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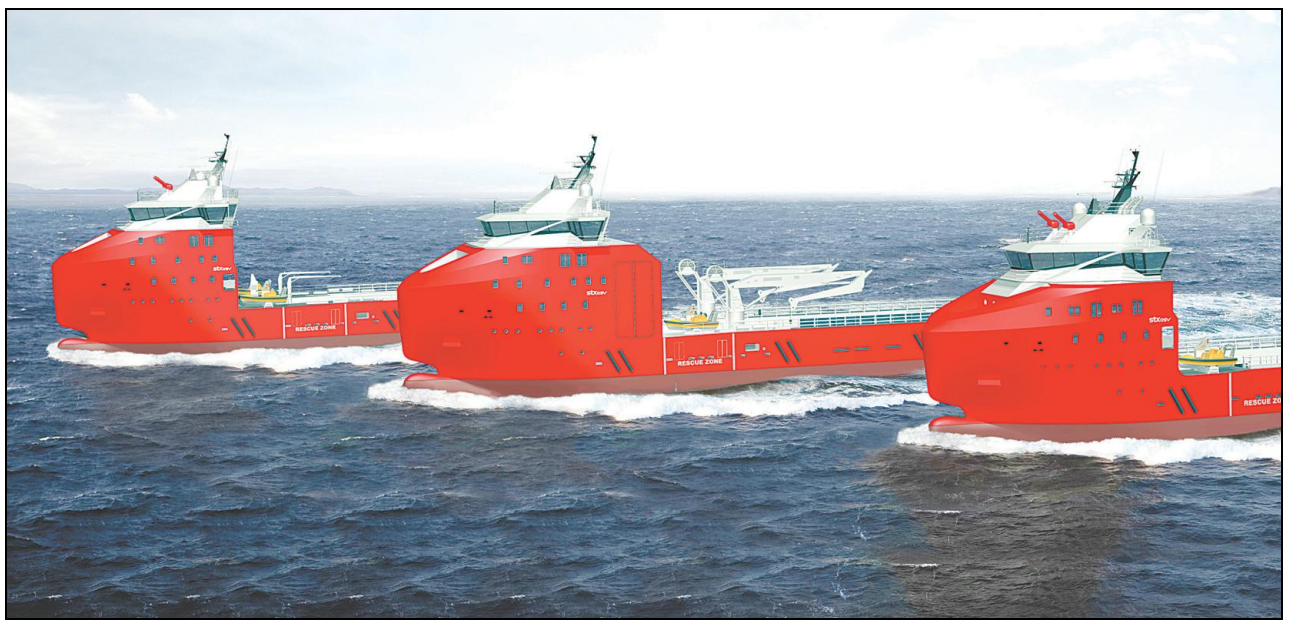

Artist's impression of multipurpose vessels on order for DOF: in the first half of the year, STX OSV bagged orders for 12 vessels worth NKr4.3bn. *STX OSV*

STX OSV cashes in on ordering spree

Singapore shipyard's prospects have brightened greatly since its November 2010 stock market listing

BARRY PARKER — NEW YORK

RECENT robust activity in the energy sector has benefited shipyards specialising in drill rigs, platforms and offshore support vessels.

One particularly beneficiary has been STX OSV, a specialised unit of the larger STX Corp, which gained a Singapore listing in the fourth quarter 2010.

The initial public offering created a "sum of the parts" value for the corporate parent, which had absorbed what had been Aker's Norway-centred shipyard business, during 2007 and 2008.

In early 2009, the European entity, by then dubbed STX Europe, was de-listed in Oslo. As is the case in numerous spin-offs over the past year, the parent company (STX) benefits when it holds stock in an entity that appreciates in value. The Singapore IPO of STX OSV (where five of its 10 yards are in Norway), also brought in cash— approximately $142m — for the offshore vessel specialist to build out its yards in Vietnam and Brazil.

The company's prospects have brightened greatly from November, 2010. The Singapore IPO was completed at S$0.79 per share — the lower end of its anticipated range.

Nine months later, as overall markets had veered around sharply, the STX OSV share price had appreciated to as high as S$1.58 per share before settling down to the region of S$1.35 per share.

The outlook for offshore business overall has been noted by savvy hedge funds. In July, STX OSV announced that US investor and fund manager Och-Ziff Capital had acquired a 20% stake in the company.

Following the investment, where STX sold down its holdings to roughly 51%, outside shareholders maintain shares ownership of approximately 29%.

Oil service stocks, along with volatile commodity markets, are often countercyclical to broader financial markets, increasing the attractiveness of oil services in turbulent times.

The message at STX OSV has been one of steady improvement, as evidenced by a special dividend of S$0.05 to be paid in the current quarter, based on exceptional performance during the second quarter 2011. Its results for the first half of 2011 show a dramatic increase from the year-earlier period, with profit up 79%, to NKr890m ($165m).

In the first half of the year, orders for 12 vessels worth NKr4.3bn were added to the orderbook, including nine from a group of Norwegian owners including DOF, Farstad and Island Offshore. At mid year, the total order backlog numbered 51 vessels, worth NKr15.3bn.

$165m

STX OSV's first-half profit, up 79%

A look behind the scenes shows that construction of a new Brazilian yard, the company's second in the country, at Suape will begin as early as this month — with permits now in hand.

Not included in the backlog are eight liquefied petroleum gas tankers set to be built for Transpetro, the shipowning company within Petrobras, with deliveries slated for 2014-2016. ■

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Offshore growth spurt set to continue

STX OSV is set to continue its growth push in Brazil and Norway, alongside a diversification away from pure commodity vessels, *writes Barry Parker*.

The company describes Brazil as "a generally heated market environment". It has eight liquefied petroleum gas tankers on order from Transpetro, the shipowning company within Petrobras, with deliveries slated for 2014-2016.

Eight offshore support vessels are under construction in its Niteroi yard. Niteroi is viewed by CIMB analyst Yeo Zhi Bin as a possible constraint on growth.

Reporting on a non-deal roadshow for investors, Mr Yeo said: "The only bottleneck is to be found at [STX OSV's] existing Niteroi yard in Brazil, which is fully booked until 2013."

Possible contract wins on the horizon for STX OSV include six flexible pipe layers for Brazilian oil major Petrobras and an unknown number of pipelayers to support offshore contractor Technip's requirement for up to three larger vessels.

Recent orders in Norway include three multi-purpose vessels for DOF, two high-specification 24,000 bhp anchor handler tug supply vessels for Farstad worth NKr1.2bn ($223m).

DNB NOR analyst Kay Lim waxed lyrical about the possibly game changing nature of the AHTS order, telling investors: "In our view, Farstad's leading OSV market position puts the orders in an even more positive light, potentially marking the turning point for AHTS orders. Contract pricing has also surprised on the high side against our expectation."

The orders are based on the UT731 CD specification, a design from Rolls-Royce suitable for harsh conditions and deep water.

STX OSV's new contracting is rounded out by Island Offshore, which committed for two platform supply vessels worth NKr750m, and a pair of PSVs for Farstad worth roughly NKr1.2bn. Farstad had declared options on two STX PSV 08 CD vessels tied to an earlier order placed late in 2010; one will be built in Norway, while a sister will be built in Vietnam.

In spite of successes in Norway and Brazil, STX OSV's new order intake is expected to be more diverse than in the recent past. A joint venture with Norway's Industrial Control Design was announced mid-June.

The venture will develop high specification automation and control systems for offshore support vessels, such as propulsion control and dynamic positioning vessels, with tangible near-term business benefits expected.

Farstad has declared options on two STX PSV 08 CD vessels tied to an earlier order placed late in 2010. *STX OSV*

The ICD deal provides STX OSV with a platform to advance the work of its "Electro" division, which has participated in projects that include liquefied natural gas-fuelled ferries, and LNG "hybrid" powered standby PSVs and AHTSs.

ICD also works closely with Rolls-Royce Marine, which in turn has a tie-in with STX OSV. Diversification further up the value chain could likely pay off if the OSV market's present strength turns softer. ■

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Island Offshore placed an order worth NKr750m for two UT776CD platform supply vessels at STX OSV.

Analysts agree time is right to buy into offshore group

STX OSV has received a ringing endorsement from a number of Singapore-based equity analysts, who have taken a positive view of its business, *writes Barry Parker*.

Analysts agree that timing is auspicious to buy into the company, based on the likely continued ordering in the offshore support vessel space, at a time that share prices have pulled back generally.

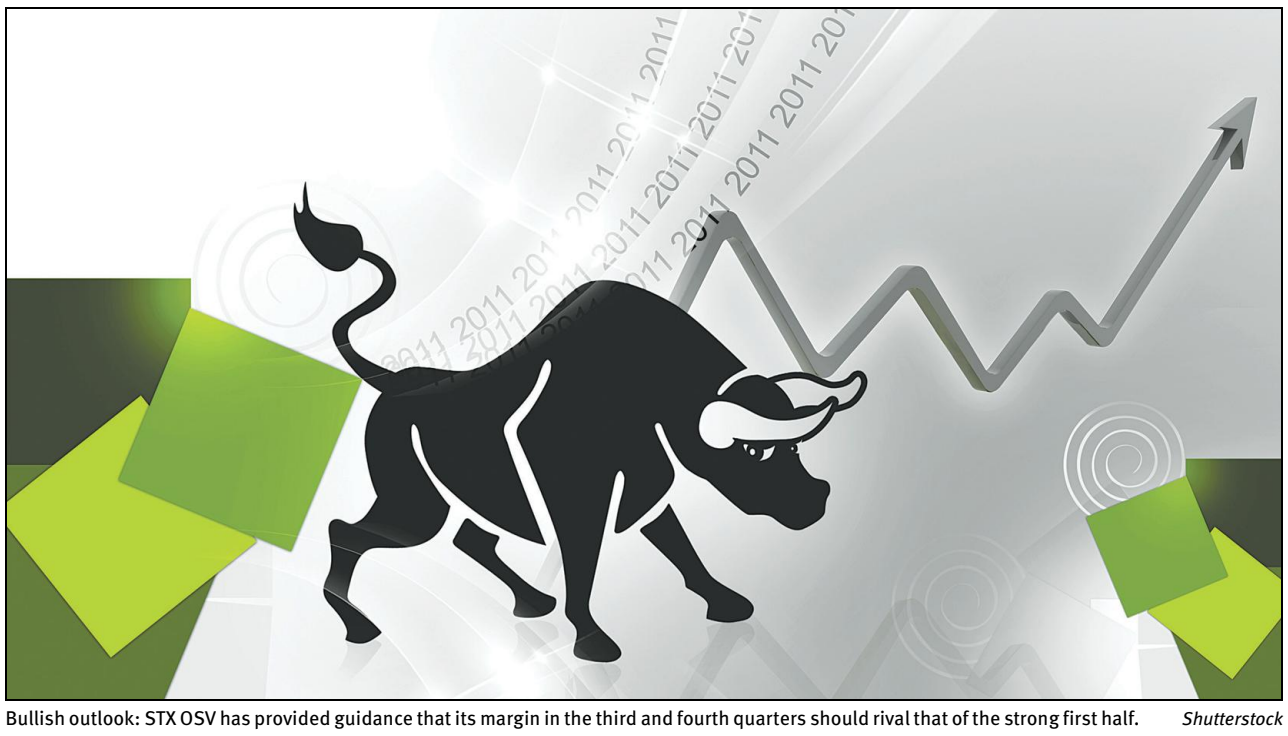
DNB NOR market analyst Kay Lim in mid August echoed a previous 'buy' recommendation, and told investors: "STX OSV remains our top sector pick, reporting stronger than expected margins [key swing factor] for a third consecutive quarter."

Ms Lim points to a price target of S$1.90 per share, based on a discounted cash flow model, which is more than double last year's flotation price.

Yeo Zhi Bin, a Singapore-based analyst at Malaysian broker CIMB, provides an 'outperform' rating, in a mid August report with S$1.89 per share target price, saying: "The second half could be even better than a scintillating first half."

Besides the opportunities for profiting from a good strategic investment (more colloquially — buying into a hot company in a hot industry) investors such as fund manager Och Ziff also value the reliability of solid dependable cash flows.

In any maritime context, dependable cash flow generation is almost always at odds with the cyclical business dynamics. Nevertheless, with scale comes a continued pipeline of new business that brings consistency.



Bullish outlook: STX OSV has provided guidance that its margin in the third and fourth quarters should rival that of the strong first half. *Shutterstock*

"STX OSV remains our top sector pick, reporting stronger than expected margins [key swing factor] for a third consecutive quarter"

Kay Lim, DNB NOR market analyst

"The investment cycle of OSV typically lags behind that of rigs and offshore tenders [subsea, offshore construction, production, development] by an average of six to 12 months," said Ms Lim.

She highlights a potential dividend yield approaching 8% for 2011, based on a commitment to pay out 50% of its cash flow. The company has provided guidance that its margin in the third and fourth quarters should rival that of the strong first half.

Mr Yeo, however, cautions that the 50% margin "may not be sustainable in the longer term as we believe cost efficiency measures would eventually be passed on to customers".

As such, his financial models assume a 13% margin on earnings before interest, taxes, depreciation, and amortisation (a measure of cash flow) for 2012-2013, contrasted with an astounding 16.4% margin in the just completed financial quarter.

Mr Yeo's report, with comparisons to larger builders, which are also benefiting greatly from the offshore sector's strength, albeit with rigs rather than OSVs, provides a hint of future possibilities that come with growth.

In a world of giant companies, STX OSV is relatively small, with a market capitalisation at recent prices of around $1.2bn. The price to earnings multiple (one measure of relative value) for the two large Singapore-listed rig builders Keppel Corp, with a market cap of $13.5bn, and SembCorp Marine, with market cap of $7.5bn, are 11.3 times and 12.2 times respectively, based on anticipated 2011 earnings, double the much smaller STX OSV's 6.1 times ratio.

"The second half could be even better than a scintillating first half"

Yeo Zhi Bin, CIMB analyst

For comparison only, price to earnings for large international drillers Noble, Transocean, Ensco and Diamond Offshore, listed in New York, are respectively 18.5 times, 16.5 times, 12.4 times and 10.4 times, based on expected earnings for 2011.

The two larger yards are both yielding around 4% — about half of the 7.8% for STX OSV; and as investors bid up the shares, the yield will likely fall. The high dividend yield noted by Ms Lim is a direct function of STX OSV's relatively low share price. ■

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