

Alam Maritim (AMRB MK)

Exited CDRC; a positive catalyst

Raised TP from MYR0.06 to MYR0.18; U/G to BUY

1H19 core loss was in line with our estimate. We raise FY20-21E earnings on improving prospects (higher OSV utilisation & underwater services ops). Also, Alam has exited the CDRC scheme, which is a positive catalyst that warrants a valuation re-rating. Our revised TP (+200%) is based on a higher 0.4x BV to reflect mean valuations post sub-USD100/bbl oil price vs. 0.1x BV previously (a debt default risk valuation).

OSV ops turnaround in 2Q19

2Q19 core net loss of MYR4m (-29% QoQ; -72% YoY) took its 1H19 core loss to MYR9m (-56% YoY), accounting for 49% of our FY estimate. The lower QoQ loss was driven mainly by the turnaround at its OSV division. Despite registering lower utilisation, it managed to reduce opex and reported MYR1m in EBIT (vs. LBIT of MYR2m in 2Q19). This was, however, offset by the continuous losses at its associate (-MYR2m) and underwater services division (-MYR2m), respectively.

Improving prospects

Its net gearing level was 12% at end-Jun 2019. We understand that Alam has recently exited the CDRC scheme, a positive re-rating catalyst, in our view. There is no debt haircut except for: (i) a 7-year extension on principal debt repayment up to 2024; and (ii) lower interest rates (5% now vs. 6-7%). This is a positive from a cashflow and working capital perspective. Operationally, it has reactivated 2 OSVs for charter in 3Q19 with 4-5 to go (currently docked), which will further strengthen its financials ahead. Notwithstanding that, its underwater services activities will also see improvement, driven by Vestigo's EPCI USD59m contract.

Raise FY20-21 earnings; the worst is over

Our FY19 earnings are unchanged but we raise FY20-21 earnings to reflect improved OSV and underwater services ops. We now expect lower interest expense, higher OSV utilization of 70-71% (+1-2ppts) and lower opex (-8-12%) for FY20-21. All in, we expect Alam to break-even (ex-OSV assets impairment) in FY20 and return to profit in FY21.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	161	93	172	199	216
EBITDA	(36)	(72)	33	45	49
Core net profit	(98)	(84)	(18)	0	4
Core EPS (sen)	(10.6)	(9.1)	(2.0)	0.0	0.5
Core EPS growth (%)	nm	nm	nm	nm	57,925.0
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	nm	nm	nm	20.5
P/BV (x)	0.3	0.2	0.2	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(21.8)	(35.0)	(4.7)	0.0	1.1
ROAA (%)	(10.8)	(11.3)	(2.9)	0.0	0.7
EV/EBITDA (x)	nm	nm	2.2	0.6	nm
Net gearing (%) (incl perps)	16.1	10.2	net cash	net cash	net cash
Consensus net profit	-	-	(19)	(14)	(10)
MKE vs. Consensus (%)	-	-	0.7	100.1	141.7

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BUY

[Prior:SELL]

Share Price	MYR 0.10
12m Price Target	MYR 0.18 (+89%)
Previous Price Target	MYR 0.06

Company Description

An OSV service provider, operating largely in Malaysia

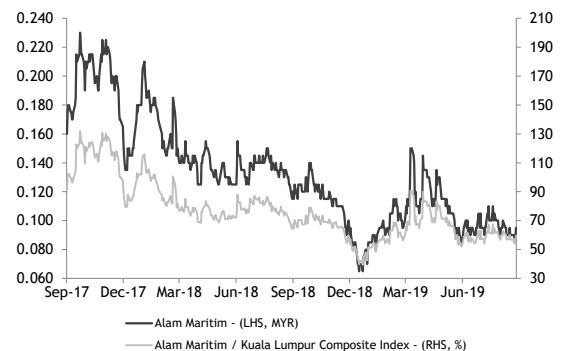
Statistics

52w high/low (MYR)	0.15/0.07
3m avg turnover (USDm)	0.1
Free float (%)	45.0
Issued shares (m)	924
Market capitalisation	MYR87.8M
	USD21M

Major shareholders:

SAR Venture	35.7%
Lembaga Tabung Haji	10.1%
Caprice Capital Intl.	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	6	(24)
Relative to index (%)	1	8	(14)

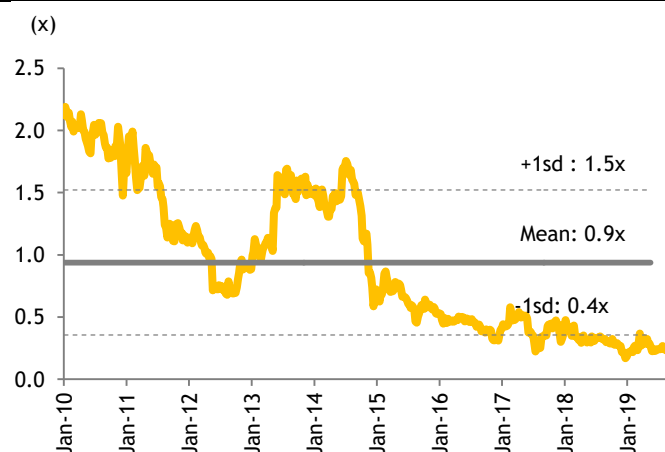
Source: FactSet

Summary Results Table

FY Dec (MYR m)	Quarterly results							
	2Q19	2Q18	% YoY	1Q19	% QoQ	1H19	1H18	% YoY
Turnover	66.4	19.1	>100	27.6	>100	94.0	40.3	>100
EBIT	(2.0)	(2.9)	30.6	(2.6)	21.4	(4.6)	(6.1)	24.9
Int. Expense	(1.2)	(0.8)	46.4	(0.1)	NM	(1.3)	(2.1)	(40.7)
Associates	(1.8)	(5.7)	68.3	(1.7)	(8.9)	(3.5)	(9.2)	62.6
El	(1.2)	3.9	NM	0.9	NM	(0.3)	(0.2)	40.9
Pre-tax profit	(5.0)	(9.4)	46.7	(4.3)	(16.6)	(9.3)	(17.5)	46.7
Tax	(0.1)	0.1	NM	(0.1)	12.3	(0.2)	(0.8)	(78.1)
Minority interest	0.1	(0.1)	NM	(0.0)	NM	0.1	(2.6)	NM
Net profit/(loss)	(5.0)	(9.5)	46.9	(4.4)	(13.8)	(9.4)	(20.8)	54.7
Recurring NP/(loss)	(3.8)	(13.3)	71.5	(5.3)	28.6	(9.1)	(20.6)	55.8
EBIT margin (%)	(3.1)	(15.3)	12.2	(9.3)	6.3	(4.9)	(15.2)	10.3
Tax rate (%)	(1.8)	0.9	(2.7)	(1.9)	0.1	(1.8)	(4.5)	2.6
Segmental	2Q19	2Q18	% YoY	1Q19	% QoQ	1H19	1H18	% YoY
Turnover	66.4	19.1	247.3	27.6	>100	94.0	40.3	>100
Offshore Support Vessels	25.7	21.9	17.6	31.9	(19.4)	57.6	47.8	20.5
Underwater services & OIC	41.6	9.3	349.2	5.2	>100	46.7	13.7	>100
Others	(0.9)	(12.0)	(92.8)	(9.5)	(90.9)	(10.3)	(21.2)	(51.3)
EBIT	(2.0)	(2.9)	30.6	(2.6)	21.4	(4.6)	(6.1)	24.9
Offshore Support Vessels	0.8	(2.2)	(134.1)	(2.0)	NM	(1.3)	(6.4)	(80.3)
Underwater services & OIC	(2.1)	0.2	(1,022.9)	(0.6)	NM	(2.7)	0.7	NM
Others	(0.7)	(0.9)	23.3	0.1	NM	(0.6)	(0.5)	(26.3)
EBIT margin (%)	2Q19	2Q18	ppt chg	1Q19	ppt chg	1H19	1H18	ppt chg
Offshore Support Vessels	3.0	(10.3)	13.2	(6.3)	9.3	(2.2)	(13.3)	11.1
Underwater services & OIC	(5.0)	2.5	(7.5)	(12.3)	7.3	(5.8)	5.2	(11.1)

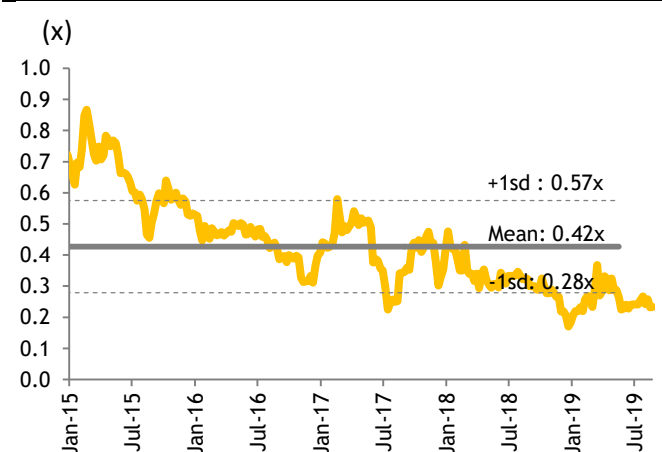
Source: Company, Maybank KE

Alam Maritim: 12M forward PBV band (2010-YTD)



Source: Bloomberg, Maybank Kim Eng

Alam Maritim: 12M forward PBV band (2015-YTD)

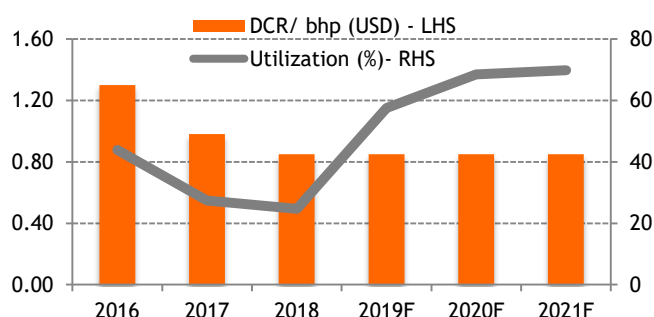


Source: Bloomberg, Maybank Kim Eng

Company Proposition

- One of Malaysia's largest OSV providers; dominant in the AHTS space. Subsea services & OIC (loss-making) are complementary divisions.
- Vessels are Malaysia-flagged and will be able to capitalise on the stringent Malaysian cabotage rules.
- Alam is going through a challenging macro environment, as it faces bottoming of DCR but gradual recovery of OSV utilisation.
- Returns outlook is improving but the pace of recovery will be gradual, backed by its continuous efforts to optimise costs and OSV utilisation.
- M&A action is a key catalyst to unlocking values.

AHTS: DCR and utilisation trend

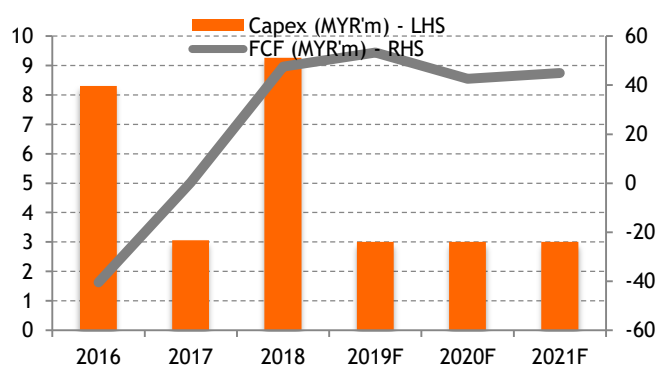


Source: Company, Maybank Kim Eng

Financial Metrics

- OSVs DCR, utilisation and opex are Alam's key earnings drivers. Variations in any of these parameters will impact profitability.
- Short-term softness in utilisation and earnings expected due to seasonality effect but cash flows are gradually improving, on better cost control.
- With low oil prices, cost management, capital discipline and cashflow preservation are priorities over growth.
- The cost & debts rationalisation exercises will see its financials recovering from FY19.

Capex and FCF trend (MYR'm)



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank Kim Eng

- Hong Leong Company (Malaysia) and Caprice Capital emerged as new shareholders with aggregate 13% stake.
- The beginning of the fall in crude oil price to sub-USD100/bbl.
- Sees red in 1Q16 on low OSV utilisation.
- Defaulted on its MYR30m Sukuk Ijarah MTN.
- Awarded a slew of OSV contracts (e.g. PETRONAS' ILCT).

Swing Factors

Upside

- It is ahead of peers in cost management. More jobs expected with PETRONAS giving preference to local service providers over foreign-flagged vessels.
- M&A action is not entirely ruled out.
- Higher OSV DCRs and/ or utilization and increased workflows/ margins at its underwater services division.

Downside

- Poor execution capabilities related to vessel maintenance and inferior cost management could have a detrimental effect on cost, license renewal and track record.
- Firm OSV contracts may be terminated on a month's notice. Early termination of contracts could affect cashflows.
- Inability to secure new and or charter extensions would have negative repercussion on its operations and financials.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	nm	20.5
Core P/E (x)	nm	nm	nm	nm	20.5
P/BV (x)	0.3	0.2	0.2	0.2	0.2
P/NTA (x)	0.3	0.2	0.2	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	0.2	64.3	60.7	48.5	51.2
EV/EBITDA (x)	nm	nm	2.2	0.6	nm
EV/EBIT (x)	nm	nm	nm	6.0	nm
INCOME STATEMENT (MYR m)					
Revenue	161.1	93.2	172.1	198.7	216.0
Gross profit	1.8	12.2	26.4	38.9	43.2
EBITDA	(35.9)	(72.3)	32.7	45.2	49.5
Depreciation	(39.5)	(37.9)	(40.3)	(40.3)	(40.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(28.7)	(23.8)	(7.6)	4.9	9.2
Net interest income /(exp)	(6.7)	(11.4)	(4.9)	(4.9)	(4.9)
Associates & JV	(55.9)	(44.0)	(6.0)	0.0	0.0
Exceptionals	(47.6)	(90.5)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(138.9)	(169.7)	(18.5)	0.0	4.3
Income tax	(6.5)	(1.9)	0.0	0.0	0.0
Minorities	(0.6)	(3.2)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(146.0)	(174.8)	(18.5)	0.0	4.3
Core net profit	(98.4)	(84.3)	(18.5)	0.0	4.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	55.8	81.8	134.6	177.1	222.1
Accounts receivable	97.4	35.2	43.0	49.7	54.0
Inventory	1.5	1.1	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	391.1	334.4	297.1	259.8	222.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	188.1	67.3	61.3	61.3	61.3
Other assets	137.0	104.7	104.7	104.7	104.7
Total assets	870.9	624.4	640.7	652.6	664.6
ST interest bearing debt	130.9	35.3	35.3	35.3	35.3
Accounts payable	47.7	41.7	76.9	88.8	96.5
LT interest bearing debt	20.4	87.1	86.6	86.6	86.6
Other liabilities	78.0	62.0	62.0	62.0	62.0
Total Liabilities	277.2	226.0	260.7	272.6	280.3
Shareholders Equity	597.1	401.9	383.4	383.4	387.7
Minority Interest	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Total shareholder equity	593.6	398.4	379.9	380.0	384.2
Total liabilities and equity	870.9	624.4	640.7	652.6	664.6
CASH FLOW (MYR m)					
Pretax profit	(138.9)	(169.7)	(18.5)	0.0	4.3
Depreciation & amortisation	39.5	37.9	40.3	40.3	40.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	53.3	146.5	28.5	5.3	3.4
Cash taxes paid	(6.5)	(1.9)	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.3	56.8	56.3	45.6	48.0
Capex	(3.1)	(9.3)	(3.0)	(3.0)	(3.0)
Free cash flow	0.3	47.6	53.3	42.6	45.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(3.5)	(28.9)	(0.5)	0.0	0.0
Other invest/financing cash flow	13.9	7.6	0.0	0.0	0.0
Effect of exch rate changes	(0.0)	(0.3)	0.0	0.0	0.0
Net cash flow	10.7	26.0	52.8	42.6	45.0

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(29.8)	(42.1)	84.5	15.5	8.7
EBITDA growth	nm	nm	nm	38.1	9.5
EBIT growth	nm	nm	nm	nm	87.7
Pretax growth	nm	nm	nm	nm	59,023.2
Reported net profit growth	nm	nm	nm	nm	59,023.2
Core net profit growth	nm	nm	nm	nm	59,023.2
Profitability ratios (%)					
EBITDA margin	nm	nm	19.0	22.7	22.9
EBIT margin	nm	nm	nm	2.5	4.2
Pretax profit margin	nm	nm	nm	0.0	2.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	0.0	2.0
Revenue/Assets (x)	0.2	0.1	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.6	1.7	1.7	1.7
ROAE (%)	(21.8)	(35.0)	(4.7)	0.0	1.1
ROAA (%)	(10.8)	(11.3)	(2.9)	0.0	0.7
Liquidity & Efficiency					
Cash conversion cycle	67.5	63.3	(63.3)	nm	nm
Days receivable outstanding	171.3	255.9	81.8	84.0	86.4
Days inventory outstanding	4.0	5.8	1.4	nm	nm
Days payables outstanding	107.8	198.4	146.5	186.5	193.0
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.1	1.7	1.7	1.8	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	2.8	2.5	2.4	2.4
Net gearing (%) (incl perps)	16.1	10.2	net cash	net cash	net cash
Net gearing (%) (excl. perps)	16.1	10.2	net cash	net cash	net cash
Net interest cover (x)	na	na	na	1.0	1.9
Debt/EBITDA (x)	nm	nm	3.7	2.7	2.5
Capex/revenue (%)	1.9	9.9	1.7	1.5	1.4
Net debt/ (net cash)	95.5	40.6	(12.6)	(55.2)	(100.2)

Source: Company; Maybank

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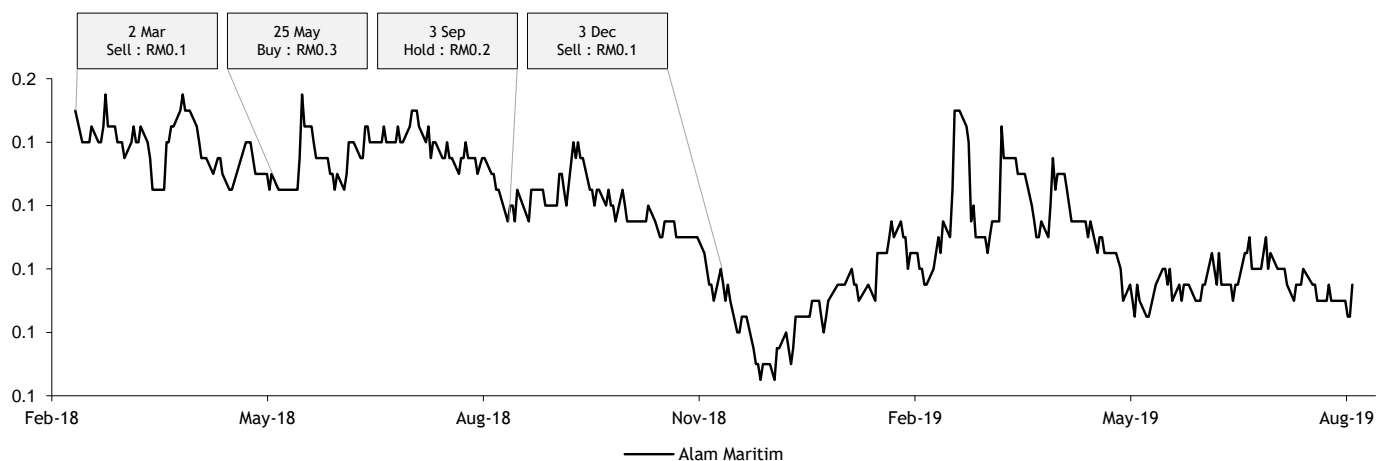
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