



Rating  
**Hold**

Asia  
China

Energy  
Oil & Gas

Company  
**Hilong Holding Alert**

Reuters 1623.HK    Bloomberg 1623 HK    Exchange HSI    Ticker 1623

Date  
22 March 2015

## Results

Price at 20 Mar 2015 (HKD)	1.95
Price target - 12mth (HKD)	2.26
52-week range (HKD)	5.17 - 1.65
HANG SENG INDEX	24,375

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## FY14 in line but dividends lowered on worsened working capital

### Core NPAT down 3% yoy

Hilong reported FY14 results after the market close on March 20 with NPAT of RMB398mn or EPS of RMB0.23/sh, up 15% and 13% yoy respectively, in line with DBE and cons estimates. The increase in profit was largely attributed to 1) the changes in fair value of the embedded derivatives of the convertible bonds (a loss of RMB74mn in FY13 versus none in FY14) and 2) effective tax rate that fell by 6.1ppts to 10.1% in FY14 due to decrease in withholding tax payable on the accumulated unremitted earnings from its PRC's subsidiaries. Core NPAT (excl. change in fair value of CB) amounted to RMB413m, down 3% yoy. Hilong also declared a final dividend of RMB0.05/sh, lowering its dividend payout ratio to 17% from 30% in FY13.

### Stable margins but working capital and net gearing deteriorated

Hilong maintained flat gross margins yoy (FY14: 39.6% vs. FY13: 40.3%) due largely to better product mix, with margin improvement seen in the line-pipe technology and services business (up 5.2 ppts yoy), offsetting margin contraction in the oil field equipment and OFS business (down 1.7ppts and 1.9ppts yoy respectively). However, AR days increased to 192 days versus 165 days in FY13, likely due to delayed payments of domestic oil majors as a result of anti-corruption probes. Net gearing for Hilong also rose to 61% for FY14 from 46% in 1H14 due its expansion into the offshore engineering segment.

### Outlook

We believe Hilong is most defensive among independent Chinese OFS players given its unique business model of specializing in niche businesses. They are therefore less vulnerable against the decline in oil prices and ongoing anti-corruption campaign. Its offshore engineering business will be a new growth driver in FY15, with two large contracts totaling RMB550m (21% of FY14 top line) already secured. In addition, top line for its OFS drilling segment should also grow after the anticipated deployment of its two new rigs in Albania. In 2015, Hilong has no drilling contracts up for renewal so will be more immune to margin declines.

### What to do with the stock?

Over the past three months, Hilong's stock has outperformed industry peers by 18% (up 8% versus the industry decline of 10%). We believe most of the positives are now in the price. We maintain our HOLD rating with TP of HKD HKD2.26/sh.

Hilong will host an analyst briefing at 10:00am on March 23 in Island Shangri-la, we will revisit our earnings post the briefing.

### Stock data

Market cap (HKDm)	3,013
Market cap (USDm)	388
Shares outstanding (m)	1,545.0
Major shareholders	-
Free float (%)	52
Avg daily value traded (USDm)	0.7

Source: Deutsche Bank

### Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	2,452	2,632	3,336
Net Profit (CNYm)	344.6	410.8	438.7
DB EPS (CNY)	0.21	0.24	0.26
PER (x)	15.9	6.4	6.0
Yield (net) (%)	0.6	4.6	4.9

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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