Update

Edison investment research

17 September 2009

Hallin Marine Subsea International

Year End	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/07	64.8	11.2	25.1	2.0	9.8	0.9
12/08	139.9	35.4	77.6	3.7	3.2	1.8
12/09e	126.0	14.6	27.6	3.0	7.5	1.4
12/10e	147.0	19.0	35.9	3.0	5.8	1.4

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. Valuation assumes average rates historically and £1.00/$1.64 in 2009/10.

Investment summary: Showing resilience

Hallin earlier this week announced interims showing revenues in line with 2008 but some margin impact. The margin declines were most pronounced at the more peripheral businesses such as lower-spec vessels while its core assets are seeing better demand. Risk has probably increased slightly as order books have shortened in length but with the main requirement of a stabilised oil price now being realised, investment in oil and gas projects will likely resume with Hallin well placed to benefit.

Trimmed FY09 and FY10 numbers

Following interim results, we have trimmed our forecasts slightly for FY09 and FY10. We now expect revenues of $126m in 2009, down from $133m. This is mainly on a lower revenue figure at Prospect of $8m. We have also reduced our earnings expectations by c $3.5m in 2009 and $1.3m in 2010. This is mainly due to the reversal of the sale of a SAT system in 2009, previously expected to raise $2m in profit. The actual profit from the sale and leaseback of the Ullswater was 10% less than our expectation at £3m. Hallin now expects a higher tax rate due to the changing mix of geographies with tax moving from 15% to 17.5% in 2009 and 2010. We keep our gross margins unchanged at 29.0% following 29.1% reported for H109.

Assets have been adjusted to the new environment

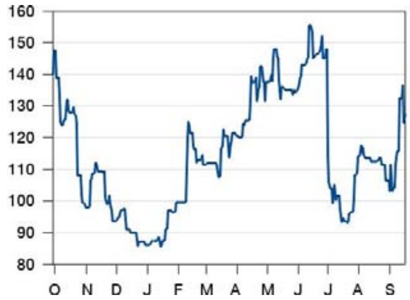
Hallin's strategy of using a mix of owned, long-lease and short-lease assets has proven itself in the downturn. The lease on one vessel asset was cancelled meaning Hallin now has no spot charter dive support vessels. The purchase of the third owned vessel has also effectively been cancelled, releasing management from committing capex. We do not expect the order to be replaced this year.

Valuation: Remains on low multiples relative to the sector

Hallin is trading at a significant discount to the offshore services sector. We continue to believe the discount should close as Hallin increases scale. Any perceived greater risk should be reduced by Hallin's robust performance during the downturn. Revenue and profit growth remains high vs the sector. Putting Hallin on a sector average EV/EBITDA implies c £1.80/share on our 2010 numbers.

Price	127p
Market Cap	£52m

Share price graph



Share details

Code	HMS
Listing	AIM
Sector	Oil & Gas
Shares in issue	41.3m

Price

	High	Low
52 week	156p	87p

Balance Sheet as at 30 June 2009

Debt/Equity (%)	26.1
NAV per share (p)	187
Net borrowings ($m)	19.6

Business

Hallin Marine is an oilfield services group based in Singapore. It specialises in the installation, repair and maintenance of subsea installations for the oil and gas industry; subsea vessel and ROV leasing; and engineering services.

Valuation

	2008	2009e	2010e
P/E relative	31%	96%	81%
P/CF	4.2	7.7	4.0
EV/Sales	1.5	1.5	1.2
ROE	50%	16%	18%

Revenues by geography

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

Analysts

Ian Osburn 020 3077 5722
iosburn@edisoninvestmentresearch.co.uk

Anil Sharma 020 3077 5721
asharma@edisoninvestmentresearch.co.uk

Oil price volatility created investment uncertainty

The oil price volatility and resultant crash in 2008 created uncertainty for oil investment and the oil majors have been aggressively pushing for cost savings. Financing remains difficult with little easing of the harsh conditions seen earlier in the year. These have all contributed to lower rates for vessels and equipment, especially at the lower-end. The weak gas price in the US has led to the cancelation of projects releasing previously committed vessels, creating an oversupply in the low specification vessel sector and a reduction of rates. With the oil price stabilising and above our estimated marginal price required for investment in shallow offshore and most deep offshore projects, we expect investment to return to the sector and for Hallin to benefit as a result.

Utilisation remains high for high-end assets

Hallin's stable of high-technology ROV and vessels remain in good demand with a utilisation in excess of 80%. It remains the lower end vessels that have seen the largest impact from the economic slow-down with Hallin's one vessel in the sector seeing c 55% utilisation. Similarly in the ROV market, high-end construction class ROVs are seeing utilisation round 75% with lower-end inspection class ROVs at c 55%. At H109, Hallin reported an order book of about $55m with a subsequent contract win bringing this to c $75m. This is robust for the current environment and compares fairly well to the $83m reported at H108 on lower sales.

SAT system sale likely delayed

The saturated diving system Hallin intended to sell in 2009 was smaller than those previously sold and we expected a profit on disposal of around $2m. However, the disruption in the market means we now see risk to this transaction and have removed it from our base case in 2009. We now include it in our 2010 forecasts, replacing our previously expected larger unit sale of c $3m. If the sale were to close in 2009, this would bring upside to our numbers. These figures compare to 2008 when Hallin was able to sell two larger systems for a total profit of $7.5m.

Finances remain strong: Gearing reduced

Despite the issues in the industry, Hallin remained profitable with good cash generation. It was able to reduce gearing to c 26%. Margins remained strong at c 29%, around the same as 2007 levels.

Valuation: Low compared to the sector

Exhibit 1: Hallin Marine vs the offshore oil and gas services sector

	M Cap	Valuation Multiples					Growth Rates		
		EV/Sales	PE		EV/EBITDA		Sales	EPS	EBITDA
		2010	2009	2010	2009	2010	2010	2010	2010
Hallin Marine	**55**	**0.53**	**7.53**	**5.80**	**5.77**	**4.29**	**13.1%**	**20.8%**	**17.0%**
Cape	239	0.49	6.50	6.33	4.54	4.07	2.6%	2.7%	0.0%
James Fisher	224	1.16	11.49	10.51	8.94	8.35	5.1%	9.3%	6.2%
Hunting	700	0.90	34.09	29.80	6.84	6.31	4.6%	14.4%	9.7%
Global Inds.	1,173	1.02	11.98	11.84	5.80	5.12	4.8%	1.2%	7.7%
Technip	4,701	0.60	11.35	14.19	4.32	4.96	-9.0%	-20.1%	-13.3%
Oceaneering	3,221	1.62	17.37	16.77	7.97	7.13	6.0%	3.6%	6.3%
Average		**0.90**	**14.33**	**13.61**	**6.31**	**5.75**	**6.1%**	**8.7%**	**7.8%**

Source: Edison Investment Research, Thompson Reuters Datastream

Exhibit 2: Financials

Year end 31 December	$'000s	2005	2006	2007	2008	2009e	2010e
Accounting basis		IAS	IAS	IAS	IAS	IAS	IAS
PROFIT & LOSS							
Revenue		26,566	38,865	64,754	139,898	126,000	147,000
Cost of Sales		(21,542)	(32,989)	(45,560)	(92,159)	(89,400)	(104,931)
Gross Profit (after depreciation)		5,024	5,876	19,194	47,739	36,600	42,069
EBITDA		2,941	1,320	14,827	40,834	21,600	26,569
Operating Profit (before GW and except.)		2,451	3,778	11,852	36,676	16,600	21,569
Goodwill Amortisation		0	0	0	0	0	0
Exceptionals		0	0	0	0	3,000	0
Other		(39)	440	0	0	0	0
Operating Profit		2,412	4,218	11,852	36,676	19,600	21,569
Net Interest		(105)	(43)	(652)	(1,278)	(2,000)	(2,600)
Profit Before Tax (norm)		2,307	4,174	11,200	35,398	14,600	18,969
Profit Before Tax (FRS 3)		2,307	4,174	11,200	35,398	17,600	18,969
Tax		(52)	(278)	(1,159)	(3,922)	(2,555)	(3,320)
Profit After Tax (norm)		2,255	3,896	10,041	31,476	12,045	15,649
Profit After Tax (FRS3)		2,255	3,896	10,041	31,476	15,045	15,649
Average Number of Shares Outstanding (m)		28.7	37.0	40.0	40.6	43.6	43.6
EPS - normalised (c)		7.8	10.5	25.1	77.6	27.6	35.9
EPS - normalised fully diluted (c)		7.8	10.5	23.7	72.2	27.6	35.9
EPS - FRS 3 (c)		7.8	10.5	25.1	77.6	34.5	35.9
Dividend per share (c)		1.7	1.9	2.0	3.7	3.0	3.0
Gross Margin (%)		18.9%	15.1%	29.6%	34.1%	29.0%	28.6%
EBITDA Margin (%)		11.1%	3.4%	22.9%	29.2%	17.1%	18.1%
Operating Margin (before GW and except.) (%)		9.2%	9.7%	18.3%	26.2%	13.2%	14.7%
BALANCE SHEET							
Fixed Assets		7,423	32,727	66,353	105,529	121,985	120,985
Intangible Assets		0	0	0	7,583	0	0
Tangible Assets		5,621	31,186	64,638	97,585	121,985	120,985
Assets held for sale		1,801	1,541	1,715	361	0	0
Current Assets		9,192	18,349	28,343	53,093	63,012	63,013
Work in progress			913	0	0	3,000	3,000
Debtors		7,279	15,067	20,390	30,081	37,000	37,001
Cash		1,913	2,370	7,953	23,012	23,012	23,012
Current Liabilities		(7,096)	(14,620)	(36,285)	(73,715)	(73,214)	(69,739)
Creditors		(6,267)	(10,805)	(33,102)	(53,031)	(52,530)	(49,055)
Short term borrowings		(830)	(3,815)	(3,183)	(20,684)	(20,684)	(20,684)
Long Term Liabilities		(332)	(12,185)	(24,711)	(21,977)	(36,237)	(25,493)
Long term borrowings		(324)	(12,147)	(24,668)	(21,977)	(36,237)	(25,493)
Other long term liabilities		(7)	(38)	(43)	0	0	0
Net Assets		9,187	24,271	33,700	62,930	75,546	88,765
CASH FLOW							
Operating Cash Flow		(1,830)	2,081	30,384	41,665	17,600	22,569
Net Interest		(234)	(102)	(652)	(1,278)	(2,000)	(2,600)
Tax		(17)	(140)	(574)	(3,120)	(2,555)	(3,320)
Capex		(4,070)	(26,181)	(33,048)	(36,111)	(29,400)	(4,000)
Acquisitions/disposals		0	0	0	0	0	0
Financing		4,849	10,570	(1,616)	(111)	4,000	0
Dividends		0	(580)	(800)	(796)	(1,905)	(1,905)
Net Cash Flow		(1,302)	(14,351)	(6,306)	249	(14,260)	10,744
Opening net debt/(cash)		(2,100)	(759)	13,592	19,898	19,649	33,909
HP finance leases initiated		0	0	0	0	0	0
Closing net debt/(cash)		(798)	13,592	19,898	19,649	33,909	23,165

Source: Edison Investment Research