



## Sevan Marine ASA

GICS : Oil & Gas Equipment & Services

### 4Q10 Earnings Update

#### HOLD (BUY)

February 16, 2011

Previous update : February 8, 2010

Next earnings release: May 31, 2011

## Positive EBIT First Time Ever, But We Downgrade

### Driller Downtime/Refinancing Fees Hit Results, EBIT in Plus First Time Ever

4Q10 earnings were, as in the previous quarter, negatively affected by Sevan Driller's downtime during the quarter (BOP). Sevan Driller's revenue utilization was 53% in 4Q10 vs 37% in 3Q10. Technical uptime is now up at 96%. Financial expenses increased ~\$30m from 3Q10 due to refinancing charges. Revenues were \$74.5m, up 1.5% on 3Q10, while EBITDA was \$32.5m, up 228% on 3Q10. EBIT came in at \$1.8m, in positive territory for the first time. While our estimated refinancing charges/financial expenses and thus pre-tax profit (negative \$57m) were very much in line with reported numbers, EPS of negative \$0.13 was well below our estimate as actual tax income for 2010 was lower than preliminary interim tax income, implying an adjustment was included as a tax expense in 4Q10 (\$11.6m tax expense vs our estimated tax income of \$11.4m).

### Refinancing Continues – Driller Bank Facility Draw-Down Expected 1Q11

Refinancing of Sevan Driller is ongoing with a \$480m bank facility underwritten in December. Expected draw-down is during 1Q11. Refinancing will create ~\$50m in additional liquidity for corporate purposes. Next on the list is replacing Voyageur's high-yield bond with bank debt at more attractive terms during 2011/12. Sevan aims at further flexibility through refinancing the entire FPSO fleet through one fleet bank facility during 2012/13, bringing cost of debt down from current 7% to ~5%.

### Making a Concrete Evaluation of Drilling Segment IPO

Sevan said that it is now making a concrete evaluation of an IPO for its ultra-deepwater drilling business in order to 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 and current financing/growth limitations due to the current business structure, shareholders will in our view definitely profit from an IPO.

### Brazil Cost Inflation – We Shave Our EBITDA Estimates

During the Q&A session some very essential information transpired. First, daily operating expenses for Sevan Driller are now at ~\$165k/d due to strong cost inflation in Brazil, ~7% above our estimate. Second, the dayrate for the unit apparently is 8% below what we have been previously guided. We factor in the same numbers for the second driller. As a result we shave our 2011E-2013E EBITDA by 8%.

### Investment Recommendation – Downgrading to HOLD

Based on a lower estimated driller EBITDA contribution, we cut our 12-month end-2011 DCF-derived target price to NOK7.10 (NOK8.40) and downgrade our rating to HOLD (BUY). A potential drilling segment IPO is a significant positive upcoming trigger, but we feel that the risk/reward now is less attractive.

| Sevan Marine: P&L 4Q10 (USD m) | 4Q10R | 4Q10C | 4Q10E | R dev E (%) | R dev C (%) |
|--------------------------------|-------|-------|-------|-------------|-------------|
| Operating income               | 74.5  | 77.0  | 78.3  | -4.9%       | -3.2%       |
| EBITDAFX                       | 31.7  | -     | 30.2  | 5.0%        | -           |
| EBITDA                         | 32.5  | 29.6  | 30.2  | 7.6%        | 9.8%        |
| EBIT                           | 1.8   | 2.8   | 0.5   | 255.3%      | -35.7%      |
| PTP                            | -57.0 | -45.0 | -57.2 | -           | -           |
| Net income                     | -68.6 | -40.7 | -45.7 | -           | -           |
| EPS (USD)                      | -0.13 | -0.08 | -0.09 | -           | -           |

R = Reported, C = Consensus (SME Direkt median), E = Agilis

| Sevan Marine ASA: Key Figures & Ratios (USD m) | 2008   | 2009   | 2010   | 2011E | 2012E  | 2013E |
|--|--------|--------|--------|-------|--------|-------|
| Operating income                               | 120.5  | 194.8  | 255.9  | 439.1 | 518.1  | 707.6 |
| EBITDA   | -161.6 | -18.4  | 71.4   | 178.0 | 227.5  | 334.5 |
| EBITDA (%)                                     | -134%  | -9%    | 28%    | 41%   | 44%    | 47%   |
| EBIT   | -193.2 | -83.1  | -33.7  | 74.0  | 113.7  | 158.9 |
| PTP  | -176.3 | -180.3 | -168.6 | -19.8 | 4.5    | 38.2  |
| Net income                                     | -171.1 | -143.4 | -156.8 | -15.8 | 3.6    | 30.5  |
| EPS basic (USD)                                | -0.84  | -0.31  | -0.30  | -0.03 | 0.00   | 0.06  |
| EPS diluted (USD)                              | -0.84  | -0.31  | -0.30  | -0.03 | 0.00   | 0.06  |
| ROE  | -24.9% | -17.2% | -17.6% | -2.1% | 0.3%   | 3.8%  |
| ROA  | -10.9% | -2.9%  | -1.3%  | 2.3%  | 3.2%   | 3.9%  |
| EV/EBITDA                                      | --     | --     | 23.57  | 11.06 | 10.67  | 8.10  |
| EV/EBIT  | --     | --     | --     | 26.61 | 21.36  | 17.06 |
| P/E  | --     | --     | --     | --    | 221.00 | 18.20 |
| P/Sales  | 1.73   | 2.84   | 2.16   | 1.26  | 1.07   | 0.78  |

## AGILIS GROUP RESEARCH

Agilis Securities

**Are Grongstad**

Head of Research

agr@agilis.no

+47 2247 1107

### Target price & risk

|                           |                     |
|---------------------------|---------------------|
| Target price              | NOK 7.10 (NOK 8.40) |
| Share price (last traded) | NOK 6.33            |
| Horizon (months)          | 12                  |
| Risk                      | High                |

### Performance



|                             |                 |
|-----------------------------|-----------------|
| Total return 5D/YTD/1Y (%)  | -6.6/-3.5/-23.5 |
| Volatility 30D/90D/200D (%) | 33.1/51.8/61.2  |
| High/Low 1Y (NOK)           | 10.37/4.42      |
| Avg d turn 30D/90D (NOK m)  | 28.0/41.7       |
| Market Cap (NOK m)          | 3 314           |
| Net IB Debt (NOK m)         | 7 252           |
| Enterprise value (NOK m)    | 10 095          |

### Miscellaneous

|                        |                                    |
|------------------------|------------------------------------|
| ISIN                   | NO0010187032                       |
| Country                | Norway                             |
| Industry code (GICS)   | 10101020                           |
| Exchange/List          | Oslo Børs/OBX                      |
| Ticker/RIC/Bloomberg   | SEVAN/SEVAN.OL/<br>SEVAN Equity NO |
| No. outstanding shares | 526 069 982                        |
| Weight OBX (%)         | 0.51                               |
| Free float (%)         | 97.34                              |



***"Significant experience and knowledge  
in a speedy, able, swift and prompt manner"***