

## Ezion Holdings (EZI SP) : UNDER REVIEW

**Mkt. Cap:** US\$311m | **3m Avg. Daily Val:** NA

**Last Traded Price ( 12 Mar 2018):** S\$0.197

**Price Target 12-mth:** UNDER REVIEW

### Analyst

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### Key takeaways from FY17 results briefing

- Massive impairment of ~US\$900m taken in 4Q17
- Successful refinancing is only half the battle; awaiting white knights to strengthen balance sheet and positioning
- Day rates recovery in sight
- Recommendation and TP under review

### Forecasts and Valuation

FY Dec (US\$m)	2014A	2015A	2016A	2017A
Revenue	387	351	318	193
EBITDA	309	267	204	46
Pre-tax Profit	226	38	(31)	(1,015)
Net Profit	224	37	(34)	(1,018)
Net Pft (Pre-Ex, Aft Pref	179	95	14	(131)
Net Pft Gth (Pre-ex) (%)	18.6	3.1	(2.1)	(64.3)
EPS (S cts)	14.9	7.9	0.9	(8.3)
EPS Pre Ex, Aft Pref Div (S cts)	26	(84)	nm	(2,928)
EPS Gth Pre Ex, Aft pref div (%)	21	(47)	(89)	nm
Net DPS (S cts)	0.1	0.0	0.0	0.0
BV Per Share (S cts)	89.5	91.4	74.2	10.4
PE (X)	1.1	6.4	nm	0.0
PE Pre Ex, aft pref div (X)	1.3	2.5	21.9	nm
P/Cash Flow (X)	1.1	1.1	2.1	4.9
EV/EBITDA (X)	5.2	6.6	8.5	39.7
Net Div Yield (%)	0.5	0.0	0.0	0.0
P/Book Value (X)	0.2	0.2	0.3	1.9
Net Debt/Equity (X)	0.9	1.1	1.0	4.5
ROAE (%)	24.5	2.1	(3.7)	(151.8)

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### Results highlights

**FY17 results hit by impairment.** As earlier guided, Ezion posted a loss of US\$1.0bn for FY17. This was attributable largely to impairment on PPE (property, plant and equipment), receivables and loans to JV which in total amounted to US\$897m in 4Q17. Stripping impairment and net forex loss, core loss was approx. US\$100m for FY17.

### Net gearing increased from 1.1x to 4.5x post impairment.

However, it would be lower at <1.0x assuming full conversion and exercise of warrants.

On a positive note, Ezion **recorded positive operating cash flow** of c. US\$20m in 4Q2017 and US\$60m in FY2017.

### Key takeaways

**The refinancing proposal**, which has been approved by its lenders, security holders and shareholders:

- Gives Ezion a 6-year runway as going-concern is no longer an issue;
- Provides additional credit line of US\$118m for working capital;
- Reduces depreciation expense by approx. US\$60m, and leads to interest savings of US\$30m from bank loans and US\$28m from securities issued; and
- Allows Ezion to seek Strategic Partners and Investors to strengthen its balance sheet and expand the liftboat fleet.

## Flash Note

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**Strategic shareholders.** Successful refinancing is half the battle. Ezion remains in talks with potential strategic shareholders that are synergistic with its existing liftboat business and financial investors to strengthen its balance sheet and position it to ride the sector's recovery. Having strategic shareholders is a critical weapon required to win the other half of the battle i.e. earnings recovery. Financial backing will be required to grow Ezion's operating fleet to tap demand for liftboats and Mobile Offshore Production Unit (MOPU).

**Utilisation and day rates set to rise.** Given the higher oil prices, O&G activity is picking up, driving demand for service rigs. Utilisation for its liftboats hovered at around 70% in FY17 and is expected to rise to >90% by the end of this year; jackups were only 19% utilised in FY17 but should improve to 50% this year.

Ezion sold 2 jackups in 1Q18 and plans to dispose of another 5 units. We understand that the potential resale value for these earmarked units have been taken into consideration during the assessment for impairment and any disposal losses should not be huge.

Day rates, especially for jackup rigs, have been on a declining trend since the oil crisis and continued to see downward pressure last year. We are now seeing some signs of rate recovery. Average day rates for liftboats could improve from last year's estimated ~US\$30k level to US\$40k on average. As for jackups, day rates are also rebounding. Though, average day rates for jackups could normalise to ~US\$30k level this year from FY17's estimated average rate of ~US\$54k, in the absence of legacy contracts and commencement of charters at lower rates.

## Ezion's fleet

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Fleet	Liftboats	Jackups	Offshore Support Vessels
Total units	12	20	44
Units deployed	9	8	7
Expected disposals	-	7	25-30
Expected additions	2	-	-
<b>Utilisation &amp; Day rates</b>			
Est. Average Utilisation	72%	19%	17%
Est. Average Day Rates (US\$/day)	30,400	54,500	7,500
<b>Net book value</b>			
As of end 2017 (US\$ m)	672.3	580.1	137.5
<i>Impairment on PPE and receivables made in 2016&amp;2017</i>	<i>54</i>	<i>749</i>	<i>271</i>
Implied value per unit (US\$ m)	56	29	3

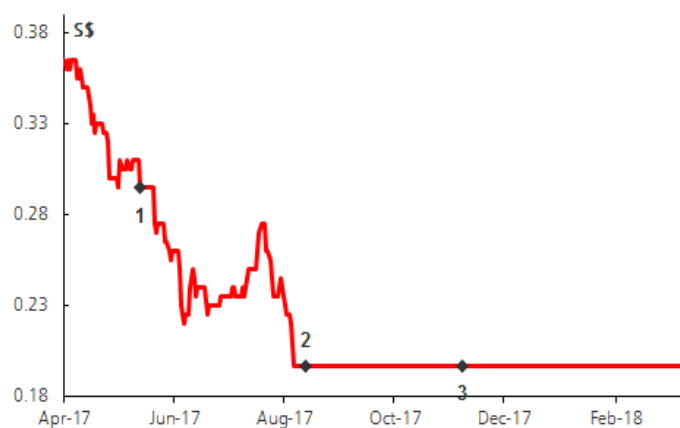
Source: Company, DBS Bank Estimate

## Recommendation

**Turning over a new leaf.** The successful refinancing and operational recovery should minimise insolvency risk for Ezion as principal repayments will be pushed back by ~6 years. Furthermore, the potential partnership with a strong industrial player and financial investors will enhance Ezion's position and growth prospects.

**Our Fully Valued call and TP of S\$0.13 are under review.** Upon completion of the refinancing exercise, eliminating near term insolvency risk, Ezion should trade closer to book value post impairment and dilution, which we estimate to be **around S\$0.25**, when it resumes trading in mid-Apr.

## Target Price &amp; Ratings History



*Note: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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