

Focus on E&P support**Energy Logistics****Jutal Offshore Oil Services (3303 HK, HK\$1.91)****Not Rated**

Flat bottom line growth. Jutal Offshore Oil Services' net earnings increased 7.8% YoY to HK\$42.6m (RMB0.129 per share) in FY12/06A, against a 19.9% YoY growth in turnover to RMB297.2m. The group proposed a final dividend of RMB0.05 per share. As of the end of FY12/06A, it was in the net cash position of RMB214.9m after raising about HK\$138.0m in September 2006 via its IPO.

Revenue breakdown. The company is engaged in four business segments; the provision of technical support services to offshore oil and gas exploration and production projects; production of oil and gas processing skid equipment; provision of technical support services to shipyards and civil engineering. In FY12/06A, the segments accounted for 20.5%, 48.9%, 15.0% and 15.6% of the group's total turnover, respectively.

Oil and gas processing skid machinery. Revenue generated by the skid fabrication division increased 42.4% YoY to RMB43.3m, thanks to improvements product design, project management and operation efficiency. Skid equipment treats, separates and stores oil, water and gas. The division's other products include modules and pressure vessels. All are highly customized in accordance with clients' and international standards such as ASME and AWS. During the year, the group secured 37 contracts for new fabrication projects, including more than 50.0% from overseas. The division's gross profit margin widened to 19.0% from 17.0% in FY12/05A.

Offshore oil field support. Revenue from offshore oilfield services decreased 32.0% YoY to RMB60.8m with the blended margin shrinking to 26.0% from 41.0%, due lower demand for platform overhaul services. The group provides reparation, upgrading and renovation services to offshore oil and gas facilities; fabrication and renovation services to steel structures of offshore oil and gas facilities; coating services to pressure vessels or pipelines and inspection and testing services. It secured and completed the Panyu 4-2 & 5-1 platform topside modification project worth RMB61.0m and secured PEMEX, a drilling module construction project in Gulf of Mexico from CNOOC, worth RMB55.0m, which should be completed in FY12/07F. CNOOC also granted the group an onshore LNG pipeline-laying project in Fujian worth RMB13.0m. It also won from CACT a platform upgrading and reconstructing project (HZ19-2/25-4) worth RMB15.0m. Since demand for offshore platform overhaul services in China is expected to pick up this year, we expect the division's revenue and gross profit margin to widen.

Shipbuilding services. Turnover increased 59.3% YoY to RMB46.4m, with the division's blended margin widening to 41.0% from 12.0%, thanks to the group's strategic agreement with Dalian Shipbuilding Industry (DSIC) signed in June 2006. Under the terms, DSIC will subcontract all special coating jobs, as well as electronic instrument installation and testing projects to the group. In FY12/06A, the group completed 380,000 sq.m. of special coating and installed and inspected electronic equipments for eight ships.

Civil engineering. Revenue of its civil engineering division surged 63.8% YoY to RMB44.6m and the gross profit margin widened from 16.0% to 24.0%. The division is mainly engaged in formwork construction in Hong Kong and Macau, and the manufacturing of onshore steel structures. The division expanded into the Middle East to countries such as United Arab Emirates.

Valuation. Based on yesterday's closing price of HK\$1.91, the group is trading at a historical P/E of 14.6x, against a sector average one-yr forward P/E of 18.5x and two-yr forward P/E of 15.2x.

Table 1: Peer group comparison

Company name	Ticker	Year end	Currency	Market cap (US\$m)	P/E (x)		EV/EBITDA	
					1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd
Technics Oil & Gas Ltd	TGH SP	Jun	SGD	94	11.1	9.3	5.8	4.7
ASL Marine Holdings Ltd	ASL SP	Sep	SGD	187	10.3	8.8	4.3	3.8
Pan-United Marine Ltd	PANU SP	Dec	SGD	331	22.4	13.1	4.5	5.5
Cosco Corp Singapore Ltd	COS SP	Dec	SGD	4,165	22.5	17.3	10.3	7.9
Ausgroup	AUSG SP	Jun	SGD	193	12.5	9.1	1.8	1.3
KS Energy Services	KST SP	Dec	SGD	481	13.7	12.0	11.5	9.4
Labroy Marine	LBRY SP	Dec	SGD	1,279	17.5	14.0	9.4	7.7
Keppel Corp	KEP SP	Dec	SGD	10,613	17.8	15.2	14.3	12.1
SembCorp Marine	SMM SP	Dec	SGD	3,421	17.4	14.4	12.7	10.5
<i>Average</i>					<i>18.5</i>	<i>15.2</i>	<i>12.5</i>	<i>10.3</i>

Source: Bloomberg

Disclosure of interest: SBI E2-Capital Securities Ltd. acted as one of the underwriters for Jutal Offshore Oil Services in September 2006.