

Analyst: Kevin Tam

Main Board Listing – Research

Jutal Offshore Oil Services Limited [Stock Code: 3303] 巨濤海洋石油服務

Sponsor and Bookrunner : Sun Hung Kai International
Joint Lead Manager : Sun Hung Kai International
China Merchants Securities (Hong Kong)
Taiwan Securities (Hong Kong)

Sector : Energy
Business : Oil & Gas Equipment & Services

| | |
|--|---|
| <p>Total share offer: <u>100,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 10,000,000 shares (10%)</p> <p>Placing: 90,000,000 shares (90%)</p> <p>Greenshoe: 15,000,000 shares</p> | <p><u>Business of Jutal Offshore Oil Services</u></p> <p>The Group is an integrated service provider principally engaged in the provision of technical support services in offshore oil and natural gas exploitation and production, as well as in the design, fabrication and sale of oil and natural gas processing skid equipment to its customers in the oil and natural gas industries.</p> <p>The full range of technical support services by the Group includes reparation, upgrading, fabrication and renovation of steel structures, coating, inspection and testing of offshore oil platforms and platform facilities. The oil and natural gas processing skid equipment fabricated by the Group includes oil processing equipment, water processing equipment, natural gas processing equipment and seawater processing equipment.</p> <p>The group's customers are oil and gas operators in the Eastern South China Sea and Bohai Bay, such as CNOOC China Ltd, ConocoPhillips China, CACT (consisting of CNOOC China, Eni China, ChevronTexaco China) and Devon (an independent oil producer listed on NYSE).</p> |
| <p>Price: HK\$1.00 – HK\$1.50 per share</p> <p>Market Cap: HK\$400 million – HK\$600 million</p> <p>Pro Forma FY2005 P/E: 10.4x – 15.6x</p> <p>Adjusted NTA per share: HK\$0.42-HK\$0.54</p> <p>Staffing: 1,208</p> | |
| <p>HK Public Offer period: 11th August 2006 – 14th August 2006</p> <p>Receiving bank: Standard Chartered Bank (HK)</p> <p>Share registrar: Tricor Investor Services Ltd.</p> <p>Listing date: 21st September 2006</p> | |

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

| | |
|--|-------------|
| Wang Lishan 王立山 – Executive Director & Chairman of the Company | 67.5% |
| Jiang Dong 姜東- Executive Director & General Manager of the Company | 4.5% |
| Cao Yunsheng –曹雲生 Executive Director & Deputy General Manager of the Company | 3% |
| Public Shareholders | 25% |
| | <u>100%</u> |

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$111 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.25 each, being the mid-point of the indicative price range)

| | HK\$ million |
|---|--------------|
| Expansion of production equipment and facilities | 34 |
| Future acquisition of existing professional companies to enhance fabrication and service capabilities | 33 |
| Expansion of manufacturing sites | 22 |
| Expansion of design team and facilities | 7 |
| Strengthening marketing activities | 6 |
| General working capital | 9 |

Financial Highlights

| | Year ended 31 st December | | | 6 months ended 30 th June | |
|-------------------|--------------------------------------|---------------|---------------|--------------------------------------|---------------|
| | 2003 | 2004 | 2005 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Turnover | 145,590 | 184,862 | 247,887 | 74,554 | 111,383 |
| Gross profit | 42,423 | 47,685 | 66,002 | 19,982 | 26,723 |
| Operating profit | 22,860 | 29,859 | 44,970 | 11,685 | 15,339 |
| Net profit | 19,345 | 25,987 | 39,573 | 10,616 | 13,045 |

Strengths/Opportunities

- ✓ The Group is a direct beneficiary of increasing oil exploration arising from high oil price and China's increasing demand for energy. From FY03 to FY05, the Group recorded CAGR in revenue and net profit at 30.5% and 43% respectively.
- ✓ Compared with the 18X FY05 PER of counterparts Shangdong Molong (8261), the Group's indicated 10.4X –15.6X PER range looks reasonable.

Weaknesses/Threats

- × From FY03 to 1H06, gross margin declined from 29.1% to 24%; while operating margin declined from 15.7% to 13.8% during the period. This suggests the Group does not have adequate pricing power to counter the upward pressure in material costs. Raw material costs account for some 43% to 55% of the Group's cost of goods sold.
- × The Group saw a declining share of revenue from higher margin technical support services business (44% in FY03 to 25% in 1H06); while lower margin processing skid equipment business saw an increasing share of revenue (13 % in FY03 to 40% in 1H06).
- × The Group's customer base is quite highly concentrated. For 1H06, the Group's top five customers accounted for 58.4% of its total turnover.

Recommendation: Hit and Run

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