



**RESULTS REPORT**

26 May 2011

<b>Handal Resources Berhad</b>		<b>Market Price:</b>	RM0.68
		<b>Market Capitalisation:</b>	RM108.8m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	HOLD	<b>Sector:</b>	Trading / Services
<b>Target Price:</b>	RM0.72	<b>Stock Code/Name:</b>	7253 / HANDAL

Analyst: Edmund Tham

**KEY FINANCIALS**

Key Stock Statistics	2011F
Earnings/Share (sen)	8.0
P/E Ratio (x)	8.5
Dividend/Share (sen)	2.0
NTA/Share (RM)	0.72
Book Value/Share (RM)	0.72
Issued Capital (mil shares)#	160.0
52-weeks share price (RM)	0.495 – 1.06
Major Shareholders:	%
.Dato' Mohsin Abdul Halim	15.7
.Zahari bin Hamzah	9.9
.Mallek Rizak bin Mohsin	7.8
.Joel Emanuel Heaney	7.3
.OSK Capital Partners S/B	6.7

\*RM0.50 par value; # including recent rights & bonus issue

Ratios Analysis^	2008	2009	2010	2011E
Book Value/Share (RM)	n.a.	0.35	0.44	0.72
Earnings/Share (sen)	n.a.	6.3	10.1	8.0
Dividend/Share (sen)	n.a.	1.1	2.3	2.0
Div. Payout Ratio (%)	n.a.	18.0	16.7	25.1
P/E Ratio (x)	n.a.	10.9	6.7	8.5
P/Book Value (x)	n.a.	1.9	1.5	0.9
Dividend Yield (%)	n.a.	1.7	3.3	2.9
ROE (%)	n.a.	10.0	12.8	11.0
Net Gearing (or Cash)(x)	n.a.	0.15	(0.04)	(0.56)

\*2008 figures not available as company was listed in 2009

\*2011F figures are our estimates; ^based on 160.0 million share base

P&L Analysis (RM mil)	2008	2009	2010	2011E
<b>Year end: Dec 31</b>				
Revenue	60.6	49.0	98.8	100.2
Operating Profit	15.7	14.7	23.4	17.4
Depreciation	n.a.	(1.4)	(3.8)	(4.9)
Interest Expenses	(1.9)	(1.0)	(2.3)	(1.6)
Pre-tax Profit	13.8	13.8	21.2	15.8
Effective Tax Rate (%)	32.8	27.2	23.5	19.5
Net Profit	9.2	10.0	16.2	12.7
Operating Margin (%)	25.8	30.1	23.7	17.4
Pre-tax Margin (%)	22.7	28.1	21.4	15.8
Net Margin (%)	15.3	20.5	16.4	12.7

\*2008 figures are pro-forma as company was listed in 2009; \*2011F figures are our estimates

**PERFORMANCE – 1Q/FY11**

1Q/ 31 Mar	1Q11	1Q10	yov %	4Q10	qoq%
Rev (RMm)	16.4	17.1	(4.0)	28.0	(41.4)
EBIT (RMm)	1.2	3.8	(68.9)	5.2	(77.3)
NPAT (RMm)	1.0	2.8	(64.6)	3.8	(73.6)
EPS (sen)	0.6	1.8	(64.6)	2.4	(73.6)

\*based on 160.0 million shares

**“Q1 below expectations”**

Handal’s 1Q/FY11 (quarter ended 31<sup>st</sup> March 2011) results were generally below our earlier expectations. Handal’s 1Q/FY11 revenue of RM16.4 million was 4.0% lower y-o-y. The group had reported a 1Q/FY11 net profit after tax (NPAT) of RM1.0 million, which was 64.6% lower y-o-y than the NPAT recorded in 1Q/FY10. This is mainly attributable to lower margin arising from slower business activities of “Integrated Crane Services” (ICS) and “Workover Projects Lifting Solutions” (WPLS). The decrease in the work-scope under ICS and WPLS contracts were attributable to the group’s clients’ administrative limitations caused by the timing of the current contracts’ expiration and the subsequent approval of the extension of contract.

**“Timing factor”**

The group’s 1Q/FY11 profit before tax (PBT) of RM1.2 is lower than the PBT of RM5.4 million recorded during the preceding 4Q/FY10. This was mainly due to the lower revenue and higher administrative costs recorded during 1Q/FY11. Historically, there were more business activities for ICS and WPLS during the 4<sup>th</sup> quarter of the year as compared to the 1<sup>st</sup> quarter.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)



## OUTLOOK/CORP. UPDATES

Handal's management is bullish on the prospects of the Malaysian oil and gas (O&G) industry, as Petronas and other oil majors are committed to intensify exploration and production (E&P) efforts to enhance the country's reserves, underpinned by stabilizing oil prices and the need to retain energy sources. Furthermore, Petronas' commitment to re-direct capital expenditure to its home market will also provide spin-off benefits and positive prospects for the group.

Capital spending in the local upstream oil and gas sector is expected to remain relatively strong. This is based on the Malaysian Government's plan to improve Malaysia's oil and gas production as set out in its **Economic Transformation Programme (ETP)**. The Malaysian Prime Minister Datuk Seri Najib Tun Razak had announced a huge number of Entry Point Projects (EPP) since last year. These EPPs are meant to create jobs and spur economic growth. Of these EPPs, 12 are under the "Oil, Gas and Energy" National Key Economic Areas (NKEAs). This includes enhancing recovery from existing oilfields and development of small and marginal oilfields.

Higher **crude oil prices** do generally correlate with higher expenditure by oil majors for oil E&P (exploration and production). This would lead to more contracts being tendered and awarded for consultants, equipments, drilling, supply vessels and others. **Oil futures** fell from a 2-week high in New York as the US economy grew less than forecast in the first quarter, a signal that fuel demand may struggle to recover. It tumbled as much as 1.4% after the US Commerce Department reported that GDP in the world's largest oil-consuming country grew at 1.8% in the first quarter, less than the 2.2% expansion forecast in a Bloomberg survey. Initial-jobless-claims in the US also unexpectedly rose last week. Crude oil futures for July 2011 delivery fell US\$1.34 to US\$99.98 a barrel on the New York Mercantile Exchange (NYMEX). Oil prices have increased by around 40% during the past year.

As an approved API 2C fabricator, the group's 100%-owned **Handal Offshore Services S/B (HOSSB)** is the only operator in the country which can provide a one-stop service for API 2C cranes. HOSSB is also positioning itself as an OEM for offshore pedestal cranes to tap the market for "Seacrane" offshore pedestal cranes in the regions of East Asia, Southeast Asia, Australia, Africa and Europe. HOSSB is nearing the completion of its purchase of the Seacrane product line. It has also built 2 additional rental cranes to meet market demand, leading to a total count of 16 rental cranes.

The group's 90%-owned **Handrill S/B (Handrill)** is in a project to fabricate a new type of workover rig which is lightweight and modular. It is working together with its principal BassDrill to pursue the possibility of utilising a medium-type tender-assist drilling rig for a local petroleum sharing contractor (PSC), whose project is expected to commence during the 3<sup>rd</sup> quarter of 2012. They are also collaborating with BassDrill to explore fabricating a new semi-submersible drilling rig for domestic deep sea operations with a local PSC.

The group's 100%-owned **Handal Engineering S/B (HESB)** has also secured a contract to perform prefabrication work for Exxon Mobil. This would provide it with the opportunity to further expand its operations and to station its personnel in Kemaman and Kerteh for future onshore as well as offshore work. HESB is also developing its trading activities by attempting to supply the floating roof tank drain systems which are required by the Sabah Oil Gas Terminal (SOGT) project as well as another major project in Bintulu. In addition, it is bidding for a contract to supply mooring equipment for the Petrofac Cendor-02 project.

### "Contract extensions"

In April 2011, HOSSB had received an extension of contract for the provision for crane services for ExxonMobil Exploration and Production Malaysia Inc (EMEPMI). The contract will be extended for a further period of 1 year commencing from May 2011. The

---

Results Report

---

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)

---

ExxonMobil offshore crane service and maintenance contract is based on rates (e.g. manpower rates for technicians, electricians, parts and refurbishments). This is similar to terms in Talisman and Petronas Carigali S/B (PCSB) contracts.

HOSSB had in April 2011 accepted an extension of contract for the provision of rental crane for PCSB's domestic work-over program for Alam Maritim. The contract will be extended for a further period of 21 months (commencing April 2011) with a further extension option of 1 year. This contract extension is based on rates (e.g. manpower, rental and charter rates for the provision of rental cranes). The value of the contract based on the agreed rates is normally subject to the budget of the client for such contracts and has in the past 3 years contributed around RM11.5 million of revenue per year to the group, on average.

## VALUATION/CONCLUSION

A single tier first and final dividend of 3 sen per share for Handal's FY10 ended 31<sup>st</sup> December 2010 will be paid on 15<sup>th</sup> July 2011. The company's shares will be traded ex-dividend from 13<sup>th</sup> June 2011 and the last date of share lodgement would be on 15<sup>th</sup> June 2011. According to Handal's management, the group's future dividends would be determined by the performance of the group. For its FY09-FY10, Handal's dividend payout ratios have been around the 15-20% level.

Even with a high adjusted beta (correlation factor) of 1.62 to the KLCI, Handal (-22.6% YTD) had underperformed the KLCI (+1.6% YTD) this year. Market conditions have also been volatile in recent months, impacted by the political upheavals in the Middle East/North Africa, sovereign debt issue in Europe and major Tohoku tsunami/earthquake in Japan. As Handal is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

Based on our forecast of Handal's FY11 EPS and an estimated P/E of 9 times, we set a FY11-end **Target Price (TP) of RM0.72**. This TP

offers a 5.4% upside from its current market price. Our TP for Handal reflects a modest P/BV of 0.99 times over its FY11F BV/share. Meanwhile, the local "O&G Equipment and Service" sector's average P/E and P/BV are 64.1 times and 2.14 times, respectively.

## "Reduce to Hold Call"

We have basically lowered our Buy Call (to Hold Call) and TP due to a **lack of clarity on its future projects/contracts and hence earnings growth**. As such, we choose to err on the side of being cautious and this is reflected in our projections of its EPS and DPS. Our lower TP is not due to any internal management or operational matters of Handal. As the group obtains more projects/contracts, we would review our Call and TP accordingly. We find that Handal's FY11F P/E and P/BV valuations are not pricey at all, while it has reasonable dividend yields and ROEs. The group's net gearing levels have turned into a net cash position since its FY10 and its cash position has since been strengthened with the proceeds from its recent rights issue.

Meanwhile, Handal also faces possible routine business risks such as weaker crude oil prices, delay in E&P capital expenditure by oil majors/Petronas, slow implementation pace of major Oil/Gas/Energy EPPs, higher steel costs for crane fabrication, foreign exchange fluctuations and also stiff competition with major international rival O&G companies.

## Handal: Share Price



Source: NextView

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)