Edison investment research

18 September 2007

Hallin Marine Subsea International

Year End	Revenue ($m)	PBT* $m)	EPS* (c)	DPS (c)	PE (x)	Yield (%)
12/06	38.9	4.2	10.5	1.9	15.1	1.2
12/07e	60.0	7.3	16.2	2.0	10.6	1.2
12/08e	70.0	8.6	19.2	2.2	9.0	1.3
12/09e	85.0	11.0	22.9	2.5	7.6	1.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. Valuation assumes average rates in 2007 ($1.98) and $/£2.00 in 2008 and 2009.

Investment summary: Clearer earnings stream

A strong set of interim results and the establishment of a new Engineering Services division to build and sell assets, make the earnings progression much clearer to see. Hallin is building critical mass at a fast rate and it looks to be one of the overlooked stocks in a booming sector.

Interim results reflect buoyant market

Hallin Marine reported a more than doubling of revenues to $27.7m and a rise in pre-tax profits from $2.9m to $4.0m. EPS rose 11% to 9.35c. Record oil prices continue to support an investment bonanza in the offshore oil and gas industry. Analysis from other oil service contractors reinforces the expectation of strong growth in offshore capital expenditure and subsea activity. As the largest independent diving operator, Hallin Marine remains well placed to benefit.

Asset build programme delivers top-line growth

With a stable base of Diving Support Vessels (DSVs) and saturation diving units, the main revenue growth comes from a step up in Remote Operating Vehicles (ROVs) where Hallin is building a broad fleet of about 20 vehicles (four in 2006). Growth in 2008 should also come from Engineering Services, as Hallin embraces diving equipment sales as well as service.

Sensitivities: Asset management is key

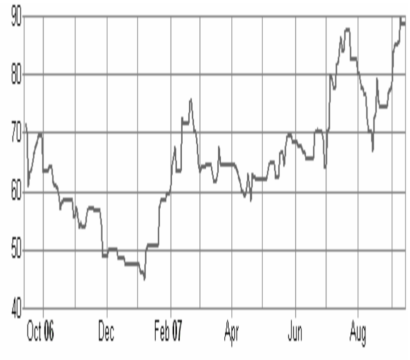
While the market environment remains very favourable, the main risks lie with the impact on utilisation rates of weather and contract delays and on maintaining tight financial control of the significant asset build programme.

Valuation: Discount should start to narrow

Looking to 2008, Hallin Marine trades on a P/E of 9x, which is well below the 15x minimum for the more established players. The 20% annual earnings growth and potentially the start of a clearer earnings record should help Hallin narrow the valuation discount.

Price	86.5p
Market Cap	£35m

Share price graph



Share details

Code	HMS
Listing	AIM
Sector	Oil & Gas
Shares in issue	40.0m

Price

52 week	High	Low
	87.5p	45p

Balance Sheet at 30 June 2007

Debt/Equity (%)	60.4
NAV per share (c)	68.3
Net borrowings ($m)	16.5

Business

Hallin Marine is an oilfield services group based in Singapore. The group specialises in the installation, repair and maintenance of subsea installations for the oil & gas industry.

Valuation

	2006	2007e	2008e
P/E Relative	55%	44%	40%
P/CF	15.4	4.8	1.8
EV/Sales	1.2	1.1	0.9
ROE	16%	22%	17%

Revenues by geography

UK	Europe	US	Other
25%	0%	14%	61%

Analyst
Mark Dichlian 020 7190 1755
mdichlian@edisoninvestmentresearch.co.uk

Hallin Marine Subsea International is a research client of Edison Investment Research Limited

Investment summary: Clearer earnings stream

Company description: Subsea equipment services

Hallin Marine is a Singapore-based business, which provides a range of subsea support services. It was floated on AIM in April 2005. This is a contract-based business, which is founded on the operation of diving support services (saturation diving or air diving systems) supplied to customers on chartered vessels. The business operates mainly in the Far East, although the move to operate remote operating vehicles in 2006 expands its geographic coverage. Like other oil service businesses, Hallin Marine is seeing buoyant levels of demand driven by the investment resulting from sustained high oil prices. In fact, such strong market conditions have encouraged it to sell saturation diving units in 2006 and 2007, which in combination with its leased low cost building yards in Singapore, has resulted in the formation of a new Engineering Services division. Hallin Marine now embraces diving equipment sales as well as service.

Valuation: Closing the gap

Hallin Marine's valuation has been low since its flotation as it had neither the critical mass nor market conditions to deliver a consistent earnings profile. With market conditions stabilised on a strong growth track, the step up in assets operated and the move into asset sales, it now looks more capable of delivering on earnings forecasts. Looking to 2008, Hallin Marine trades on a P/E of 9x, which is well below the 15x minimum for the more established players. We think delivery of the current strategy should help Hallin to narrow the valuation discount.

Sensitivities: A contract based business

Subsea support is a contract-based business and with it come all the risks of any contract business. Hallin Marine employs a series of assets that it must keep operational to maintain gross margins. While we are not especially concerned about a demand downturn given such high oil prices and offshore investment plans, utilisation can also be affected by bad weather and contract delays that remain out of its control.

Management and strategy

John Giddens, as Chief Executive of Hallin Marine, brings all his experience from a lifetime in the diving industry. The business was set up in 2003 and has employed an opportunistic strategy to adjust to changing market conditions. From its core base providing services on Diving Support Vessels, management has taken active steps to mitigate cost inflation by signing up both longer term charters and new build DSVs. It has also reacted to equipment shortages in the market by successfully moving into the ROV sector, selling secondhand assets and, more recently, utilising its low cost Singapore manufacturing yard to sell new assets. The appointment of Tony Prest now as full-time Finance Director based in Singapore should ensure a tight grasp of the finances during this expansion phase.

Financials: Controlled capital investment expansion

Hallin Marine's expansion is based on a significant capital investment programme for new assets. As a consequence, we expect net debt to rise progressively in 2007 to $30m. Sale and leaseback of assets like SOV Ullswater though has ensured funds remain available to fund further growth.

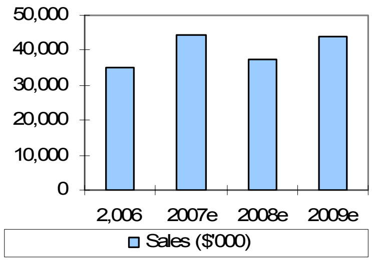
Exhibit 1: Company fact sheet

Operations / Performance

Diving

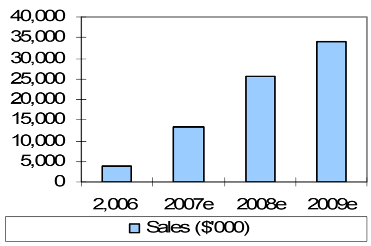
Hallin Marine operates a fleet of dynamically positioned (DP) diving support vessels (DSV). The business operates mainly in the Far East with headquarters in Singapore. It operates a mixture of assets including long-term charter and spot charter vessels. SOV Ullswater is on a 10-year fixed price charter from the date of delivery scheduled to be at the end of Q3 2008. In 2007, the Toisa Voyager was on charter in the Gulf of Mexico in H1, while Sanko Angel is just starting a three-year charter in SE Asia. It is also likely to have vessels on short-term charter. Vessels are typically 70m long & facilitate 100 people as crew; performing saturation diving, air diving and remote operated vehicles.

The saturation diving systems (SATs) allow divers to live in pressurised living quarters at the same pressure as they work on the sea bed in depths over 50m. Hallin operates SAT systems on its DSVs (see above) and also currently has four SAT systems, which operate from third party vessels. An SDS crew is typically 21 people supporting four divers. An air diving system (ADS) is used in shallow waters (normally less than 25m). Hallin currently operates two sets of ADS'. Further growth in the number of SAT systems has ceased with the emphasis on expanding the ROV fleet instead.
Main competitors: Cal Dive International, Global Industries.



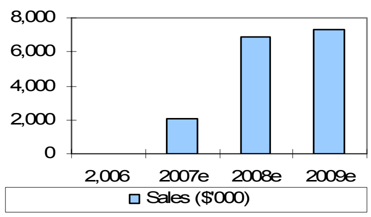
Remote Operating Vehicles

Although Hallin has operated ROVs from DSVs for many years, it only set up a separate ROV operation in 2006. The business is based in Aberdeen. Hallin initially purchased four high specification ROVs for operation in the North Sea. It has plans to add a range of Work class, mid-range and inspection class ROVs over the next few years, building a fleet of potentially over 20 vehicles. ROVs are on charter in the North Sea, Africa and the Gulf of Mexico.

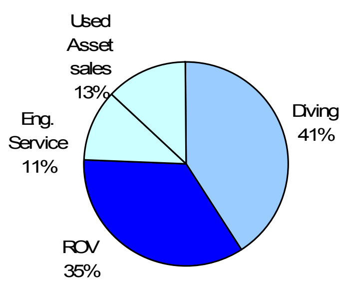


Engineering Services

Hallin manufactures its own SAT systems at its Singapore leased yard at a cost of c.$3.0m and can currently sell them at a significant premium to the short-supplied US market. It has sold used units in both 2006 and 2007 (treated as Other Income) and has now won orders for its first new unit. It is also currently in the process of building a system for its own vessel and one unit a year to replace the one sold. In 2007, Hallin will start building its own low specification ROVs as well.

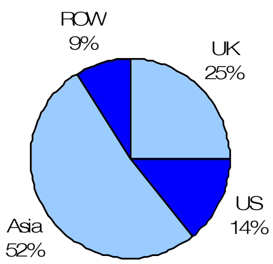


Divisional breakdown



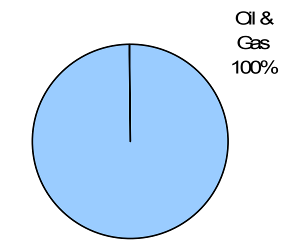
based on 2008 gross profits

Geographic breakdown



Based on 2007e sales

Customer breakdown



Based on annulised 2007e sales

Source: Edison Investment Research

Interim results show rapid growth

Key figures (reported in US$)

Hallin Marine reported a more than doubling of revenues to $27.7m and a rise in pre-tax profits from $2.9m to $4.0m. EPS rose 11% to 9.35c. Hallin does not pay an interim dividend. Net debt rose to $16.5m from $13.5m (Y/E) in line with our expectations of heavy investment in assets.

Exhibit 2: First half/second half splits

$m	H1 2006	H2 2006	H1 2007	H2 2007e
Sales	13.1	25.8	27.7	32.3
Gross profit	1.6	4.2	5.9	8.3
Margin (%)	*11.9*	*16.3*	*21.1*	*25.7*
PTP	2.9	1.3	4.0	3.3
EPS	8.43	1.1	9.35	6.8

Source: Edison Investment Research estimates * underlying change excluding currency moves

We note that both H1 performances have benefited from the sale of SAT Diving systems, which distorts the PTP and EPS figures. The progression in gross margins shows a clear recovery from the market price pressure squeeze of a year ago and the benefits of an improving mix. Daily charge rates have continued to rise and with them gross margins. With the inclusion of the $6.8m order in Engineering Services for a new saturation diving system (SAT) announced at these results, the group order books stand at $48m compared to $27m 12 months ago. Within this figure, we note Diving operations order books have risen 10% of the period.

Divisional performance

The Diving operations performed strongly with high demand for diving support vessels (DSVs). In the first half, Toisa Voyager finished its 12-month contract in June, while Sanko Angel commenced a three-year charter. It has a strong forward visibility of work in SE Asia, while SOV Ullswater, a high specification new build ship, which comes on stream in Q3 2008, already has good visibility on potential contracts. H1 utilisation was 80%, well above the 70–75% norm.

Demand for Remote Operating Vehicles (ROVs) has, if anything, been stronger than management anticipated when they set up the operation last year. In the first half, utilisation was 81% with four units in operation. Further units are scheduled to come on stream later in the year.

The results included $3.2m profit from the sale of a SAT system announced earlier in the year. We treat these as ongoing (not exceptional) and the announcement at the interims that Hallin has won a contract to sell a new SAT system adds credibility to this argument. The group will now have a third division, Engineering Services, which builds SAT systems and ROVs, and sells both secondhand and new units. We treat the sale and lease back of the SOV Ullswater announced in July, which yields a $9m profit in 2008, as an exceptional.

Changes to forecasts

High utilisation rates and further increases in daily charge rates encourage us to raise both revenues and gross margin forecasts. Overheads are still growing rapidly, commensurate with the scale of assets being operated. This, and rising interest charges, holds back a significant increase in forecasts. We also include, for the first time, a 2009 forecast to give better guidance as to the long-term trends. These are also affected by frequent asset sales as well as the service operations.

Exhibit 3: Changes to forecasts

$m	2007 New	2007 Old	2008 New	2008 Old
Sales	60.0	56.0	70.0	63.0
PTP	7.3	7.3	8.6	7.9
EPS	16.2	16.2	19.2	17.5
DPS	2.0	2.0	2.2	2.2

Source: Edison Investment Research estimates

Although operationally Hallin operates an East and West division, financially it is clearest to look at the business now as three divisions. We note Engineering Services new build sales and profits are declared, while Engineering Services' used equipment sales are shown just as a profit in the "Other Income" line. Our divisional forecasts are shown below:

Exhibit 4: Divisional breakdown

	2005	2006	2007e	2008e	2009e
Sales					
Diving	26,566	35,141	44,580	37,560	43,750
ROV	0	3,724	13,320	25,540	33,940
Engineering Services	0	0	2,100	6,900	7,310
Total sales	26,566	38,865	60,000	70,000	85,000
Gross Profits (before depreciation)					
Diving	5,024	5,194	11,629	9,949	12,808
ROV	0	682	4,662	8,428	10,624
Engineering Services			420	2,760	2,924
(depreciation)			(2,511)	(3,637)	(4,256)
Gross Profit (after dep'n)	5,024	5,876	14,200	17,500	22,100
Engineering Services - Other income		3,367	3,150	3,200	1,500
Exceptional asset sales	0	140	0	9,000	0
Total	5,024	9,383	17,350	29,700	23,600
Gross Margins	*18.9%*	*15.1%*	*23.7%*	*25.0%*	*26.0%*

Source: Edison Investment Research N.B. 2006 Diving revenues and profits hit by $1.65m charge.

Our divisional expectations are shown in the preceding table. We expect gross margins to rise in Diving due to the more favourable mix of assets. The best gross margins should be made from owned then long-term charter with spot charter seeing lower margin due to shortages of diving support vessels. ROVs typically produce even higher gross margins and this should be reflected in the group figures as the fleet expands.

Market outlook

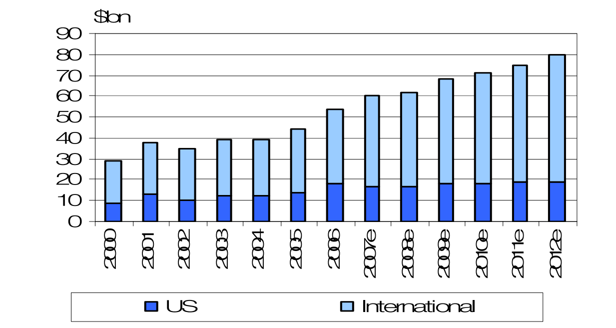
High oil price supports offshore economics & maintenance is rising

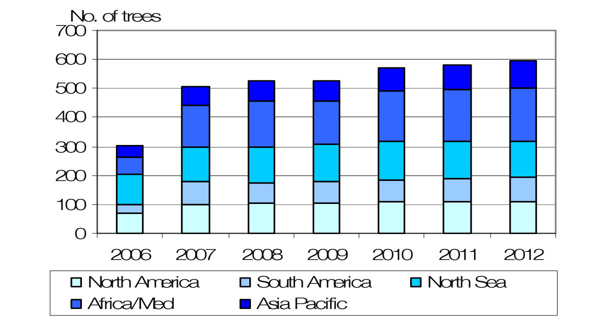
The offshore oil & gas construction market is still seeing strong levels of demand. The consistently high oil price is supporting high levels of investment across the industry. As a consequence, demand for diving support still exceeds supply and daily charge rates for vessels continue to rise steadily.

Two of Hallin's larger competitors, Cal Dive International and Global Industries, are also benefiting from the strong market conditions. Cal Dive is expecting revenues to be about 25% higher in 2007 (though partly due to acquisitions), while Global Industries has a record backlog of work in contracting and diving. Hallin Marine's order book for diving work stands at $30m, 10% higher than a year ago. This high level of activity looks unlikely to ease up as customers are scheduling projects further in advance. The result is Hallin Marine and, indeed, investors have a much better visibility of forward revenues.

The potential increases in offshore investment are quantified in the two graphs below. The first one shows the expectations for capital investment worldwide. In 2007 it is expected to rise 9%. The second graph shows the number of well trees expected to be built by region. This shows significant expansion in all areas of the world. This investment needs to be supported by diving operations and so suggests further good growth in the Diving support sector. There remains a backlog of repair and maintenance work that has been delayed by the demand for E&P support.

Exhibit 5: Offshore capital spending and subsea activity





Source: Cal Dive, Global Industries

Expectations for 2007 and 2008

After the sharp escalation in demand that caused a price squeeze for some contractors in 2006, the market has stabilised on a steady growth track. The current market conditions show strong demand for work keeping DSV utilisation rates high, pushing order books further out, and pushing contract diving rates up. It is a favourable environment for Hallin, which it is exploiting with a rapid asset build schedule and sale of assets as opportunities arise.

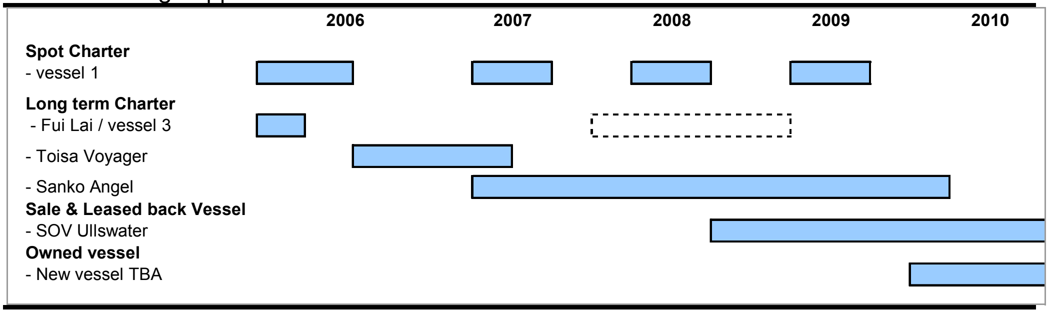
Our expectations for 2007 and beyond are based on Hallin Marine's investment plans for new assets. This is becoming more visible as the base of assets increases.

Steady margin improvement in Diving expected

Hallin has adopted a very flexible approach to operating diving support vessels (DSV) with one three-year charter (from June 2007) and one 10-year sale and lease back (from Q4 2008) already planned, supported by occasional spot rate charters. In 2007, a more solid loading is provided by the two vessels it has taken on long-term charter. Toisa Voyager is currently operated for the first six months, while Sanko Angel commences charter in Q2 for a three-year period. SOV Ullswater, the vessel under construction, will add capacity to Sanko Angel in late 2008.

In the spot charter market, Hallin typically takes on vessels with contracts for several months' work. To maintain capacity, management still needs to sign up a vessel or vessels for early 2008. Whilst these are in short supply, management has proved adept at negotiating good contracts. We note our current forecasts assume new capacity is chartered, though we assume lower margins to reflect a more competitive environment. The diagram below shows the likely mix of assets over the next two years.

Exhibit 6: Diving Support Vessels — forecast mix of assets



Source: Hallin Marine; N.B. dotted blocks show potential not included in forecasts.

With a slowdown in the planned investment in SAT systems, we expect Hallin Marine will be operating four to five SAT systems (four separately on customers' barges and one on its long-term charter boat). After the sale of one air diving system (ADS) in February, there are likely to be only two portable ADS units operated in 2007.

The mix of employed assets hence looks to be fairly similar in 2007 and 2008 to the level in 2006, so we are not expecting material growth in revenues in Diving, although we expect margins to improve due to the mix of vessels and portable units.

Step up in investment in Remote Operating Vehicles

Investment plans for remote operating vehicles continue to change in response to strong market demand. The initial purchase of four units looks to have been a great success with demand for the units not just in the North Sea but in America and West and South Africa as well. Utilisation rates for the equipment are hence better than expected at 81% as units are being operated outside the North Sea, which generally has a quieter winter season.

From August this year, Hallin is now operating six Work class ROVs in 2007, however it has delayed further high specification orders and brought forward orders for inspection class ROVs to build a more comprehensive range of ROVs more quickly. This is in response to the availability of larger contracts which require a range of different ROVs.

This will give Hallin a fleet of 17 different units in operation by the end of 2008, with the potential to sell some units if there is market demand in the same way it has sold SAT units. On the back of this expansion we see high growth in revenues for this division and a positive effect on the group's gross margin from what is inherently a high return business. Demand for ROVs is such that market rates are expected to rise by 5–10% next year. The scale of the build up in ROV assets can be seen by our expectations for the number of quarters of operation that will be available for ROVs in each year. This was six in 2006 (i.e. four units for about one and half quarters each), and should be

29 in 2007, 49 in 2008 and 64 in 2009. While this takes no account of the varying size of units, it gives a good idea of the step change occurring.

New Engineering Services division

The announcement of a new Engineering Services subsidiary, and its first order to sell a new SAT system, formalises the group's plans to sell assets as well as operate them. The business's primary objective is to market and sell new and used subsea units. With its two leased Singapore yards already building SAT systems at significantly lower cost ($3m) than inflated market prices, Hallin is using these two yards to commence production of ROV units and build SAT systems for third parties. It intends to produce a mid range specification unit (cost $1.5m) and an inspection class unit (cost $0.75m).

A sale of a SAT system in 2006 and a SAT and ADS system in 2007 for net gains of over $3m in each case show the potential from this operation. Our forecasts currently assume one more used SAT sale in 2008 and 2009 as well as the announced new sale in 2008. Sale of older equipment will also ensure Hallin maintains an inventory of up-to-date equipment for its own use.

Sensitivities

Asset utilisation potentially affected by delays or weather

Current utilisation rates of over 80% are very good. Equipment utilisation rates of 70–75% are considered more normal as time is always lost moving vessels between charters. The major risks with utilisation are the weather and contract slippage. We note the importance of the last quarter's trading update, where contracts can slip back into the next year or bad weather delays operation.

We are less concerned about poor utilisation due to falling demand, as market growth forecasts remain buoyant. Hallin's competitors appear equally busy, with Cal Dive reporting effective utilisation rates of over 90% for its eight saturation diving vessels, so we do not expect Hallin to lose work on competitive pricing.

Hallin Marine has also adopted a very conservative approach to asset ownership. Indeed the new vessel, SOV Ullswater, is one of only two boats less than 85m in length being built. Unlike other sectors this niche looks relatively uncompetitive, with only 14 Diving Support (DSV) or Subsea Operations Vessels (DSV) of this size currently operating and with most of this fleet being over 17 years old.

Changes in market demand unlikely to be negative

With oil prices at a record high ($80pb), we think the fundamental demand drivers for energy (e.g. economic growth in China and India) will ensure oil prices remain high (i.e. over $50pb). This means the economics of offshore investment have significantly improved and there is likely to be a continuation of the high levels of investment in oil and gas exploration and production. Of perhaps greater significance for Hallin Marine, is the fact that maintenance of offshore infrastructure is becoming a growing unaddressed issue, which encourages more use of diving support.

Payback on investment needs careful monitoring

The massive increase in expenditure on new operating assets is pushing up net debt at a sharp rate. Our analysis shows that return on capital employed drops to about 15% for the group in 2007 and 2008. This had dipped from the high twenties in 2005 to c.10% in 2006 (15% underlying) due to a combination of contract provisions and planned refurbishments hitting utilisation rates. The announcement in the summer of the sale and leaseback of SOV Ullswater addresses this issue by bringing cash back into the business in 2008 to reinvest in other assets, whilst maintaining an operational asset for 10 years. Owned vessels and long-term charters generally offer much better returns than spot rate charters.

Reasons for cost price squeeze and contract disputes passed

In 2006 Hallin experienced both the cost price squeeze of rising diver salaries and charter rates. Both resulted indirectly from the sharp rise in demand caused by Hurricane Katrina in 2005. Since then price inflation has stabilised for divers, charters and for contracts. This is shown by the rebuilding of gross margins to over 21% in H1. We expect margins to grow further in 2008 as a function of rising prices and, more significantly, improved asset mix. On other equipment, Hallin has a significant advantage with its low cost yards in Singapore that can build SAT or ROV units.

Modelling a contract-based business

Hallin Marine is a contract-based business. Modelling revenues do depend on an assumption of the utilisation of the company's assets and then seeing the contracts announced through the year to justify this. This does not mean 'upgrades' for every new contract, but a growing confidence as the year progresses. We note three contracts in the last six months that justify our forecasts: an $8.6m DSV contract awarded in May for six months operation; two 12-month SAT system contracts worth £9.5m awarded in August; and a $9.8m ROV contract in September.

Predicting overhead costs is also difficult and these have risen dramatically from $2m in 2005 to nearly $9m this year as the business has grown in the last two years. We will be watching closely to see that these level out soon and the business benefits more from operational gearing.

Valuation — underlying earnings stream is clearer

With an expectation of multiple equipment sales in every year, and our treatment of the SOV Ullswater sale and leaseback profits as exceptional, we can get a much clearer trend of earning progression. P/E valuation comparisons are hence much more useful.

We chose to compare Hallin Marine with both its competitors, which are mainly large multinational marine contractors as well as the quoted UK Oil Service sector. Hallin's main competitor is Cal Dive, which is in turn majority owned by Helix Resources, a marine contractor. We have also included several other contractors that perform contract diving as part of a wider oil service remit in our valuation comparison. In the UK Oil Service sector Hallin has no direct competitors, though a few provide similar offshore services. There seems to be a clear differentiation between the well-established businesses, which have been able to take advantage of the booming markets and improve their earnings and share price performance, and the smaller businesses. The smaller oil service companies have generally seen some slippage in earnings estimates and their share price performance has been relatively poor. The key investment issue for Hallin Marine is to ensure that it meets expectations in 2007 with its larger asset base and that this is recognised in its valuation.

Exhibit 7: Peer group comparison

Company	Business Description	Currency	Price	Mkt Cap.	2007		2008	
					P/E	EV/Sales	P/E	EV/Sales
Small Size Oil Service								
Hallin Marine	Diving services	£/p	87	35	10.6	1.4	9.0	1.2
RheoChem	Drilling fluids	£/p	14	15	10.5	1.4	8.9	1.1
Offshore H-C Mapping	Geophysical exploration	£/p	264	113	93.6	6.9	44.7	4.2
Sovereign	Personnel & eng services	£/p	102	17	8.3	0.6	5.8	0.5
Plexus	Oil & Gas wellheads	£/p	42	33	36.1	3.4	22.4	2.8
Medium Size Oil Service								
Cape	Maintenance & services	£/p	309	351	15.4	1.0	12.2	0.9
Sondex	Electromechanical equipment	£/p	456	260	23.4	2.8	18.4	2.4
Hunting	Pipe connectors & transportation	£/p	670	878	16.8	0.5	15.0	0.5
Expro	Service, personnel & equipment	£/p	1010	1107	24.2	2.0	19.8	1.8
Contractors with diving services								
Subsea 7		$/c	22	3084	17.0	1.5	12.3	1.3
Cal Dive International		$/c	16	1319	10.8	2.4	9.2	2.2
Global Industries		$/c	25	2878	17.2	2.5	14.3	2.2
Technip		Eur/c	58	6148	21.5	0.6	17.6	0.6
Oceaneering International		$/c	75	4151	24.4	2.6	20.3	2.3
Av of larger companies					19.0	1.8	15.5	1.6

Source: Hemscott, Bloomberg, Edison Investment Research

Among the established businesses in the UK Oil Service sector and the global marine contractors, the average P/E for 2007 is 15.5x. P/E valuations are mixed amongst the smaller companies, however we believe Hallin Marine should be able to command a double digit P/E if it can deliver on what is a reasonably conservative expansion strategy in a very healthy market.

Financials

Our revenue growth expectations are largely based on the planned asset introductions. While Diving revenues are likely to remain fairly stable until SOV Ullswater comes on stream, ROVs and Engineering Services will add significantly to growth. This is shown clearly in the graphs on page 3.

Understanding the implications of the investment programme is also key to the investment story for Hallin Marine. The main financial issues are:

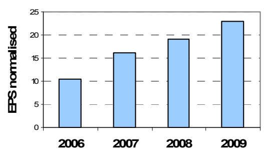
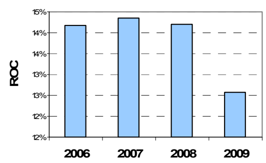
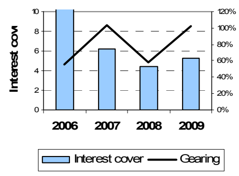
- Capital expenditure will remain at high levels. In 2007, capital expenditure will remain at high levels (i.e. over $20m) with the purchase of two new SAT systems, two ROVs, further expenditure for the SOV Ullswater of $13.6m and, potentially, a deposit for another new boat. The Ullswater purchase is being financed externally until completion, when the sale and leaseback occurs.
- Net debt and interest will rise dramatically. We forecast that the current level of debt will rise from £13.6m to c.£30m in 2007. The main reasons for this are the investment in assets (SAT and ROV units and the DSV) and a build up in working capital as the business gets larger. Hallin Marine does also now have use of working capital lines of

credit which it has used on occasion to fund investment. Debt should however fall in 2008 as $44m funds are received for the sale of SOV Ullswater. Interest payments reflect the rise in debt.

Exhibit 8: Financials

Year-ending 31 December $'000s	2005	2006	2007e	2008e	2009e
Accounting basis	IAS	IAS	IAS	IAS	IAS
PROFIT & LOSS					
Revenue	26,566	38,865	60,000	70,000	85,000
Cost of Sales	(21,542)	(32,989)	(45,800)	(52,500)	(62,900)
Gross Profit (after depreciation)	5,024	5,876	14,200	17,500	22,100
EBITDA	2,941	1,320	11,161	14,737	17,856
Operating Profit (before GW and except.)	2,451	3,778	8,650	11,100	13,600
Goodwill Amortisation	0	0	0	0	0
Exceptionals	0	0	0	9,000	0
Other	(39)	440	0	0	0
Operating Profit	2,412	4,218	8,650	20,100	13,600
Net Interest	(105)	(43)	(1,400)	(2,500)	(2,600)
Profit Before Tax (norm)	2,307	4,174	7,250	8,600	11,000
Profit Before Tax (FRS 3)	2,307	4,174	7,250	17,600	11,000
Tax	(52)	(278)	(780)	(930)	(1,600)
Profit After Tax (norm)	2,255	3,896	6,470	7,670	9,400
Profit After Tax (FRS3)	2,255	3,896	6,470	16,670	9,400
Average Number of Shares Outstanding (m)	28.7	37.0	40.0	40.0	41.0
EPS - normalised (c)	7.8	10.5	16.2	19.2	22.9
EPS - FRS 3 (c)	7.8	10.5	16.2	41.6	22.9
Dividend per share (c)	1.7	1.9	2.0	2.2	2.5
Gross Margin (%)	18.9%	15.1%	23.7%	25.0%	26.0%
EBITDA Margin (%)	11.1%	3.4%	18.6%	21.1%	21.0%
Operating Margin (before GW and except.) (%)	9.2%	9.7%	14.4%	15.9%	16.0%
BALANCE SHEET					
Fixed Assets	7,423	32,727	48,674	55,238	85,482
Intangible Assets	0	0	0	0	0
Tangible Assets	5,621	31,186	48,674	55,238	85,482
Assets held for sale	1,801	1,541	0	0	0
Current Assets	9,192	18,349	21,500	25,000	25,000
Work in progress		913	1,500	2,000	2,000
Debtors	7,279	15,067	19,000	22,000	22,000
Cash	1,913	2,370	1,000	1,000	1,000
Current Liabilities	(7,096)	(14,620)	(13,889)	(10,538)	(5,832)
Creditors	(6,267)	(10,805)	(10,074)	(9,538)	(4,832)
Short term borrowings	(830)	(3,815)	(3,815)	(1,000)	(1,000)
Long Term Liabilities	(332)	(12,185)	(27,185)	(25,550)	(53,000)
Long term borrowings	(324)	(12,147)	(27,185)	(25,550)	(53,000)
Other long term liabilities	(7)	(38)	0	0	0
Net Assets	9,187	24,271	29,100	44,150	51,650
CASH FLOW					
Operating Cash Flow	(1,830)	2,081	7,161	19,737	13,056
Net Interest	(234)	(102)	(1,400)	(2,500)	(2,600)
Tax	(17)	(140)	(780)	(930)	(1,600)
Capex	(4,070)	(26,181)	(20,000)	(10,200)	(34,500)
Acquisitions/disposals	0	0	0	0	0
Financing	4,849	10,570	247	(37)	82
Dividends	0	(580)	(1,636)	(1,620)	(1,887)
Net Cash Flow	(1,302)	(14,351)	(16,408)	4,450	(27,450)
Opening net debt/(cash)	(2,100)	(759)	13,592	30,000	25,550
HP finance leases initiated	0	0	0	0	0
Closing net debt/(cash)	(798)	13,592	30,000	25,550	53,000

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	◐
			Pensions	○
			Currency	◐
			Stock overhang	○
			Interest rates	○
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 04-08e	45.4	ROCE 07e	14.4	Gearing 07e	103	Address:	
EPS CAGR 06-08e	22.1	Avg ROCE 04-08e	83.8	Interest cover 07e	6.2	35 Loyang Crescent, #03-00 Admiralty International Bldg, Loyang, Singapore	
EBITDA CAGR 04-08e	55.7	ROE 07e	22.2	CA/CL 07e	1.5		
EBITDA CAGR 04-08e	123.0	Gross margin 07e	23.7	Stock turn 07e	9.1	Phone	+65 6214 8055
Sales CAGR 04-08e	28.3	Operating margin 07e	14.4	Debtor days 07e	115	Fax	+65 6214 0580
Sales CAGR 06-08e	21.7	Gr mgn / Op mgn 07e	1.6x	Creditor days 07e	44.5	www.hallinmarine.com	

Principal shareholders	%
John Hallin Giddens	20.6
Abacus Nominees Ltd	12.7
John Barry Quinn	11.2
Gresham House Plc	10.1

Forthcoming announcements/catalysts	Date *
Preliminary Results	March 2008

Management team
CEO: John Giddens
After an eleven-year career in the Royal Navy as a diving officer, John spent eight years at Fraser Diving, latterly as General Manager South East Asia. He founded Hallin Marine in 1998 and became Chief Executive of the expanding Hallin group in 2003, overseeing flotation in April 2005. John is a qualified saturation diver, supervisor and instructor.
CFO: Tony Prest
Tony Prest qualified as a chartered accountant with KPMG. Since leaving the profession Tony acted as finance director of 4-Sight plc, European finance director of WAM!NET, and more recently Azzurri Technology, which is a pan-European distributor of electronic components.
Chairman: Antony Ebel
Antony is a qualified lawyer and Chartered Accountant. He has worked for Esso and Associated Fisheries Group. He has been a director of Gresham House for over thirty years. He has been responsible for a number of successful start-up companies, mainly technology based, which have achieved their target goals of a trade sale.