

24 September 2008

Hallin Marine Subsea International

Year End	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	PE (x)	Yield (%)
12/06	38.9	4.2	10.5	1.9	30.9	0.6
12/07	64.8	11.2	25.1	2.0	12.9	0.6
12/08e	125.0	25.2	49.0	2.2	6.6	0.7
12/09e	151.0	27.8	54.7	2.5	5.9	0.8

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

Investment summary: Bon voyage

Strong sector demand has enabled Hallin Marine to grow across all business lines and invest in assets to support expansion. The interim results reflect the success of this strategy, while industry data reveals continued sector strength. We have upgraded both our revenue and profit forecasts to reflect this strong performance and a continued robust outlook.

Successful strategy in the current strong environment

Hallin has benefited from management's ability to capture price increases in offshore oil services. Its actions include: 1) increased hire out rates to improve returns on its asset portfolio; 2) use of vessel and remotely operated underwater vehicles (ROV) leases to further lock-in and monetise the difference between high subsea hire out rates vs bare-boat lease rates; 3) continued investment in new assets by expansion of its ROV fleet and purchase of Prospect Flow Solutions Ltd and; 4) the sale of older assets and the benefits of the low replacement cost of self-built equipment.

Interim results reflect successful strategy

Hallin's interim revenues more than doubled to \$59.6m. Pre-tax profit was up over 3.5 times to \$13.8m and EPS by 2.8 times to 26.5c. This performance reflected high market prices and the enlarged group following reinvestment of cashflows. Hallin also benefitted from the cancellation of a long-term contract for one of its vessels. This enabled it to capture higher spot rates.

Macro environment and investment to continue growth

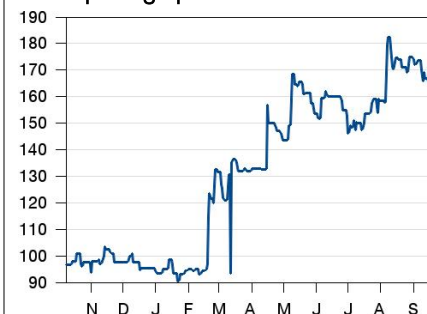
While oil prices remain high and with investment in offshore services expected to increase, the macro outlook looks supportive. Further growth is due; ten new ROVs planned by the end of 2009 and a new vessel by end 2008.

Valuation: Again cheap on a PE basis

On our upgraded forecasts Hallin trades at a deep discount to the sector ie 2008e PE of 7x vs our mixed oil and diving services sector on 13.2x and small-cap oil sector on 9.9x. Since its 2005 IPO, Hallin has traded on an average 8.7x PE based upon our numbers.

Price 162.0p
Market Cap £70m

Share price graph



Share details

Code HMS
Listing AIM
Sector Oil & Gas
Shares in issue 43.2m

Price

52 week High 183p Low 88p

Balance Sheet as at 30 June 2008

Debt/Equity (%) 78
NAV per share (p) 104
Net borrowings (£m) 12.4

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; subsea vessel and ROV leasing; and engineering services.

Valuation

	2007	2008e	2009e
P/E relative	97%	54%	53%
P/CF	4.3	5.3	3.5
EV/Sales	2.6	1.3	1.4
ROE	30%	34%	28%

Revenues by geography

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

Analyst

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

Making hay while the sun shines

Returns on Hallin's portfolio of subsea services continues to increase as investment by the oil and gas industry pushes up prices. We expect Hallin's strategy, ie investment in expansion of its asset portfolio, to drive growth in this strong environment, given management's history of successful execution. Overall prospects look positive and the stock undervalued vs peers. The main risk remains a downturn in the oil and gas services sector although management believes high variable costs, in the form of leased assets and subcontracted expertise will protect margins.

Expanding scale and returns

Hallin is expanding its asset portfolio. It has orders for 10 new ROVs by the end of 2009 (on top of its current 15) and a new own-design vessel for delivery by end 2008, with another on order by the Q1 2010. The acquisition in August of Prospect Flow Solutions Ltd enlarged the group's engineering division and Hallin will eventually offer full service subsea engineering planning and operations.

The \$7.5m sale of its SAT05 saturation diving system part funds the investment strategy, while the replacement SAT09 is under construction and due for completion in Q109.

Hallin has also leased three working class ROVs for Q2 and Q3, to supplement its own ROV assets which are near to full practical capacity. The group expects to repeat this additional leasing strategy for as long as strong demand for ROV services continues. Hallin's orderbook can already support these new assets. It stood at \$85m at 1H08 compared to \$90m at year-end 2007 despite a \$30m reduction relating to the cancelled Sanko Angel contract.

A larger Hallin generating larger numbers

We expect the momentum of the strong first half to continue into full year 2008. We have increased our 2008 sales forecasts from \$86m to \$125m and gross profits \$24m to \$36m. We also expect the group to sell a SAT system each year as the manufacturing business matures.

New engineering investment

The purchase of Prospect Flow Solutions Ltd expands the engineering division and fulfils Hallin's stated ambition in this area. It also furthers its ultimate strategy to offer full service subsea operations, while earn out clauses reduce acquisition and integration risk. In 2007 Prospect generated sales of £2.5m and £0.2m of pre-tax profits. With large contract wins, the new subsidiary is expected to grow revenues significantly in 2008 and has a pre-tax profit target of c £1m by 2010. We have incorporated the latter target into our forecasts.

Exhibit 1: Financials

Year end 31 December	\$'000s	2005	2006	2007	2008e	2009e
Accounting basis		IAS	IAS	IAS	IAS	IAS
PROFIT & LOSS						
Revenue		26,566	38,865	64,754	125,000	151,000
Cost of Sales		(21,542)	(32,989)	(45,560)	(88,820)	(108,200)
Gross Profit (after depreciation)		5,024	5,876	19,194	36,180	42,800
EBITDA		2,941	1,320	14,827	30,680	36,300
Operating Profit (before GW and except.)		2,451	3,778	11,852	26,680	29,800
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	33,680	29,800
Net Interest		(105)	(43)	(652)	(1,500)	(2,000)
Profit Before Tax (norm)		2,307	4,174	11,200	25,180	27,800
Profit Before Tax (FRS 3)		2,307	4,174	11,200	32,180	27,800
Tax		(52)	(278)	(1,159)	(4,029)	(4,170)
Profit After Tax (norm)		2,255	3,896	10,041	21,151	23,630
Profit After Tax (FRS3)		2,255	3,896	10,041	28,151	23,630
Average Number of Shares Outstanding (m)		28.7	37.0	40.0	42.7	43.2
EPS - normalised (c)		7.8	10.5	25.1	49.5	54.7
EPS - normalised fully diluted (c)		7.8	10.5	23.7	49.0	54.7
EPS - FRS 3 (c)		7.8	10.5	25.1	65.9	54.7
Dividend per share (c)		1.7	1.9	2.0	2.2	2.5
Gross Margin (%)		18.9%	15.1%	29.6%	28.9%	28.3%
EBITDA Margin (%)		11.1%	3.4%	22.9%	24.5%	24.0%
Operating Margin (before GW and except.) (%)		9.2%	9.7%	18.3%	21.3%	19.7%
BALANCE SHEET						
Fixed Assets		7,423	32,727	66,353	90,500	143,900
Intangible Assets		0	0	0	0	0
Tangible Assets		5,621	31,186	64,638	90,500	143,900
Assets held for sale		1,801	1,541	1,715	0	0
Current Assets		9,192	18,349	28,343	46,000	46,000
Work in progress			913	0	3,000	3,000
Debtors		7,279	15,067	20,390	42,000	42,000
Cash		1,913	2,370	7,953	1,000	1,000
Current Liabilities		(7,096)	(14,620)	(36,285)	(54,520)	(59,044)
Creditors		(6,267)	(10,805)	(33,102)	(53,520)	(58,044)
Short term borrowings		(830)	(3,815)	(3,183)	(1,000)	(1,000)
Long Term Liabilities		(332)	(12,185)	(24,711)	(20,411)	(47,643)
Long term borrowings		(324)	(12,147)	(24,668)	(20,411)	(47,643)
Other long term liabilities		(7)	(38)	(43)	0	0
Net Assets		9,187	24,271	33,700	61,568	83,213
CASH FLOW						
Operating Cash Flow		(1,830)	2,081	30,384	23,680	36,300
Net Interest		(234)	(102)	(652)	(1,500)	(2,000)
Tax		(17)	(140)	(574)	(4,029)	(4,170)
Capex		(4,070)	(26,181)	(33,048)	(29,900)	(59,900)
Acquisitions/disposals		0	0	0	4,000	4,000
Financing		4,849	10,570	(1,616)	8,500	0
Dividends		0	(580)	(800)	(1,265)	(1,461)
Net Cash Flow		(1,302)	(14,351)	(6,306)	(513)	(27,231)
Opening net debt/(cash)		(2,100)	(759)	13,592	19,898	20,411
HP finance leases initiated		0	0	0	0	0
Closing net debt/(cash)		(798)	13,592	19,898	20,411	47,643

Source: Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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