SCBS Investment Research

Company Flash

September 21, 2009

Thoresen Thai Agencies Plc.

Buy

MMT rights offering to fund growth for offshore services

Stock Data	
Last close (Sep 18) (Bt)	26.00
Foreign price (Jun 9) (Bt)	22.50
12-m target price (Bt)	31.0
Mkt cap (Btbn)	18.41
Mkt cap (US$mn)	546

Bloomberg code	TTA TB
Reuters code	TTA.BK
Risk rating	H
Mkt cap (%) SET	0.32
Sector % SET	3.00
Shares issued (mn)	708
Par value (Bt)	1
12-m high / low (Bt)	30.3 / 9.8
Avg. daily 6m (US$mn)	26.47
Foreign limit / actual (%)	49 / 33
Free float (%)	99.6
Dividend policy (%)	25

Price Performance

Source: SET

Share performances

	1M	3M	12M
Absolute	8.8	13.5	3.1
Relative	1.3	(4.3)	(9.5)

Source: SET

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- **Event: —** Mermaid Maritime **(SGX ticker: MMT SP)** announced a rights issue of 243,542,403 new shares (par of Bt1 each), aiming to raise SG$156mn; rights are offered at 9 new shares for 20 existing shares with an issue price of S$0.64 per share.
- **No dilution for TTA** — TTA will subscribe to the rights for itself and Soleado (a wholly owned subsidiary) in full, equivalent to 57.14% of existing share capital. With Bt5.3bn in net cash as of June 30, TTA has sufficient funds to pay the Bt1.93bn (SG$89.14mn) required. Using its excess cash in this way appears to be more value accretive for TTA shareholders given low yield on cash. In addition MMT will use the funds to invest in assets that could provide IRR of at least 15%.
- **Major expansion for TTA** — The rights issue could benefit TTA significantly, in our view, as investing in offshore services could higher return than the dry bulk segment in the next two years. MMT is expected to complete the acquisition soon as the target assets have already been identified. Internal guidance is that the revenue generation will be equal between rig and sub-sea services. Based on the guidance and the current prices, the fund from the rights issue could allow MMT to acquire at least one rig and 1-2 subsea vessels, assuming DE is maintained at the current ration of 0.2x.
- **TTA may raise its stakes in MMT** — TTA has committed to subscribed the shares that are not taken up in the rights issue. Thus, there is a chance that TTA's overall stake in MMT could be higher than 57.14% currently, and the cost of the right to TTA could be higher than Bt1.93bn.
- **Forecast under review —** We will revisit our assumptions regarding contribution from MMT. Its potential expansion is expected to enhance growth, as prospects for oil and gas exploration remain favorable in the medium term.

Forecasts and Valuation

FY Sep	FY'07	FY08	FY09F	FY10F	FY11F
Core profit (Btmn)	4,239	8,540	835	964	2,767
Net profit (Btmn)	4,962	8,776	1,712	964	2,767
EPS (Bt)	7.71	13.63	2.42	1.36	3.91
EPS growth (%)	40	77	(82)	(44)	187
BVPS (Bt)	24.88	45.39	43.68	45.66	49.65
DPS (Bt)	1.65	2.25	0.60	0.30	1.00
SCBS core PER (x)	3.95	1.96	22.04	19.10	6.65
SCBS PBV (x)	1.04	0.57	0.60	0.57	0.52
Dividend yields (%)	6.35	8.65	2.31	1.15	3.85

Source: SCBS Investment Research

APPENDICES

The volatility in MMT's earnings was mainly due to the rigs undergoing a special periodic survey, repairing the MTR1-rig in 2007 and the MTR2-rig in 2008. In addition, the renewal of sub-sea contracts in 2Q09 disrupted the previously resilient earnings of the sub-sea segment.

Table 1: Rig operating profit and margin profile:

	FY06	FY07	FY08	9MFY09
Rigs (unit)	2	2	2	2
Sales (Btmn)	1,240	1,240	1,249	1,700 (US$50mn)
Operating profit (Btmn)	407	123	25	646 (US$19mn)
Gross margin	**33%**	10%	2%	**38%**

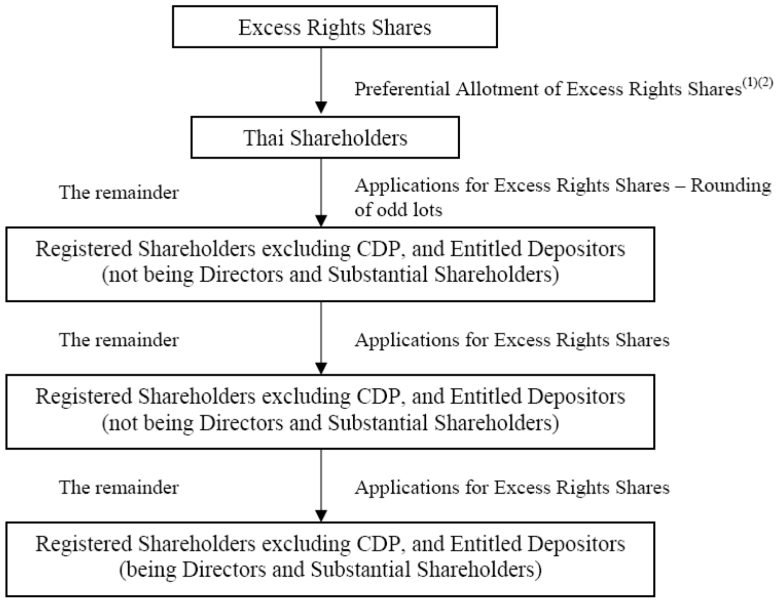
Source: MMT, SCBS Investment Research
Note: Using conversion rate of Bt34/US$1

Table 2: Subsea operating profit and margin profile:

	FY06	FY07	FY08	9MFY09
Own vessels (unit)	4	4	5	5
Chartered vessels (unit)	1	2	2	2
Total vessels (unit)	5	6	7	7
Sales (Btmn)	1,717	2,867	3,927	2,176 (US$64mn)
Operating profit (Btmn)	444	717	972	170 (US$5mn)
Gross margin	**26%**	**25%**	**25%**	8%

Source: MMT, SCBS Investment Research
Note: Using conversion rate of Bt34/US$1

Chart 1: Flowchart illustrating the proposed allotment of Excess Rights Shares



Notes:

(1) The Preferential Allotment of Excess Rights Shares such that the aggregate shareholding of the Thai Shareholders represents 50.1% of the total enlarged issued share capital of Mermaid immediately after the listing of and quotation for the Rights Shares on the Main Board of the SGX-ST. **Such allotment(s) to the Thai Shareholders who apply for Excess Rights Shares shall be made in the proportion of the number of Shares recorded in their names in the Register of Shareholders as at the Books Closure Date.**

(2) For the avoidance of doubt, in the event that the aggregate shareholding of the Thai Shareholders will represent 50.1% or more of the total enlarged issued share capital of Mermaid immediately after the listing of and quotation for the Rights Shares on the Main Board of the SGX-ST after the subscription for their Rights, there will be no Preferential Allotment of Excess Rights Shares to the Thai Shareholders.

Source: TTA, SET