Anton Oilfield Services Group ------------------------------------ Maintain UNDERPERFORM

Disappointing FY14 results, balance sheet deterioration rings alarm bells

EPS: ▼ TP: ▼

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- Anton Oil reported a disappointing FY14 result that was the worst among all independent OFS players. 2H14 swung to a net loss of Rmb226 mn, a further HoH decline from an already-worsened 1H14, bringing 2014 to Rmb198 mn loss—worst result since its IPO. Anton Oil also suspended its FY14 dividend (vs 31% payout in FY13).
- The balance sheet deterioration is so rapid that, in our view, it rings alarm bells. Net gearing went up to 90% in 2014 (from 25% in 2013), account receivables shot up to 280 days (from 192 days); OCF also swung to an Rmb620 mn outflow (vs Rmb380 mn inflow in 2013). All red flags are checked in regard to its working capital situation.
- We cut our 2015-16 earnings and forecast Anton to record Rmb400-500 mn of net loss in both years. We do not see any signs of turnaround for Anton over the next 12 months. In our view, there is likelihood of capital raising required should things stay depressed.
- Our TP is cut to HK$0.5 (from HK$0.9) as we lower our target multiple to 0.5x 2015 P/B (from 0.8x). We worry that Anton Oil could run into going-concern issue. We reiterate our UNDERPERFORM.

Bbg/RIC	**3337 HK / 3337.HK**	**Price (25 Mar 15, HK$)**	**1.30**
Rating (prev. rating)	**U (U) [V]**	**TP (prev. TP HK$)**	**0.50 (0.90)**
Shares outstanding (mn)	2,214.51	Est. pot. % chg. to TP	(62)
Daily trad vol - 6m avg (mn)	24.6	52-wk range (HK$)	6.02 - 1.28
Daily trad val - 6m avg (US$ mn)	5.6	Mkt cap (HK$/US$ mn)	2,878.9/ 371.3
Free float (%)	42.0		
Major shareholders	Luo Lin 30.6%		

Performance	**1M**	**3M**	**12M**
Absolute (%)	(17.2)	(25.3)	(73.7)
Relative (%)	(17.4)	(32.9)	(92.6)

Year	**12/13A**	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Revenue (Rmb mn)	2,534	2,071	1,559	1,927	2,402
EBITDA (Rmb mn)	694.9	245.9	2.9	89.8	244.4
Net profit (Rmb mn)	382.6	(198.2)	(486.1)	(395.1)	(240.3)
EPS (Rmb)	0.18	(0.09)	(0.22)	(0.18)	(0.11)
- Change from prev. EPS (%)	n.a.	n.a.	n.m	n.m	n.m
- Consensus EPS (Rmb)	n.a.	n.a.	0.02	0.06	0.15
EPS growth (%)	24.4	n.m.	n.m.	n.m.	n.m.
P/E (x)	5.9	n.m.	n.m.	n.m.	n.m.
Dividend yield (%)	5.4	0	0	0	0
EV/EBITDA (x)	4.1	16.9	1,353.6	47.3	18.3
P/B (x)	1.0	1.1	1.5	2.0	2.5
ROE (%)	18.0	(9.1)	(26.8)	(28.8)	(22.8)
Net debt (cash)/equity (%)	24.2	86.1	92.8	150.7	205.1

Note 1: ORD/ADR=200.00. Note 2: Anton Oil is a leading independent oilfield service prodiver in China and one of the first that went public. Its business is classified into 4 segments: Downhole operations, Well completion, Drilling technology & Tubular services.

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Disappointing FY14 results, worst year since its IPO

Anton Oil reported a disappointing FY14 result on 25 March that were the worst amongst all its independent OFS peers. 2H14 swung to a net loss of Rmb226 mn, a further HoH decline from an already-worsened Rmb27 mn net profit in 1H14. This brings FY14 net loss to Rmb198 mn, a 152% decline vs Rmb382 mn in FY13 as per its revised-down profit warning issued in January 2015, and is the worst annual result over its listing history. The company also suspended its FY14 dividend (vs 31% payout in FY13).

A slowdown in top-line meets structural increase in costs

As with its independent OFS peers, 2H14 was extremely challenging, given the already lacklustre OFS environment (anti-corruption probe) plus the chain effect from the oil price collapse. And the slowdown in top-line was coupled with the continued increase in costs, which in turn led to a collapse in bottom line. Anton's 2H14 revenue declined 35%, and in particular China revenue (70% of total revenue) was down 50% YoY. Significant margin squeeze was visible on the back of declining ASP per job, a structural trend that we have been highlighting over the past 18 months. Overall EBITDA margin fell 11 pp to 31% (from 42% in 2013). On the costs side, DD&A increased another 72% YoY in 2H14 (after 66% increase in 1H14), a result of new land rigs and pressure pump equipment Anton has added throughout the year. Employee costs continue to soar by another 13% in 2H14 (after 23% up in 1H14). Interestingly, there is no mention of the number of employees as of end-2014, while it was disclosed every year previously.

Figure 1: Anton Oil—FY14 results summary

(Rmb mn)	**2014**	**2013**	**YoY%**	**CS 14E**	**vs CSe**	**2H14**	**2H13**	**YoY%**
Revenue	**2,071**	**2,534**	**-18%**	**1,983**	**4%**	**959**	**1,333**	**-28%**
Downhole Operation	860	1,082	-21%	738	16%	409	546	-25%
Well Completion	457	548	-17%	418	9%	194	313	-38%
Drilling Technology	533	589	-10%	543	-2%	248	322	-23%
Tubular Services	222	315	-29%	283	-22%	107	152	-29%
Segmental EBITDA	**649**	**1,072**	**-39%**	**703**	**-8%**	**188**	**583**	**-68%**
Downhole Operation	325	588	-45%	369	-12%	68	286	-76%
Well Completion	139	198	-30%	117	19%	64	136	-53%
Drilling Technology	85	136	-37%	98	-13%	23	77	-70%
Tubular Services	99	150	-34%	119	-17%	32	83	-61%
Net profit	**-198**	**383**	**-152%**	**-186**	**-6%**	**-226**	**205**	**-210%**
EPS (Rmb)	**-0.09**	**0.178**	**-152%**	**-0.085**	**-6%**	**-0.103**	**0.101**	**-210%**
Dividend	**-**	**120**	**n/a**	**-**	**n/a**			
Payout ratio (%)	*0%*	*31%*	*-31%*	*0%*	*0%*			

Source: Company data, Credit Suisse estimates

Ringing alarm bells to its balance sheet

The significant slowdown has put enormous pressure on to Anton Oil's balance sheet, and the deterioration is so rapid that it rings alarm bells. Net gearing went up to 90% in 2014 (from 25% in 2013), account receivables shot up to 280 days in 2014 (from 192 days); OCF also swung to a Rmb620 mn outflow (from Rmb380 mn inflow). All red flags are checked in regard to its working capital situation.

Reiterate UNDERPERFORM, stay away from this name

We cut our 2015-16 earnings estimates and forecast Anton Oil to record Rmb400-500 mn of net loss in both years. We do not see any signs of a turnaround for Anton over the next 12 months. In our model, its balance sheet will continue to deteriorate under the depressed environment, where net gearing will reach 165% by 2016. In our view, there is a likelihood of capital raising required.

Our TP is cut to HK$0.5 (from HK$0.9) as we lower our target multiple to 0.5x 2015 P/B (from 0.8x). We worry that Anton Oil could run into going-concern issue; as a result we reiterate our UNDERPERFORM.

Companies Mentioned *(Price as of 25-Mar-2015)*

Anton Oilfield Services Group (3337.HK, HK$1.3, UNDERPERFORM[V], TP HK$0.5)
Hilong Holdings Ltd (1623.HK, HK$1.98)
Petro-king (2178.HK, HK$1.11)
SPT Energy (1251.HK, HK$1.24)

Disclosure Appendix

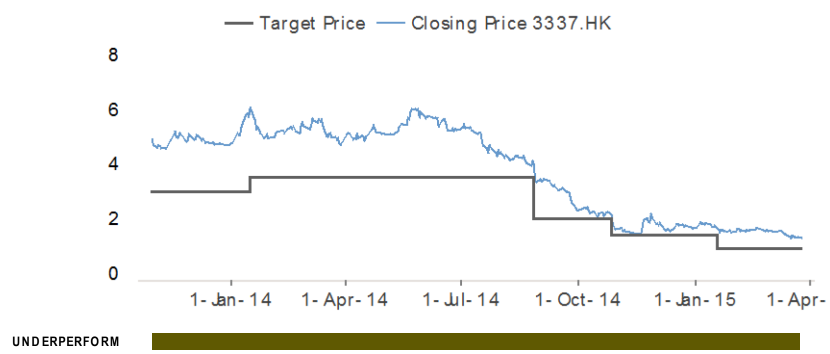
Important Global Disclosures

Horace Tse, Thomas Wong and Kelly Chen each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Anton Oilfield Services Group (3337.HK)

3337.HK Date	Closing Price (HK$)	Target Price (HK$)	Rating
31-Oct-13	4.90	3.00	U *
16-Jan-14	6.06	3.50	
27-Aug-14	3.98	2.00	
27-Oct-14	2.15	1.40	
18-Jan-15	1.73	0.90	

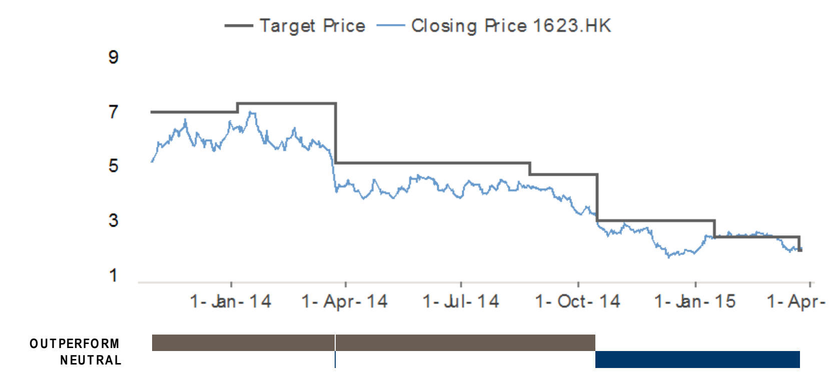
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Hilong Holdings Ltd (1623.HK)

1623.HK Date	Closing Price (HK$)	Target Price (HK$)	Rating
31-Oct-13	5.16	7.00	O *
06-Jan-14	6.43	7.30	
24-Mar-14	4.25	5.10	N
25-Mar-14	4.07	5.10	O
24-Aug-14	4.29	4.70	
16-Oct-14	2.89	3.00	N
16-Jan-15	2.37	2.40	
23-Mar-15	1.95	1.90	

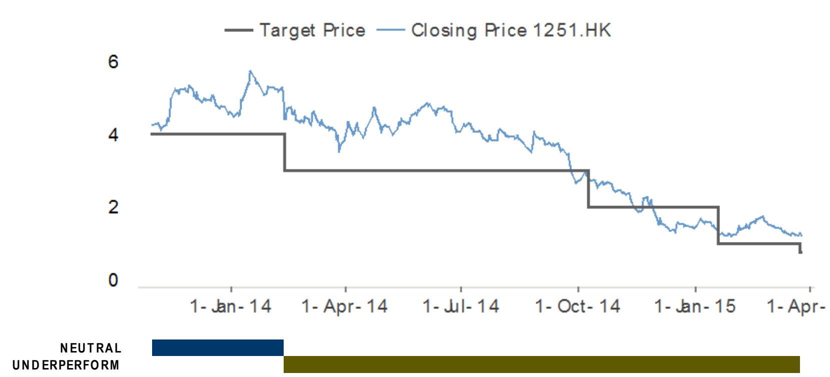
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for SPT Energy (1251.HK)

1251.HK Date	Closing Price (HK$)	Target Price (HK$)	Rating
31-Oct-13	4.27	4.00	N *
12-Feb-14	4.42	3.00	U
09-Oct-14	2.84	2.00	
19-Jan-15	1.34	1.00	
24-Mar-15	1.28	0.75	

** Asterisk signifies initiation or assumption of coverage.*



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Restricted	3%	

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Price Target: (12 months) for Anton Oilfield Services Group (3337.HK)

Method: Our HK$0.5/share target price for Anton Oilfield Services Ltd (Anton Oil) is based on 0.5x 2015E P/B, in line of the target multiple we apply to its independent OFS peer SPT Energy. Given we forecast Anton Oil to be loss-making in 2015 and beyond, we believe a P/B-based target multiple should be the appropriate valuation methodology to reflect the true value of the company over the downcycle.

Risk: Risks to our HK$0.5/share target price for Anton Oilfield Services Group (Anton Oil) include: 1) Anton Oil achieves job completions in 2015 that are higher than our assumed order backlog; 2) Revenue per job comes in much higher than our assumption; 3) Cost increases (including materials costs, operational expenses and employee costs) are slower than our assumption; 4) The Chinese SOEs announce a major shift in upstream gas reserves prioritisation, putting unconventional gas (shale gas and/or CBM) as their first priority and a core investment area over the next few years.

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