



## Nam Cheong Ltd (NCL SP)

Share Price: SGD0.44

Target Price: SGD0.55(+25%)

MCap (USD): 746M

ADTV (USD): 2M

Singapore

Oil & Gas

# BUY

(Unchanged)

### Optimism reinforced; reiterate BUY

- EPS raised by 23-26% over FY15E-16E on positive vessel sales and contract win outlook.
- Will benefit disproportionately from a recovering OSV demand cycle due to added support from the robust Malaysian oil and gas market.
- Reiterate BUY, TP raised to SGD0.55, pegged to 2.2x FY15E P/B based on Gordon Growth model.

#### What's New

We raise FY14E/15E/16E EPS estimates by 1%/23%/26% to reflect our increasingly positive view on the contract win outlook for Nam Cheong. We see a high chance of Perdana Petroleum exercising its options for two additional build-to-order (BTO) accommodation work barges (AWBs), bringing total orders to four units worth USD168m. We also expect the 2016 building programme to consist of at least 30 vessels worth USD585m vs our previous conservative assumption of 26 vessels worth USD515m.

#### What's Our View

Nam Cheong should benefit disproportionately from a recovering OSV market, due to an added support from the Malaysian OSV operators, which are profiting from Petronas's spending push. In our recent conversation, management continues to exude confidence in vessel sales for the next two years, reinforcing our positive view. We believe that it would maintain its track record of selling all its build-to-stock vessels before delivery. Other than the option for two additional AWBs from Perdana Petroleum, we have not factored in any future BTO contracts, suggesting room for earnings upside.

Our TP is raised to SGD0.55 after ascribing a higher FY15E P/BV of 2.2x (previously 1.9x). In our view, a higher multiple is warranted given its better ROE profile (20% assumed sustainable ROE vs. 17% previously) post our earnings upgrades. Reiterate BUY.

FYE Dec (MYR m)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	876.6	1,257.4	2,100.2	2,354.8	2,355.3
EBITDA	150.3	219.9	305.8	357.0	357.5
Core net profit	136.6	205.6	250.0	298.5	305.6
Core FDEPS (sen)	7.1	9.7	11.8	14.1	14.4
Core FDEPS growth(%)	46.6	36.2	21.6	19.4	2.4
Net DPS (sen)	1.3	2.6	3.6	3.6	3.6
Core FD P/E (x)	15.8	11.6	9.6	8.0	7.8
P/BV (x)	3.6	2.5	2.1	1.8	1.5
Net dividend yield (%)	1.2	2.3	3.2	3.2	3.2
ROAE (%)	25.6	26.9	24.1	24.0	20.8
ROAA (%)	12.0	11.8	10.3	10.7	10.6
EV/EBITDA (x)	9.9	10.0	10.4	8.8	8.2
Net debt/equity (%)	38.2	52.1	71.1	57.1	34.3

#### Key Data

52w high/low (SGD)	0.45/0.27
3m avg turnover (USDm)	2.2
Free float (%)	37.3
Issued shares (m)	2,103
Market capitalization	SGD925.4M
Major shareholders:	
-S K Tiong Enterprise Sdn. Bhd.	27.3%
-Hung Yung Enterprise Sdn. Bhd.	15.2%
-TIONG SU KOUK	7.1%

#### Share Price Performance



— Nam Cheong - (LHS, SGD) — Nam Cheong / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	15.8	27.5	63.0
Relative to index (%)	15.7	23.8	60.7

#### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	6	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	0.55	0.46	19.6
'14 PATMI (MYRm)	250	260	(3.8)
'15 PATMI (MYRm)	299	296	0.7

Source: FactSet; Maybank

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## Stands to benefit disproportionately

**Management exudes confidence.** Our recent conversation with Nam Cheong reveals that enquiries from customers remain strong and management is confident of maintaining its vessel sale and new order momentum for the next two years.

**OSV sector firmly on a recovery path.** Management’s optimism reinforces our view that the demand for OSVs is firmly on a recovery path, driven by:

- Increasing rig count,
- Preference for younger and more sophisticated vessels,
- Establishment of more offshore structures and platforms, and
- Easing of an oversupply situation.

**In an advantageous position.** Nam Cheong is the preferred vessel builder for many Malaysian OSV operators such as Bumi Armada, Perdana Petroleum and Icon Offshore. As such, it stands to gain more significantly vs other OSV shipbuilders due to an added support from the Malaysian names which will ride on Petronas’s spending push in the Malaysia oil and gas sector.

## Raising FY15E-16E EPS by 23-26%

**The option for two more AWBs by Perdana Petroleum.** Nam Cheong recently secured an USD84m contract from Malaysia-listed Perdana Petroleum for two 500-men accommodation work barges (AWBs) that came with an option to purchase another two. This will be built under its build-to-order (BTO) programme which was not in our previous forecasts. We believe that the option would likely be exercised, adding another USD84m to its orderbook.

**Raising forecast for the 2016 shipbuilding programme.** We were also too conservative in our previous assumptions for the 2016 build-to-stock (BTS) shipbuilding programme where we assumed only 26 vessels worth USD515m. We now raise our forecast for the 2016 shipbuilding programme to 30 vessels worth USD585m, similar to 2015’s.

Consequently, our FY14E-16E EPS forecasts are raised by 1%-26% (Figure 1).

Figure 1: Key changes in estimates

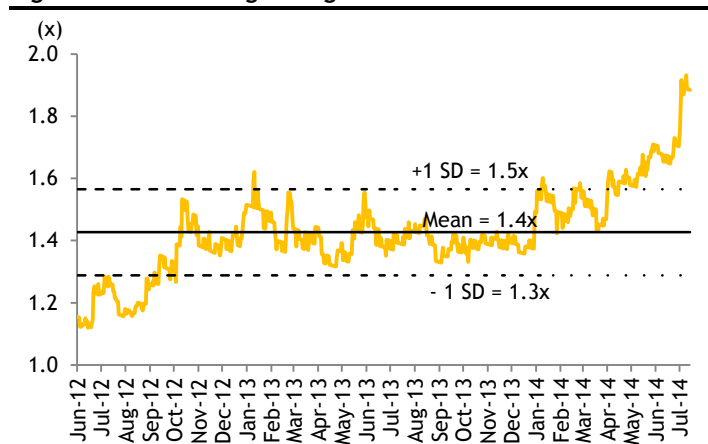
	Old			New			% change		
	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Revenue (MYR m)	2,085.2	2,031.8	1,926.2	2,100.2	2,354.8	2,355.3	0.7	15.9	22.3
Net profit (MYR m)	248.2	242.7	243.2	250.0	298.5	305.6	0.7	23.0	25.7
EPS (Sens)	11.8	11.5	11.6	11.9	14.2	14.5	0.7	23.0	25.7
BVPS (Sens)	53.8	61.8	69.7	53.9	64.5	75.5	0.2	4.4	8.2
ROE (%)	24.0	20.0	17.6	24.1	24.0	20.8	0.5	19.8	18.0

Source: Maybank KE

## Reiterate BUY, TP raised to SGD0.55

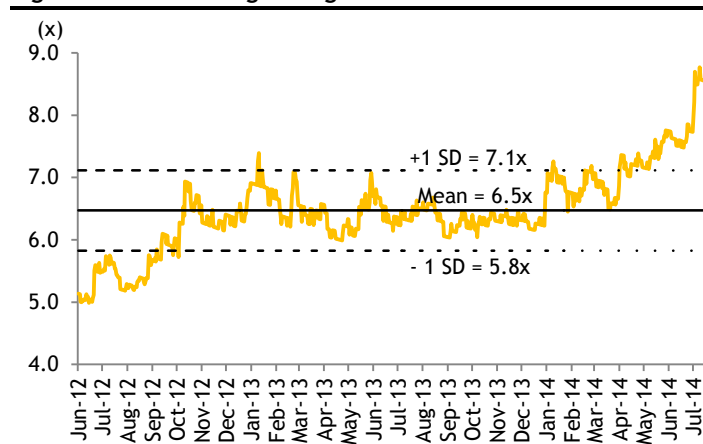
Valuing Nam Cheong based on FY15E P/BV. Due to its short trading history, we believe historical P/BV is weaker in terms of capturing the justified valuation of Nam Cheong in a positive cycle. To circumvent this, we derive our target P/BV multiple using the Gordon Growth model. Following our earnings upgrades, ROEs for Nam Cheong over FY14E-16E rises to 20.8% - 24.1% (from 17.6% - 24.0%). We raise our target P/BV multiple from 1.9x to 2.2x on higher sustainable ROE assumption of 20% vs 17% previously. Cost of equity and terminal growth rate remain unchanged at 9% and 0% respectively. We believe a premium valuation is warranted due to its positive order momentum and strong position in the Malaysian market. Reiterate BUY with higher TP of SGD0.55 (from SGD0.45). Implied FY14E/15E P/Es based on our TP are 12.0x and 10.1x respectively.

Figure 2: Nam Cheong rolling P/BV band



Source: Bloomberg, Maybank KE

Figure 3: Nam Cheong rolling P/E band



Source: Bloomberg, Maybank KE

Figure 3: Offshore & Marine stocks - valuation comparison

	Mkt cap		Target price	Last price*	FYE	EPS growth (%)			EV/EBITDA (x)			P/E (x)			P/BV (x)			ROE (%)			Div yield (%)			
	(USD m)	Curr				Rec	FY13A	FY14E	FY15E	FY13A	FY14E	FY15E	FY13A	FY14E	FY15E	FY13A	FY14E	FY15E	FY13A	FY14E	FY15E	FY13A	FY14E	FY15E
Keppel Corp	15,929	SGD	Hold	10.74	10.88	Dec	(19)	(11)	5	10.7	10.7	10.3	10.7	12.1	11.5	2.0	1.9	1.8	19.3	16.2	15.8	4.5	4.0	4.0
Sembcorp Industries	7,833	SGD	Hold	5.11	5.43	Dec	9	1	6	8.3	6.7	6.2	11.8	11.7	11.0	1.9	1.7	1.5	16.9	15.0	14.3	3.1	2.8	2.8
Sembcorp Marine	6,852	SGD	Hold	4.04	4.06	Dec	3	4	5	9.6	8.5	7.8	15.3	14.7	14.0	3.2	2.8	2.5	21.7	20.1	18.9	3.2	3.7	3.7
<b>Singapore shipyards</b>							(2)	(2)	5	9.5	8.6	8.1	12.6	12.8	12.2	2.4	2.1	1.9	19.3	17.1	16.3	3.6	3.5	3.5
Samsung Heavy	5,374	KRW	N.R.	N.A.	25,250	Dec	(21)	(76)	235	5.7	13.3	6.7	8.7	35.8	10.7	0.9	1.0	0.9	11.4	2.7	8.9	2.0	1.8	1.9
Daewoo Shipbuilding	4,443	KRW	N.R.	N.A.	23,950	Dec	21	31	36	16.9	14.2	11.8	16.8	12.9	9.4	0.9	0.9	0.8	5.6	7.0	9.0	1.3	1.4	1.5
Hyundai Heavy	9,834	KRW	N.R.	N.A.	163,500	Dec	(72)	(109)	(1,936)	12.6	17.0	10.3	32.4	n.m.	19.8	0.6	0.7	0.7	1.8	(0.2)	3.5	1.2	1.3	1.2
Hyundai Mipo	2,528	KRW	N.R.	N.A.	131,500	Dec	(346)	(54)	n.a.	n.m.	n.m.	9.2	n.m.	n.m.	29.5	0.8	0.9	0.9	(7.6)	(3.7)	3.1	0.6	0.6	0.7
<b>South Korea shipyards</b>							(104)	(52)	(555)	11.8	14.8	9.5	19.3	24.4	17.3	0.8	0.9	0.8	2.8	1.4	6.1	1.3	1.3	1.3
Cosco Corp	1,272	SGD	Sell	0.68	0.71	Dec	(71)	73	14	15.1	12.5	12.0	51.6	29.9	26.2	1.2	1.2	1.1	2.3	3.9	4.4	1.4	2.1	2.1
Yangzijiang	3,289	SGD	Hold	1.19	1.07	Dec	(11)	(8)	(16)	4.2	5.9	6.3	6.5	7.1	8.4	1.1	1.0	1.0	18.7	15.0	11.8	4.7	4.7	4.7
China Rongsheng	1,574	HKD	N.R.	N.A.	1.72	Dec	1,492	(88)	7	n.m.	126.9	116.8	n.m.	n.m.	n.m.	1.7	n.a.	n.a.	(88.3)	(18.4)	n.a.	n.a.	0.0	0.0
Guangzhou Shipyard	1,825	HKD	N.R.	N.A.	13.73	Dec	8	125	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.3	0.8	n.a.	n.a.	n.a.	n.a.
China CSSC	5,083	CNY	N.R.	N.A.	22.88	Dec	50	167	375	50.7	17.0	15.4	762.7	286.0	60.2	1.8	1.8	1.8	0.2	0.6	3.0	n.a.	0.0	0.0
<b>China shipyards</b>							294	54	95	23.3	40.6	37.6	273.6	107.6	31.6	1.4	1.3	1.3	(13.3)	0.4	6.4	3.1	1.7	1.7
Vard Holdings	1,027	SGD	Buy	1.27	1.08	Dec	(60)	72	55	16.2	11.3	7.2	17.7	10.3	6.6	1.7	1.5	1.2	10.4	15.4	20.3	0.0	2.8	4.6
Nam Cheong	754	SGD	Buy	0.55	0.44	Dec	37	22	19	12.4	8.9	7.7	11.6	9.5	8.0	2.5	2.1	1.8	25.9	24.2	24.0	2.3	3.2	3.2
Jaya Holdings	25	SGD	N.R.	N.A.	0.04	Jun	3	n.a.	n.a.	n.m.	n.a.	n.a.	0.5	n.a.	n.a.	0.0	n.a.	n.a.	8.7	n.a.	n.a.	100.0	n.a.	n.a.
ASL Marine	230	SGD	N.R.	N.A.	0.68	Jun	40	n.a.	n.a.	7.9	n.a.	n.a.	6.3	n.a.	n.a.	0.7	n.a.	n.a.	12.0	n.a.	n.a.	2.9	n.a.	n.a.
Triyards	163	SGD	N.R.	N.A.	0.69	Aug	(23)	(18)	2	6.1	6.5	6.4	4.7	5.7	5.6	1.1	0.9	0.8	22.8	17.6	15.7	2.9	n.a.	n.a.
Coastal Contracts	862	MYR	N.R.	N.A.	5.17	Dec	27	19	13	13.9	8.8	6.3	16.5	13.9	12.3	2.5	1.9	1.7	16.4	15.4	14.7	1.2	1.4	1.5
<b>OSV shipyards</b>							4	24	22	11.3	8.9	6.9	9.6	9.9	8.2	1.4	1.6	1.4	16.0	18.2	18.7	18.2	2.4	3.1
Ezion	2,095	SGD	Buy	2.70	1.99	Dec	28	63	20	15.3	9.8	7.9	15.8	9.7	8.1	2.4	1.7	1.4	16.5	20.3	18.9	0.1	0.1	0.1
Swiber	266	SGD	Hold	0.59	0.54	Dec	33	(22)	(82)	7.9	11.0	19.1	4.3	5.4	30.0	0.5	0.5	0.5	12.1	8.7	1.5	0.0	6.9	0.0
Mermaid Maritime	512	SGD	Buy	0.59	0.46	Sep	387	206	10	10.6	8.3	7.4	32.7	10.7	9.7	1.0	0.9	0.9	3.5	9.0	9.2	2.4	1.4	1.4
PACC Offshore.	1,667	SGD	N.R.	N.A.	1.15	Dec	35	(8)	98	28.1	17.8	9.0	15.2	16.4	8.3	0.6	n.a.	n.a.	3.6	3.4	n.a.	n.a.	0.0	0.0
Pacific Radiance	836	SGD	N.R.	N.A.	1.43	Dec	n.a.	(5)	23	20.2	13.4	10.6	11.5	12.1	9.8	2.2	1.8	n.a.	19.0	16.6	18.8	1.4	1.8	1.8
Ezra	919	SGD	N.R.	N.A.	1.17	Aug	(24)	(9)	53	35.6	14.4	10.4	17.1	18.7	12.3	0.8	0.8	0.8	5.0	4.4	6.4	0.4	0.4	0.5
Dyna-Mac	317	SGD	N.R.	N.A.	0.39	Dec	(7)	7	35	8.6	8.0	6.5	13.8	12.8	9.5	2.0	1.9	1.8	15.2	15.5	19.8	5.2	5.2	7.8
KS Energy	196	SGD	N.R.	N.A.	0.48	Dec	(100)	n.a.	n.a.	16.3	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	0.0	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Singapore oil services</b>							50	33	22	17.8	11.8	10.1	15.8	12.3	12.5	1.3	1.3	1.1	9.4	11.1	12.4	1.6	2.2	1.6

\*As at close of 14 July 2014

Source: FactSet, Maybank KE

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Key Metrics</b>					
P/E (reported) (x)	15.8	11.6	9.5	8.0	7.8
Core P/E (x)	15.8	11.6	9.5	8.0	7.8
Core FD P/E (x)	15.8	11.6	9.6	8.0	7.8
P/BV (x)	3.6	2.5	2.1	1.8	1.5
P/NTA (x)	3.6	2.5	2.1	1.8	1.5
Net dividend yield (%)	1.2	2.3	3.2	3.2	3.2
FCF yield (%)	2.7	nm	nm	4.5	12.9
EV/EBITDA (x)	9.9	10.0	10.4	8.8	8.2
EV/EBIT (x)	10.4	10.7	10.9	9.2	8.5

**INCOME STATEMENT (MYR m)**

Revenue	876.6	1,257.4	2,100.2	2,354.8	2,355.3
Gross profit	188.7	264.4	387.1	439.1	444.3
EBITDA	150.3	219.9	305.8	357.0	357.5
Depreciation	(6.8)	(13.2)	(13.2)	(13.3)	(13.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	143.5	206.7	292.6	343.7	344.1
Net interest income / (exp)	(7.6)	(10.4)	(24.8)	(23.8)	(16.6)
Associates & JV	2.7	2.9	3.0	3.5	3.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	138.6	199.2	270.8	323.4	331.1
Income tax	(2.0)	7.0	(20.1)	(24.0)	(24.6)
Minorities	0.0	(0.6)	(0.8)	(0.9)	(0.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	136.6	205.6	250.0	298.5	305.6
Core net profit	136.6	205.6	250.0	298.5	305.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	216.3	362.0	157.2	107.0	90.2
Accounts receivable	120.2	220.3	342.9	384.5	384.6
Inventory	453.9	751.1	1,173.3	1,312.1	1,309.0
Property, Plant & Equip (net)	152.7	290.1	292.1	293.9	295.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.1	1.1	1.1	1.1	1.1
Other assets	362.6	554.5	724.8	801.2	801.4
<b>Total assets</b>	<b>1,305.8</b>	<b>2,179.2</b>	<b>2,691.4</b>	<b>2,899.9</b>	<b>2,882.0</b>
ST interest bearing debt	155.4	242.1	283.5	271.4	158.7
Accounts payable	257.2	380.6	583.2	649.8	648.3
LT interest bearing debt	287.1	609.1	680.4	610.6	476.1
Other liabilities	13.9	8.8	8.8	8.8	8.8
<b>Total Liabilities</b>	<b>713.6</b>	<b>1,240.6</b>	<b>1,556.0</b>	<b>1,540.7</b>	<b>1,291.9</b>
Shareholders Equity	592.2	938.0	1,134.1	1,356.9	1,586.9
Minority Interest	0.0	0.6	1.4	2.3	3.2
<b>Total shareholder equity</b>	<b>592.2</b>	<b>938.6</b>	<b>1,135.4</b>	<b>1,359.2</b>	<b>1,590.1</b>

**CASH FLOW (MYR m)**

Pretax profit	138.6	199.2	270.8	323.4	331.1
Depreciation & amortisation	6.8	13.2	13.2	13.3	13.4
Adj net interest (income)/exp	7.6	10.4	24.8	23.8	16.6
Change in working capital	(63.3)	(418.6)	(512.5)	(190.1)	1.4
Cash taxes paid	(4.7)	(0.4)	(20.1)	(24.0)	(24.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	75.8	(230.5)	(248.9)	122.5	321.4
Capex	(18.2)	(43.8)	(15.0)	(15.0)	(15.0)
Free cash flow	57.6	(274.3)	(263.9)	107.5	306.4
Dividends paid	(9.4)	(25.9)	(54.7)	(76.6)	(76.6)
Equity raised / (purchased)	0.0	118.6	0.0	0.0	0.0
Change in Debt	131.9	400.0	112.8	(82.0)	(247.2)
Other invest/financing cash flow	8.3	(73.7)	0.9	0.8	0.6
Effect of exch rate changes	(0.0)	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>188.4</b>	<b>144.7</b>	<b>(204.9)</b>	<b>(50.2)</b>	<b>(16.8)</b>

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	44.6	43.5	67.0	12.1	0.0
EBITDA growth	35.2	46.3	39.1	16.7	0.2
EBIT growth	37.0	44.0	41.5	17.5	0.1
Pretax growth	36.8	43.8	35.9	19.4	2.4
Reported net profit growth	46.6	50.6	21.6	19.4	2.4
Core net profit growth	46.6	50.6	21.6	19.4	2.4
<b>Profitability ratios (%)</b>					
EBITDA margin	17.1	17.5	14.6	15.2	15.2
EBIT margin	16.4	16.4	13.9	14.6	14.6
Pretax profit margin	15.8	15.8	12.9	13.7	14.1
Payout ratio	18.2	26.6	30.6	25.6	25.1
<b>DuPont analysis</b>					
Net profit margin (%)	15.6	16.4	11.9	12.7	13.0
Revenue/Assets (x)	0.7	0.6	0.8	0.8	0.8
Assets/Equity (x)	2.2	2.3	2.4	2.1	1.8
ROAE (%)	25.6	26.9	24.1	24.0	20.8
ROAA (%)	12.0	11.8	10.3	10.7	10.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	115.5	151.6	149.2	173.3	183.4
Days receivable outstanding	52.0	48.8	48.3	55.6	58.8
Days inventory outstanding	169.3	218.4	202.2	233.5	246.9
Days payables outstanding	105.7	115.6	101.3	115.9	122.3
Dividend cover (x)	5.5	3.8	3.3	3.9	4.0
Current ratio (x)	2.8	2.9	2.6	2.7	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.8	1.7	1.9	2.2
Net debt/equity (%)	38.2	52.1	71.1	57.1	34.3
Net interest cover (x)	18.8	19.9	11.8	14.4	20.8
Debt/EBITDA (x)	2.9	3.9	3.2	2.5	1.8
Capex/revenue (%)	2.1	3.5	0.7	0.6	0.6
Net debt/ (net cash)	226.3	489.1	806.8	775.0	544.6

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