SSKI

INDIA RESEARCH

17 July 2006

BSE Sensex: 10678

Aban Loyd

Rs973

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs34.53bn; US$750m

Analyst: Harshad Katkar (91-22-6638 3358; harshad@sski.co.in)
Avishek Datta (91-22-6638 3217; avishek@sski.co.in)

Result: Q1FY07

Comment: No fireworks

Last report: 19 June 2006 (Price Rs839; Recommendation: Outperformer)

Key valuation metrics

Year to Mar (Rs m)	Net sales	yoy change (%)	Net profit	yoy chg (%)	EPS	EV/E (x)	PER (x)
FY05	2,895	(3.3)	507	6.4	68.8	30.8	14.1
FY06	4,902	69.3	838	65.2	22.7	16.3	42.8
FY07E	6,085	24.1	1,131	34.9	27.4	13.5	35.5
FY08E	11,077	82.0	3,429	203.3	83.1	6.4	11.7

Aban Loyd (Aban) has reported modest Q1FY07 results – net profit has fallen 7.4%yoy to Rs191m, which is below our expectations. Net profit is down due to higher overhead charges from FCCB issue expenses, lower other income and higher tax charges. In the absence of asset addition and with new contracts coming into effect from H2FY07, topline has also remained flat. Going forward, capacity constraints given the long gestation period of 2-3 years for a new rig, coupled with rising proportion of long-term contracts and timely addition of new rigs, give earnings visibility over FY06-08 (growth estimated at 91% CAGR). Aban's earnings are going to be back ended as most old contracts come up for re-negotiation over the next year and a half with addition of new assets during the same period. Strategic acquisition of assets (like buying a 33.76% stake in Sinvest) will give Aban possession of newly built rigs suitable for deep waters as also help the company capitalize on the firm rig rate environment. We maintain our fully diluted earnings forecast (after factoring in USD100m dilution at a conversion price of Rs1000/share) for FY07 and FY08 at Rs27.4 and Rs83.1 respectively in view of the tight rig market and rising exploration expenditure due to soaring crude oil prices. Reiterate Outperformer with a 12-month price target of Rs1496.

KEY HIGHLIGHTS

Aban has reported sedate Q1FY07 operating results, which is in line with our expectations. EBIDTA has declined 4%yoy in the quarter to Rs666m as operating performance was impacted by higher overhead charges of Rs22.5m relating to FCCB issue. As a result, EBIDTA margins fell 210bp yoy to 53.8%. However, at the net level, the results are below our estimate as higher tax charges of 46.5% as against 43.5% in Q1FY06 pulled down PAT by 7.4% to Rs191m.

The salient points of the result are as follows:

- In the absence of asset addition and with new contracts coming into effect from H2FY07, topline grew 1.6%yoy to Rs1238m.
- Overhead charges, however, grew 55%yoy to Rs210m as Aban charged off FCCB issue expenses of Rs22.5m in the quarter.
- Other income fell 18% yoy to Rs32m – the decline in net profit would have been higher but for lower interest charges of Rs99m (down 23%yoy).

- Tax rate stood at 46.5% in the quarter as against 43.5% in Q1FY06.
- Aban is transferring Aban VII to its wholly owned subsidiary, Aban Singapore, along with Aban VIII and Aban Abraham that were acquired through this subsidiary. Aban Singapore was the vehicle for Sinvest acquisition that the company recently concluded for USD 445m. Reportedly, the company is considering diluting its stake in the Singapore subsidiary.

❑ Earnings estimates maintained; reiterate Outperformer

We maintain our fully diluted earnings forecast (after factoring in USD100m dilution at a conversion price of Rs1000/share) for FY07 and FY08 at Rs27.4 and Rs83.1 respectively given the tight rig market and rising exploration expenditure tracking the soaring crude oil prices. Capacity constraints, given the long gestation period of 2-3 years for a new rig, as also rising proportion of long-term contracts and timely addition of new rigs give earnings visibility (91% CAGR estimated over FY06-08). Reiterate Outperformer with a 12-month price target of Rs1496.

Quarterly results

Year to 31st March (Rs m)	Q1FY05	Q2FY05	Q3FY05	Q4FY05	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07
Net sales	**642**	**642**	**573**	**1,027**	**1,218**	**1,274**	**1,207**	**1,202**	**1,238**
yoy change (%)	*(5.1)*	*(13.8)*	*(14.9)*	*52.6*	*89.7*	*98.5*	*110.6*	*17.1*	*1.6*
Total expenditure	337	313	294	435	525	570	524	531	572
Operating profit	306	329	279	592	693	704	683	671	666
yoy change (%)	*(3.3)*	*(11.0)*	*(16.8)*	*97.7*	*126.8*	*113.8*	*144.9*	*13.3*	*(3.9)*
Other income	13	13	27	20	40	45	31	37	32
Interest	27	30	30	99	129	107	116	85	99
Depreciation	116	118	114	200	238	249	243	220	241
PBT	177	195	161	314	365	394	355	404	357
Tax rate (%)	51.0	41.1	37.2	36.7	43.5	41.9	47.9	45.6	46.5
Tax	90	80	60	115	159	165	170	184	166
Net profit	**87**	**115**	**101**	**199**	**206**	**229**	**185**	**220**	**191**
yoy change (%)	*26*	*(27)*	*(31)*	*100*	*139*	*99*	*83*	*11*	*(8)*
Operating parameters									
OPM (%)	47.6	51.3	48.6	57.7	56.9	55.3	56.6	55.8	53.8
NPM (%)	13.5	17.9	17.7	19.4	16.9	17.9	15.3	18.3	15.4
Valuation									
Outstanding shares (m)	74	74	74	74	74	74	74	74	74
EPS (Rs)	2.4	3.1	2.7	5.4	5.6	6.2	5.0	6.0	5.2
Cash EPS (Rs)	5.5	6.3	5.8	10.8	12.1	13.0	11.6	11.9	11.7

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research: Banking, Strategy	pathik@sski.co.in	Ext: 304
Shirish Rane	Cement, Construction, Power	shirish@sski.co.in	Ext: 313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	Ext: 308
Surendra Goyal, CFA	IT Services, Telecom	surendra@sski.co.in	Ext: 307
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	Ext: 380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	Ext: 395
Harshad Katkar	Oil & Gas, Engineering	harshad@sski.co.in	Ext: 358
Chirag Shah	Textiles, Metals	chiragshah@sski.co.in	Ext: 306
Bhoomika Nair	Construction, Power	bhoomika@sski.co.in	Ext: 337
Shiladitya Dasgupta	Mid Caps	shiladitya@sski.co.in	Ext: 365
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	Ext: 217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	Ext: 367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	Ext: 311
Hiren Dasani	Banking	hiren@sski.co.in	Ext: 325
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	Ext: 371
Salil Desai	Cement	salil@sski.co.in	Ext: 373
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	Ext: 392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	Ext: 382
Equity Sales/Dealing	**Designation**	**E-mail**	**Tel. +91-22-6638 3300**
Naishadh Paleja	CEO	naishadh@sski.co.in	Ext: 211
GV Alankara	Head of Dealing	alankara@sski.co.in	Ext: 201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	Ext: 212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	Ext: 363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	Ext: 368
V Navin Roy	AVP - Sales	navin@sski.co.in	Ext: 370
Rohan Soares	AVP – Sales	rohan@sski.co.in	Ext: 310
Rishi Kohli	VP – Derivatives	rishikohli@sski.co.in	Ext: 201-210
Pawan Sharma	AVP – Derivatives	pawansharma@sski.co.in	Ext: 201-210
Sachin Kochhar	AVP – Derivatives	sachinkochhar@sski.co.in	Ext: 201-210
Dipesh Shah	AVP – Derivatives	dipeshshah@sski.co.in	Ext: 201-210

Disclaimer

Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

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