA Aban can realise close to USD 100 million.

Looking to upgrade earnings and price target - maintain BUY

Most of the recent contracts Aban had bagged, had day rates ahead of our expectations, clearly signaling continuation of robust demand environment for offshore rigs. This coupled with supply constraints in view of long gestation period for new builds, means that the global offshore rig market is currently at one of its strongest points in the past decade. We believe that offshore oilfield service's industry fundamentals remain compelling and valuations attractive. Aban is currently trading at 9.6 X its FY2009 earnings and 6.9X its FY2010 earnings. With the recent events of higher than expected day rates for contracts and acquisition of Semi-submersible Bulford, we are in a process of upgrading our earnings estimates for ABAN by 8-10% for FY2009 and 5-6% for FY2010. We maintain our Buy recommendation on the stock and looking to upgrade our price target for the stock to Rs3650 i.e. a potential upside of 20%.