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## Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Cadila	21-Mar-06	595	659	850
♦ Navneet	22-Aug-05	284	333	405
♦ NIIT Tech	31-Mar-06	204	218	296
♦ Ratnamani Metals	08-Dec-05	270	425	520
♦ TVS Motor	03-Apr-06	140	157	210

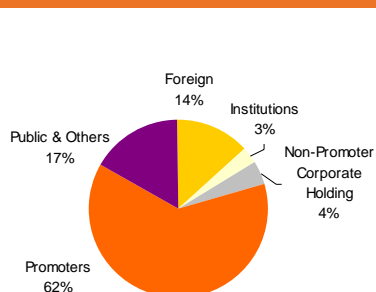
# Aban Loyd Chiles Offshore

**Emerging Star**
**Stock Update**
**Price target revised to Rs1,760**
**Buy; CMP: Rs1,325**

## Company details

Price target:	Rs1,760
Market cap:	Rs2,660 cr
52 week high/low:	Rs1,999/362
NSE volume: (No of shares)	40,071
BSE code:	523204
NSE code:	ABANLOYD
Sharekhan code:	ABANLOYD
Free float: (No of shares)	1.3 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	13.1	113.7	161.5	261.2
Relative to Sensex	3.9	71.2	73.5	89.2

## Result highlights

- Aban Loyd Chiles Offshore's Q4FY2006 net profit at Rs22 crore is in line with our expectations. The net revenues for the quarter grew by 17% to Rs120 crore. The growth was due to the deployment of all the company's vessels in the quarter as compared to the partial deployment in Q4FY2005.
- During the quarter the operating profit margin (OPM) of the company declined by 2% year on year (yoy) to 57.3%, primarily because of the increase in the other expenditure and stores consumed. However the pleasing thing was that the margins of the drilling segment have improved by 2.8% to 37.1%.
- The company's interest cost has declined by 14.6% on a year-on-year (y-o-y) basis and by 27% on a sequential basis, as the company has substituted its high cost debt with the funds mobilised through its recent \$100 million foreign currency convertible bond (FCCB) issue.
- The net profit for the quarter stood at Rs22.1 crore, a growth of 11.3% on a y-o-y basis and a growth of 20% on a quarter-on-quarter (q-o-q) basis.

Aban Loyd's Q4FY2006 results are in line with our expectations. The high oil prices and the desperate search for new oil supplies needed to meet the rampant demand have boosted the demand for offshore rigs. As the demand for offshore rigs continues to rise and as no new deliveries are scheduled till October 2007, the day rates for the second-generation offshore drilling rigs globally have reached their highest levels since the last drilling boom in the mid- 1990s.

In the wake of such high earnings visibility, drilling companies the world over are being valued at their FY2009 earnings potential. Similarly, Aban Loyd's full earnings potential will only be visible in FY2009 when it operates its full arsenal of 10 rigs and

## Result table

Particulars	Q4FY2006	Q4FY2005	% yoy chg
Net sales	120.2	102.7	17.1
Total expenditure	51.4	41.9	22.7
Operating profit	68.8	60.8	13.2
Other income	3.7	2.0	83.2
PBIDT	72.5	62.8	15.5
Interest	8.5	9.9	-14.6
PBDT	64.1	52.9	21.1
Depreciation	22.0	19.9	10.4
PBT before amortisation	42.1	33.0	27.6
Goodwill amortised	1.57	1.6	0.0
PBT	40.5	31.4	28.9
Tax	18.3	11.5	59.5
PAT	22.1	19.9	11.3
EPS	6.0	5.4	11.3
OPMs (%)	57.3	59.2	-2.0
PBT(%)	35.0	32.1	2.9
PAT(%)	18.4	19.4	-1.0

all of them are fully re-priced at today's high rates. Hence we shall ideally be valuing Aban Loyd on its FY2009 earnings. At the current market price of Rs1,325 the stock is quoting at 9.8x the company's FY2009E earnings per share (EPS) and 5x the company's FY2009E earnings before interest, depreciation, tax and amortisation (EBIDTA). Considering the high visibility of Aban Loyd's earnings and the possibility of the company going in for another acquisition in FY2007, we believe the stock's valuations are attractive. We maintain our Buy recommendation on the stock with a revised price target of Rs1,760. At our price target the stock will be discounting its FY2009 E by 13x and its FY2009 EBIDTA by 6.3x.

#### Segment results

	Q4FY2006	Q4FY2005	% yoy chg
<b>REVENUES</b>			
Drilling	121.1	100.5	21.0
Wind energy	2.8	4.2	-33.0
Total	123.9	104.7	18.0
<b>EBT</b>			
Drilling	45.0	35.3	28.0
Wind energy	-4.6	-3.9	18.0
Total	40.4	31.4	29.0
<b>EBT (%)</b>			
Drilling (%)	37.1	35.1	2.0
Wind energy (%)	-164.9	-93.3	-71.6
Total (%)	32.6	30.0	2.6

#### Net sales up 17%

Aban Loyd's revenues for the quarter grew by 17% to Rs120 crore as all the rigs were fully operational as compared to the partial deployment of the rigs in Q4FY2005. During the quarter the operating profit margin (OPM) of the company declined by 2% yoy primarily because of the increase in the other expenditure and stores consumed. However the pleasing thing was that the margins of the drilling segment have improved by 2.8%.

#### Growth momentum to pick up in Q3FY2007

Aban Loyd's top line growth has been flat on a q-o-q basis, largely because its business model is such that the assets are locked in at fixed day rates for two to three years. The growth only comes through asset addition and/or higher day rates. Aban Loyd's first asset re-pricing is due in Q3FY2007 and from thereon the series of re-pricing shall ensure a q-o-q and a y-o-y growth in the top line and the bottom line.

#### Increasing amount of earnings visibility for Aban...

Given the hectic action in the oil drilling space, as is evident by the recent Transocean deal with ONGC, we feel that most of the E&P companies are increasingly locking rigs at substantially higher day rates, thereby indicating their bullish view on the world energy resources (oil and gas). This in effect gives some indication about the firm rig day rates that are likely to prevail even 2-3 years from hereon. In the wake of such high earnings visibility drilling companies the world over are being valued at their FY2009 earnings potential. Given the favourable outlook for the re-pricing of Aban Loyd's rigs in FY2009, its strong cash generation and its continued appetite for growth through organic or inorganic routes, we see an increasing amount of earnings visibility for the company at least till FY2009.

#### ...FY2009 earnings true measure to value Aban

Aban Loyd's full earnings potential will only be visible in FY2009 when it operates its full arsenal of 10 rigs and all of them are fully re-priced at today's high rates. Hence we shall ideally be valuing Aban Loyd on its FY2009 earnings. At the current market price of Rs1,325 the stock is quoting at 9.8x the company's FY2009E EPS and 5x the company's FY2009E EBIDTA. Considering the high visibility of Aban Loyd's earnings and the possibility of the company going in for another acquisition in FY2007, we believe the stock's valuations are attractive. We maintain our Buy recommendation on the stock with a revised price target of Rs1,760. At our price target the stock will be discounting its FY2009 E by 13x and its FY2009 EBIDTA by 6.3x.

#### Earnings table

Year ended March 31	FY05	FY06P	FY07E	FY08E	FY09E
Net profit (Rs cr)	51.6	84.0	123.5	232.4	513.4
Shares in issue (cr)	0.73	3.68	3.68	3.68	3.68
EPS (Rs)	14.0	20.4	30.3	59.6	135.5
% y-o-y growth	9.1	45.4	48.6	96.8	127.5
PER (x)	94.6	65.1	43.8	22.2	9.8
Book value (Rs)	60.0	119.1	147.3	204.3	337.8
P/BV (Rs)	22.1	11.1	9.0	6.5	3.9
EV/EBIDTA (x)	36.0	18.9	15.4	8.9	5.0
Dividend yield (%)	0.15	0.15	0.15	0.15	0.15
RoCE (%)	15.5	17.8	16.5	22.5	36.8
RoNW (%)	25.9	25.5	25.2	35.8	51.2

The author doesn't hold any investment in any of the companies mentioned in the article.

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HDFC Bank  
 Infosys Technologies  
 Reliance Industries  
 Tata Consultancy Services

## Apple Green

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 Hyderabad Industries  
 ICICI Bank  
 Indian Hotel Company  
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## Emerging Star

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 Numeric Power Systems  
 Punjab National Bank  
 Ratnamani Metals and Tubes  
 Sanghvi Movers  
 Saregama India  
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 UltraTech Cement  
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