

Anton Oilfield Services (03337.HK)

Key takeaways from analyst conference call

We attended the analyst conference call of Anton Oilfield Services (03337.HK) today. Both the new Iraq contract and the cooperation extension with Schlumberger are good news for Anton but will not materially change our earnings forecast as every new project is needed to ensure the company meets its guidance of a continual 30%YoY top line growth over the next few years. Our estimates and target price remain unchanged and we reiterate BUY on this stock.

Coiled tubing and acidizing technical service contract in Iraq Anton repeated that the company won a US\$30mn 3yr-contract to partner with a Chinese drilling company to undertake coiled tubing (CT) and acidizing services in southern Iraq. The focus will be on oilfields in southern Iraq and opens the door for Anton to win more contracts from international oil companies (IOCs) in the future.

Renewing cooperation agreement with Schlumberger The new agreement is for a term of 3yrs (the first 1yr agreement was signed in 2010, followed by a 2yr-renewal in 2011). Although the management could not specify which business segment will benefit more from the agreement, the management did say that it was focusing on improving the drilling speed and drilling efficiency in the Chinese domestic market and hopes that Anton can leverage on Schlumberger's experience in the drilling fluid and drill bit technologies to bring about quicker drilling times for their customers.

Others Anton also clarified during the conference that: 1) multistage fracturing technologies to be used for the recent RMB100mn contract in Erdos Basin is the company's own proprietary technology; 2) Schlumberger does not have any similar agreement with other Chinese oilfield service companies that would pose a direct competition with Anton; 3) Recent rumors about capex reduction at CNPC's Changqing oilfield have not affected Anton's operations in that area.

Valuation The stock has rebounded about 9.0% since we upgraded it in our Sept 10th report, and is currently trading at about 16.8x our FY14 EPS of RMB0.2260/share, which still has a 15.6% upside to our target price of HK\$5.70 (20x FY14 EPS). We maintain our "Buy" recommendation for the stock.

Financials

RMBmn	2011	2012	2013E	2014E	2015E
Revenue	1,259	2,005	2,665	3,309	4,139
Growth(%)	32%	59%	33%	24%	25%
Net profit	92	318	429	510	626
Growth(%)	-27%	247%	35%	19%	23%
EPS(RMB)	0.04	0.14	0.19	0.23	0.28
DPS(RMB)	0.02	0.05	0.06	0.07	0.09
P/E(x)	103.1	26.6	20.0	16.8	13.7
P/B(x)	4.6	3.8	3.0	2.5	2.5
ROE(%)	5%	15%	16%	15%	19%

Source: Company data, CMS(HK) estimates

Buy

(Previous: Buy)

Target Price: HK\$ 5.70

Current Price HK\$4.82

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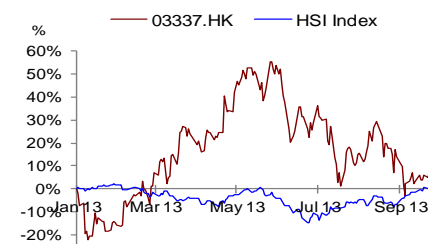
Key data

HSI Index	23,209.63
HSCEI Index	10,598.18
S/O (mn)	2,157.58
Mkt cap (HK\$m)	10,874.20
BVPS (HK\$)	0.99

Major share holder	Holding (%)
Pro Development	32.34%
Free float	42.73%
Industry	Oil Service

Share performance

%	1m	6m	12m
Absolute	(1.4)	(5.6)	181.6
Relative	(6.7)	(9.5)	168.7



Source: Bloomberg

Related research

1. Anton Oilfield Services (03337.HK) - Shares looking attractive. Upgrading to "Buy". 2013/09/10
2. Anton Oilfield Services (03337.HK) - Slower growth ahead 2013/8/16
3. Anton Oilfield Services (03337.HK) - Earnings surge but expensive 2013/3/18

Coiled tubing and acidizing technical service contract in Iraq

Anton repeated that the company won a US\$30mn 3yr-contract to partner with a Chinese drilling company to undertake coiled tubing (CT) and acidizing services in southern Iraq. What makes this contract different from the previous ones is that:

- a. The focus will be on oilfields in southern Iraq, which includes the Rumaila and West Qurna 1 oilfield, which are larger fields, whereas Anton in the past focused more on smaller fields in the east such as Halfaya. Hence, the company believes it is entering a new market.
- b. The contract involves working with international oil companies (although the name of which cannot be disclosed) and opens the door for Anton to win more contracts from IOC in the future.
- c. Anton will provide the coil tubing and acidizing equipment, whereas the Chinese partner (believed to be CNPC) will provide the drilling rigs needed.

We believe that the oilfield maybe the West Qurna 1 oilfield, which is operated by ExxonMobil and which CNPC may buy a stake in according to news reports.

Renewing cooperation agreement with Schlumberger

The new agreement is for a term of 3yrs (the first 1yr agreement was signed in 2010, followed by a 2yr-renewal in 2011). This contract is different from the previous contracts in that:

- a. The new contract expands the cooperation between Anton and Schlumberger. In the past, the cooperation was for specific projects in China. Now the cooperation will be for the entire China area.
- b. A wider range of equipment and services will be shared between the two companies. In the past, the cooperation was only for specific types of technologies or equipments, e.g. drilling fluid. However, under the new agreement, a wider range of well completion and drilling technologies will be shared. In return, Schlumberger, which has limited assets in China, will be able to share Anton's coiled tubing equipment, pressure pumps, manufacturing facilities (e.g. Tianjin manufacturing facility), and can utilize some of Anton's human resources in the mainland.
- c. Furthermore, Schlumberger and Anton can share supply chain resources in China, shorten lead time for projects, and bring value to both companies. Hence, the new agreement can be viewed as more "two-way" rather than, in the past, being seen as Anton relying more on Schlumberger.

Although the management could not specify which business segment will benefit more from the agreement, the management did say that it was focusing on improving the drilling speed and drilling efficiency in the Chinese domestic market and hopes that Anton can leverage on Schlumberger's experience in the drilling fluid and drill bit technologies to bring about quicker drilling times for their customers.

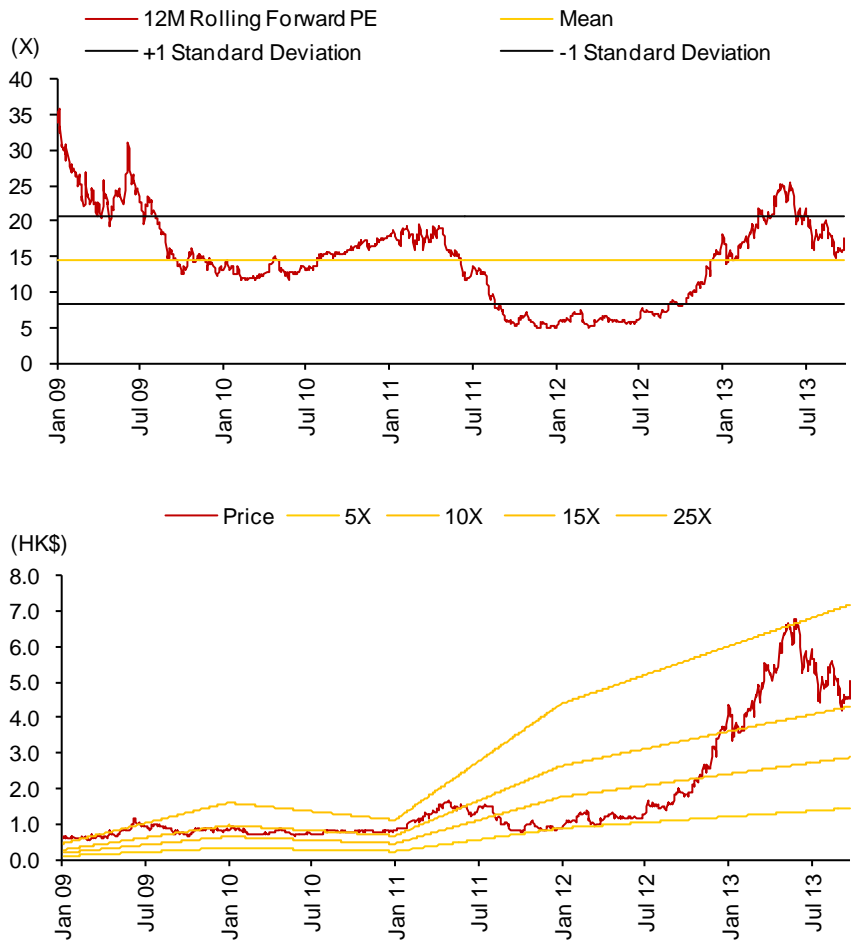
Others

- a. Anton confirmed that the coiled tubing-conveyed resettable packer multistage fracturing and drillable bridge plug multistage fracturing technologies to be used for the recent RMB100mn contract in Erdos Basin is the company's own proprietary technology.
- b. To the managements' knowledge, Schlumberger does not have any similar agreement with other Chinese oilfield service companies that would pose a direct competition with Anton. Management cited an example whereby Schlumberger has a drilling fluid cooperation agreement with COSL for offshore oilfield projects but for onshore projects Schlumberger exclusively works with Anton.
- c. Recent rumors about capex reduction at CNPC's Changqing oilfield have not affected Anton's operations in that area. Anton has a horizontal drilling rig that's already in operation in that area. Furthermore, 1H of each year is the "drilling season" for oil service companies (2H is the well completion and stimulation season), hence Anton is confident about its presence in the Chinese well drilling market.

Valuation

From a valuation basis, the stock has rebounded about 9.0% since we upgraded it in our Sept 10th report (*Anton Oilfield Services (03337.HK) - Shares are looking attractive. Upgrading to "BUY".*), and is currently trading at about 16.8x our FY14 EPS of RMB0.2260/share, which still has a 15.6% upside to our target price of HK\$5.70 (20x FY14 EPS). We maintain our "Buy" recommendation for the stock.

Figure 1: Anton Oilfield Service 12-month forward P/E bands



Source: The Company and CMS(HK)

Figure 2: Peer Analysis

Company	Stock Code	Share price (LC\$)	Market cap (HK\$m)	Gross margin (%)	Operating margin (%)	Net margin (%)	ROAA (%)	ROAE (%)	
<i>HK-listed Oil Service & Equipment Providers</i>									
China Oilfield Service –H	02883 HK	19.60	94,766	N/A	26.0	20.6	6.5	15.0	
SPT Energy Group	01251 HK	3.91	6,010	N/A	20.7	13.6	12.5	20.2	
Jutal Offshore Oil Service	03303 HK	1.61	1,155	21.7	4.1	6.8	3.6	4.9	
Shangdong Molong – H	00568 HK	2.42	7,395	10.9	5.5	4.6	2.7	4.7	
Anhui Tianda Oil Pipe Co - H	00839 HK	1.29	1,310	6.0	1.0	0.9	1.2	1.5	
Shengli Oil & Gas Pipe	01080 HK	0.43	1,042	3.7	2.8	3.3	1.9	3.1	
Chu Kong Steel Pipe	01938 HK	2.56	2,558	17.0	11.5	7.9	5.1	13.3	
China Automation Group	00569 HK	1.57	1,601	39.1	13.9	3.8	1.9	4.9	
TSC Offshore Group	00206 HK	2.74	1,868	34.1	7.5	4.1	5.8	11.9	
Hilong Holding	01623 HK	4.55	7,670	39.5	22.3	15.2	9.1	17.3	
Honghua Group	00196 HK	2.43	7,805	34.5	13.1	10.4	6.4	12.4	
Average				23.0	11.7	8.3	5.2	9.9	
<i>International Oil Service Providers</i>									
Schlumberger Ltd.	SLB US	87.91	908,725	21.6	17.8	13.0	10.2	17.6	
Halliburton Co.	HAL US	48.75	346,261	15.6	14.6	9.2	7.2	12.7	
Baker Hughes Inc.	BHI US	49.26	169,775	18.7	10.3	6.1	3.7	5.9	
Average				18.6	14.2	9.5	7.0	12.1	
Anton Oilfield Services	03337 HK	4.82	10,939	45.0	19.9	15.1	9.9	17.9	
<i>Oil Service Providers</i>									
Company		Free cash flow yield (%)	Net Debt to Equity (%)	Div. yield (%)	FY1 P/E (X)	FY2 P/E (X)	P/B (X)	FY2 EPS growth (%)	2-yr forward EPS CAGR (%)
<i>HK-listed Oil Service & Equipment Providers</i>									
China Oilfield Service –H		N/A	60.9	2.0	12.0	10.8	2.2	10.1	15.5
SPT Energy Group		(4.0)	(20.6)	1.2	14.2	10.8	2.8	28.8	24.6
Jutal Offshore Oil Service		0.4	2.1	1.3	11.4	8.5	0.9	33.3	57.8
Shangdong Molong – H		(21.5)	38.9	2.4	N/A	N/A	0.5	N/A	N/A
Anhui Tianda Oil Pipe Co - H		N/A	(1.8)	3.0	N/A	N/A	0.4	N/A	N/A
Shengli Oil & Gas Pipe		N/A	36.3	2.0	14.4	13.8	0.4	32.5	47.0
Chu Kong Steel Pipe		N/A	98.7	3.0	9.1	6.1	0.5	27.7	13.5
China Automation Group		(12.9)	52.4	1.6	6.4	5.3	0.7	18.8	75.5
TSC Offshore Group		N/A	0.6	N/A	N/A	N/A	1.6	N/A	N/A
Hilong Holding		(0.4)	28.9	1.7	14.8	11.1	2.1	19.6	21.6
Honghua Group		N/A	25.9	2.5	8.0	7.2	1.3	7.6	32.4
Average		(7.7)	29.3	2.1	11.3	9.2	1.2	22.3	36.0
<i>Oil Service Providers</i>									
Schlumberger Ltd.		3.9	15.4	1.4	18.7	15.4	3.1	20.8	17.9
Halliburton Co.		1.6	14.8	1.0	15.2	11.6	3.0	27.8	19.9
Baker Hughes Inc.		1.3	22.6	1.2	16.6	12.0	1.3	38.2	17.3
Average		2.3	17.6	1.2	16.8	13.0	2.5	28.9	18.4
Anton Oilfield Services		N/A	1.9	1.1	20.0	16.8	3.8	28.1	33.2

Sources: CMS(HK)

Appendix: Financial summary
Statement of financial position

RMBmn	2011	2012	2013E	2014E	2015E
Current Assets	1541	2214	2083	2513	2765
Cash & equivalents	462	523	299	305	0
Trading investments	0	0	0	0	0
Trade notes	0	0	0	0	0
Trade receivables	671	948	1263	1568	1962
Other receivables	121	240	321	399	499
Inventories	271	487	184	226	289
Other current assets	15	16	16	16	16
Non-current assets	957	1379	1764	2085	2079
Investment property	0	0	0	0	0
PPE	570	984	1384	1704	1704
Intangible assets	365	371	371	371	371
Other non-current assets	22	24	9	10	4
Total assets	2498	3593	3847	4599	4844
Liquid Liabilities	742	1209	784	959	1201
Bank loans	320	212	400	496	621
Trade payables	258	730	277	339	433
Prepaid Accounts	0	0	0	0	0
Other liquid liabilities	164	267	108	124	147
Long term Liabilities	16	303	323	323	323
Loans	0	299	319	319	319
Others	16	4	4	4	4
Total Liabilities	758	1512	1107	1282	1524
Issued capital	198	201	201	201	201
Retained Earnings	517	820	1227	1712	2307
Reserves	951	951	1182	1248	624
NCI	74	109	131	156	187
Parents	1740	2081	2740	3317	3319
Total equity and liabilities	2498	3593	3847	4599	4844

Statement of comprehensive income

RMBmn	2011	2012	2013E	2014E	2015E
Revenues	1259	2005	2665	3309	4139
Cost of sales	(736)	(1103)	(1492)	(1886)	(2359)
Sales taxes	0	0	0	0	0
Op expenses	(350)	(514)	(612)	(750)	(957)
Admin exp	0	0	0	0	0
Financial	(16)	(31)	(38)	(51)	(58)
Impairments	0	0	0	0	0
FV changes	0	0	0	0	0
Others	2	11	0	0	0
Op Profit	175	398	561	673	822
Non-op inc	0	0	0	0	0
Non-op exp	0	0	0	0	0
PBT	113	367	523	622	764
Taxes	(21)	(50)	(94)	(112)	(137)
Net Profit	92	318	429	510	626
NCI	14	15	21	26	31
Parents	77	303	407	485	595
EPS - (RMB)	0.04	0.14	0.19	0.23	0.28

Ratios

	2011	2012	2013E	2014E	2015E
YoY growth					
Revenue	32.4%	110.9%	32.9%	24.2%	25.1%
Op profit	20.2%	173.7%	40.9%	20.0%	22.2%
Net profit	-27.2%	152.3%	35.0%	19.0%	22.7%
Profitability					
Gross margin	41.5%	45.0%	44.0%	43.0%	43.0%
NP margin	7.3%	15.8%	16.1%	15.4%	15.1%
ROE	4.6%	15.3%	15.6%	15.3%	19.0%
ROIC	6.8%	13.1%	13.1%	13.2%	15.7%

Statement of cash flows

RMBmn	2011	2012	2013E	2014E	2015E
CF from OA	220	350	65	358	374
PBT	113	367	523	622	764
D&A	49	73	104	128	128
Finance costs	(12)	(13)	(38)	(51)	(58)
Investment income	0	0	0	0	0
Changes of WC	5	(138)	(553)	(367)	(467)
Others	66	316	29	26	8
CF from IA	(198)	(273)	(400)	(320)	(256)
Capital expenditure	(160)	(232)	(400)	(320)	(256)
Other investments	(38)	(41)	0	0	0
CF from FA	258	(11)	111	(32)	(29)
Borrowings	157	12	208	97	124
Share capital	0	0	0	0	0
Changes of reserves	71	374	526	485	595
Dividends	(39)	(47)	(98)	(129)	(153)
Others	70	(350)	(526)	(485)	(595)
Net cash flow	281	65	(225)	6	89

Liquidity

D/A	12.8%	14.2%	18.7%	17.7%	19.4%
ND/A	-5.7%	-0.4%	10.9%	11.1%	19.4%
Liquid ratio	2.1	1.8	2.7	2.6	2.3
Quick ratio	1.7	1.4	2.4	2.4	2.1

Operating efficiency

Asset	0.5	0.6	0.7	0.7	0.9
Inventory	282.9	345.9	110.0	110.0	110.0
AR turnover	194.5	172.7	173.0	173.0	173.0
AP turnover	268.7	518.8	165.0	165.0	165.0

Per share ratios(RMB)

EPS	0.04	0.14	0.19	0.23	0.28
CFS	(0.08)	0.06	(0.16)	0.02	0.05
BVPS	0.83	0.99	1.29	1.55	1.55
DPS	0.02	0.05	0.06	0.07	0.09

Valuation

PE	103.1	26.6	20.0	16.8	13.7
PB	4.6	3.8	3.0	2.5	2.5
EV/EBITDA	23.6	13.1	9.9	8.1	6.6

Source: Company data, CMS(HK) estimates

RATING DEFINITION & DISCLAIMER

RATING	DEFINITION
BUY	Expected to outperform the market index by >10% over the next twelve months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next twelve months
SELL	Expected to underperform the market index by >10% over the next twelve months

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