

## EMER International: Proxy to offshore oil E&P

**Recommendation: STRONG BUY (initiate coverage) China Energy Logistics**

Price	HK\$3.70	Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$7.06 (+79.2%)	Dec	RMBm	RMB	Δ%	x	x	x	%	%	%	%
12 mth range	HK\$0.63-7.10	05A	19.4	0.105	(36.4)	38.4	7.3	61.0	na	18.9	17.6	Cash
Market cap.	US\$187.1m	06A	34.1	0.142	35.2	27.0	7.0	34.6	na	28.6	22.0	Cash
Daily t/o, 3 mth	US\$1.08m	07F	42.0	0.146	2.8	27.7	2.7	29.4	na	12.4	7.7	Cash
Free float %	33.7%	08F	100.6	0.264	81.2	15.3	2.2	12.6	na	16.6	15.0	Cash
Ticker	8149.HK/8149 HK	09F	94.3	0.248	(6.2)	16.3	1.9	13.2	na	13.1	12.3	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -39.2%, +8.3%, +334.8%

Actual price changes (1 mth, 3 mth, 12 mth): -41.2%, +18.3%, +485.4%

Consensus EPS (07F-08F): HK\$0.14, HK\$0.24

### Key points:

- Authorized supplier of Sinopec and PetroChina with broad exposure in the U.S. market.
- Provision of turnkey solution will boost up its revenue substantially.
- Team up with the top rig design house and shipyard to form one-stop shop for offshore miners.
- Tapping into countries with rich oil resources, like Russia and Middle East.
- Certified product quality.
- Awarded supplies contract by the world's largest rig operator.
- Net earnings and EPS CAGR are projected to be 40.3% and 21.9%.
- Trading at ex-cash P/E of 10.9 for FY12/08F, its valuation is attractive

**Investment summary.** As an emerging oilfield supplies and equipment provider, EMER International is set to benefit from the high crude oil price and E&P capital expenditure of oil producers. Being one of the authorized suppliers of PetroChina and Sinopec, the group has been proactively expanding into the overseas market, especially the U.S.. The group has been expanding its business scope to the provision of offshore oilfield supplies and equipment. It has been teaming up with the world leading rig design house Friede & Goldman and a major rig builder, Yantai Raffles Shipyard to form a one-stop shop for offshore oil and gas producers and drilling contractors. Trading at ex-cash P/E of 19.7 for FY12/07F and 10.9 for FY12/08F, the group valuation is very attractive. In our view, the group's valuation deserves premium among its HK-listed peers who are focusing on the production of OCTG products, as it is less vulnerable to the surge in steel price. Based on the target P/E of 26.0x for FY12/08F, we arrive at our target price of HK\$7.06, representing a potential upside of 79.2%. Thus, we initiate coverage on the group with a STRONG BUY call.

**Corporate profile.** Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong in November 2005, EMER is a product and service provider dedicated to worldwide oil and gas drilling industry. The Group is principally engaged in the provision of onshore and offshore drilling equipment (such as drilling rig control systems, mud pumps, etc.), oilfield supplies (such as expendables and accessories for drilling rigs) and turnkey solutions for offshore rigs.

**Strong presence in the U.S.** Its customers include local (CNPC and Sinopec subsidiaries) and foreign oil and gas drilling companies, drilling machinery manufacturers, shipyards as well as distributors. As of end-FY12/06A, the company had more than 100 customers. It set up a wholly-owned subsidiary, TSC (USA), in Houston, Texas, in 2002 as its sales and distribution office as well as R&D center. The group's products sold in the U.S. are all under its owned brand "TSC". Since the US oilfield equipment market is relatively closed and oil and gas drilling companies source materials only from familiar suppliers or distributors, TSC (USA) sells its products to distributors and some big end-users. Under its distribution agreements, distributors are responsible for the promotion and sales and stock keeping of products in specific regions. To expand its US sales, the group may acquire a distributor there.

**Foray into the Middle East.** In 2005, the group entered into a five-year agreement with China Petroleum

Technology & Development Corporation (CPTDC), a wholly-owned subsidiary of the CNPC group, making CPTDC its sole distribution agent for mud pump accessories in more than 13 countries in the Middle East.

**Certified products.** HHCT, one of the group's rig control system production bases was awarded ISO 9001:2000 in 2003 by CEPREI Certification Co. Ltd. (廣州賽寶認證中心服務有限公司). The group's drilling rig expendable parts manufacturing arm, TSC (Qingdao), was awarded ISO 9001:2000 accreditation and API Spec Q1 registration in 2004. The American Petroleum Institute (API) granted it the right to use the API Monogram on its pump products. The API quality programs are well recognized in the oil and gas industry worldwide.

**Contribution from mud pump is expected to increase.** In FY12/06A, the group rolled out its TSC-branded mud pump series and sold 4 sets of mud pumps. It currently offers three mud pump models - Workforce 360, Workforce 660 and Workforce 1200. Its TSC brand is well recognized in the US, as the company has been making and selling mud pump components (liners, pistons and piston rods) and providing mud pump expendable parts there since 2002. Its maximum capacity at TSC Offshore (Qingdao) stands at 180 units per annum.

**Addition of high margin product into portfolio.** The group acquired Zhengzhou Highlight at a consideration of HK\$34.9m. The consideration was satisfied as to HK\$1.8m in cash and HK\$33.1m by way of the allotment and issue of 10.0m consideration shares by the group to the vendor. Established in China in 2002, Zhengzhou Highlight is engaged in manufacture and sale of machinery and equipment for oil and mining industries. Major product of Zhengzhou Highlight is solid control system. It is a major sub-system for onshore and offshore drilling rigs for processing mud in the drilling process including a shale shaker, complex cleaner, centrifugal pump, injection pump, mixer and mud gun. Zhengzhou Highlight currently has five product patents and 26 self-developed product designs. Gross profit margin of solid processing system is estimated at approximately 50.0%. Through the acquisition, the group will add a high margin product into its already rich product portfolio. Besides, the group will obtain proprietary designs and technical know-how of the solid control system, which will complements its existing products and strengthen its product development capability.

**Jacking control system - a new revenue source.** The group formed a 15:85 JV, Zhengzhou Fuge Overseas Project Equipment Co Ltd (鄭州富格海洋工程裝備有限公司), with the Zhengzhou Machinery Institute. The JV manufactures jacking units for jacking systems, which are used to lift and lower the hull of a jack-up. Each system requires 54 jacking units and a control system. The group will source the jacking units from the JV, combine them with its own jacking control systems and sell as sets, within the next two years. Its jacking control system design is the only system with the American Bureau of Shipping (ABS) certification in China. It is noteworthy that the jacking control system and the jacking system are the essential components of turnkey solution. Thus, with the jacking control system in its product portfolio, the group can provide turnkey solution to the rig builder.

**Turnkey solution for offshore rig builder** Turnkey solutions is a complete solution for offshore drilling rig. A complete set of turnkey solution includes jacking systems (jacking control systems and jacking units inclusive) for jack up, rig control systems, drilling equipment and modules. Modules are a significant component of offshore drilling rigs providing facilities for daily life requirements of operators. Turnkey solution provider is obligated to design, supply, commission and test the equipments; integrate the equipments with other system of rig builder; as well as provide engineering supports and other services required for the manufacture of the equipments. Revenue generated from the provision of turnkey solution is expected to be one of the group's major revenue sources going forward.

**Team up with the strongest rig designer and shipyard.** Collectively, Yantai Raffles Shipyard (YRS) and its major shareholder, Mr. Brian Chang, own 15.65% interests in the group. Founded in 1994 and listed on Norway's Oslo OTC Stock Exchange in May 2006, Yantai Raffles Shipyard is a leading global offshore and marine fabrication specialist headquartered in Singapore. It specializes in jack-up drilling rigs, semi-submersible drilling rigs, FPSOs, FSOs, platform supply vessels, pipelay vessels, as well as luxury yachts. Its 72-hectare shipyard which situated in Yantai, Shandong province, China is equipped with state-of-the-art building facilities, including the world largest gantry crane with a lifting capacity of 20,000 tons. The crane can lift the entire deck box of a semi-submersible rig onto its columns/pontoons in one operation, allowing simultaneous construction of hull and deck boxes, which reduces construction time by half and cuts costs. Besides, the group has been cooperating with the world's leading designer of jack-ups, floating production systems and semi-submersibles, Friede & Goldman (F&G) since 1995. It has entered into a corporation agreement with F&G in China.

**Provision of turnkey solutions.** On July 2007, the group entered into three conditional sales agreements with YRS with respect of the sales of 3 sets of cantilever and drilling turnkey equipment packages with aggregate contract value of approximately RMB828.0m to YRS. The contracts shall be completed within 14 months from July 2007. The consideration of each of the supply agreement will be settled in cash in accordance with over 10 progress milestone. It is estimate that the contracts from YRS will provide a boost to the group's revenue and

earnings between FY12/07F and FY12/09F. Through the orders from YRS, the group gains exposure in the offshore turnkey solution market.

**One-stop shop for offshore oil producers and drilling contractors.** The group can capitalize its relationship with Friede & Goldman, a world leading offshore rig designer and YRS to develop its market position. Under the blueprint, Friede & Goldman will provide the design of offshore rigs to YRS, which will then build the hull and outsource the equipment for turnkey solutions to the group. Since YRS can construct a rig twice as fast as its competitors, we expect that it will secure more orders for drilling rigs going forward. In return, the group will try to secure more orders for turnkey solutions from YRS as well as other rig builders. In the international turnkey solution market, the world largest rig builder Keppel Fels and the U.S. based drilling equipment provider, National Oilwell Varco are the group major competitors. However, Keppel Fels only provide turnkey solutions to the rigs that are built by itself and does not provide the solutions external. With its major production bases situated in China, the group is cost competitive, compared with National Oilwell Varco.

**Sealed the deal with world second largest rig manager in the world .** In June 2007, the group entered into a supply agreement valid for three years with the world largest drilling rig operator listed on NYSE. Total number of products categories covered by the agreement are 1,462 and the group will supply capital equipment and expendables to the operator. Capital equipment covered by the agreement include mud pumps, mud pump packages, centrifuge pumps, SCR systems, VFD systems, shale shakers, rotary tables, mud mixers, gate valves, drill pipe, drawworks, land rig packages as well as offshore rig packages. Meanwhile, expendables include mud pump parts, pump liners as well as valves. Since the operator has more than 600 sets of onshore drilling rigs and 73 sets of offshore drilling rigs under its operation, it has a vigorous replacement demand for expendables as well as capital equipment, which should provide a strong boost to the group's sales going forward. Besides, being on the vendor list of the world largest and most sophisticated rig operator is recognition for the group, since it demonstrates that the group's superior product qualities as well as strong marketing capability. It will help the group to expand its exposure in the international market.

**Table 1: Revenue breakdown**

Year to Dec	06A	07F	08F	09F
Expendable parts (RMBm)	106.7	100.8	140.0	192.0
Equipment (RMBm)	105.6	153.8	196.6	251.9
Turnkey solution (RMBm)	-	50.0	660.0	118.0
Consultancy services (RMBm)	4.2	3.0	-	4.0

Source: Company, SBI E2-Capital

**Revenue forecasts.** We expect the group to post a 3-year revenue CAGR of 37.8% between FY12/06A and FY12/09F. We project the group's revenue to increase 42.1% YoY to RMB307.6m in FY12/07F, due to the increase in sales of equipment and the contribution from the provision of turnkey solution. Sales of the equipment will be driven by the increase in sales of mud pumps and contribution from the sales of solid control system upon the completion of the acquisition of Zhengzhou Highlight. The group has been providing turnkey solutions to YRS since July 2007 and we estimate that it can recognize RMB50.0m upon the turnkey equipment supply contracts. Revenue for FY12/08F is projected to surge substantially by 224.0% YoY, given the contribution from the provision of turnkey solution is expected to surge substantially. We estimated that approximately 79.7% of the contract value would be booked as revenue in FY12/08F. Revenue for FY12/09F is expected to drop by 43.2% YoY, as contribution from the provision of turnkey solution is projected to drop by 82.1% YoY. We estimate that by the end of FY12/09F, the group will complete all 3 turnkey equipment supply contracts. However, the group may be able to secure turnkey equipment supply contract from other shipyards and rig investors between FY12/07F and FY12/09F.

**Gross margin and revenue forecasts.** We project the group's earnings to increase at a 3-year CAGR of 40.3% between FY12/07F and FY12/09F. However, fully diluted EPS for FY12/07F is expected to drop 19.5% YoY on 52.6% YoY increase in total issued share capital. Growth momentum in EPS growth is expected to resume in FY12/08F. Blended margin is expected to drop to 35.7% in FY12/07F from 44.8% in FY12/06A due to the increase in contributions from low-margin businesses and prudent ASP and cost assumptions. In our earnings forecasts, we assume the gross profit margin of the provision of turnkey solution and the sales of mud pumps to be 10.0% and 17.0%, respectively, lower than that of the sales of expandable parts and rig control systems. The group's gross margin is projected to deteriorate further in FY12/08F as gross profit generated from the provision of turnkey solution will account for 44.7% of the group's total gross profit. Its gross profit margin is expected to rebound to 38.2% in FY12/09F, due to the decrease in gross profit contribution from the provision of turnkey solutions.

**Valuation.** Trading at ex-cash P/E of 19.7 for FY12/07F and 10.9x or FY12/08F, the group valuation is very

attractive, compared with its HK-listed peers average 1-year forward P/E of 26.0x and 2-year forward P/E of 20.0x. Selected international E&P equipment producers are trading at 1-year forward P/E of 19.0x and 2-year forward P/E of 14.9x. We are bullish on the sector as a whole, given the strong oil prices, vigorous demand for drilling equipment and increase in global E&P capital expenditure. In our view, valuation of the group deserves a premium among its peers, especially its HK-listed counterparts, given: 1) strong market presence in the U.S.; 2) rich product portfolio; 3) exposure to the offshore rig supplies market; 4) Strong earnings growth in FY12/08F and 5) lower vulnerability to the surge in steel price. Based on the target P/E of 26.0x for FY12/08F, we arrive at our target price of HK\$7.06, representing a potential upside of 79.2%. Thus, we initiate coverage on the group with a STRONG BUY call.

#### Peer group descriptions:

**CARBO Ceramics** is one of the world's leading manufacturers of environmentally friendly ceramic proppant and ceramic media. Ceramic proppants are primarily used in the hydraulic fracturing process of natural gas and oil wells to increase their productivity of valuable natural resources.

**National Oilwell Varco** is a worldwide leader in the design, manufacture and sale of equipment and components used in the drilling and production of oil and gas, the provision of oilfield inspection and other services, and supply chain integration services to the upstream oil and gas industry.

**Gulf Island Fabrication** is a worldwide leader in the fabrication of drilling and production platforms, as well as other specialized structures used in the oil and gas industry.

**Dril-Quip** is one of the world's leading manufacturers of precision-engineered offshore drilling and production equipment that is well suited for use in deepwater, harsh environments and severe service applications.

**NATCO Group** is a leading provider of wellhead process equipment, systems and services used in the production of oil and gas. It has designed, manufactured and marketed production equipment and services for more than 75 years. Its production equipment is used onshore and offshore in most major oil and gas producing regions of the world.

**FMC Technologies** is a leading global provider of technology solutions for the energy industry and other industrial markets. The company designs, manufactures and services technologically sophisticated systems and products such as subsea production and processing systems, surface wellhead systems, high pressure fluid control equipment, measurement solutions, and marine loading systems for the oil and gas industry.

**Dresser-Rand** is among the largest global suppliers of rotating equipment solutions, designing, manufacturing and servicing a wide range of technologically advanced centrifugal and reciprocating compressors, steam and gas turbines, expanders, multiphase turbine separators, portable ventilators, and control systems.

**Sondex PLC** is principally engaged in the development and manufacturing instrumentation and equipment for the monitoring and inspection of oil wells. The group's products include: Wireline products, comprise production logging, well inspection and mechanical services in production oil and gas wells; and Measurement-While-Drilling products, comprise a suite of instruments designed to provide the directional driller with real-time, precise information on the position and direction of the drill bit during the drilling process.

**R H Energy** provides oil and gas integration. It offers a full suite of integrated design, engineering, procurement, construction and installation services to the oil and gas pipeline and storage operators, as well as oil companies.

**Shandong Molong** is engaged in the design, manufacture and sales of petroleum drilling and extraction machinery and related accessories. It offers pipes, sucker rods, pumps and pumping machines for oil wells as well as casings and other petroleum drilling and extraction machinery accessories.

**Anhui Tianda Oil Pipe** is a leading oil well pipe manufacturers in China. Its products includes specialized seamless pipes for the oil and gas industry, including oil well pipes and other specialized seamless pipes.

**Jutal Offshore Oil Services** is an integrated service provider principally engaged in the provision of technical support services in offshore oil and natural gas exploitation and production, as well as in the design, fabrication, and sale of oil and natural gas processing skid equipment

**Change in share capital.** In March 2007, the group proposed to distribute 48.6m new shares as bonus issue to existing shareholders on a basis of 1 bonus share for 5 existing shares. In April 2007, the group placed 24.3m new shares to Keywise Greater China Opportunities Master Fund at HK\$1.88 each. In May 2007, management and major shareholder of the group sold 42.8m shares to Yantai Raffles Shipyard at HK\$2.55 each. In July 2007, the group announced that it will acquire the entire share capital of Top Sino at the consideration of HK\$34.8m. The consideration will be satisfied as to HK\$1.8m in cash and HK\$33.1m by way of the allotment and issue of 10.0m consideration shares at HK\$3.31 each. In August 2007, the group placed 53.5m shares at HK\$5.80 each



and raised HK\$300.0m.

**Risk factors.** 1) execution risk associated with the provision of turnkey solution; 2) lower E&P capital expenditure; 3) competition; 4) margin squeeze and 5) liquidity of the counter is low.

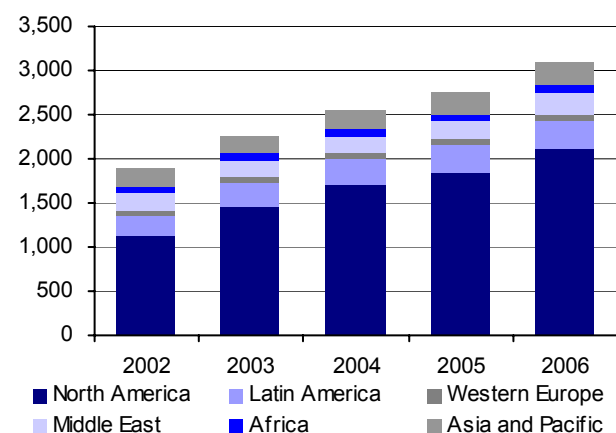
**Table 2: Peer group comparisons**

Company name	Ticker	Year end	Currency	Market cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward
CARBO Ceramics	CRR US	Dec	USD	1,102.3	19.6	15.0
National Oilwell Varco	NOV US	Dec	USD	20,811.8	17.8	13.9
Gulf Island Fabrication	GIFI US	Dec	USD	509.6	17.5	13.8
Dril-Quip	DRQ US	Dec	USD	1,832.2	18.1	15.1
NATCO Group	NTG US	Dec	USD	888.1	19.8	16.5
FMC Technologies	FTI US	Dec	USD	5,701.1	20.4	16.9
Dresser-Rand Group	DRC US	Dec	USD	2,973.6	20.5	15.1
Sondex PLC	SDX LN	Feb	GBp	93.9	15.5	13.2
R H Energy	RHE SP	Dec	SGD	256.1	32.8	21.1
Shandong Molong Petroleum Machinery	568 HK	Dec	HKD	697.0	30.0	23.7
Anhui Tianda Oil Pipe	8241 HK	Dec	HKD	358.1	16.5	12.7
Jutal Offshore Oil Services	3303 HK	Dec	HKD	223.8	28.5	20.3
<i>Average</i>					<i>19.0</i>	<i>14.9</i>

Source: Bloomberg

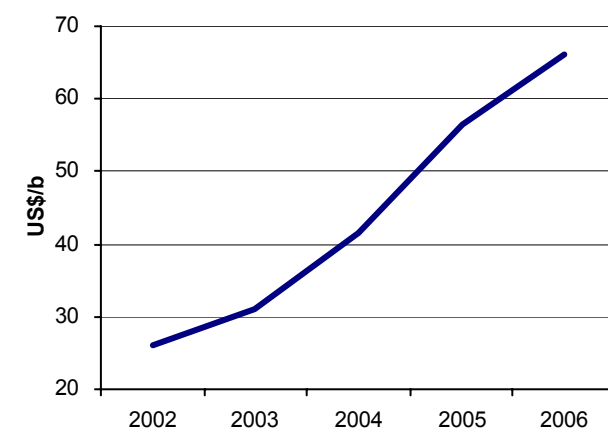
**Demand boosted by strong oil price.** Average spot crude oil prices measured as WTI increased 153.0% from US\$26.13/b in 2002 to US\$66.04/b in 2006. Thanks to the surging oil price, earnings of major oil conglomerate leaped substantially during the period. According to OPEC, aggregate net earnings of BP, ExxonMobil, Royal Dutch/Shell and Chevron increased from US\$32,247m in 2002 to US\$120,133m in 2006, representing a 4-year CAGR of 36.9%. Thus, capital expenditure on oil and gas exploration of major oil companies surged alongside the rising oil prices and escalating profitability of oil companies. According to OPEC, aggregate capital expenditure on exploration of BP, ExxonMobil, Royal Dutch/Shell and Chevron increased from US\$45,507.0m in 2002 to US\$70,111.0m in 2006, representing a 4-year CAGR of 11.4%. Given rising oil prices, strengthened financial position of oil companies and the depletion of the oil and gas resources, some of the wells, which have been considered dry holes in the past, have since become economical to drill. As a result, the number of active drilling rigs increased substantially. According to OPEC, the number of active rotary drilling rigs in the world (excluding China, Eastern Europe) increased from 1,885 sets in 2002 to 3,102 sets in 2006, representing a growth rate of 64.6%. Going forward, we expect the demand for exploration and production equipment will increase, due to strong demand for crude oil and strengthened financial positions of oil companies.

**Chart 1: Active rig in the world**



Source: OPEC annual statistics

**Chart 2: Spot WTI crude oil price**



Source: OPEC annual statistics

**Strong demand offshore.** According to Rigzone, utilization rate of global jackup rigs and semi-submersibles increased from 91.8% in January of this year to 94.6% in April. Meanwhile, utilization rate at global semi-submersibles increased from 93.6% to 94.3%. Rig utilization rate at Australia, Eastern Europe, Canadian Atlantic and Alaska, U.S. has even reached 100.0% so far in this year. It is estimated that ex-China global rig fleet has 1,174 rigs. Among the fleet, 809 rigs are contracted. With 159 sets of contracted rigs in operation, Gulf

of Mexico has most of the contracted rigs, followed by North Sea, Europe (157 sets). With a fleet of 90 sets offshore rigs, Transocean is the world largest offshore drilling rig management company, followed by Nabors Offshore (73 sets). CNOOC has 10 sets of rigs, according to Rigzone. It is estimated that its fleet will expand to 61 rigs going forward. CNPC and Sinopec will go offshore China soon, and it is estimated that they would order 16 rigs and 15 rigs, respectively. ODS-PETRODATA projected that growth momentum in the demand for offshore rigs will sustain until 2008, given the strong oil prices and replacement of aging rigs. As the demand for offshore rigs increase, demand for offshore drilling equipments should increase accordingly.

**Management profile:**

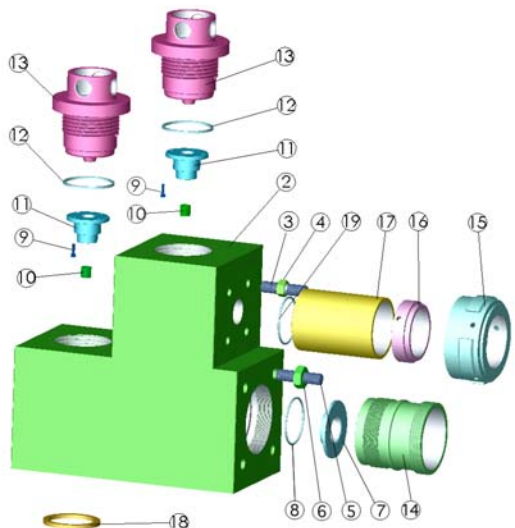
**Mr. Zhang Menggui (張夢桂)** is one of the two founders of the group. He is an executive director, the chairman of the board and the CEO of the group. Mr. Zhang obtained his bachelor degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master degree in petroleum engineering from the University of Alaska-Fairbanks in the USA in 1989. Mr. Zhang has 24 years of experience in the oil and gas industry. Prior to founding the group, he had worked for a subsidiary of the CNPC group and currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers.

**Mr. Jiang Bing Hua (蔣秉華)** is another founder of the group. He is an executive director, the co-chairman of the board and the COO and president of the Group. Mr. Jiang obtained his bachelor degree in offshore structure engineering from the Tianjin University (天津大學) in 1980 and acquired his master degree in business of administration from the University of Dallas in the USA in 1993. Mr. Jiang has 33 years of experience in the oil and gas industry. Prior to founding the group’s business, he worked for the Sinopec group, the CNPC group and China National Offshore Oil Corporation (CNOOC) for various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

**Mr. Zhang Hongru (陳蘊強)** is an executive director, the CFO and vice president of the group. He also serve as compliance officer of the group. Mr. Zhang holds a master degree in geography obtained from the Chinese Academy of Science in 1986 and a master degree in economics of natural resources obtained from University of Alaska-Fairbanks, USA in 1989. Mr. Zhang has 17 years of experience in the field of banking, finance and corporate management. Prior to joining the group in October 2004, Mr. Zhang held various positions in DBS Asia Capital Limited, Grand Generale Asia Limited, Crosby Securities Limited and The Hongkong and Shanghai Banking Corporation Limited. Mr. Zhang once was the chief financial officer and an executive director of a GEM listed company between 2001 and 2003.

**Product profile:**

**Chart 3: Expendables**



Source: SBI E2-Capital

**Chart 4: Mud pump**



Source: SBI E2-Capital

**The electric control systems** are the essential component of every electric-driven drilling rigs and its principal functions are to convert and control AC and DC electric currents depending on the type of currents required by the motors mounted in the drilling rigs; and control, adjust and distribute power to other parts of the drilling rigs.

**Diesel generator control** unit is used to control diesel generators to generate AC electricity with designated voltages and frequencies and to power the drilling rigs.

**SCR control units** are used in DC drive motors that convert the fixed voltage AC power source to an adjustable voltage and controlled DC output which is applied to the armature of DC drive motors.

**Integrated electric control room.** A full set of electric control system fitted with the appropriate control units and systems, and integrate and house them in an air-conditioned container to provide thorough control over the drilling rigs.

**Driller console** is the main control and monitor device for a drilling rig. It contains start-stop controls, speed control knobs and other optional safety and emergency control switches. The unit's front panel displays generator and motor data, alarm and control lamps. It is encased in a closed steel case and connected with the electric control system by cables.

**Mud pump** is a large reciprocating pump used to circulate fluid coming out from the drilling rig during the drilling process and liners are important expendable parts in mud pumps over time to ensure the proper function of the mud pumps.

**Mud pump control console** is installed near the mud pump to control its start-stop and speed while foot throttle is to control the lifting of the drill.

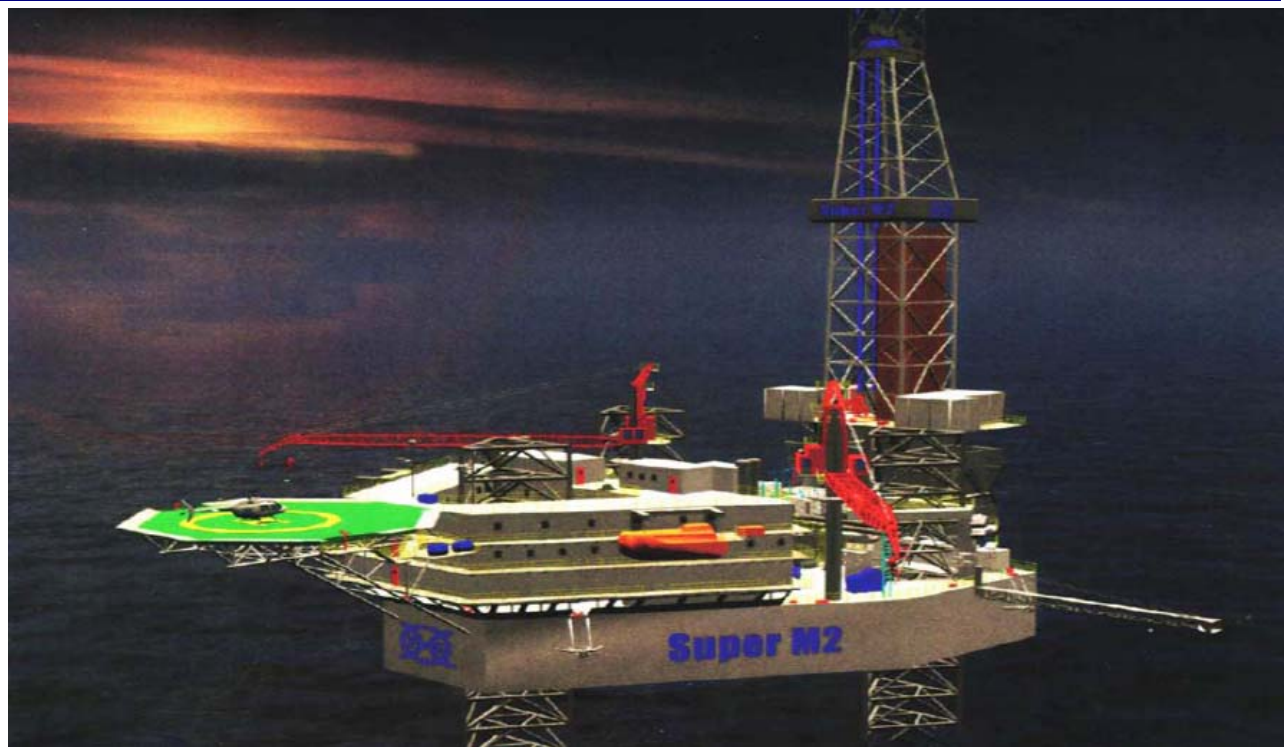
**Pistons and piston rod** are also replacement parts in mud pumps. A piston composes of piston hub and piston rubber.

**Fluid ends** are replacement parts of mud pumps that control the flow of mud through the pumps.

**Solid control system** is a major sub-system for onshore and offshore drilling rigs for processing mud in the drilling process including a shale shaker, complex cleaner, centrifugal pump, injection pump, mixer and mud gun.

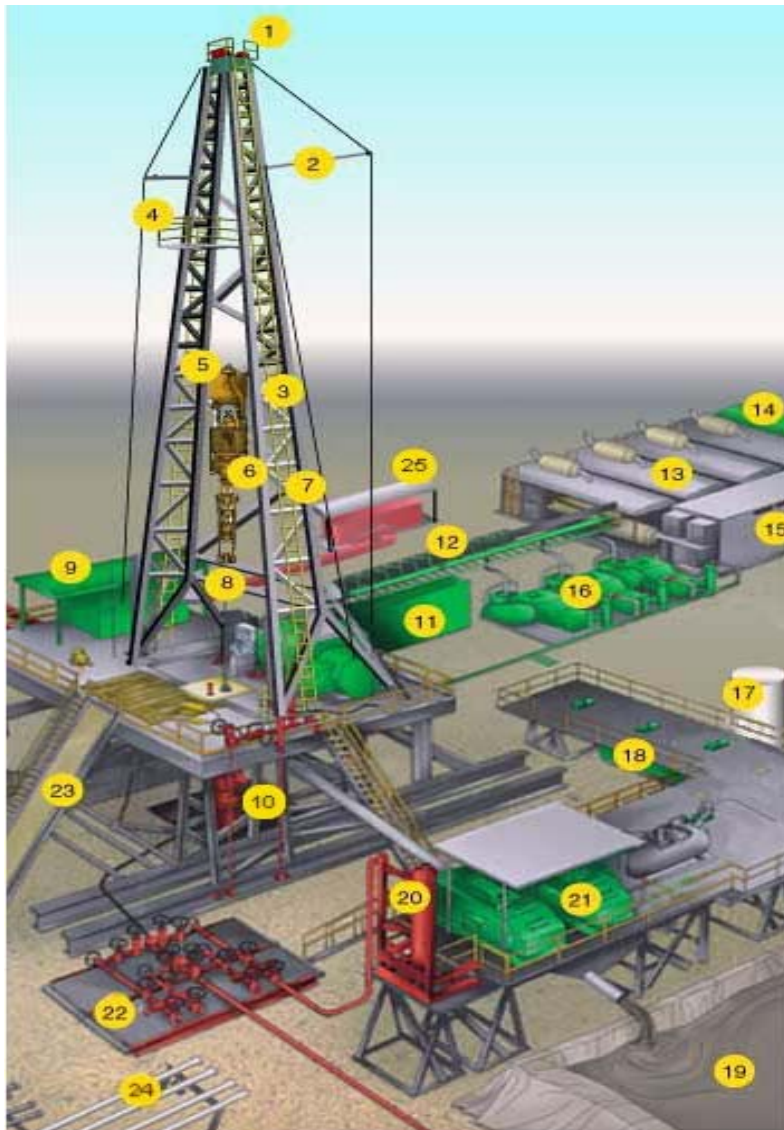
**Jacking systems** are used to lift and lower the hull of a jack-up. Each system requires 54 jacking units and a control system.

**Chart 5: Offshore jackup rig**



Source: Company

**Chart 6: Drilling rig components**



1. Crown Block and Water Table
2. Catline Boom and Hoist Line
3. Drilling Line
4. Monkeyboard
5. Traveling Block
6. Top Drive
7. Mast
8. Drill Pipe
9. Doghouse
10. Blowout Preventer
11. Water Tank
12. Electric Cable Tray
13. Engine Generator Sets
14. Fuel Tank
15. Electrical Control House
16. Mud Pumps
17. Bulk Mud Component Tanks
18. Mud Tanks (Pits)
19. Reserve Pit
20. Mud-Gas Separator
21. Shale Shakers
22. Choke Manifold
23. Pipe Ramp
24. Pipe Racks
25. Accumulator

Source: [www.osha.com](http://www.osha.com)

**Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the lead placing agent for EMER International on July 30 and July 31 2007.**  
**A fellow subsidiary of SBI-E2-Capital Securities Ltd. was the financial adviser for EMER International Group Limited (8149 HK) in July 2007.**



P & L (RMBm)						Cash Flow (RMBm)					
	05A	06A	07F	08F	09F		05A	06A	07F	08F	09F
<b>Year to Dec</b>						<b>Year to Dec</b>					
Turnover	110.9	216.4	307.6	996.6	565.9	EBIT	23.5	40.8	46.3	111.3	104.4
% chg	4.9	95.1	42.1	224.0	(43.2)	Depre./amort.	1.1	2.5	4.7	8.1	9.4
Gross profit	46.9	97.1	109.9	211.4	215.9	Net int. paid	(0.8)	(0.4)	0.3	0.5	0.4
EBITDA	24.6	43.4	51.0	119.3	113.8	Tax paid	(0.7)	(1.5)	(4.2)	(4.2)	(4.2)
Depre./amort.	(1.1)	(2.5)	(4.7)	(8.1)	(9.4)	Dividends received	-	-	-	-	-
EBIT	23.5	40.8	46.3	111.3	104.4	<b>Gross cashflow</b>	<b>23.1</b>	<b>41.5</b>	<b>47.2</b>	<b>115.7</b>	<b>110.0</b>
Net int. income/(exp.)	(0.8)	(0.8)	0.3	0.5	0.4	Chgs. in working cap.	(19.7)	(39.6)	32.3	43.2	(108.0)
Exceptionals	(2.3)	(2.6)	-	-	-	<b>Operating cashflow</b>	<b>3.4</b>	<b>1.9</b>	<b>79.5</b>	<b>158.9</b>	<b>2.0</b>
Associates	-	(0.0)	-	-	-	Capex	(13.8)	(15.7)	(13.6)	(15.6)	(10.6)
Jointly-controlled entit.	-	-	-	-	-	<b>Free cashflow</b>	<b>(10.4)</b>	<b>(13.8)</b>	<b>65.9</b>	<b>143.3</b>	<b>(8.6)</b>
<b>Pre-tax profit</b>	<b>20.4</b>	<b>37.5</b>	<b>46.6</b>	<b>111.8</b>	<b>104.8</b>	Dividends paid	-	-	-	-	-
Tax	(1.0)	(3.4)	(4.7)	(11.2)	(10.5)	Net distribution to MI	-	-	-	-	-
Minority interests	-	-	-	-	-	Investments	(11.5)	(1.5)	(1.8)	-	-
<b>Net profit</b>	<b>19.4</b>	<b>34.1</b>	<b>42.0</b>	<b>100.6</b>	<b>94.3</b>	Disposals	-	-	-	-	-
% chg	(33.4)	76.4	23.0	139.6	(6.2)	New shares	45.6	0.3	335.9	-	-
Dividends	-	-	-	-	-	Others	(1.1)	(3.7)	(1.5)	-	-
Retained earnings	19.4	34.1	42.0	100.6	94.3	<b>Net cashflow</b>	<b>22.5</b>	<b>(18.8)</b>	<b>398.5</b>	<b>143.3</b>	<b>(8.6)</b>
EPS (RMB) - Basic	0.105	0.142	0.146	0.264	0.248	Net (debt)/cash - Beg.	0.8	23.3	4.5	403.0	546.3
EPS (RMB) - F.D.	0.100	0.137	0.110	0.264	0.248	Net (debt)/cash - End.	23.3	4.5	403.0	546.3	537.7
DPS (RMB)						<b>Interim Results (RMBm)</b>					
No. sh.s o/s (m) - W.A.	185.0	240.0	287.6	380.4	380.4	<b>06A</b>		<b>07F</b>			
No. sh.s o/s (m) - Y.E.	193.5	249.3	380.4	380.4	380.4	<b>Six months to Jun</b>					
No. sh.s o/s (m) - F.D.	193.5	249.3	380.4	380.4	380.4	Turnover	95.9	102.4			
<b>Margins (%)</b>						% chg	77.2	6.7			
Gross	42.3	44.8	35.7	21.2	38.2	Profit from operations	15.3	14.7			
EBITDA	22.2	20.0	16.6	12.0	20.1	Interest expenses	(0.4)	(1.0)			
EBIT	21.2	18.9	15.1	11.2	18.5	Associates	-	-			
Pre-tax	18.4	17.3	15.2	11.2	18.5	Jointly-controlled entit.	-	-			
Net	17.5	15.8	13.6	10.1	16.7	<b>Pre-tax profit</b>	<b>14.9</b>	<b>13.7</b>			
						Tax	0.8	(1.0)			
						Minority interests	-	-			
						<b>Net profit</b>	<b>15.7</b>	<b>12.7</b>			
						% chg	83.8	(19.4)			
						EPS (HK\$) - Basic	0.065	0.055			
						DPS (HK\$)	-	-			
<b>Balance Sheet (RMBm)</b>						<b>Shareholding Structure</b>					
	05A	06A	07F	08F	09F			Shares o/s (m)		%	
<b>Year to Dec</b>											
Fixed assets	13.4	26.5	37.2	48.8	54.6	Management		158.4	42.1		
Intangible assets	0.6	0.5	24.0	22.2	20.4	YRSI		42.8	11.4		
Other LT assets	11.9	13.7	11.4	11.4	11.4	Asia Infrastructure		16.1	4.3		
Cash	31.3	23.4	403.0	546.3	537.7	Keywise		32.2	8.6		
Accounts receivable	45.5	63.3	90.5	118.2	156.7	Public		126.6	33.7		
Other receivables	6.8	25.2	-	-	-	<b>Total</b>		<b>376.1</b>	<b>100.0</b>		
Inventories	23.8	57.8	51.7	63.9	81.6	<b>Background</b>					
Due from related co.s	1.9	1.8	-	-	-	Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong in November 2005, EMER is a product and service provider dedicated to worldwide oil and gas drilling industry. The Group is principally engaged in the provision of onshore and offshore drilling equipment (such as drilling rig control systems, mud pumps, etc.), oilfield supplies (such as expendables and accessories for drilling rigs) and turnkey solutions for offshore rigs.					
Other current assets	5.3	1.6	0.2	0.2	0.2	<b>Key Ratios</b>					
<b>Total assets</b>	<b>140.3</b>	<b>213.7</b>	<b>617.9</b>	<b>810.9</b>	<b>862.6</b>	Net gearing (%)	Cash	Cash	Cash	Cash	Cash
Accounts payable	(14.6)	(23.7)	(37.1)	(120.1)	(68.2)	Net ROE (%)	18.9	28.6	12.4	16.6	13.1
Other payable	(8.9)	(23.7)	(7.6)	(7.7)	(7.8)	EBIT ROCE (%)	21.3	30.7	13.3	18.3	14.5
Tax payable	(4.4)	(4.2)	(4.7)	(11.7)	(18.0)	Dividend payout (%)	-	-	-	-	-
Due to related co.s	(0.5)	(0.0)	-	-	-	Effective tax rate (%)	5.0	9.0	10.0	10.0	10.0
ST debts	(7.8)	(18.8)	-	-	-	Net interest coverage (x)	30.5	53.7	na	na	na
Other current liab.	(1.6)	(6.3)	(25.9)	(0.0)	-	A/R turnover (days)	149.7	91.7	91.2	38.2	88.7
LT debts	(0.1)	-	-	-	-	A/P turnover (days)	48.1	32.3	36.1	28.8	60.7
Other LT liabilities	(0.0)	(0.3)	-	-	-	Stock turnover (days)	135.5	124.6	101.0	26.9	75.9
<b>Total liabilities</b>	<b>(38.0)</b>	<b>(77.0)</b>	<b>(75.3)</b>	<b>(139.5)</b>	<b>(94.0)</b>						
Share capital	25.0	25.1	34.0	34.0	34.0						
Reserves	77.3	111.6	508.6	637.4	734.5						
<b>Shareholders' funds</b>	<b>102.3</b>	<b>136.7</b>	<b>542.7</b>	<b>671.4</b>	<b>768.6</b>						
Minority interest	-	-	-	-	-						
<b>Total</b>	<b>102.3</b>	<b>136.7</b>	<b>542.7</b>	<b>671.4</b>	<b>768.6</b>						
Capital employed	110.2	155.5	542.7	671.4	768.6						
Net (debt)/cash	23.3	4.5	403.0	546.3	537.7						

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