AGILIS GROUP RESEARCH

Sevan Marine ASA

GICS : Oil & Gas Equipment & Services

CMD Update

BUY

December 16, 2010

Previous update : December 15, 2010

Next earnings release: February, 2010

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Eyes Optimal Growth Through Drilling IPO/Sale

Potential Drilling IPO/Sale for Optimal Growth

CEO Tveteraas reiterated that the Sevan continues to evaluate strategic options for its drilling segment as the full/fair value of the segment is not factored into the current share price. Options include an IPO/spin-off or a sale of the segment in order to realize values for shareholders. Sevan operates in two very capital intensive segments, FPSO and drilling, and Tveteraas said that the company eventually would have to decide whether to focus on drilling or its core business FPSO in order to achieve optimal growth/utilize growth opportunities. The business segment focus now has become more pressing than ever as project activity – in particular for the FPSO segment – is high and increasing. Sevan is currently fully swamped with around 15 FPSO feasibility studies awarded. Given the strengthening UDW drilling market, high activity in Sevan's core business segment FPSO, as well as current financing and (thus) growth limitations for Sevan due to the current business structure, we believe Sevan's shareholders will profit from an IPO or sale of the drilling segment.

Continued Focus on Cost of Capital Reduction

As expected, there was considerable focus on financing and the refinancing plan. Sevan reiterated that the process to have commitments in place for refinancing of Sevan Driller ($480m) by end 2010 was ongoing. In line with our expectations, the company said that next on the refinancing list after Sevan Driller was FPSO Sevan Voyageur where the goal is to replace the 2nd lien high-yield NOK740m ($125m, Nibor + 10%) bond with bank debt at more attractive terms during 2011/2012. The company also said that it aimed at further flexibility through refinancing the entire FPSO fleet through one fleet bank facility during 2012/2013, implying replacing bond with bank debt for FPSO Sevan Piranema and Hummingbird. Given that this is accomplished, Sevan's average cost of debt would drop from ~7% currently to ~6% in 2011 and ~5% in 2012. We, however, maintain our conservative stance, estimating unchanged interest cost in 2011 and ~6% in 2012. CEO Tveteraas said Sevan could raise equity to capture future growth opportunities, but that equity issues otherwise were out of the question as estimated 2011 cash inflow net of debt installments and interest expenses is ~$100m. To further improve cash flow, Sevan said that it focused on contract improvements for FPSO Sevan Piranema and Hummingbird, both units with current EBITDA contribution of ~$65k/day versus north of $200k/day for FPSO Sevan Voyageur (Huntington contract). Hummingbird is contracted by Centrica until September 2011 (+ extension options), implying potential dayrate improvements from 2012 onward (through potential redeployment). However, we regard significant contract improvements for Piranema as more limited as the unit is contracted by Petrobras until 2018. Sevan reiterated its 2011 EBITDA guidance of over $200m, above consensus (Bloomberg) $192m and our estimate $194m.

Investment Recommendation – Buy

The Sevan Driller BOP quandary and NOK700m high-yield bond issue have spurred speculation of dilution, weighing heavily on Sevan's share price recently. However, with BOP problems for Sevan Driller now rectified, Sevan's operating cash flow will be back in positive territory. Sevan is in compliance with covenants and we see no immediate risk of dilution. Cash flow from operating units, the new NOK700m ($118m) bond and upcoming new Sevan Driller bank facility, will provide Sevan with sufficient cash flow. Sevan has been awarded more than 15 FPSO feasibility studies so far. With oil prices heading north and the global economy recovering, the likelihood of new contract awards increases. Agilis has a BUY rating for Sevan with a 12-month DCF target price of NOK8.7.

Target price & risk	
Target price	NOK 8.70
Share price (last)	NOK 5.98
Horizon (months)	12
Risk	High

Performance

Total Return 5d/YTD/1Y (%)	-4.1/-42.5/-39.6
Volatility 30d/90d/200d (%)	68.5/52.9/60.6
High/Low 1Y (NOK)	11.13/4.42
Avg d turn 30d/90d (NOK m)	55.1/41.5
Market Cap (NOK m)	3 072
Net IB Debt (NOK m)	7 252
Enterprise value (NOK m)	10 328

Miscellaneous	
ISIN	NO0010187032
Country	Norway
Industry code (GICS)	10101020
Exchange/List	Oslo Børs/OBX
Ticker/RIC/Bloomberg	SEVAN/SEVAN.OL/ SEVAN Equity NO
No. outstanding shares	526 069 982
Weight OBX (%)	0.45
Free float (%)	96.1

Sevan Marine ASA: Key Figures & Ratios (USD m)	2007	2008	2009	2010E	2011E	2012E
Operating income	82.2	120.5	194.8	265.6	451.5	594.2
EBITDA	-93.4	-161.6	-18.4	67.3	193.8	293.8
EBITDA (%)	-114%	-134%	-9%	25%	43%	49%
EBIT	-106.6	-193.2	-83.1	-36.5	89.8	164.3
PTP	-150.6	-176.3	-180.3	-137.3	-11.7	40.9
Net income	-115.0	-171.1	-143.4	-108.7	-9.3	32.7
EPS basic (USD)	-0.71	-0.84	-0.31	-0.21	-0.02	0.06
EPS diluted (USD)	-0.71	-0.84	-0.31	-0.21	-0.02	0.06
ROE	-24.6%	-24.9%	-17.2%	-11.8%	-1.2%	3.6%
ROA	-6.9%	-10.9%	-2.9%	-1.2%	2.6%	4.2%
ROIC	-10.1%	-13.4%	-3.3%	-1.4%	3.1%	4.7%
EV/EBITDA	--	--	--	29.84	12.82	9.74
P/E	--	--	--	--	--	24.03
P/Sales	29.60	1.73	2.63	2.87	1.69	1.28

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