Update

Edison investment research

2 July 2008

Hallin Marine Subsea International

Year End	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	PE (x)	Yield (%)
12/07	64.8	11.2	23.7	2.0	12.3	0.7
12/08e	86.0	13.4	27.8	2.2	10.5	0.8
12/09e	102.0	15.4	30.9	2.4	9.5	0.8

Note: *PBT and EPS (fully diluted) are normalised, excluding goodwill amortisation and exceptional items. Valuation assumes average rates historically and £1.00/$2.00 in 2008 and 2009.

Investment summary: News remains positive

Reaching the end of the first half, the newsflow from Hallin Marine and indeed the oil service industry as a whole has been overwhelmingly positive since the March results. We believe the company is on course with a steady flow of contract wins, good utilisation of existing assets and cash flow on plan. Against the larger oil service businesses, the valuation still looks modest.

Contracts and management changes

Since the March results, Hallin Marine has announced contracts for $4.6m in Vietnam and $4.5m in Australia, which justify the increases in assets announced in March. Hallin's contract for the Sanko Angel (two years outstanding) continues to look incredibly well timed with good contract performance and high utilisation putting a firm support behind our forecasts. Hallin Marine has also strengthened its executive team with the appointment to the board of the two divisional directors. This sensible move reflects the increasing size and prospects of the business.

Industry outlook very upbeat

The industry remains buoyant, supported by even higher oil prices. The global realisation that oil prices will remain high is encouraging continued offshore investment and higher maintenance budgets to the benefit of the offshore services industry. We note other international players in the offshore industry are reporting record utilisation rates of vessels (ie over 90%) and further rises in day rates.

Capacity extension plans on course

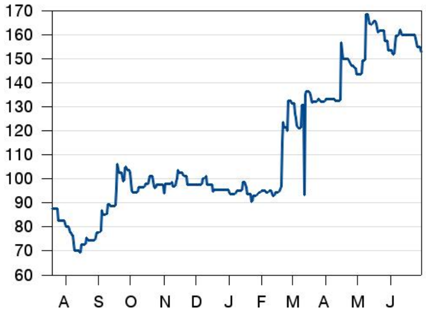
Build plans for new assets remain on course: most of the ROVs have now been delivered while Ullswater is due for delivery at year end and first major payments on Windermere are in Q4. We do not expect any major contribution from the new manufacturing business in H1, as the initial external deliveries are made in H2, however we expect it to bid for more work as yard capacity eases up in mid 2009.

Forecasts and valuation

We have made only small changes to EPS for a small increase in the shares in issue Hallin has now met our valuation range (set in March), but interims should offer the case for further re-rating.

Price	146p
Market Cap	£59m

Share price graph



Share details

Code	HMS
Listing	AIM
Sector	Oil & Gas
Shares in issue	40.3m

Price

	High	Low
52 week	171p	64p

Balance Sheet at 31 December 2007

Debt/Equity (%)	59
NAV per share (c)	84.2
Net borrowings ($m)	19.9

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 and gas industry.

Valuation

	2007	2008e	2009e
P/E Relative	88%	94%	92%
P/CF	3.8	6.0	8.1
EV/Sales	2.4	1.8	2.0
ROE	30%	23%	21%

Revenues by geography

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

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

Exhibit 1: Company fact sheet

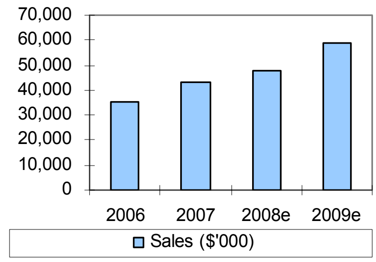
Operations	Performance

Subsea Contracting: Eastern Division

Hallin Marine operates a fleet of dynamically positioned (DP) diving support vessels (DSV). It increasingly supplies a full range of subsea contracting rather than just diving support. 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. In 2008, *Sanko Angel* is on a three-year charter alongside two smaller DSVs on spot charter, while SOV Ullswater is scheduled for delivery in Q4 on a 10-year fixed price charter. *Sanko Angel* now has a two-year fixed price contract worth c $40m.

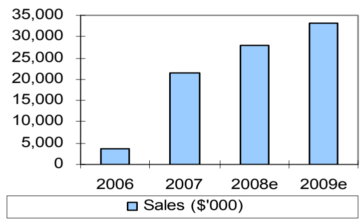
Vessels are typically 70m long and facilitate 100 people as crew; performing saturation diving, air diving and remote operated vehicles. Another owned vessel, *DSV Windermere*, has just started being built for delivery in early 2010.The saturation diving (SAT) systems allow divers to live in pressurised living quarters at the same pressure as they work on the seabed in depths over 50m. Hallin operates remotely operated vehicles (ROVs) and SAT systems on its DSVs (see above) and also currently has five 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'.

Main competitors: Cal Dive International, Global Industries.



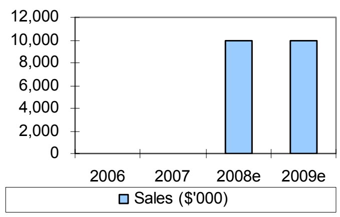
Remote Operating Vehicles: Western Division

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. By the end of 2008, it will have a range of work class, mid-range and inspection class ROVs, building a fleet of potentially over 20 vehicles. ROVs are on charter in the North Sea, India, Africa and the Gulf of Mexico. Western Division operations have been extended with the short-term lease of an ROV support vessel, RSS Shackleton.

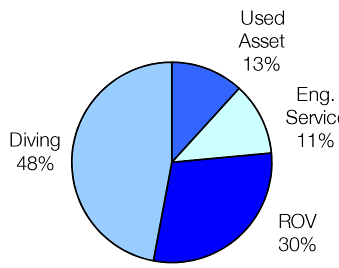


Engineering Services

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 and has now won orders to manufacture a new unit for external sale. 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 started building its own low specification ROVs as well.

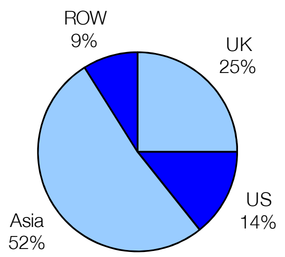


Divisional breakdown



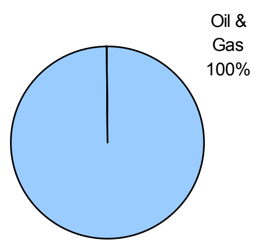
Based on 2008e gross profits

Geographic breakdown



Based on 2007 sales

Customer breakdown



Based on 2007 sales

Source: Edison Investment Research

Exhibit 2 Financials

Year-ending 31 December	$'000s	2005	2006	2007	2008e	2009e
Accounting basis		IAS	IAS	IAS	IAS	IAS
PROFIT & LOSS						
Revenue		26,566	38,865	64,754	86,000	102,000
Cost of Sales		(21,542)	(32,989)	(45,560)	(61,900)	(72,236)
Gross Profit (after depreciation)		5,024	5,876	19,194	24,100	29,764
EBITDA		2,941	1,320	14,827	19,400	24,500
Operating Profit (before GW and except.)		2,451	3,778	11,852	15,400	18,000
Goodwill Amortisation		0	0	0	0	0
Exceptionals		0	0	0	7,000	0
Other		(39)	440	0	0	0
Operating Profit		2,412	4,218	11,852	22,400	18,000
Net Interest		(105)	(43)	(652)	(2,000)	(2,600)
Profit Before Tax (norm)		2,307	4,174	11,200	13,400	15,400
Profit Before Tax (FRS 3)		2,307	4,174	11,200	20,400	15,400
Tax		(52)	(278)	(1,159)	(1,662)	(2,310)
Profit After Tax (norm)		2,255	3,896	10,041	11,739	13,090
Profit After Tax (FRS3)		2,255	3,896	10,041	18,739	13,090
Average Number of Shares Outstanding (m)		28.7	37.0	40.0	40.0	40.0
EPS - normalised (c)		7.8	10.5	25.1	29.3	32.7
EPS - normalised fully diluted (c)		7.8	10.5	23.7	27.8	30.9
EPS - FRS 3 (c)		7.8	10.5	25.1	46.8	32.7
Dividend per share (c)		1.7	1.9	2.0	2.2	2.4
Gross Margin (%)		18.9%	15.1%	29.6%	28.0%	29.2%
EBITDA Margin (%)		11.1%	3.4%	22.9%	22.6%	24.0%
Operating Margin (before GW and except.) (%)		9.2%	9.7%	18.3%	17.9%	17.6%
BALANCE SHEET						
Fixed Assets		7,423	32,727	66,353	74,000	99,700
Intangible Assets		0	0	0	0	0
Tangible Assets		5,621	31,186	64,638	74,000	99,700
Assets held for sale		1,801	1,541	1,715	0	0
Current Assets		9,192	18,349	28,343	25,000	25,000
Work in progress			913	0	2,000	2,000
Debtors		7,279	15,067	20,390	22,000	22,000
Cash		1,913	2,370	7,953	1,000	1,000
Current Liabilities		(7,096)	(14,620)	(36,285)	(29,500)	(20,100)
Creditors		(6,267)	(10,805)	(33,102)	(28,500)	(19,100)
Short term borrowings		(830)	(3,815)	(3,183)	(1,000)	(1,000)
Long Term Liabilities		(332)	(12,185)	(24,711)	(18,700)	(42,500)
Long term borrowings		(324)	(12,147)	(24,668)	(18,700)	(42,500)
Other long term liabilities		(7)	(38)	(43)	0	0
Net Assets		9,187	24,271	33,700	50,800	62,100
CASH FLOW						
Operating Cash Flow		(1,830)	2,081	30,384	19,400	14,500
Net Interest		(234)	(102)	(652)	(2,000)	(2,600)
Tax		(17)	(140)	(574)	(1,662)	(2,310)
Capex		(4,070)	(26,181)	(33,048)	(13,400)	(32,200)
Acquisitions/disposals		0	0	0	0	0
Financing		4,849	10,570	(1,616)	(21)	76
Dividends		0	(580)	(800)	(1,120)	(1,266)
Net Cash Flow		(1,302)	(14,351)	(6,306)	1,198	(23,800)
Opening net debt/(cash)		(2,100)	(759)	13,592	19,898	18,700
HP finance leases initiated		0	0	0	0	0
Closing net debt/(cash)		(798)	13,592	19,898	18,700	42,500

Source: Company accounts/Edison Investment Research

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