

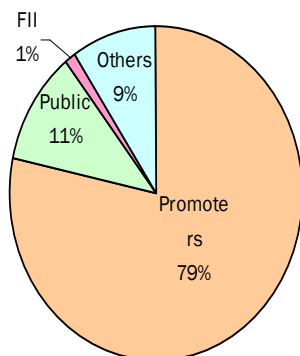
# South-East Asia Marine (SEAMEC)

**Buy**

## Company Details

<b>CMP</b>	<b>: Rs. 145.00</b>
<b>Target</b>	<b>: Rs. 281.00</b>
<b>Upside</b>	<b>: 94%</b>
<b>Time Frame</b>	<b>: 12 months</b>
<b>P/E</b>	<b>: 13.64</b>
<b>P/B</b>	<b>: 1.88</b>
<b>Beta</b>	<b>: 1.10</b>
<b>Market Cap</b>	<b>: Rs. 496 Crore</b>
<b>52 High/ Low</b>	<b>: Rs.305 /Rs.125</b>
<b>Free Float</b>	<b>: 21%</b>

## Shareholding Pattern



## Price Chart



South East Asia Marine Engineering & Construction Company (SEAMEC) is a leading provider of DSV (Diving Support Vehicle) based diving services. The company is 78% owned by French major Technip. Technip ranks among the 5 major players in full-service engineering and construction services in the field of hydrocarbons and petrochemicals. SEAMEC primarily caters to the offshore oilfield industry. SEAMEC has vast experience in sub-sea inspection, repair, maintenance and light construction required for efficient and productive support of offshore oil production and exploration. SEAMEC specialises in vessel management, marine management, dive support, fire fighting, sub-sea construction, ROV (Repair of Vessels) support, pipe laying, rescue operations, logistics, mooring & de-mooring and craning. SEAMEC has four vessels through which it carries out its operations. The company has a long operating history and a glowing past record.

## Investment Summary

### Industry Overview

The market for vehicles providing diving support is a very niche one. DSV is a type of MSV (Multipurpose Support Vehicle). Number of vehicles which provide diving support is very small internationally. In India there are total of six DSV. Out of this for four belong to SEAMEC and the other two are owned by ONGC.

There has been a rise in crude prices across the globe in the last year. This has been driven by higher demand and lower supplies. With prices of crude rising higher, exploration activity has increased manifold across the globe. With the prices rising it has become profitable to extract oil reserves from deep undersea deposits which were earlier not too lucrative. There has also been a spurt in undersea pipe laying to reduce transportation costs associated with crude. All this has led to a sharp increase in the charter rates for DSV.

With the price of crude touching new highs, the charter rates are expected to remain firm. A steady supply on new vehicles would start coming in around 2008 end after which one can see moderation in charter rates.

### About SEAMEC

SEAMEC is a subsidiary of Technip, France (78% stake). Technip acquired SEAMEC after acquiring Coflexip Stena Offshore which was the parent company of SEAMEC earlier. SEAMEC is the largest player in South-East Asia to provide DSV based diving services. DSV are used to carry out complex under water jobs like pipelines & cable laying, fire fighting, pollution control, repairing and rescue. There are only eight vessels of this kind in India giving the company an edge over its competitors in bagging complex jobs. Unlike anchor handling tugs & platform supply vessels which are oil & gas service providers, MSV find application in highly technical jobs for oil & gas infrastructure creation. SEAMEC currently owns four DSV.

- SEAMEC-I provides more basic services and is the least technically advanced vehicle in the fleet of ships owned by SEAMEC. It is currently deployed with M/S Dolphin Offshore at charter rate of approximately \$23,333/day.
- SEAMEC-II is much more technically advanced. While undergoing dry-docking last year, an explosion occurred in the front part of the vessel. It is expected to be under repair till June this year. According to the management the cost of repair is expected to be borne by the hull and machinery insurer.
- SEAMEC-III is a vehicle similar to SEAMEC-II technically. It is currently



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deployed with M/S Superior Offshore International Inc at charter rate of approximately \$55,555/day.

- SEAMEC Princess is the fourth vehicle in the fleet of SEAMEC. It is the most technically advanced vehicle in the fleet of SEAMEC. It is currently deployed with M/S Sime Darby Engineering Sdn. Bhd., Qatar at charter rate of \$1,05,555/day. After completion of this contract it would be deployed with M/s. Workboat International FZCO, Dubai towards end of November at charter rate of \$68,333/day.

### Key Investment Themes

#### High growth in oil exploration, production and transportation activity

With prices of oil rising there is an increased focus among companies on oil exploration, production and transportation. This will lead to higher orders for companies like SEAMEC which provide crucial support in the critical activities like ongoing sub-sea inspection, repair, maintenance and light construction required for the efficient and productive support of offshore oil production. The higher price for oil has meant production from areas not considered attractive earlier has become lucrative now. Most of such areas occur in seabeds. This has led to increased number of opportunities for a company like SEAMEC which with its vast and unrivalled experience in this field is well positioned to benefit from the arising opportunities.

#### Paucity of MSV internationally, with rising demand has meant increase in charter rates

There hasn't been an increase in number of MSV in operation in the world to match the increase in demand for such vehicles. Specifically, there hasn't been an increase in DSV. This has led to an increase in the charter rates at which these vehicles are deployed. Charter rates have almost doubled in the last two years. Currently the average charter rates are about \$50,000/day. In case of advanced vehicles these rates are even more. SEAMEC Princess has recently been deployed at charters of close to \$1,00,000/day & \$70,000/day for two different charterers.

#### Leadership position, Zero Debt Company, Backing of MNC parent

SEAMEC is a leader in providing DSV based diving services in South-East Asia. It has long and diverse experience in providing these services. It has catered to several well known and reputed companies. These include Texaco, ONGC, Hyundai, L&T and Total. It has zero debt on its books. This is an added advantage in times of higher interest rate regime and leaves sufficient leeway to raise debt in case the company requires it for any of its future plans.

TECHNIP ranks among the 5 major players in full-service engineering and construction services in the field of hydrocarbons and petrochemicals. With vast expertise, extensive industry linkages and strong financial muscle, SEAMEC as a subsidiary is in a sweet spot.

#### Higher than expected charter rates for SEAMEC Princess

The newest vehicle of SEAMEC, SEAMEC Princess, has been hired for substantially higher charter rates than the market expectation. The company entered into agreement with two charterers at charter rates of \$1,07,000/day and \$68,333/day against the market expectation of \$55,000-\$60,000 per day. This would lead to increased topline and bottomline for the company for the CY08. It also is indicative of the fact that the buoyancy in the charter rates will sustain in the near future. This also leads us to believe that the other vehicles of SEAMEC would be deployed at higher charter rates if and when they enter into any new contract.



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### Company may bid for engineering contracts on its own

The management had stated that it may bid for engineering contracts in on its own going forward. The specific areas where the company might do so are in exploration and pipe laying. The company can also use vast experience of its parent while doing so. This would be an added positive for the company.

### Key Concerns

#### Forex fluctuations can hit profits

SEAMEC earns most of its revenues from overseas operations and the contracts are normally in US Dollars. Continued strengthening of the Indian Rupee can hit the company as its earning is in US Dollars while profits are in Indian Rupees. However, the company is also hedged against Rupee rise to a certain extent as a large part of its operating expenses are also in US Dollars.

#### Large supply of vehicles coming at 2008 end

There was a paucity of MSV from 2006 through 2007. However a large number of MSV which were ordered earlier are expected to become operational by the end of 2008. This might lead to lower charter rates if there is oversupply of the vehicles. However considering the large increase in oil exploration and production activity, the buoyancy in prices is likely to sustain for a longer time.

## Financials & Valuation

### Financial Snapshot

Quarterly Trends				
Quarter	Dec 07	Sep 07	Jun 07	Mar 07
Operating Income	22.27	45.34	46.73	56.11
Other Income	2.16	2.32	1.69	2.67
Operating Profit	-11.43	12.87	23.10	27.04
Gross Profit	-9.41	15.09	24.70	29.62
Reported PAT	-15.88	8.93	19.58	24.41
Equity Capital	33.90	33.90	33.90	33.90
OPM (%)	-51.33	28.38	49.43	48.19
GPM (%)	-38.53	31.66	51.01	50.39

### Valuation

SEAMEC had a very poor December 07 quarter performance on account of two of its vehicles being out of operation. SEAMEC-II was damaged in an accident and undergoing repairs while SEAMEC Princess was undergoing upgradation in Dubai port. Hence the company reported losses in December. However the outlook for the coming year is excellent. With SEAMEC Princess deployed at higher charter rates and expected to be in operation for ten months of the year and SEAMEC-II expected to return into operation by July 08, the company should report higher sales and profits in the coming year. We expect the company to report profits of Rs.69 crores in this financial year. This should lead the company to report EPS of Rs.20.01. At the current price of Rs.145 SEAMEC discounts its FY08 (company follows December financial calendar) earnings by PER of 13.64. We recommend **BUY** with a price target of Rs.281 over a period of 9-12 months based on forward earning estimates of FY08.



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Website: <http://www.rfinance.com/research.aspx>

Email Id: [research@rrfcl.com](mailto:research@rrfcl.com)

Analyst : Shaurya

[shaurya@rrfcl.com](mailto:shaurya@rrfcl.com)