

## Swiber Holdings Ltd (Swiber): A niche player in the offshore EPCIC industry

**Tuesday, March 25, 2008**

### SUMMARY

- Swiber has seen tremendous growth since its IPO in November 2006, reflecting the strong uptick in the oil and gas market. The rising crude oil price (recently hit a record high at US\$110 per barrel) has filtered down to higher capex by oil and gas producers and hence vigorous demand for offshore oil and gas related services. Accordingly, Swiber's FY07 revenue growth surged 126% yoy to US\$151.2 million, and net profit also rose 309% yoy to US\$49.7 million. Overall profitability also improved substantially, with net margins expanding from 18.2% in FY06 to 32.9% in FY07.
- Swiber's finances also appear very healthy, with cash and cash equivalents swelling to US\$97.7 million in FY07. The successful US\$76.6 million share placement exercise in FY06 helped to strengthen Swiber's balance sheet and lower its net debt to equity ratio to 0.53 times as at 31 December 2007.
- To leverage on the strong demand for oil amid record high prices, Swiber is gearing up and expanding their capacity. Swiber's three-pronged strategy encompasses the following: expansion of fleet with new design and technologies, extension of capabilities in the sub-sea and deepwater activities and ship-building, and strengthening their presence in Asia Pacific and Middle East. For instance, Swiber plans to expand its current fleet of 28 offshore support and construction vessels to approximately 38 by end-2008, and to 47 by 2010. Swiber also recently acquired a shipyard business, Kreuz Shipyard and Engineering, for highly complementary yard facilities for ship repair, ship conversion and construction, as well as vertically integrate its ship building, design and offshore engineering capabilities. Meanwhile, Swiber's recent development included Joint Venture with Principia to provide engineering services and setting up an offshore drilling division to demonstrate Swiber's commitment to be an integrated service provider.
- Looking ahead, Swiber's order book is very strong, standing at US\$506 million as at 19 March 2008, with EPCIC projects concentrated in Malaysia, Indonesia, Brunei and India. Financial ratios also look relatively healthy, with interest cover at more than 9 times as at end-2007.

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## Brief History and Financial Performance

**A niche service provider in the oil and gas industry, providing EPCIC services** Swiber was founded in 1996 and operates in a niche market as a service provider to the Offshore Oil and Gas industry that offers a wide range of offshore EPCIC, marine support, drilling services across the Asia Pacific and the Middle East. EPCIC, that stands for Engineering, Procurement, Construction, Installation and Commissioning, is basically Swiber's cutting-edge services that includes:

1. Providing engineering design for various development phases of an oilfield.
2. Offshore transportation, launch and offshore installation of topsides and jackets for an offshore production platform.
3. Offshore installation of mooring systems for offshore platforms like floating production, storage and offloading (FPSO) vessel and floating, storage & offloading (FSO) vessel.
4. Replacement and laying of offshore pipelines.
5. Maintaining, servicing, fabrication, refurbishing and offshore installation of SPM buoys
6. Shallow water drilling services
7. Commission and management of entire EPCIC process.

In a nutshell, Swiber's services at various stages of an offshore oil and gas project can be presented as follows.

Offshore Support Services (OSS)	Offshore Construction Services (OCS)	Offshore Drilling Services (ODS)
<ul style="list-style-type: none"> <li>• Marine transportation</li> <li>• Charter of offshore marine support vessels</li> <li>• Provision of diving support vessels</li> <li>• Shipyard facilities</li> <li>• Ship repair and maintenance services</li> <li>• Shipbuilding services</li> <li>• Conceptual and feasibility</li> <li>• Front end engineering design</li> <li>• Mooring systems design</li> <li>• Basic and detailed engineering</li> <li>• Start up and commissioning</li> <li>• Operation and maintenance</li> <li>• Vessel life extension</li> </ul>	<ul style="list-style-type: none"> <li>• Subsea products</li> <li>• Pipelay and subsea construction</li> <li>• Subsea maintenance</li> <li>• Floating and fixed platforms installation</li> <li>• Subsea field commissioning</li> <li>• Mooring services</li> <li>• Top side construction</li> <li>• Installation and operations</li> </ul>	<ul style="list-style-type: none"> <li>• Supply rig and crew</li> <li>• Well services</li> <li>• Work over services</li> <li>• Drilling and service applications</li> </ul>

Source: Swiber

Swiber listed on the Singapore Exchange in November 2006 and issued 94 million shares at S\$0.355 per share.

**Remarkable achievement since IPO indicates sustained profit growth prospects** Swiber's FY07 revenue growth surged 126% yoy to US\$151.2 million, and net profit also rose 309% yoy to US\$49.7 million. The phenomenal results were due to the group's success in winning offshore EPCIC projects for the transportation and installation of offshore pipelines, jackets and top decks in Malaysia, Indonesia, and Brunei Darussalam. In addition, the revenue contribution from the newly acquired shipyard, Kreuz Shipyard and Engineering, also contributed to Swiber's strong performance. There was also a US\$13.24 million gain in Q4 FY07 from the disposal of vessels held for sale. Swiber also successfully issued 55,350,000 placement shares which raised a net proceed of US\$76.57 million

In terms of profitability, Swiber's gross profit margins have expanded to 28.3% in the last financial year from 22.9% in FY06 while net margins grew from 18.2% to 32.9% in FY07. Contributing factors to the increased profitability included fleet expansion - Swiber added 18 new offshore and construction vessels to increase its total fleet size to 28 in 2007, as well as a significant reduction in the usage of third party vessels in the offshore engineering and construction projects.

## Industry Outlook and Growth Strategy

**Rising prices and demand for oil commodity has created ample business opportunity...** In the current environment of rising oil prices on the back of supply limitation and ever-growing global demand, oil companies are likely to direct more expenditure towards offshore exploration, development, and production of oil and gas. Crude oil prices headed to fresh record prices around US\$110 per barrel even as China, the second-biggest oil-consumer, increased crude-oil imports by 18% last month and halted overseas shipments to meet rising demand. Offshore capital expenditure jumped significantly after the crude oil prices went above the US\$40 per barrel, according to industry analyst Energy File.

Meanwhile, oil companies are also expanding their exploration from shallow sea to deep sea due to the high demand and decreasing inventory. Therefore, the demand for the deep sea drilling is expected to rise. Studies have shown that deepwater oil and gas industry is set to have a sustained growth path through to 2012 and with that a forecast of nearly US\$25 billion capital expenditure to be spent annually in deepwater oil exploration and development. Deepwater oil production currently accounts for almost 15% of total offshore production and forecast to reach 20% in 3 years time. The main source of growth is cited to be from the Asian region.

**thus Swiber is gearing up to expand capacity** **Thus, the business opportunity is there for Swiber's EPCIC niche services.** Currently, Swiber has a strong army of fleet consisting of 10 cargo/flat top barge and will add their utility/towing boat and Anchor Handling Tug Supply Vessels (AHTS) to 7 and 11 respectively this year. There will be an additional 10 vessels in construction, bringing Swiber's vessel fleet to 38.

The most notable break-through project will be the development of the deepwater drilling barge that is set to be ready by 2010 in order to support the ongoing and rising deepwater oil exploration projects.

Swiber has a three-pronged strategy that encompasses the following: expansion of fleet with new design and technologies, extension of capabilities in the sub-sea and deepwater activities and ship-building, and strengthening their presence in Asia Pacific and Middle East.

Key competitors in the offshore EPCIC market are international players that are mainly based in the United States such as J.Ray Mcdermott, Saipem, Global Industries and Horizon Group. For marine support services, Swiber competes with other Singapore companies such as CH Offshore, Ezra and Jaya. The following table summarizes Swiber's relative positioning vis-à-vis its locally-based competitors.

Factor	Swiber	Ezra	Swissco	CH Offshore	Jaya
Business model	Offshore marine support, offshore construction and minor fabrication work	Offshore marine support, offshore construction and fabrication work	Marine logistics support	Offshore marine support	Offshore marine support and shipbuilding
Pricing basis	Project turnkey basis	Chartering day rate	Chartering day rate	Chartering day rate	Chartering day rate, project basis for shipbuilding
Performance bond	✓	x	x	x	x
Customers	-Shell -Murphy oil -British Gas -Petronas	-Shell -Petronas -BP -Prosafe	-Maersk -Inchcape Group -SapuraCrest Petroleum	-Universal Shipbuilding Corporation -Offshore Marine Services	-Seacor -Troms Offshore
Vessels					
-AHTS/ AHT	✓	✓	✓	✓	✓
-Utility/tug	✓	✓	✓	✓	✓
-Construction vessels	✓	✓	x	x	x
-FPSO	x	✓	x	x	x
-Drilling barge	✓	x	x	x	x
-Jack up rig	x	✓	x	x	x
Competitors	-Global Industries -JR McDermott -Saipem SpA -Cal Dive - Horizon Offshore	-BW Offshore -Tidewater -Superior Offshore -Bourbon S.A	-Jaya -ASL Marine -CH Offshore -Ezra	-Ezra -Tidewater -Seacor -Bumi Armada	-Jaya -ASL Marine -CH Offshore -Ezra

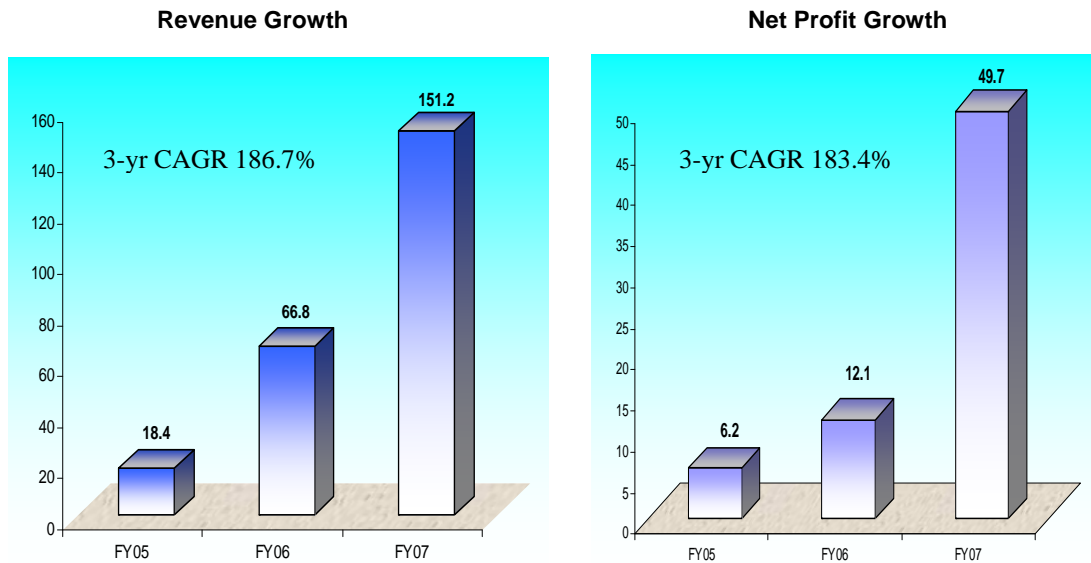
Source: Company, CIMB-GK Research

## Healthy order book underpins the balance sheet

Swiber's financials look relatively healthy:

1) Over the past three years, Swiber's revenue grew at a CAGR of 186.7% from US\$18.4 million in FY05 to US\$151.2 million in FY07 while net profit grew at a CAGR of 183.4% from US\$6.2 million in FY05 to US\$49.7 million in FY07.

**Chart 1: Revenue growth and net profit growth**

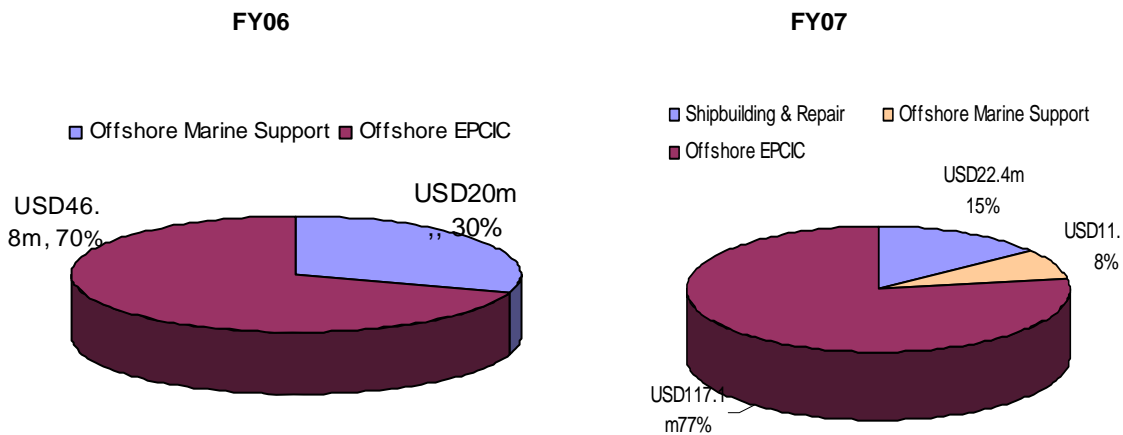


Source: Swiber, OCBC

*...the newly acquired Kreuz Shipyard started to contribute to group's revenue*

2) Business diversification: Offshore EPCIC and offshore Marine Support, continues to drive Swiber's revenue. But there is some diversification with the newly acquired Kreuz Shipyard which has started to contribute to group's revenue.

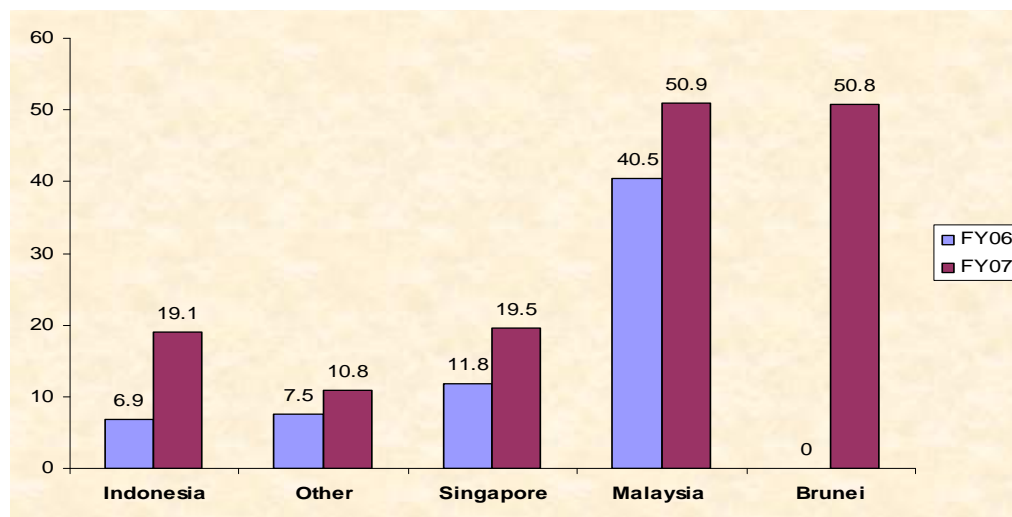
**Chart 2: Breakdown of business segment.**



Source: Swiber, OCBC

3) Geographical diversification: Swiber managed to expand their business regionally while successfully retaining their core business competencies in Malaysia and Singapore.

#### Revenue by geographical segments



Source: Swiber, OCBC

#### Healthy order book

4) Healthy order book. Until February there were US\$350 million projects on the order book with US\$200 million of projects scheduled to be completed this year. Meanwhile, in the first half of March 2008, Swiber has successfully bid three projects regionally, including US\$ 127million EPCIC contract in India, US\$29 million installation project in Malaysia and five years' platforms and pipelines installation projects in Thailand with estimated annual revenue US\$50 million till 2013. Barring unforeseen circumstances, Swiber expects FY08 to be better than FY07 based on the schedule of project completion.

5) Swiber's financial ratios, in particular the interest coverage (EBIT/Interest >9 times at end-2007) remain healthy (see table below). Swiber currently has US\$108 million outstanding debt in the form of 3-year bonds with a composition of US\$54.5 million floating rate and US\$54 million fixed rate at 3.43%. The total debt/total asset ratio has risen from 10.7% in 2006 to 29.9% in 2007, but remains relatively decent.

#### Leverage Ratio

	31 Dec 2007	31 Dec 2006
Interest Rate Coverage	9.31	21.81
Assets / Equity	2.08	1.86
Long term debt / Total capital	29.9%	10.70%
Debt / Market Cap Ratio	0.1	0.05
Total debt / Total Capital	35.20%	18.09%
Total Debt / Total Asset	26.05%	11.91%

## Key strengths and potential risks

The key strengths of Swiber are :

- Relatively high barriers to entry for this industry given capex requirements and specialised knowledge. Swiber is a one-stop niche, offshore EPCIC service provider for oil and gas companies operating in the Asia Pacific and Middle East markets.
- The majority of Swiber's vessels are Singapore-flagged and thus enjoy lower tax rate as those vessels operating in international waters are tax exempted.
- Swiber has a relatively healthy balance sheet and financial ratios.

Meanwhile, opportunities remain very strong in the offshore oil industry, such as:

- Higher demand for offshore oil exploration and development services, especially the drilling services, since the onshore exploration for crude oil may show further signs of depletion and thus supply shortage.
- The growth strategy that is centred on the development of new markets such as India, Vietnam, Myanmar, China and Qatar.
- Ongoing fleet expansion will reduce the company's reliance on third-party vessel charters and will lead to a simultaneous improvement in project margins.
- The development of Swiber's break-through deepwater drilling barge project that is set to be ready by 2010 is likely to give an edge to the undertaking of deepwater oil exploration and development projects.

We also identify some potential risks pertaining to Swiber's business feasibility in the future.

- FX exposure and FX hedging risks given the current bearish US\$ outlook, albeit Swiber has a natural hedge given that both receivables and expenditures are mainly US\$-denominated. Swiber noted that there currently is minimal currency mismatch as all borrowings are in US\$, and the earlier SGD bond issues were already swapped to US\$.
- With the global growth downside risks, global oil demand may moderate and prompt oil prices to retreat. In turn, the oil and gas companies may also accordingly pare capital expenditure on the offshore exploration, development and production of oil and gas. However, such a scenario would only occur when the oil price hits the breakeven point (estimated to be around US\$40 per barrel for the Gulf Cooperation Council Countries), which is a significant distance from the current spot price of above US\$100 per barrel.
- Exposure to the laws, regulations, policies, directives and regulations relating to energy, investment, taxation and such other laws applicable by the governments of countries from which Swiber will need to obtain licenses to engage in the exploration, development and production of oil and gas. The demand for the company's services and its business growth

potential, therefore, will be affected if its customers inability to obtain the necessary licenses to engage in exploration, development and production activities in the relevant areas. To-date, this has not been an issue so far.

## Appendix Key financial highlights

**Table 1: Key Financials**

US\$ million	FY07	FY06	% change	4QFY07	4QFY06	% change
Revenue	151.2	66.8	126.4	61.1	23.6	159.1
Gross Profit	42.8	15.3	179.8	14.6	4.7	210.9
Profit before tax	52.0	13.0	300.8	20.5	3.8	434.3
Net Profit	49.7	12.1	309.4	20.4	3.9	415.3
EPS Weighted avg	12.56	4.32	191.2	-	-	-

**Table 2: Balance Sheet**

US\$ million	31 December 2007	31 December 2006
Cash & bank balances	97.7	11.5
Trade receivables	100.7	28.9
Current assets	235.6	47.7
Non-current assets	134.4	43.3
Current liabilities	109.7	34.6
Non-current liabilities	82.8	7.4
Total equity	177.5	49.0

**Table 3: Cashflow Statement**

US\$ million	FY07	FY06
Operating cashfloww before movement in working capital	29.3	13.3
Net cash from operating activities	(16.8)	11.8
Net cash used in investing activities	(58.8)	(28.5)
Net cash from financing activities	148.5	23.1
Cash & cash equivalents at end of year	82.7	9.4

**Table 4: Financial ratios**

As at:	31 Dec 2007	31 Dec 2006
Net Debt / Equity (times)	0.53	0.23
Return on Equity (%)	28.0	24.7
Return on Asset (%)	13.4	13.3
NAV per share (US cents)	41.68	13.13

**Table 5: Bonds issued**

Tenor	Coupon	Maturity	Amount
3-year	Float	24 Aug 2010	SGD\$54.50million
3-year	4.34%	24 Aug 2010	SGD\$54million

**Table 6: Peer valuation (As at 31 Dec 2007)**

Company	Swiber Holdings	EOC LTD	KS Energy	CH Offshore
Sales growth	126.41%	n/a	n/a	26.85%
Debt / Equity	54.50%	138.52%	194.02%	10.60%
P/E ratio	11.73	25.34	5.12	7.13
Gross Margin	28.34%	59.88%	27.60%	55.46%

Source: Swiber and Bloomberg

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