

**Aban Loyd**Rs973  
**OUTPERFORMER**

## RESULT NOTE

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

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**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
<b>Net sales</b>	<b>642</b>	<b>642</b>	<b>573</b>	<b>1,027</b>	<b>1,218</b>	<b>1,274</b>	<b>1,207</b>	<b>1,202</b>	<b>1,238</b>
<i>yoy change (%)</i>	<i>(5.1)</i>	<i>(13.8)</i>	<i>(14.9)</i>	<i>52.6</i>	<i>89.7</i>	<i>98.5</i>	<i>110.6</i>	<i>17.1</i>	<i>1.6</i>
Total expenditure	337	313	294	435	525	570	524	531	572
Operating profit	306	329	279	592	693	704	683	671	666
<i>yoy change (%)</i>	<i>(3.3)</i>	<i>(11.0)</i>	<i>(16.8)</i>	<i>97.7</i>	<i>126.8</i>	<i>113.8</i>	<i>144.9</i>	<i>13.3</i>	<i>(3.9)</i>
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
<b>Net profit</b>	<b>87</b>	<b>115</b>	<b>101</b>	<b>199</b>	<b>206</b>	<b>229</b>	<b>185</b>	<b>220</b>	<b>191</b>
<i>yoy change (%)</i>	<i>26</i>	<i>(27)</i>	<i>(31)</i>	<i>100</i>	<i>139</i>	<i>99</i>	<i>83</i>	<i>11</i>	<i>(8)</i>
<b>Operating parameters</b>									
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
<b>Valuation</b>									
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

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

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