

Ezion Holdings Ltd

Wins two service rig jobs amounting to US\$268.6 mn; recent correction gives ideal entry point to accumulate

- Two service rig contract wins announced:** In a press release earlier this morning, Ezion announced two service rig contracts. The first contract is a 7-year contract worth US\$122.6 mn (translates to day rate of ~48,000) to support east European NOC in North Sea and to be deployed by 2Q15. On the other hand, the 2nd contract is a 5-year contract worth US\$146 mn (translates to day rate of ~80,000) to support South East Asian NOC in SE-Asian waters and to be deployed by 3Q16.
- Contract #1: new European NOC client with rig leased for 7 years:** In case of 1st contract, the rig will be leased (at daily cost of US\$30,500 with upgrade capex of US\$20 mn) for 7 years. ***Ezion will NOT own the rig*** (similar to Middle East contract announced earlier) but simply lease it for 7 years (the capex will be amortized over 7 years as well). The contract is on a bareboat charter and rig will be utilized for accommodation (but is capable to undertake drilling as well). With 50% bank financing (rest is equity), we estimate **annual earnings of US\$3 million** (30% RoE) starting 2Q15. No yard finalized yet for this job.
- Contract#2: a 'new-build' service rig in SE-Asia starting 3Q16:** The 2nd contract is a new-build service rig with total capex of US\$90 mn (75% debt funding). Unlike Contract#1, this is a time charter of 5 years (3 years + 2 years option) with 20,000 of estimated daily opex. The vessel will be utilized mainly for accommodation (~250-260 men). We **estimate ~US\$13 million (translates to ~60% RoE)** of annual earnings starting 3Q16.
- Recent correction gives ideal entry point to accumulate; concerns on old age of fleet, large proportion of service rig fleet overblown:** We see the recent stock correction (down 8% over last one month) as an ideal opportunity to accumulate and continue to remain comfortable on Ezion's earnings outlook given (a) its 3-5 year charters providing revenue visibility; and (b) continued fleet expansion. We believe recent concerns on Ezion raised relating to (i) old age of its fleet; and (ii) large share of service rigs in its fleet (and hence to earnings) are not major issues (for now) given the charter period in place. We would however keep a closer eye on (i) interest rates; and (ii) competition as factors we remain more concerned on.

Overweight

EZHL.SI, EZI SP

Price: S\$1.99

Price Target: S\$2.75

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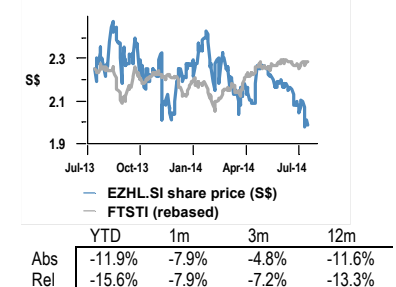
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Price Performance



Ezion Holdings Ltd (Reuters: EZHL.SI, Bloomberg: EZI SP)

\$ in mn, year-end Dec	FY11A	FY12A	FY13A	FY14E	FY15E
Revenue (\$ mn)	107	159	282	559	555
Net profit (reported) (\$ mn)	58	80	160	233	257
Net Profit (rec) (\$ mn)	47	65	133	225	250
EPS (reported) (\$)	0.06	0.07	0.13	0.18	0.20
EPS (recurring) (\$)	0.05	0.06	0.11	0.17	0.19
P/E (Recurring)	32.3	27.2	14.4	9.4	8.5
P/BV (x)	5.7	3.9	2.7	2.0	1.6
EV/EBITDA	53.0	43.0	22.1	10.0	9.0
ROE	19.8%	15.8%	19.7%	22.7%	19.2%
Net debt to equity	35.2%	75.5%	115.0%	85.3%	69.4%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	1,315
Market Cap (\$ mn)	2,108
Market Cap (\$ mn)	2,108
Price (S\$)	1.99
Date Of Price	14 Jul 14
Free Float(%)	-
3M - Avg daily vol (mn)	6.26
3M - Avg daily val (S\$ mn)	13.44
FTSTI	3290.98
Exchange Rate	1.24
Price Target End Date	30-Dec-14
Price Target (S\$)	2.75

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalyst for the stock price: <ul style="list-style-type: none"> Near term order wins 	Upside risks to our view: <ul style="list-style-type: none"> Higher than expected order wins Value unlocking from Marine base 	Downside risks to our view: <ul style="list-style-type: none"> Rising Gearing Limited barriers to entry in the sector may increase competition, driving margins downwards
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Key financial metrics	FY12A	FY13A	FY14E	FY15E
Revenues (US\$ mn)	159	282	559	555
Revenue growth (%)		78%	98%	-1%
EBIT (US\$ mn)	71	139	261	284
EBIT margin (%)	44.5%	49.3%	46.7%	51.2%
Tax rate (%)	5%	2%	6%	7%
Net profit (US\$ mn)	63	133	225	250
EPS (US\$)	5.7	11.1	17.1	18.9
EPS growth (%)		95%	53%	11%
DPS (US\$)	0.08	0.19	0.25	0.28
BVPS (US\$)	41.25	58.71	81.91	100.57
Operating cash flow (US\$ mn)	91	155	213	384
Free cash flow (US\$ mn)	(514)	(553)	(187)	84
Interest cover (X)	9.1	11.4	4.9	4.4
Net margin (%)	40%	47%	40%	45%
Sales/assets (X)	0.1	0.1	0.2	0.2
Debt/equity (%)	100%	148%	147%	146%
Net debt/equity (%)	90%	115%	85%	69%
ROE (%)	17%	23%	25%	21%
Key model assumptions	FY12A	FY13A	FY14E	FY15E
EBITDA Margin	47%	58%	67%	74%

Source: Company, J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY14E	FY15E	FY14E	FY15E
5% chg in sales	5.0%	5.0%	8.3%	8.3%
1% change in EBITDA margin	1.5%	1.3%	2.5%	2.2%

Source: J.P. Morgan estimates.

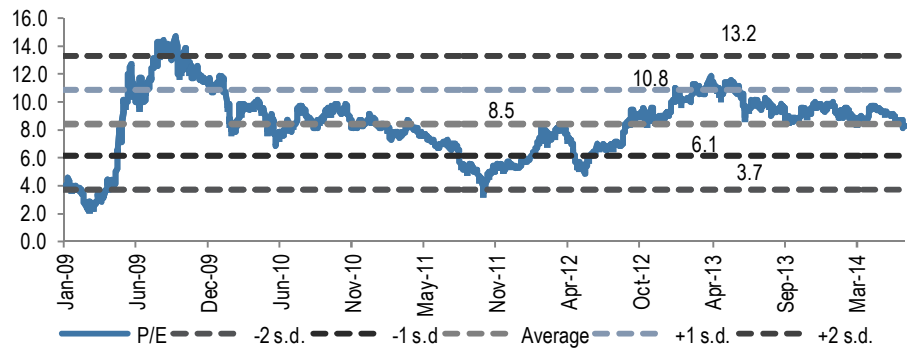
Figure 1: Valuation Comparables

	Mkt Cap	P/E		P/B		Dividend yield		ROE		Net gearing	
	\$Mn	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Singapore											
Keppel Corp	15,942	13.1x	11.5x	1.9x	1.8x	4.5%	4.5%	15.0%	16.0%	Net Cash	Net Cash
SMM	6,841	14.1x	12.9x	2.9x	2.7x	4.3%	4.6%	21.6%	21.5%	Net Cash	Net Cash
Ezion	2,111	9.4x	8.5x	2.0x	1.6x	0.2%	0.2%	23.5%	19.8%	85.3%	69.4%
Dyna-Mac	308	12.4x	8.2x	1.9x	1.8x	5.6%	8.5%	16.1%	22.9%	Net Cash	Net Cash
Ezra	932	19.3x	12.9x	0.8x	0.8x	0.0%	0.0%	4.4%	6.3%	123.8%	132.4%
Vard	1,028	10.7x	8.6x	1.7x	1.5x	3.7%	4.6%	16.7%	18.6%	47.6%	50.8%
Cosco Corp	1,282	27.4x	28.0x	1.2x	1.2x	2.8%	2.8%	4.3%	4.2%	51.0%	47.3%
Malaysia											
Bumi Armada	2,986	19.9x	17.3x	2.0x	1.8x	1.0%	1.2%	10.5%	11.1%	99.9%	111.4%
Sapura Kencana	8,361	17.1x	14.7x	2.3x	2.0x	0.0%	0.0%	14.4%	14.4%	91.9%	70.1%
MMHE	1,765	25.7x	23.5x	2.0x	1.8x	0.8%	0.9%	7.9%	8.1%	Net Cash	Net Cash
Dialog	2,941	44.9x	37.2x	6.2x	5.6x	0.9%	1.1%	15.8%	17.3%	24.9%	28.3%
UMW Oil & Gas	2,840	29.1x	23.4x	2.9x	2.6x	0.3%	0.4%	10.3%	11.6%	8.1%	16.6%
Perisai	574	22.9x	12.6x	1.7x	1.5x	0.0%	0.0%	7.7%	12.6%	77.9%	112.8%

Source: J.P. Morgan Estimates, Bloomberg, Prices are as of 14 July 2014. *SAKP's Year end is Jan. 14E and 15E represents Jan 15 and Jan 16 respectively. Dialog year end is June

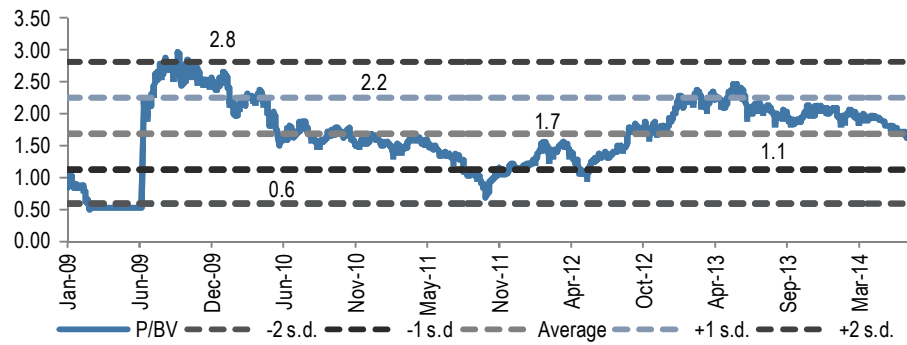
Ezion: Forward Multiples

Figure 2: Ezion: P/E Multiples



Source: Bloomberg.

Figure 3: Ezion: P/BV Multiples



Source: Bloomberg.

Investment Thesis, Valuation and Risks

Ezion Holdings Ltd (Overweight; Price Target: S\$2.75)

Investment Thesis

We remain Overweight on Ezion because we expect strong liftboat demand due to aging platforms and increasing offshore construction activity. Ezion's liftboat fleet is backed by bareboat charters worth more than US\$1bn that is set to see nearly 70% earnings growth into 2014, based on our estimates. Among asset owners in Singapore, Ezion stands out as one of the cheapest stocks, in our view, at a FY14E P/E of 10.5x.

Valuation

Our Dec-14 price target of S\$2.75 is based on our SOTP valuation, as follows:

	P/E	Valuation (US\$ M)	Valuation (S\$ M)	Per share (S\$)
EV of Liftboat / Service Rig portfolio		3995	4,994	3.79
Equity valuation of OMSA & Curtis Island projects	6.0x	134	168	0.13
Equity valuation of Logistics & Others Marine Base business	6.0x	164	206	0.16
Less: Net debt		(1105)	(1,382)	(1.05)
Less: To-be-funded capex of Liftboat division		(397)	(496)	(0.38)
Add: Potential "value accretive" invt.		142	177	0.13
Valuation		2,933	3,666	2.78
Price Target				2.75

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks include: (1) rising gearing; (2) expanding capital needs; (3) limited barriers to entry; and (4) yard delivery delays, which may delay earnings.

Ezion Holdings Ltd: Summary of Financials

Income Statement						Cash flow statement					
\$ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E	\$ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E
Revenues	107	159	282	559	555	Profit After tax	58	79	160	233	257
% change Y/Y	(8.7%)	48.4%	77.7%	98.4%	(0.7%)	Depreciation & amortization	10	17	45	112	129
Gross Profit	55	71	133	284	308	Change in working capital	(20)	19	(5)	(145)	(10)
Gross Margin	51.7%	44.6%	47.2%	50.8%	55.4%	Other non-cash items	-	-	-	-	-
EBITDA	51	75	165	373	413	Cash flow from operations	35	91	155	213	384
% change Y/Y	35.4%	46.1%	120.5%	126.4%	10.8%	Capex	(126)	(605)	(709)	(400)	(300)
EBITDA Margin	47.9%	47.1%	58.5%	66.7%	74.4%	Net Acquisitions	-	-	-	-	-
EBIT	52	71	139	261	284	Other investing Cash flow	55	(47)	(24)	10	9
% change Y/Y	35.4%	35.2%	96.8%	88.2%	8.7%	Cash flow from investments	(70)	(652)	(733)	(390)	(291)
EBIT Margin	38.7%	36.7%	42.4%	46.7%	51.2%	Free cash flow	(90)	(509)	(547)	(147)	135
Net Interest	(1)	(5)	(7)	(44)	(55)	Equity raised/(repaid)	0	199	97	158	0
Associates	10	17	31	31	48	Debt raised/(repaid)	101	519	599	347	210
Earnings before tax	61	83	163	248	277	Other	(75)	(86)	(81)	(61)	(72)
% change Y/Y	41.3%	35.7%	96.9%	52.4%	11.4%	Dividends paid	(1)	(1)	(1)	(3)	(4)
Tax	(3)	(4)	(3)	(16)	(19)	Cash flow from financing	26	631	615	440	135
as % of EBT	4.7%	4.7%	1.6%	6.3%	7.0%	Net change in cash	(10)	75	32	261	227
Minority Interests	0	1	0	0	0	Beginning cash	68	58	133	166	427
Net income (reported)	58	80	160	233	257	Ending cash	58	133	166	427	654
Net income (recurring)	47	65	133	225	250	DPS	0.06	0.08	0.19	0.25	0.28
% change Y/Y	56.2%	37.5%	104.9%	68.7%	11.0%						
Shares outstanding	953	1,104	1,197	1,318	1,318						
Fully Diluted EPS	0.05	0.06	0.11	0.17	0.19						
Balance sheet						Ratio Analysis					
\$ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E	\$ in millions, year end Dec	FY11	FY12	FY13	FY14E	FY15E
Cash and cash equivalents	63	135	166	427	654	Gross margin	51.7%	44.6%	47.2%	50.8%	55.4%
Accounts receivable	32	57	107	222	221	EBITDA margin	47.9%	47.1%	58.5%	66.7%	74.4%
Inventories	1	0	0	4	3	EBIT margin	38.7%	36.7%	42.4%	46.7%	51.2%
Others	32	80	107	107	107	Net margin	44.2%	41.0%	47.3%	40.2%	44.9%
Current assets	128	273	380	760	985	Sales growth	(8.7%)	48.4%	77.7%	98.4%	(0.7%)
Net fixed assets	271	794	1,464	1,753	1,924	EBIT growth	35.4%	35.2%	96.8%	88.2%	8.7%
Other non-current assets	72	132	199	230	278	Recurring profit growth	56.2%	37.5%	104.9%	68.7%	11.0%
Total Assets	471	1,198	2,043	2,743	3,187	Recurring EPS growth	87.4%	18.7%	88.9%	53.3%	11.0%
Short-term loans	39	77	223	150	150	Interest coverage (x)	75.1	15.9	24.2	8.5	7.5
Payables	26	33	69	87	78	Net debt to equity	35.2%	75.5%	115.0%	85.3%	69.4%
Total current liabilities	82	158	376	277	265	Sales/assets	0.2	0.2	0.2	0.2	0.2
Long-term debt	118	475	863	1,283	1,493	Assets/equity	1.8	2.0	2.4	2.4	2.3
Other liabilities	2	12	4	4	4	ROE	19.8%	15.8%	19.7%	22.7%	19.2%
Total Liabilities	202	645	1,243	1,564	1,762	ROCE	11.7%	8.2%	8.4%	11.4%	9.5%
Shareholders' equity	268	553	800	1,179	1,425						
Total Liabilities and equity	470	1,198	2,043	2,743	3,187						
BVPS	0.28	0.41	0.59	0.82	1.01						

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

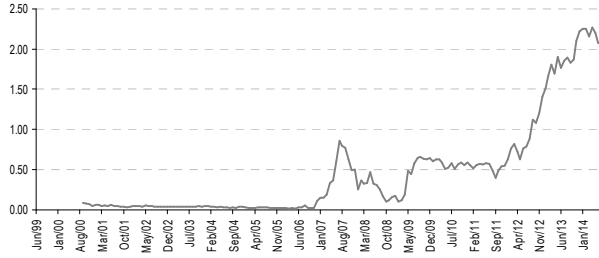
Ezion Holdings Limited (SINGAPORE / Energy)

As Of: 04-Jul-2014

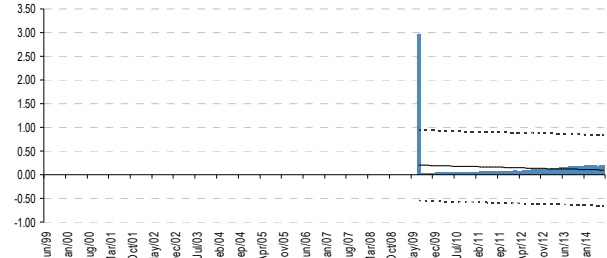
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

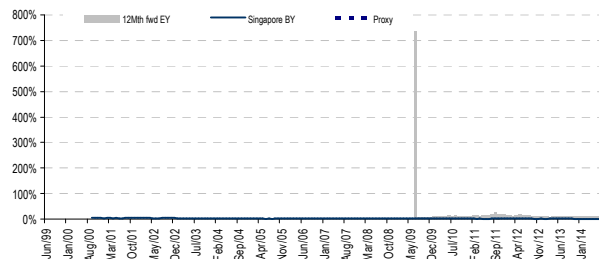
Local Share Price **Current: 2.07**



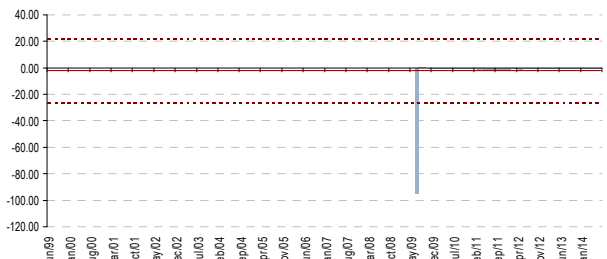
12 Mth Forward EPS **Current: 0.20**



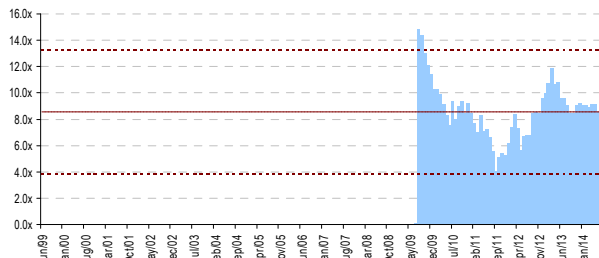
Earnings Yield (& local bond Yield) **Current: 12%**



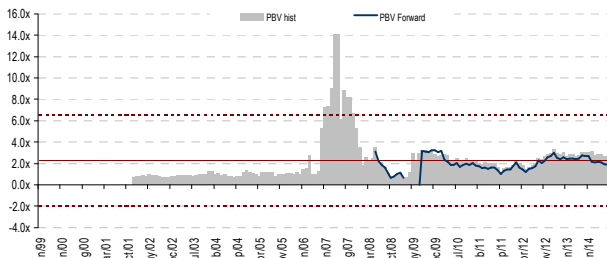
Implied Value Of Growth* **Current: -78.23%**



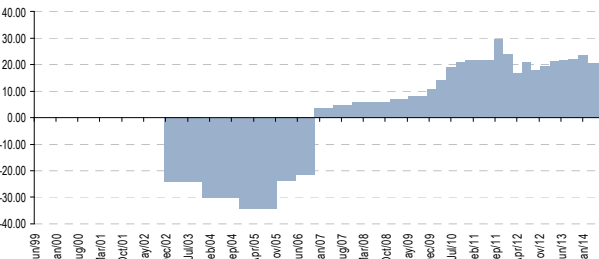
PE (1Yr Forward) **Current: 8.4x**



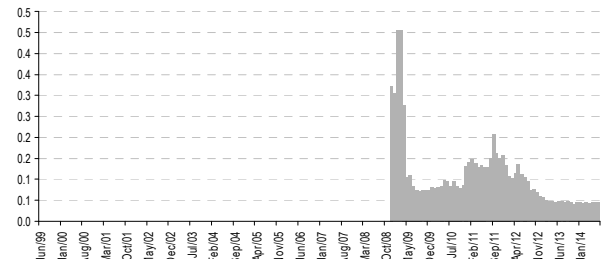
Price/Book Value **Current: 2.6x**



ROE (Trailing) **Current: 20.58**



Dividend Yield (Trailing) **Current: 0.05**



Summary

Ezion Holdings Limited		SEDOL		6286064		As Of:		4-Jul-14			
SINGAPORE						Local Price:		2.07			
Energy						EPS:		0.20			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	8.37x	0.14	14.84	8.56	8.58	13.26	3.90	-98%	77%	2%	2%
P/BV (Trailing)	2.64x	0.62	14.07	1.79	2.28	6.52	-1.97	-77%	433%	-32%	-14%
Dividend Yield (Trailing)	0.05	0.00	0.45	0.00	0.05	0.20	-0.11	-100%	909%	-100%	8%
ROE (Trailing)	20.58	-34.40	29.67	5.88	0.15	43.06	-42.76	-267%	44%	-71%	-99%
Implied Value of Growth	-78.2%	-94.73	0.15	-0.63	-2.19	21.91	-26.30	-12009%	119%	19%	-180%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

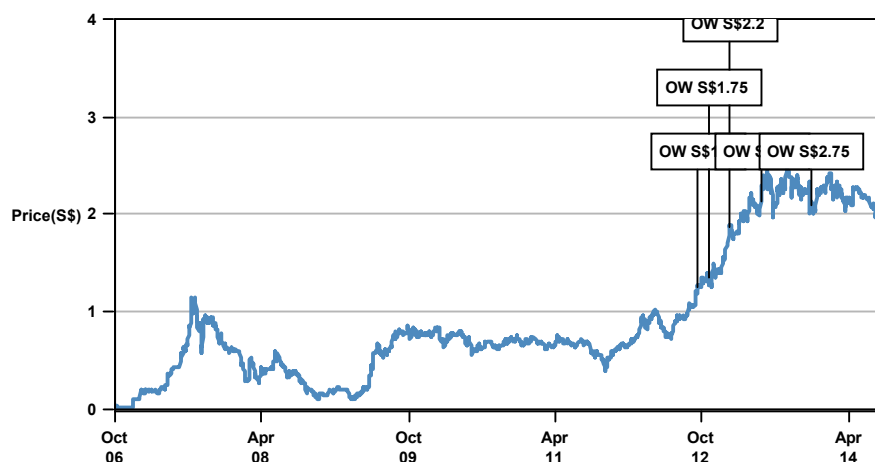
* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

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Ezion Holdings Ltd (EZHL.SI, EZI SP) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
14-Sep-12	OW	1.26	1.60
25-Oct-12	OW	1.36	1.75
11-Jan-13	OW	1.88	2.20
09-May-13	OW	2.14	2.60
15-Nov-13	OW	2.09	2.75

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 14, 2012.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock’s expected total return is compared to the expected total return of a benchmark country market index, not to those analysts’ coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst’s coverage universe can be found on J.P. Morgan’s research website, www.jpmorganmarkets.com.

Coverage Universe: Mirchandani, Ajay: Aboitiz Power (AP.PS), Bumi Armada Berhad (BUAB.KL), COSCO Corporation (COSC.SI), DMCI Holdings (DMC.PS), Dialog Group Bhd (DIAL.KL), Dyna-Mac Holdings Ltd (DMHL.SI), Electricity Generating Company (EGCO.BK), Energy Development (EDC) Corporation (EDC.PS), Ezion Holdings Ltd (EZHL.SI), Ezra Holdings Ltd (EZRA.SI), Glencore International PLC (0805.HK), Glow Energy (GLOW.BK), Keppel Corporation (KPLM.SI), Linc Energy Ltd (LINC.SI),

Malaysia Marine and Heavy Engineering Holdings Bhd (MHEB.KL), Manila Electric Company (MER.PS), Manila Water Company Inc (MWC.PS), Metro Pacific Investments Corp. (MPI.PS), Perisai Petroleum Teknologi Bhd (PPTB.KL), Ratchaburi Electricity Generating Holding (RATC.BK), SapuraKencana Petroleum Bhd (SKPE.KL), Sembcorp Marine (SCMN.SI), Semirara Mining Corp (SCC.PS), Tenaga (TENA.KL), UMW Oil & Gas Corp Bhd (UMOG.KL), Vard Holdings Ltd (VARD.SI), YTL Power (YTLP.KL)

J.P. Morgan Equity Research Ratings Distribution, as of June 30, 2014

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	11%
IB clients*	55%	49%	34%
JPMS Equity Research Coverage	46%	47%	7%
IB clients*	75%	66%	54%

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