HDFC securities

INSTITUTIONAL RESEARCH

EVENT UPDATE | 17 MAY 2018

Asian Oilfield Services

NOT RATED

INDUSTRY	O&G Ancillary
CMP *(as on 17 May 2018)*	Rs 135
Fair Price	Rs 166
Nifty	10,683
Sensex	35,149
KEY STOCK DATA	
Bloomberg	AOS IN
No. of Shares (mn)	34
MCap (Rs bn) / ($ mn)	5/68
6m avg traded value (Rs mn)	15

STOCK PERFORMANCE (%)

52 Week high / low	Rs 297/122		
	3M	6M	12M
Absolute (%)	(44.1)	(30.8)	(36.7)
Relative (%)	(47.4)	(36.2)	(51.3)

SHAREHOLDING PATTERN (%)

Promoters	59.29
FIs & Local MFs	0.61
FPIs	0.00
Public & Others	40.10

Source : BSE

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Tough times may recede

Koral Energy International terminated the five year O&M contact awarded to Asian Oilfield's 100% subsidiary Asian Oilfield & Energy Services DMCC (ADMCC) in Feb-17. This came in as a major negative surprise. The prime reason for contract cancellation is to reduce operating cost.

Looking at the operational performance of ADMCC over more than one and half years we think, the termination of contract has no relation with any deficiency in services provided by ADMCC. We believe that the company has technical expertise and capabilities to secure O&M contracts in future.

However, owing to termination of the contract we cut our revenue estimates by 68/43% to Rs 2.82bn and Rs 3.86bn for FY19E/20E. APAT will reduce by 68/34% to Rs 0.47bn and Rs 0.63bn. Our fair value for the stock reduces to Rs 166/share (10x Mar 20E EPS) from Rs 312/share.

- The current order book in seismic business stands at Rs 70bn. The company operates at 30% operating and 15-17% PAT margin in this business. AOS has received mobilisation advances from upstream companies to the tune of 10% hence it operates with a low working capital requirement. The existing infrastructure is sufficient to execute order book of Rs 3bn per annum. We do not see significant capex requirement in near term to execute current orders. This will lead to FCF generation Rs 1.13bn over FY19-20.
- DGH has received 110 bids from 8 companies in the first round of OALP for 55 hydrocarbon blocks (sedimentary area of ~66,000sq.km) offered for bidding. These blocks will be awarded by Jun-18. After acquiring the block, winning companies would carry out detail seismic (2D/3D) study of these blocks to estimate reserves of those blocks. We expect these new orders of seismic survey to flow to companies like Asian Oilfield Services and AlphaGeo.
- Open Acreage License Policy (OALP) and National Seismic Programme (NSP) are expected to boost business opportunities. Government of India (GoI) has increased the allocation for NSP to Rs 13bn in FY19 from Rs 0.1bn in FY18.

Financial Summary (Consolidated)

(Rs mn)	FY17	FY18E	FY19E	FY20E
Net Sales	1,243	2,450	2,824	3,860
EBITDA	229	784	847	1,158
APAT	38	494	467	632
Diluted EPS (Rs)	1.5	13.0	12.3	16.6
P/E (x)	94.6	10.6	11.3	8.3
EV / EBITDA (x)	25.2	6.0	5.1	3.2
RoE (%)	17.3	44.8	22.3	23.9

Source: Company, HDFC sec Inst Research

Current order book in Seismic business stands at Rs 7bn which will be executed over FY19-20

Seismic Business Order Book

Client Name	Location	Nature of Work	Amount (Rs mn)
Bashneft	Myanmar	Seismic	480
Oil India	Mizoram, India	Seismic	790
Oil India	Arunachal Pradesh, India	Seismic	610
Oil India	NC Hills, India	Seismic	640
Oil India	Manipur, India	Seismic	1,430
Oil India	Rajasthan, India	Seismic	690
ONGC	Ganges, India	Seismic	1,090
Stratum Energy	Romania	Seismic	1,270
Total			**7,000**

Source: Company, HDFC sec Inst Research

Change in estimates

Rs mn	FY19E Old	FY19E New	*Change*	*Change (%)*	FY20E Old	FY20E New	*Change*	*Change (%)*
Net sales	8,786	2,824	*-5,962*	*-67.9*	6,741	3,860	*-2,881*	*-42.7*
EBITDA	4,167	847	*-3,320*	*-79.7*	3,553	1,158	*-2,395*	*-67.4*
APAT	1,459	467	*-992*	*-68.0*	961	632	*-329*	*-34.2*
AEPS (Rs/sh)	38.3	12.3	*-26.1*	*-68.0*	25.2	16.6	*-8.6*	*-34.2*

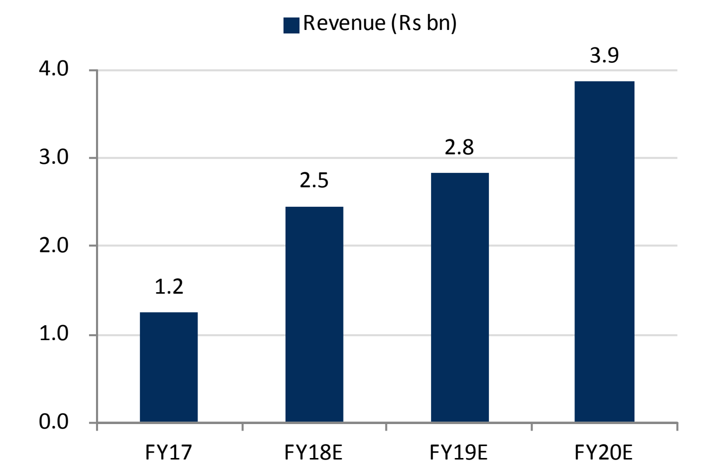
Source: Company, HDFC sec Inst Research

On YoY basis, the company is expected to maintain its top-line in FY19 in spite of termination of O&M contract

In the absence of higher margin O&M business compare to seismic business there will be deep in EBITDA and PAT margins in FY19 and FY20

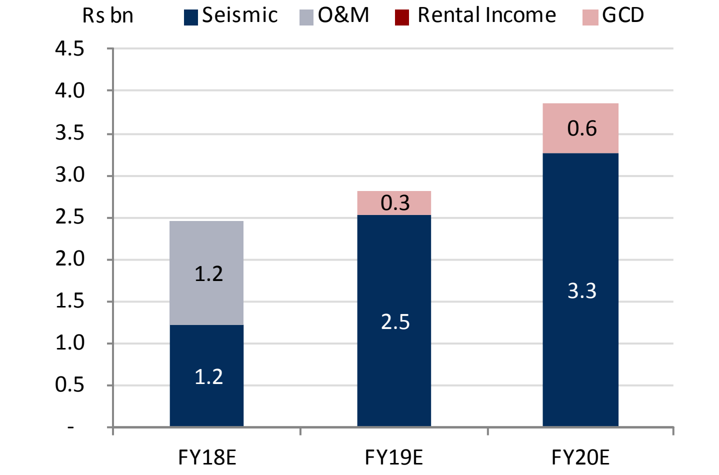
Yearly Performance

Net Revenue Increasing At A Moderate Pace



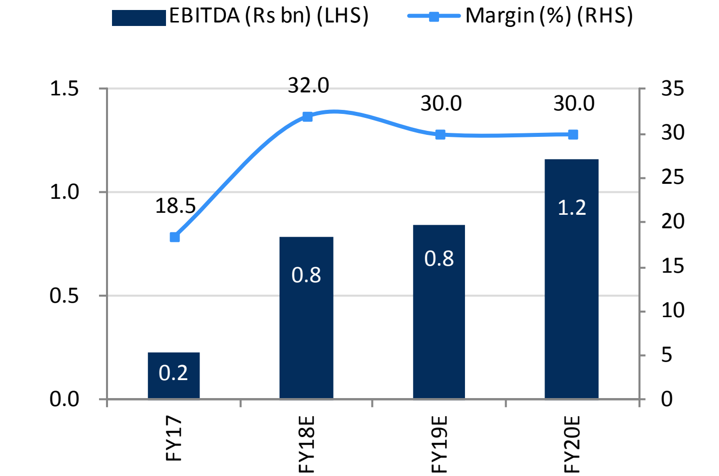
Source: Company, HDFC sec Inst Research

Revenue Break-up



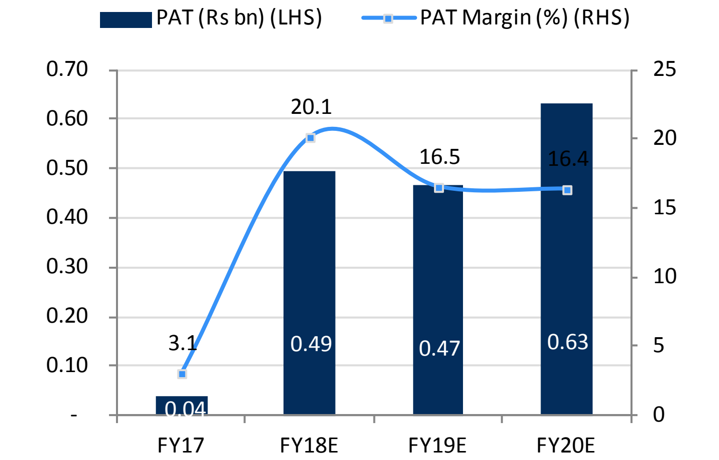
Source: Company, HDFC sec Inst Research

EBITDA & EBITDA Margin Trend



Source: Company, HDFC sec Inst Research

PAT and PAT Margin Trend



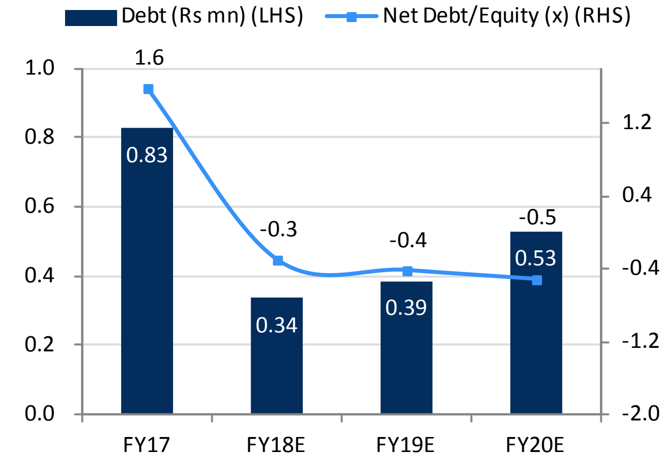
Source: Company, HDFC sec Inst Research

Moderate increase in short term debt to Rs 0.53bn in FY20E from Rs 0.34bn in FY18E

Operating cash flow generation of Rs 1.46bn over the next two years

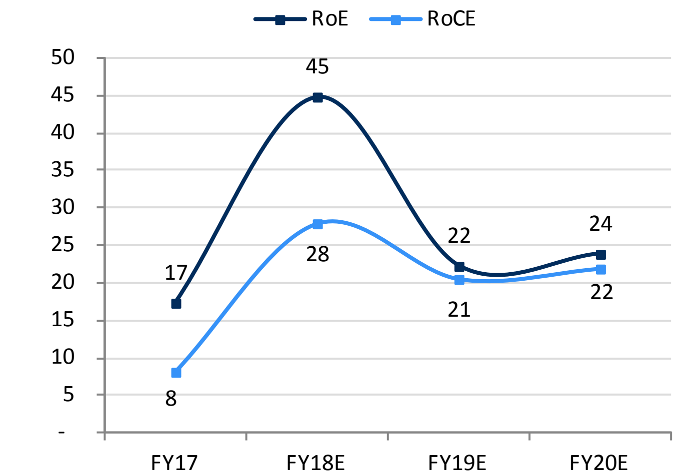
Fund infusion and positive earnings to increase book value

Debt and Net Debt/Equity Ratio



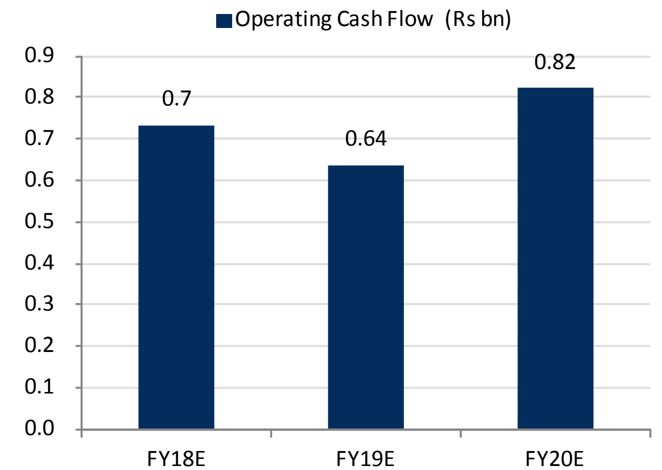
Source: Company, HDFC sec Inst Research

Return Ratios To Remain Above 20%



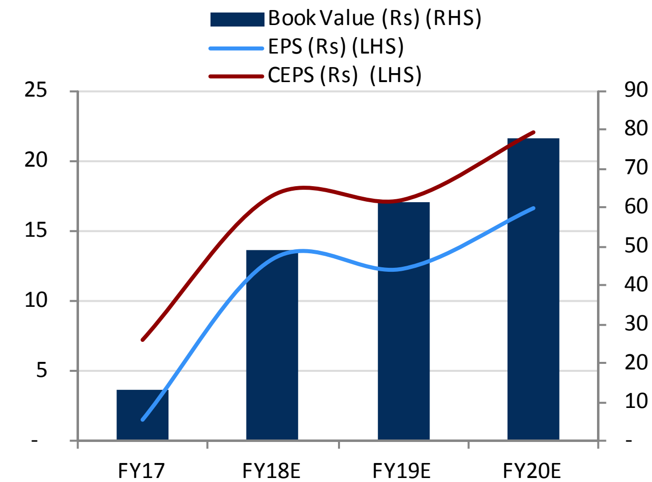
Source: Company, HDFC sec Inst Research

Operating Cash Flow Generation Of Rs 1.46bn



Source: Company, HDFC sec Inst Research

EPS And BV On An Upward Trend



Source: Company, HDFC sec Inst Research

Expected to add 2 Gas Compression and Dehydration units each year from FY19

We have not assumed any revenue from O&M business in FY19 and FY20

We expect EBITDA margins of 30% for Seismic and Gas Compression and Dehydration business while 34% for O&M business

Assumptions

	FY18E	FY19E	FY20E
Order Intake			
-Seismic	1,960	-	-
-Gas Compression & Dehydration	-	300	600
Total	**1,960**	**300**	**600**
Order Book At The End Of The Period			
-Seismic	5,784	3,260	-
-O&M	-	-	-
-Gas Compression & Dehydration	-	-	-
Total	**5,784**	**3,260**	**-**
Revenue			
-Seismic	1,216	2,524	3,260
-O&M	1,234	-	-
-Gas Compression & Dehydration	-	300	600
Total	**2,450**	**2,824**	**3,860**
Capex (Rs mn)	50	150	175
Seismic EBITDA Margin (%)	30	30	30
O&M EBITDA Margin (%)	34	-	-
Gas Compression & Dehydration Margin (%)	30	30	30

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**777**	**1,243**	**2,450**	**2,824**	**3,860**
Growth (%)	***(44.9)***	***60.1***	***97.1***	***15.3***	***36.7***
Employee Expenses	175	225	384	459	579
Other Operating Expenses	165	228	216	424	579
Operating Profits	**(223)**	**229**	**784**	**847**	**1,158**
Operating Profit Margin (%)	***(28.7)***	***18.5***	***32.0***	***30.0***	***30.0***
EBITDA	**(223)**	**229**	**784**	**847**	**1,158**
EBITDA Margin (%)	***(28.7)***	***18.5***	***32.0***	***30.0***	***30.0***
EBITDA Growth (%)	***304.5***	***(202.8)***	***241.8***	***8.0***	***36.7***
Depreciation	178	151	173	188	206
EBIT	**(401)**	**78**	**611**	**659**	**952**
Other Income (Including EO Items)	258	(183)	97	14	19
Interest	109	77	50	50	69
PBT	**(252)**	**(182)**	**657**	**622**	**903**
Tax (Incl. Deferred)	19	2	91	156	271
RPAT	**(271)**	**(184)**	**566**	**467**	**632**
EO (Loss) / Profit (Net Of Tax)	(27)	(222)	72	0	0
APAT	**(243)**	**38**	**494**	**467**	**632**
APAT Growth (%)	***(8.5)***	***(115.6)***	***1,197.7***	***(5.4)***	***35.3***
Adjusted EPS (Rs)	**(10.9)**	**1.5**	**13.0**	**12.3**	**16.6**
EPS Growth (%)	***(8.5)***	***(113.4)***	***788.7***	***(5.4)***	***35.3***
Diluted EPS	***(10.9)***	***1.0***	***13.0***	***12.3***	***16.6***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	223	261	381	381	381
Reserves	(123)	77	1,483	1,950	2,581
Total Shareholder's Funds	**101**	**338**	**1,863**	**2,330**	**2,962**
Minority Interest/Warrants	**0**	**480**	**0**	**0**	**0**
Long Term Debt	179	89	0	0	0
Short Term Debt	923	737	336	387	529
Total Debt	**1,102**	**827**	**336**	**387**	**529**
Other Non-current Liabilities & Provns	**1**	**0**	**0**	**0**	**0**
TOTAL SOURCES OF FUNDS	**1,203**	**1,644**	**2,199**	**2,717**	**3,491**
APPLICATION OF FUNDS					
Net Block	954	834	711	672	641
Other Non-current Assets	107	378	388	400	420
Total Non-current Assets	**1,061**	**1,212**	**1,098**	**1,072**	**1,061**
Cash & Equivalents	**97**	**291**	**893**	**1,356**	**2,052**
Inventories	57	16	34	39	53
Debtors	429	275	503	580	793
Other Current Assets	63	299	325	375	425
Total Current Assets	**548**	**590**	**862**	**994**	**1,271**
Creditors	273	354	503	580	793
Other Current Liabilities & Provns	230	94	150	125	100
Total Current Liabilities	**503**	**449**	**653**	**705**	**893**
Net Current Assets	**45**	**141**	**209**	**289**	**378**
TOTAL APPLICATION OF FUNDS	**1,203**	**1,644**	**2,199**	**2,717**	**3,491**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	**(252)**	**(182)**	**657**	**622**	**903**
Interest Expenses	109	77	50	50	69
Depreciation	178	151	173	188	206
Working Capital Change	29	(88)	(55)	(68)	(84)
Tax Paid	(19)	(2)	(91)	(156)	(271)
OPERATING CASH FLOW (a)	**45**	**(44)**	**734**	**638**	**822**
Capex	(72)	(31)	(50)	(150)	(175)
Free Cash Flow (FCF)	*(27)*	*(75)*	*684*	*488*	*647*
Investments	0	0	0	0	0
Non-operating Income	0	(279)	(22)	(25)	(25)
INVESTING CASH FLOW (b)	**(72)**	**(311)**	**(72)**	**(175)**	**(200)**
Debt Issuance/(Repaid)	402	(275)	(491)	51	142
Interest Expenses	(109)	(77)	(50)	(50)	(69)
FCFE	*266*	*(427)*	*143*	*489*	*721*
Share Capital Issuance	0	886	480	0	0
Others	(199)	15	0	0	0
FINANCING CASH FLOW (c)	**94**	**550**	**(61)**	**1**	**73**
NET CASH FLOW (a+b+c)	**67**	**195**	**601**	**464**	**696**
Closing Cash & Equivalents	**97**	**291**	**893**	**1,356**	**2,052**

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	15.0	54.9	56.5	61.3	60.0
EBITDA Margin	(28.7)	18.5	32.0	30.0	30.0
EBIT Margin	(51.6)	6.3	24.9	23.3	24.7
APAT Margin	(31.3)	3.1	20.1	16.5	16.4
RoE	(102.9)	17.3	44.8	22.3	23.9
RoIC (or Core RoCE)	(36.7)	6.4	39.5	37.0	47.6
RoCE	(10.2)	8.1	27.9	20.5	21.9
EFFICIENCY					
Tax Rate (%)	(7.3)	(1.2)	13.9	25.0	30.0
Fixed Asset Turnover (x)	0.8	1.5	3.4	4.2	6.0
Inventory (days)	*26.6*	*4.6*	*5.0*	*5.0*	*5.0*
Debtors (days)	*201.7*	*80.8*	*75.0*	*75.0*	*75.0*
Other Current Assets (days)	*29.4*	*87.9*	*35.2*	*35.2*	*29.2*
Payables (days)	*128.4*	*104.0*	*75.0*	*75.0*	*75.0*
Other Current Liab & Provns (days)	*108.0*	*27.7*	*22.3*	*16.2*	*9.5*
Cash Conversion Cycle (days)	21.3	41.5	17.8	24.0	24.7
Debt/EBITDA (x)	(4.9)	3.6	0.4	0.5	0.5
Net D/E (x)	10.0	1.6	(0.3)	(0.4)	(0.5)
Interest Coverage (x)	(3.7)	1.0	12.1	13.1	13.8
PER SHARE DATA (Rs)					
EPS	(10.9)	1.5	13.0	12.3	16.6
CEPS	(2.9)	7.3	17.5	17.2	22.0
Book Value	4.5	13.0	48.9	61.2	77.8
VALUATION					
P/E (x)	(12.7)	94.6	10.6	11.3	8.3
P/BV (x)	30.6	10.6	2.8	2.3	1.8
EV/EBITDA (x)	(28.0)	25.2	6.0	5.1	3.2
EV/Revenues (x)	8.1	4.7	1.9	1.5	1.0
OCF/EV (%)	0.7	(0.8)	15.6	14.9	22.0
FCF/EV (%)	(0.4)	(1.3)	14.6	11.4	17.4
FCFE/Mkt Cap (%)	5.1	(8.1)	2.7	9.3	13.7

Source: Company, HDFC sec Inst Research

1 Yr price movement

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

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