

## Falcon Energy Group

### Getting a Lift in 2Q FY14

We noted that Falcon Energy Group (Falcon) recently carried out some share buy-back activities and absorbed back approximately 2m shares (at an average daily price of between 34.8 cts and 37.2 cts) from the open market this month. This seems to be a signal from the management that Falcon's current share price is not justified.

The move may be partially explained by the recent sale of its two 45.5% owned Gusto MSC CJ46-X100 jack-up rigs at an estimated price of US\$225m each last month. These two rigs have a cost of roughly US\$196m each, assuming interest cost, agency fees and others. Netting off the figures, the transaction works out to an attributable profit of US\$26m which Falcon will probably recognize in its upcoming 2Q results.

On the marine division, we expect the company to deploy its 2X 78m multi-functional support vessels over the next two months and these vessels are capable of generating bareboat annual revenue of US\$9+m each, if fully deployed. We also expect charter rates for the other vessels to be healthy given current high energy prices and active drilling programmes. We now estimate utilization rate for the remaining FY2014 to be around 80%. Contributions from associates will probably cutback to below US\$1m following the recent write-down in its 29% owned CH Offshore and lower chartering revenue. Nonetheless, we expect the marine division to lead the group in profitability and Falcon may generate US\$5m, US\$7m and US\$7m PAT for the next three quarters. We leave our estimates for the oilfield services and oilfield projects intact and assume negligible contribution from the resource division. In view of the positive outlook, we now revise our intrinsic value to S\$0.550 per share. Maintain **Increase Exposure**.

Falcon's share price has also recovered to near its one-year high level of S\$0.42 per share. As of end June 2013, Falcon has 162.8m outstanding warrants with an exercise price of S\$0.40 per share. The last conversion date for the warrant is 1 Nov 2013.

## Increase Exposure

- Intrinsic Value S\$0.55
- Prev Closing Price S\$0.415

### Main Activities

Falcon is an investment holding company which offers a spectrum of services from exploration and drilling phase to the post production stage. The business is divided into three segments: Marine, Oilfield Services and Oilfield Projects. The Resource divisions and Drilling Services division were established recently.

### Financial Highlights

(Y/E Mar)US\$m	FY11	FY12*	FY14F
Revenue	80.0	116	119
Gross Profit	17.9	33.0	40.3
PAT	7.1	10.4	39.2
EPS (US cts)	0.4	1.0	4.0

\*: 5 quarters

Source: Voyage Research Estimates

### Key ratios (FY14F)

PER	8.4
P/BV	1.4
ROE	18.0%
Debt/Equity	65%
Current ratio	1.26

Source: Voyage Research Estimates

### Indexed Price Chart

Green (FSSTI)

Black (Falcon)



Source: Bloomberg

52wks High-Low	42 cents/ 20.5 cents
Number of Shares*	977m
Market Capitalization	S\$405m

\*: Include warrants

### Analyst:

Ng Kian Teck, Deputy Head of Research

[kianteck@voyageresearch.com](mailto:kianteck@voyageresearch.com)

Tel: 6227 2107

**Figure 1: Valuation**

US\$ '000	2011	5Q 2012F	2014F	2015F
EBIT	10982	17512	50370	29581
Tax on EBIT	-2369	-1097	-5037	-2958
Deferred Tax Liability	-1060	405	0	0
Minority Interest	-2282	-591	-500	-500
NOPLAT	5271	16229	44833	26123
Total Invested Capital	282459	305967	267903	281430
WACC	7.3%	9.4%	7.1%	7.1%
Capital Charge	20578	28851	19042	20004
Economic Profit			25791	6119
Terminal				153430
Discount Rate			1.00	0.93
Present Value			25791	5713
Book Value	208081			
Explicit Value	25791		Risk Free	2.5%
Terminal Value	143248		MRP	6.5%
Value of Firm	377120		Cost of Equity	9.00%
Number of Shares	976920		Cost of Debt	5.0%
Input from Warrant	52096		Terminal G	3.0%
Value per Share (US\$)	0.439			
US Dollar Conversion	1.25			
Value in S\$	0.549	~0.55		

Source: Voyage Research

**Figure 2: Financial Forecasts and Estimates**

US\$ '000	2010	2011	5Q 2012	2014F	2015F
Revenue	64610	79949	116195	118519	144593
Gross Profit	24615	17858	33005	40296	50608
Net Income Before Taxes	12151	7084	11075	43574	22718
Net Income After Taxes	11684	5556	10381	39217	20446
Total Current Assets	49872	76558	93060	97682	99528
Total Non-Current Assets	248460	291758	307777	352350	365349
Total Current Liabilities	33337	67909	74743	77322	71722
Total Non-Current Liabilities	69719	102969	118013	125412	125411
Total Equity	195276	197438	208081	247298	267744
Net Income Before Tax	12151	7084	11075	43574	22718
Cash from Operating Activities	15692	-16087	16050	23163	16215
Cash from Investing Activities	-117967	-14134	-30998	-25573	-11100
Cash from Financing Activities	67378	31080	14522	7955	-5000
Net Change in Cash	-34897	859	-426	5545	115
Net Cash - Beginning Balance	47054	12303	13097	12896	18441
Net Cash - Ending Balance	12303	13097	12896	18441	18556
Inventory Days	6	58	39	66	106
Receivable Days	204	164	179	170	89
Payable Days	91	93	113	117	100
ROE	6.4%	2.9%	5.4%	18.0%	8.3%
ROA	4.5%	1.7%	2.7%	9.2%	4.5%
Debt/Equity	50.1%	69.4%	73.9%	65.2%	58.2%
Current Ratio	1.50	1.13	1.25	1.26	1.39
P/E*	23.0	79.6	33.1	8.4	16.3
P/B*	1.4	1.4	1.6	1.4	1.3

\*: Include Warrants

Source: Voyage Research Estimates

**Rating Definition:**

**Increase Exposure** – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

**Invest** – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

**Fairly Valued** – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

**Take Profit** – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

**Reduce Exposure** - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

---

**IMPORTANT DISCLOSURE:**

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.

---