

Falcon Energy Group

(FEG.LSI / FALE.SP)

Rating	Not Rated
Price (16 Jan 14, S\$)	0.38
Target price (S\$)	NA
Upside/downside (%)	—
Mkt cap (S\$ mn)	308.8 (US\$ 242.9)
Enterprise value (mn)	—
Number of shares (mn)	823.42
Free float (%)	32.12
52-week price range	0.44 - 0.28
ADTO - 3M (US\$ mn)	0.5

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

[V] = Stock considered volatile (see Disclosure Appendix).

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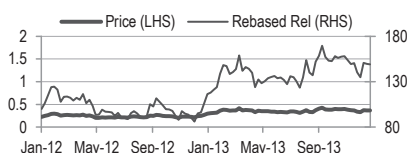
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Expanding into the jackup market

- Diversified player in the Offshore & Marine sector.** Established in 1983 by Mr Tan Pong Tyea, Chairman and CEO, Falcon Energy Group (FEG) is a regional player in the Offshore Marine and Oil & Gas sectors. Through a series of acquisitions, FEG expanded from its core marine business to the current five business divisions with operations across Southeast Asia, China, Middle East and Mexico. FEG also owns a 29% stake in CH Offshore, a Singapore-listed AHTS owner/operator.
- Entry into the jackup market.** Falcon Energy placed an order for two GustoMSC CJ46 jackup rigs with China Merchants Heavy Industry (CMHI) in October 2011. Falcon has a beneficial interest of 45.5% in the rigs to be completed by the end of 2013. These rigs were subsequently sold to a COSL in August 2013 before delivery. In addition, Falcon announced a US\$226 mn contract with Keppel FELS in Apr-13 to construct a KFELS Super B Class jack-up rig for delivery in 3Q15. Given the capital required to grow the drilling rigs business, management intends to form partnerships and hold minority stakes in the rigs.
- 1H14 boosted by the sale of jackups.** Falcon Energy saw a jump in revenue from US\$34.3 mn in 1H13 to US\$209.7 mn in 1H14, boosted by US\$127.8 mn of revenue recognised on the sale of the two jack-up rigs to COSL. Similarly, gross profit margin improved from 28.2% to 43.4% in 1H14. Excluding the jack-up sale contribution, Falcon Energy still saw a US\$47.6 mn increase in revenue and US\$9.8 mn increase in gross profits. (Note: the company has recently changed its fiscal year-end from December to March.)
- Positive on prospects within each division.** Management is positive on the outlook of all its key divisions, and will continue its fleet renewal and expansion in the Marine division, given higher demand for offshore vessels. Management expects the Oilfield Project and Oilfield Services Division to continue to do well despite stronger competition. Management will continue to expand its Drilling Services Division, which has seen an increase in global rig demand, and its Resources Division, which will continue to build up its coal reserves for production at a suitable time.

Share price performance



The price relative chart measures performance against the FTSE STRAITS TIMES IDX which closed at 3138.01 on 16/01/14

On 16/01/14 the spot exchange rate was S\$1.27/US\$1

Performance over	1M	3M	12M
Absolute (%)	15.4	-2.6	21.0
Relative (%)	13.0	-1.0	23.1

Financial and valuation metrics

Year	12/09A	12/10A	12/11A	12/12A
Revenue (mn)	89.21	64.61	79.95	94.57
EBITDA (mn)	37.11	19.25	-23.78	25.63
EBIT (mn)	30.99	11.53	-33.10	13.97
Net profit (mn)	28.09	11.30	3.27	10.43
EPS (US\$)	0.04	0.01	0.00	0.01
Change from previous EPS (%)	n.a.	n.a.	n.a.	n.a.
Consensus EPS	n.a.	—	—	—
EPS growth (%)	-6.23	-63.03	-71.22	220.00
P/E (x)	7.83	21.18	73.59	23.00
Dividend yield (%)	5.10	3.40	1.36	0.00
EV/EBITDA (x)	11.13	21.45	-17.37	16.11
P/B (x)	1.38	1.27	1.27	1.20
ROE (%)	20.58	6.23	1.73	5.37
Net debt/equity (%)	-11.27	42.48	60.09	67.49

Source: Bloomberg

Falcon Energy Group

FEGL.SI / FALE SP

Price Date: 16 Jan 2014, Rating: NOT RATED, Target price: NA, Analyst: Gerald Wong, CFA

Per share data	12/09A	12/10A	12/11A	12/12A
Shares (wtd avg.) (mn)	746.23	814.14	814.14	814.14
EPS (US\$)	0.04	0.01	0.00	0.01
DPS (US\$)	0.02	0.01	0.00	0.00
BVPS (US\$)	0.21	0.23	0.23	0.25
Operating CFPS (US\$)	0.03	0.02	-0.02	0.01

Income statement (US\$ mn)	12/09A	12/10A	12/11A	12/12A
Sales revenue	89.21	64.61	79.95	94.57
Cost of goods sold	50.32	40.00	62.09	66.68
SG & A	11.64	15.09	54.82	15.65
EBITDA	37.11	19.25	-23.78	25.63
Depreciation and amortisation	6.12	7.72	9.33	11.66
EBIT	30.99	11.53	-33.10	13.97
Net interest expense/(inc.)	1.02	3.01	3.72	5.12
Non-operating inc./(exp.)	-0.33	-3.63	-43.90	-2.15
Recurring PBT	30.30	12.15	7.08	11.00
Taxes	0.86	0.47	1.53	0.35
Profit after tax	29.44	11.68	5.56	10.64
Minority interests	1.35	0.38	2.28	0.21
Reported net profit	28.09	11.30	3.27	10.43

Cash flow (US\$ mn)	12/09A	12/10A	12/11A	12/12A
Operating cash flow	20.27	15.11	-12.68	4.91
Capex	-36.33	-15.93	-22.71	-33.87
Free cash flow to the firm	-16.06	-0.83	-35.39	-28.96
Disposals of fixed assets	0.00	0.00	3.12	0.01
Investing cash flow	-32.24	-121.94	-20.35	-34.42
Equity raised	40.35	12.54	0.00	0.00
Dividends paid	-7.53	-9.05	-3.32	0.00
Net borrowings	16.82	68.45	19.36	23.11
Other financing cash flow	0.01	0.15	17.78	7.60
Financing cash flow	49.66	72.08	33.82	30.71
Total cash flow	37.69	-34.75	0.79	1.21

Balance sheet (US\$ mn)	12/09A	12/10A	12/11A	12/12A
Cash and cash equivalents	47.05	12.30	13.10	14.31
Current receivables	27.11	22.57	33.20	27.99
Inventories	0.86	1.26	24.06	41.91
Other current assets	12.63	13.74	6.20	11.07
Current assets	87.65	49.87	76.56	95.27
Property, plant and equipment	124.97	133.54	166.35	188.23
Investments	0.00	0.00	8.34	8.45
Other non-current assets	7.48	114.92	117.07	112.42
Total assets	220.10	298.33	368.32	404.37
Accounts payable	7.33	4.00	7.67	6.83
Short-term debt	14.57	25.53	41.97	49.91
Other current liabilities	6.31	3.81	18.27	14.64
Current liabilities	28.21	33.34	67.91	71.39
Long-term debt	12.23	69.72	89.76	104.95
Other non-current liabilities	0.00	0.00	13.21	19.77
Total liabilities	40.44	103.06	170.88	196.10
Shareholders' equity	173.88	189.07	189.03	199.58
Minority interests	5.78	6.21	8.41	8.69
Total liabilities and equity	220.10	298.33	368.32	404.37

Company description

Falcon Energy Group (FEG) is a regional player in the Offshore Marine and Oil & Gas sectors. It operates current five business divisions with operations across Southeast Asia, China, Middle East and Mexico.

Key ratios and valuation	12/09A	12/10A	12/11A	12/12A
Growth (%)				
Sales revenue	50.84	-27.57	23.74	18.28
EBIT	7.43	-62.80	-	-
Net profit	0.31	-59.77	-71.03	218.54
EPS	-6.23	-63.03	-71.22	220.00
Margins (%)				
EBITDA	41.60	29.79	-29.74	27.10
EBIT	34.74	17.84	-41.40	14.77
Pre-tax profit	33.97	18.81	8.86	11.63
Net profit	31.49	17.49	4.10	11.03
Valuation metrics (x)				
P/E	7.83	21.18	73.59	23.00
P/B	1.38	1.27	1.27	1.20
Dividend yield (%)	5.10	3.40	1.36	0.00
P/CF	10.82	15.83	-18.87	49.06
EV/sales	4.63	6.39	5.16	4.37
EV/EBITDA	11.13	21.45	-17.37	16.11
EV/EBIT	13.32	35.82	-12.47	29.56
ROE analysis (%)				
ROE	20.58	6.23	1.73	5.37
ROIC				
Asset turnover (x)	0.49	0.25	0.24	0.24
Interest burden (x)	0.98	1.05	-0.21	0.79
Tax burden (x)	0.93	0.93	0.46	0.95
Financial leverage (x)	1.34	1.43	1.76	1.99
Credit ratios				
Net debt/equity (%)	-11.27	42.48	60.09	67.49
Net debt/EBITDA (x)	-0.55	4.31	-	5.48
Interest cover (x)	27.65	3.47	-8.48	2.73

Source: Bloomberg