Update

20 March 2009

Hallin Marine Subsea International

Year End	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/06	38.9	4.2	10.5	1.9	21.0	0.9
12/07	64.8	11.2	25.1	2.0	10.2	0.8
12/08	139.9	35.4	77.6	3.7	3.3	1.9
12/09e	156.0	26.0	50.7	3.7	4.8	2.0

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. Valuation assumes average rates historically and £1.00/$1.50 in 2009.

Investment summary: Running a tight ship

Contracts for Hallin's assets have so far been unaffected by the financial turmoil. Its dive equipment, vessels and ROVs remain in demand with significant order backlogs. However, management believes that storm clouds may be gathering over the industry and is taking a prudent position to further reduce costs and the speed of asset accumulation to maintain cash generation and margins. We see opportunity for Hallin to be a relatively strong player in a downturn, using its lower cost base and leased assets to maintain market share and profits.

Full year numbers confirm strong year

Full year numbers confirm that 2008 was a very strong year, as expected. Sales, PBT and EPS of $139.9m, $35.4m and 77.61c represent growth of 116%, 216% and 209%, respectively. Cash increased threefold to $23m and net debt reduced to 0.66x EBITDA or gearing of 30%. This is despite the delay into 2009 of an exceptional c $4m profit from the sale and leaseback of Hallin's first owned subsea operations vessel (SOV). Also notable is the fact that the shipbuilder for Hallin's third vessel, Coniston, had to let the contract lapse, releasing the company from any capex obligation, which further increased flexibility.

Management taking cautious stance

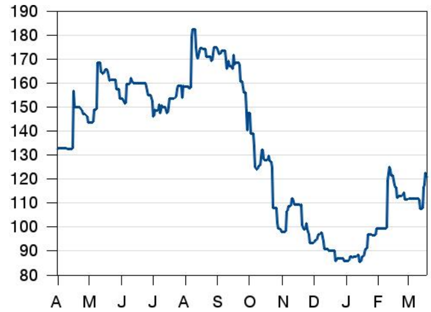
The results statement points out that while none of Hallin's contract partners are affected, management sees restricted credit causing smaller services companies to cancel or delay projects. Furthermore, we expect the company to restrict gearing levels and its investment rate until it has further confidence in the industry outlook. We do not expect the contract to build the Coniston vessel to be renewed in the short term, with Hallin relying on leased assets and looking for opportunities at distressed sellers.

Valuation: Trough multiples

On our new forecasts Hallin continues to trade at trough multiples with a 2009e P/E of 4.8x. Since its 2005 IPO, Hallin has traded on an average 8.7x P/E based on our numbers.

Price	120.5p
Market Cap	£49m

Share price graph



Share details

Code	HMS
Listing	AIM
Sector	Oil & Gas
Shares in issue	40.6m

Price

52 week	High	Low
	183p	86p

Balance Sheet as at 31 December 2008

Debt/Equity (%)	31
NAV per share (p)	155.0
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

	2007	2008	2009e
P/E relative	70%	47%	53%
P/CF	3.1	2.1	2.6
EV/Sales	2.1	0.9	0.7
ROE	30%	50%	26%

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

Readying for cautious growth

Hallin has again grown at over 100% in 2008. However, along with the industry, it finds itself at a crucial point with the apparent overheating of the past two years unwinding. This has left the weaker, more highly geared companies vulnerable, particularly those with uncompleted new ship builds demanding capital expenditure. Hallin's management has consistently pointed to an eventual downturn and the company enters the period with low gearing and a flexible asset base. We continue to believe that investment in offshore oil and gas services will remain relatively unscathed by the economic downturn and that Hallin is well placed to benefit from counter-cyclical investment in cheap assets.

Quality should shine as industry faces challenges

Hallin has expanded its asset portfolio significantly in recent years, with some new assets arriving in 2009. Eight new ROV assets are contracted to come online in 2009, taking the total to 25, and a second vessel, the Windermere, is scheduled to enter service in Q110. We expect that any weakness in investment in offshore services will be short-term given shallow offshore is the cheapest source of oil after onshore. Managing Hallin's new asset availability into any weakness is achievable due to the flexible nature of the overall asset base, particularly a vessel on short (<12 month) lease, a break clause at the end of 2009 in its long leased vessel, another long lease ending in May 2010 (with an option to extend for 12 months) and the fact that the shipbuilder for its third owned vessel, the Coniston, to be delivered in 2011, has not met preconditions on funding and insurance guarantees. Therefore the contract is effectively ended with no penalties on either side. Hallin is postponing a replacement vessel order to assess its best option. Shipbuilding costs are reducing and there is potential for a new or partially completed vessel sale from a distressed seller and we do not expect management to make a decision until it has more confidence in the outlook for the industry.

Income from system sales reduced, but continuing

In 2008, Hallin received $7.7m from the sale of two SAT systems, more than covering investment in new ROV assets. The company has sold a system every year since 2006 and management expects a further sale in 2009. The unit for sale is of a lower specification than those previously sold, with a lower corresponding sale price, but the continued income stream should be useful.

Finances remain strong

We see the 31% gearing in 2008 as modest with management previously stating 50% as optimal. Cash increased to $23m from $8m in 2007. The larger Hallin was able to double the dividend to 2p (3.7c) while the dividend cover increased to 20.1x from 11.6x in 2007. The company is committed to c $29m of capex for new ROVs and its vessel, which has a modest $5m funding requirement once proceeds of the Ullswater deal are realised.

Exhibit 1: Financials

Year end 31 December	$'000s	2005	2006	2007	2008	2009e
Accounting basis		IAS	IAS	IAS	IAS	IAS
PROFIT & LOSS						
Revenue		26,566	38,865	64,754	139,898	156,000
Cost of Sales		(21,542)	(32,989)	(45,560)	(92,159)	(110,500)
Gross Profit (after depreciation)		5,024	5,876	19,194	47,739	45,500
EBITDA		2,941	1,320	14,827	40,834	33,000
Operating Profit (before GW and except.)		2,451	3,778	11,852	36,676	28,000
Goodwill Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	4,000
Other		(39)	440	0	0	0
Operating Profit		2,412	4,218	11,852	36,676	32,000
Net Interest		(105)	(43)	(652)	(1,278)	(2,000)
Profit Before Tax (norm)		2,307	4,174	11,200	35,398	26,000
Profit Before Tax (FRS 3)		2,307	4,174	11,200	35,398	30,000
Tax		(52)	(278)	(1,159)	(3,922)	(3,900)
Profit After Tax (norm)		2,255	3,896	10,041	31,476	22,100
Profit After Tax (FRS3)		2,255	3,896	10,041	31,476	26,100
Average Number of Shares Outstanding (m)		28.7	37.0	40.0	40.6	43.6
EPS - normalised (c)		7.8	10.5	25.1	77.6	50.7
EPS - normalised fully diluted (c)		7.8	10.5	23.7	72.2	50.7
EPS - FRS 3 (c)		7.8	10.5	25.1	77.6	59.9
Dividend per share (c)		1.7	1.9	2.0	3.7	3.7
Gross Margin (%)		18.9%	15.1%	29.6%	34.1%	29.2%
EBITDA Margin (%)		11.1%	3.4%	22.9%	29.2%	21.2%
Operating Margin (before GW and except.) (%)		9.2%	9.7%	18.3%	26.2%	17.9%
BALANCE SHEET						
Fixed Assets		7,423	32,727	66,353	105,529	121,985
Intangible Assets		0	0	0	7,583	0
Tangible Assets		5,621	31,186	64,638	97,585	121,985
Assets held for sale		1,801	1,541	1,715	361	0
Current Assets		9,192	18,349	28,343	53,093	63,012
Work in progress			913	0	0	3,000
Debtors		7,279	15,067	20,390	30,081	37,000
Cash		1,913	2,370	7,953	23,012	23,012
Current Liabilities		(7,096)	(14,620)	(36,285)	(73,715)	(72,214)
Creditors		(6,267)	(10,805)	(33,102)	(53,031)	(51,530)
Short term borrowings		(830)	(3,815)	(3,183)	(20,684)	(20,684)
Long Term Liabilities		(332)	(12,185)	(24,711)	(21,977)	(26,744)
Long term borrowings		(324)	(12,147)	(24,668)	(21,977)	(26,744)
Other long term liabilities		(7)	(38)	(43)	0	0
Net Assets		9,187	24,271	33,700	62,930	86,040
CASH FLOW						
Operating Cash Flow		(1,830)	2,081	30,384	41,665	29,000
Net Interest		(234)	(102)	(652)	(1,278)	(2,000)
Tax		(17)	(140)	(574)	(3,120)	(3,900)
Capex		(4,070)	(26,181)	(33,048)	(36,111)	(29,400)
Acquisitions/disposals		0	0	0	0	0
Financing		4,849	10,570	(1,616)	(111)	4,000
Dividends		0	(580)	(800)	(796)	(2,467)
Net Cash Flow		(1,302)	(14,351)	(6,306)	249	(4,767)
Opening net debt/(cash)		(2,100)	(759)	13,592	19,898	19,649
HP finance leases initiated		0	0	0	0	0
Closing net debt/(cash)		(798)	13,592	19,898	19,649	24,416

Source: Edison Investment Research