

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

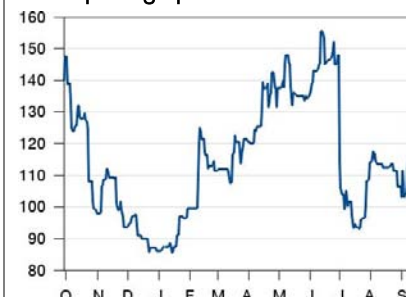
Hallin's strategy of using a mix of owned, long-lease and short-lease assets has proven itself in the downturn. The lease on one vessel asset was cancelled meaning Hallin now has no spot charter dive support vessels. The purchase of the third owned vessel has also effectively been cancelled, releasing 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

52 week High 156p Low 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%

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## 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 cancellation 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			
<b>Hallin Marine</b>	<b>55</b>	<b>0.53</b>	<b>7.53</b>	<b>5.80</b>	<b>5.77</b>	<b>4.29</b>	<b>13.1%</b>	<b>20.8%</b>	<b>17.0%</b>
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%
<b>Average</b>		<b>0.90</b>	<b>14.33</b>	<b>13.61</b>	<b>6.31</b>	<b>5.75</b>	<b>6.1%</b>	<b>8.7%</b>	<b>7.8%</b>

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
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>26,566</b>	<b>38,865</b>	<b>64,754</b>	<b>139,898</b>	<b>126,000</b>	<b>147,000</b>
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
<b>EBITDA</b>		<b>2,941</b>	<b>1,320</b>	<b>14,827</b>	<b>40,834</b>	<b>21,600</b>	<b>26,569</b>
<b>Operating Profit (before GW and except.)</b>		<b>2,451</b>	<b>3,778</b>	<b>11,852</b>	<b>36,676</b>	<b>16,600</b>	<b>21,569</b>
Goodwill Amortisation		0	0	0	0	0	0
Exceptionals		0	0	0	0	3,000	0
Other		(39)	440	0	0	0	0
<b>Operating Profit</b>		<b>2,412</b>	<b>4,218</b>	<b>11,852</b>	<b>36,676</b>	<b>19,600</b>	<b>21,569</b>
Net Interest		(105)	(43)	(652)	(1,278)	(2,000)	(2,600)
<b>Profit Before Tax (norm)</b>		<b>2,307</b>	<b>4,174</b>	<b>11,200</b>	<b>35,398</b>	<b>14,600</b>	<b>18,969</b>
<b>Profit Before Tax (FRS 3)</b>		<b>2,307</b>	<b>4,174</b>	<b>11,200</b>	<b>35,398</b>	<b>17,600</b>	<b>18,969</b>
Tax		(52)	(278)	(1,159)	(3,922)	(2,555)	(3,320)
<b>Profit After Tax (norm)</b>		<b>2,255</b>	<b>3,896</b>	<b>10,041</b>	<b>31,476</b>	<b>12,045</b>	<b>15,649</b>
<b>Profit After Tax (FRS3)</b>		<b>2,255</b>	<b>3,896</b>	<b>10,041</b>	<b>31,476</b>	<b>15,045</b>	<b>15,649</b>
Average Number of Shares Outstanding (m)		28.7	37.0	40.0	40.6	43.6	43.6
<b>EPS - normalised (c)</b>		<b>7.8</b>	<b>10.5</b>	<b>25.1</b>	<b>77.6</b>	<b>27.6</b>	<b>35.9</b>
<b>EPS - normalised fully diluted (c)</b>		<b>7.8</b>	<b>10.5</b>	<b>23.7</b>	<b>72.2</b>	<b>27.6</b>	<b>35.9</b>
<b>EPS - FRS 3 (c)</b>		<b>7.8</b>	<b>10.5</b>	<b>25.1</b>	<b>77.6</b>	<b>34.5</b>	<b>35.9</b>
<b>Dividend per share (c)</b>		<b>1.7</b>	<b>1.9</b>	<b>2.0</b>	<b>3.7</b>	<b>3.0</b>	<b>3.0</b>
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%
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>7,423</b>	<b>32,727</b>	<b>66,353</b>	<b>105,529</b>	<b>121,985</b>	<b>120,985</b>
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
<b>Current Assets</b>		<b>9,192</b>	<b>18,349</b>	<b>28,343</b>	<b>53,093</b>	<b>63,012</b>	<b>63,013</b>
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
<b>Current Liabilities</b>		<b>(7,096)</b>	<b>(14,620)</b>	<b>(36,285)</b>	<b>(73,715)</b>	<b>(73,214)</b>	<b>(69,739)</b>
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)
<b>Long Term Liabilities</b>		<b>(332)</b>	<b>(12,185)</b>	<b>(24,711)</b>	<b>(21,977)</b>	<b>(36,237)</b>	<b>(25,493)</b>
Long term borrowings		(324)	(12,147)	(24,668)	(21,977)	(36,237)	(25,493)
Other long term liabilities		(7)	(38)	(43)	0	0	0
<b>Net Assets</b>		<b>9,187</b>	<b>24,271</b>	<b>33,700</b>	<b>62,930</b>	<b>75,546</b>	<b>88,765</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>(1,830)</b>	<b>2,081</b>	<b>30,384</b>	<b>41,665</b>	<b>17,600</b>	<b>22,569</b>
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)
<b>Net Cash Flow</b>		<b>(1,302)</b>	<b>(14,351)</b>	<b>(6,306)</b>	<b>249</b>	<b>(14,260)</b>	<b>10,744</b>
<b>Opening net debt/(cash)</b>		<b>(2,100)</b>	<b>(759)</b>	<b>13,592</b>	<b>19,898</b>	<b>19,649</b>	<b>33,909</b>
HP finance leases initiated		0	0	0	0	0	0
<b>Closing net debt/(cash)</b>		<b>(798)</b>	<b>13,592</b>	<b>19,898</b>	<b>19,649</b>	<b>33,909</b>	<b>23,165</b>

Source: Edison Investment Research

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