Deutsche Bank
Markets Research

Rating
Sell

Asia
China

Energy
Oil & Gas

Company
Anton Oilfield Alert

Reuters	Bloomberg	Exchange	Ticker
3337.HK	3337 HK	HSI	3337
ADR Ticker	ISIN		
ATONY	US0371931090		

Date
25 March 2015

Company Update

Price at 25 Mar 2015 (HKD)	1.30
Price target - 12mth (HKD)	0.82
52-week range (HKD)	5.95 - 1.28
HANG SENG INDEX	24,400

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Stock data

Market cap (HKDm)	2,732
Market cap (USDm)	352
Shares outstanding (m)	2,101.6
Major shareholders	–
Free float (%)	52
Avg daily value traded (USDm)	6.2

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	2,534	2,028	2,135
Net Profit (HKDm)	382.6	-170.0	44.7
DB EPS (HKD)	0.17	-0.08	0.02
PER (x)	28.5	–	62.9
Yield (net) (%)	0.4	0.0	0.5

Source: Deutsche Bank

FY14 Results – much worse than expected, no dividend this time

NPAT down by 152% yoy, much worse than DB & Street expectations
Anton announced its FY14 results after the market close on March 25 with NPAT of RMB -198mn or EPS of RMB -0.09/sh, down by 152% yoy, lower than DB and consensus estimates, and worse than company's guidance of "more than 140% decline". Anton's top line declined by 18% yoy on project cancellation/delays and E&P spending cut. The highlight of the results are 1) a significant decline in profitability due to increase in sticky costs on lower revenue base; 2) no dividend declaration in lieu of negative operating CF (vs. 31% payout in FY13; 3) net gearing ratio (net debt/equity) reached 94% (vs.27% in FY13) leading to higher interest cost. Based on Anton's financials, there is RMB993mn of debt due in a year, with lower cash (RMB760mn) and negative cash generation (RMB-620mn operating CF) and no prospect for positive CF in future, implying impending default risk if these loans don't get rolled over.

Margins deteriorated on sticky costs and lower revenue base
Anton's EBITDA margin shrank by 11% (FY14: 31% vs. FY13: 42%) on increased labor costs (SG&A/revs: 27% vs. 19% in FY13) on lower revenue base. We note Tubular services, Down-hole and Well completion revenue declined by 29%, 21% and 17% yoy, respectively, in FY14. Its Down-hole business segment was worst affected with margin erosion of 16ppts (reaching to 38%) on intense competition within high margin multistage fracturing business. Drilling, Well completion and Tubular businesses also faced 7ppts, 6ppts and 3ppts yoy decline in margins, respectively. We note AR days increased to c.258 days in FY14 vs. 176 days in FY13, likely due to delayed payments of domestic oil majors as a result of anti-corruption probes.

FY 2015 outlook
We remain cautious on Anton's FY15 outlook, given its ill-timed expansion by the addition of three more sets of directional drilling service equipment (during 4Q14) and the recent acquisition of a 55% stake in Beijing KMS Oilfield Chemicals and Technology Ltd (KMS), even in the wake of expected E&P spending cuts. The profitability erosion and negative revenue growth for FY14 was mainly driven by cancellation or delay of projects, lower ASPs and increase in sticky costs (labor, interest etc.). We believe these headwinds will persist in FY15, further aggravated by continued anti-graft probes in Sinopec and CNPC (contributing c.85% of total revs in 1H14). We note c.15%yoy E&P capex cut guided by Sinopec for FY15 and expect similar stance from CNPC.

Reiterate SELL with TP of HKD0.82
Anton has under-performed industry peers by 13% (down 25% versus the industry decline of 12%) but we see more downside ahead. Anton is expensive trading on 1.4x P/B versus HK listed peers which are trading on 0.9x.