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FALCON ENERGY

S$0.40-FALE SP

- Key points from an analysts' meeting with management:

  - **Falcon**'s 2Q to Sept'13 profit surged from US$1.9mln a year ago to US$38.87mln due to US$29mln one time gain from the sale of 2 oil rigs (45% owned) to a Chinese customer while the improved utilization rate (from 60-70% to 75-80%) from their offshore support vessels (marine division) saw revenues surging from US$10.4mln to US$17.8mln;

  - the oilfield services division benefitted from one-off short term contract as well as the increase in provision of sundry services which saw revenues surging from US$5.4mln to US$35.84mln;

  - 2Q'13 profit of US$38.87mln helped offset 1Q's loss of US$4.5mln (due to one-time provision by its associate company **CH Offshore** due to bad debts) and brought 1H to Sept'13 profit up to US$34.36mln;

  - due to the good 1H'13 performance, Falcon paid a maiden interim dividend of 1/2 cent (goes ex-div on 13 Dec'13), and including last year's final dividend, yield is 2.5%;

  - looking ahead, management said that their major oil and gas customers are asking them for more offshore support vessels to support their robust operations and thus will be looking to increase their vessels from 16 to 19 in 2H ending Mar'14;

  - despite the increased number of vessels, management expects utilization rates to improve further from 75-80% in 1H to Sept'13 to >80% in 2H ending Mar'14 due to strong demand for oil and gas exploration;

  - after having sold their 2 oil rigs, Falcon still have another 4 rigs on order (their share is 25%) from **Keppel Corp** and **China Shipbuilding Industry Corp** which is expected to be delivered from 2015 onwards;

  - their partners include China-based oil importer **Guangdong Zhenrong Energy Co** as well as private investment vehicles owned by Falcon's directors;

  - the aim is to build up an Asian based oil rig operator by the time the oil rigs are ready from 2015 onwards;

  - meanwhile, the rest of the businesses (oil field service division and oilfield projects division) are expected to remain stable backed by steady order books.

CONCLUSION

1. At 40 cents, Falcon is capitalized at S$328mln and its normalized PE (excluding one-time provision from CH Offshore and one-time gain from sale of two 45% owned oil rigs) is about 10x. This is similar to recently listed **Pacific Radiance**. However, if management's longer-term goal of transforming into an oil rig operator comes to fruition, it could be re-rated higher. As this is the first time we are commenting on the company, we believe it is worth keeping the company on our radar based on their recovering marine division as well as plans to transform into an oil rig operator based on Asia. We also note that the company had bought back 3.428mln shares in the past 2 months from mid 30 cents to low 40 cents levels.

SGX-ST Member, SGX-DT (CNCM)

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