MOIL: Compensation boosts profit – HOLD

EARNINGS FLASH • 3Q12 • Egypt/Oil & Gas • 20 November 2012

NAEEM

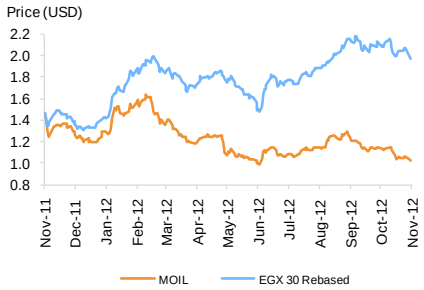
Revenue	EBITDA	NET PROFIT
USD62m -31%	USD27m +19%	USD10m +255%
Q3 2011: USD90m	Q3 2011: USD22m	Q3 2011: USD3m

Recommendation	HOLD
Market price (USD)	1.02
Target price range (USD)	1.21
Upside potential (%)	18.6%
Free float (%)	30.0%
Market cap. (USDm)	366
Shares outstanding (m)	358
Reuters code	**MOIL.CA**
Bloomberg code	**MOIL EY**

	2011a	2012f	2013f
Revenue (USDm)	391	274	316
Net income (USDm)	29	(5)	19
EPS (USD)	0.08	(0.02)	0.05
DPS (USD)	-	-	0.03
PER (x)	12.7	nm	18.8
Net debt/equity (x)	0.87	0.61	0.52
Book value/share (USD)	0.76	0.80	0.84
Price/book (x)	1.3	1.3	1.2

Source: Company data, NAEEM estimates

MOIL vs. EGX 30 Rebased



Source: Bloomberg, NAEEM Research

Closing price as of 19 November 2012

MOIL announced its consolidated financial results for 9M12, reporting a net loss of USD9.1m cf. USD30.3m net profit in 9M11. Net profit for 3Q12 reached USD10.2m cf. a net profit of USD2.9m in 3Q11 and a net loss of USD17.6m in 2Q12, substantially ahead of our estimate and market consensus of USD2m and USD6m, respectively. However, excluding the c.USD6m settlement received in the quarter (dating back to 2010), the net profit would have been USD4.2m.

Revenue improved as expected. 3Q12 revenue rose 33% QoQ to USD62m, 4% below our estimate and 18% under market consensus. Management attributed the better QoQ results to the start of work on the Brazilian and West African OSV contracts, the renewal of contracts in Persian Gulf, North Africa and Egypt which resulted in better utilization and daily rates, the execution of the two OCS contracts and settling claims of USD6m out of a total USD10.5m with ONGC dating back to 2010. However, revenue fell 31% YoY as 3Q11 benefited from the full deployment of the two pipe-laying barges on Aramco and ONGC contracts.

Margins surge. MOIL reported better-than-expected gross margin (the best level since 2009), up 22pps YoY to 53% in 3Q12 after reporting a loss at the gross level in 2Q12 for the first time. The margin improvement can be attributed to the completion of a high margin OCS charter contract in UAE of USD11m, the commencement of the Brazilian OSV contract after the set-up period and the costs incurred in that phase and booking the USD6m settlement from ONGC related to work disputes dating back to 2010 (its costs was incurred at that time).

Still awaiting new OCS contract. MOIL is currently working on a Qatari OCS contract (worth USD38m) that is expected to be completed by 1Q13. Going forward, there is little revenue visibility for the OCS segment. MOIL is currently awaiting the results of bids for construction contracts, which it has tendered for in India and the Persian Gulf (and some other areas), the value of each of these contracts ranges between USD100 and USD200m. Some of these contracts are sub-contracts. In the event MOIL fails to win the lead- or sub-contractor contracts, it would aim again to charter its barges to competitors as a last resort.
MOIL is currently negotiating variation order claims of c. USD50m for work done for Aramco and ONGC in 2012.

Brazilian contracts to boost OSV contribution. The deployment of OSV vessels in the Brazilian contract in addition to renewed contracts elsewhere resulted in better utilization rates for marine units as follows:

- The utilisation rate of vessels after the year 2000 was 79% in 3Q12 cf. 64 in 1H12
- The utilisation rate of vessels before the year 2000 was 57% in 3Q12 cf. 60% in 1H12
- The utilisation rate of mooring boats remained stable at 80% in 3Q12

The Brazilian contract using five vessels kicked off in 3Q12, and the vessels are now fully deployed. They enjoy higher daily rates, ranging from USD18,000 to USD35,000. As a result, 3Q12 results saw partial improvement, with the full impact to be felt in 4Q12. Although we see this contract helping the OSV top line, it may still negatively impact margins due to the higher operating costs involved.

Three old fleet units were laid up and sold in the quarter. Units with utilisation rates consistently below 30% are usually taken out of service. MOIL expects to layoff and sell further units in the coming quarters.

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Medium-term outlook still vague. While management stated earlier that 2H12 earnings would be enough to offset losses incurred in 1H12, we remain concerned about the earnings visibility post 1Q13, especially in the OCS segment and the competitive challenges that MOIL would face due to its surplus of supply vessels, which is likely to drive down utilisation and daily rates. Nevertheless, any announcement of MOIL landing a new large OCS (>USD200m) contract should have a positive impact on the share price and lend support to earnings visibility (from 2013 onwards).

Valuation remains based on fleet replacement. Our valuation is currently based solely on the replacement value of its fleet, as earnings and cash flow forecast-based approaches are of limited use given the lack of visibility in OCS revenue (OCS has historically contributed 80% of MOIL's revenue).

We maintain our HOLD recommendation, but cut our target price slightly to USD1.21/share (instead of USD1.24) after factoring in updated liabilities.

MOIL: 3Q12 Results Summary

In USDm	3Q12a	3Q11a	2Q12a	YoY (Δ)	QoQ (Δ)	3Q12e	Variance
Revenue	62	90	47	-30.7%	+32.8%	65	-4.3%
Gross profit	33	28	(3)	+17.8%	nm	20	+63.0%
EBITDA	27	22	(9)	+19.1%	nm	13	+100.2%
EBITDA margin (%)	42.5	24.7	nm	+17.8pps	nm	20.3	+22.2pps
Net profit	10	3	(18)	+254.7%	nm	2	+464.4%

Source: Company data, NAEEM Research

Disclosure Appendix

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BUY	>20%	45%
ACCUMULATE	>10% to 20%	16%
HOLD	+10% to -10%	35%
REDUCE	<-10% to -20%	0%
SELL	< -20%	3%

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