

## Icon Offshore (ICON MK)

# Bags ConocoPhillips JU rig contract

### Maintain BUY and MYR0.16 TP

We are positive on Icon securing a short-term JU contract with decent DCR from ConocoPhillips, following the end of its previous gig (Petrofac) in 4Q21. Overall, we expect higher utilisation for its JU and OSVs, its key earnings driver as offshore capex rises. Icon's turnaround story has just begun to gain traction. We value the: (i) JU ops at 0.6x EV/ replacement value (9 sen/shr) and (ii) OSV ops at 0.7x PBV, (7 sen/shr). On a combined basis, our MYR0.16 SOP-based TP equates to a PBV of 1x.

### Salient details of the USD9.6m rig contract

Icon has received a LOA from ConocoPhillips Sarawak for the charter of its jack-up rig (JU); Icon Caren. The contract, worth an estimated USD9.6m will commence in 2Q22 and the work scope entails drilling 3+1 wells for the client's 2022 drilling campaign in Sarawak.

### Optimising JU's utilisation remains key

We are positive, but not entirely surprised, by this development. Based on the contract value, it equates to DCR of about USD75-80k (3+1 wells), which appears to be higher than its previous job (Petrofac; USD74k; 8+3 wells) but is within the prevailing market's rate. We do not rule out the possibility of the contract containing some 'add-on' items. That said, the contract tenure (e.3-4 months) is shorter than we initially expected but is not a concern, for we expect high extension/ new charter prospects for its JU over the next 12 months.

### A stronger 2022

Our earnings estimates are unchanged, on expectations of a softer QoQ outlook for 4Q21, as seasonal weakness (i.e. monsoon) kicks in but a stronger FY22. Overall, its earnings recovery is tracking to expectation, with its drilling ops continuing to be the Group's key earnings driver. Maintaining high utilisation for its assets (JU and OSVs) remains its key KPI, followed by its continued cost optimisation exercise, which includes disposal of ageing/ idle OSV assets.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	201	212	276	294	295
EBITDA	74	82	109	126	129
Core net profit	(21)	4	30	49	52
Core EPS (sen)	(1.8)	0.2	1.3	2.1	2.2
Core EPS growth (%)	nm	nm	591.8	64.0	5.4
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	63.0	9.5	5.8	5.5
P/BV (x)	3.0	0.7	0.7	0.6	0.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(14.5)	11.6	7.7	11.5	10.8
ROAA (%)	(2.7)	0.6	3.7	5.8	5.7
EV/EBITDA (x)	10.6	6.7	5.1	4.2	3.5
Net gearing (%) (incl perps)	871.9	75.2	64.9	49.6	28.2
Consensus net profit	-	-	30	49	52
MKE vs. Consensus (%)	-	-	0.0	0.0	(0.0)

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# BUY

Share Price	MYR 0.12
12m Price Target	MYR 0.16 (+33%)
Previous Price Target	MYR 0.16

### Company Description

Icon Offshore is one of the largest OSV operators in Malaysia by fleet size.

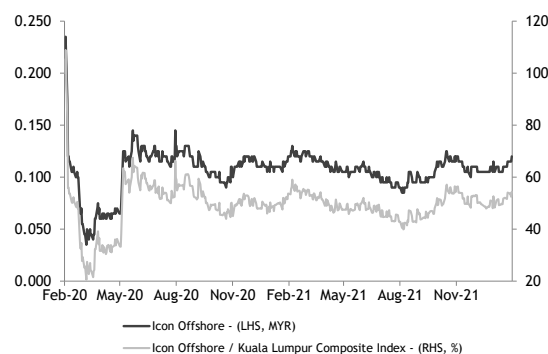
### Statistics

52w high/low (MYR)	0.13/0.09
3m avg turnover (USDm)	0.1
Free float (%)	36.6
Issued shares (m)	2,703
Market capitalisation	MYR324.4M
	USD77M

### Major shareholders:

Hallmark Odyssey Sdn. Bhd.	56.9%
Urusharta Jamaah Sdn. Bhd.	4.1%
BIN HASHIM HADIAN	2.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	14	4	0
Relative to index (%)	13	0	1

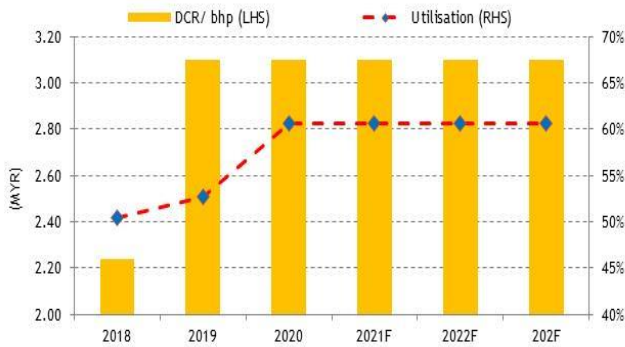
Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

## Value Proposition

- One of Malaysia’s largest OSV providers; dominant in AHTS and AWB with a relatively young fleet (7 years).
- Vessels are Malaysia-flagged and will be able to capitalise on the stringent Malaysian cabotage rules.
- Icon is going through a challenging macro environment, as it faces bottoming of DCR but gradual recovery of OSV utilisation.
- Returns outlook is improving but the pace of recovery will be gradual, backed by its continuous efforts to optimise costs and OSV utilisation.
- M&A action is a key catalyst to unlocking values.

### AHTS: DCR and utilisation trend

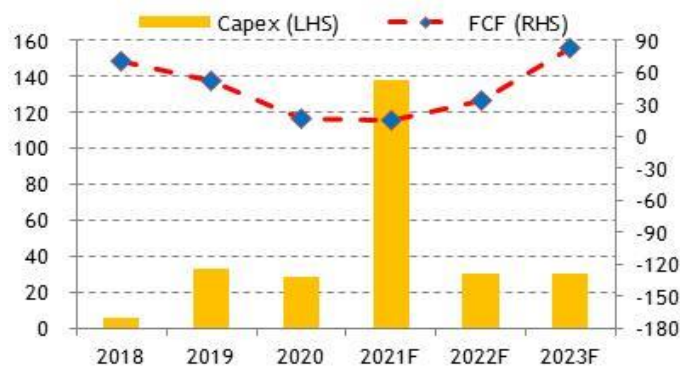


Source: Company

## Financial Metrics

- OSVs DCR, utilisation and opex are Icon’s key earnings drivers. Variations in any of these parameters will impact profitability.
- Prolonged weakness in OSV and JUs utilisation and earnings expected would have a detrimental impact to its cash flows.
- With low oil prices, cost management, capital discipline and cashflow preservation are priorities over growth.

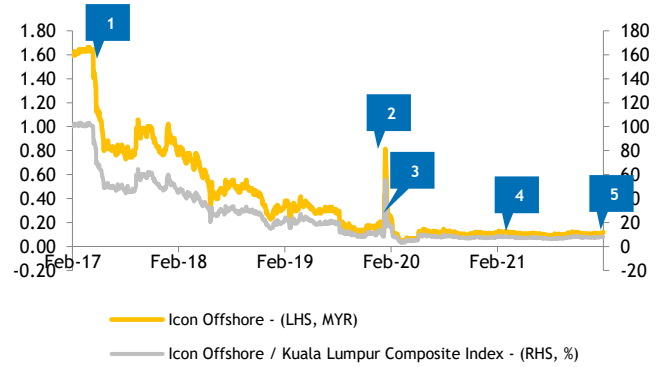
### Capex and FCF trend (MYR’m)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. UMWOG-Icon offshore merger falls through.
2. Completion of debt restructuring exercise.
3. OPEC+ alliance breaks up in Mar 2020.
4. Secures Petrofac’s rig charter contract (USD13.3m).
5. Wins ConocoPhillips rig charter job (3+1 well; USD9.6m).

## Swing Factors

### Upside

- Resilient. Ahead of peers in cost management. More jobs expected with PETRONAS giving preference to local service providers over foreign-flagged vessels.
- New management with commendable track record gives confidence to the market and eliminates past negative perception (corporate governance, cost management).
- M&A action is not entirely ruled out as Government - owned Ekuinas, a 43% shareholder, aims to create values from a PE perspective.

### Downside

- Poor execution capabilities related to vessel maintenance and inferior cost management could have a detrimental effect on cost, license renewal and track record.
- Firm OSV contracts may be terminated on a month’s notice. Early termination of contracts could affect cashflows.
- Inability to secure new and or charter extensions would have negative repercussion on its operations and financials.

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Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup> (Updated: NA)	na

## Business Model & Industry Issues

- As an OSV provider and drilling operator, Icon's material ESG topics are summarised as follows: (i) occupational health, safety & environment (HSE), (ii) greenhouse gas (GHG) emissions, (iii) fuel consumption, (iv) water consumption, (v) waste management, (vi) talent management and (vii) corporate integrity and ethical conduct.
- Further refining of its naturals data collection and disclosures (i.e. carbon emissions; Scope 1, 2 & 3) as well as setting up 'E' targets/ agenda (i.e. energy transition, decarbonisation, reduction, offsets, carbon neutral, net zero) on its sustainability framework would be well-received. Intends to explore RE initiatives to further reduce its carbon footprint.
- Not ahead of peers in the ESG disclosures but is expected to see improvement on a YoY basis.

### Material E issues

- Consumed 42,006,605L (-11% YoY) of fuel in 2020. Its vessels are outfitted with a cutting-edge fuel-monitoring system that records activities, movements, in addition to weather condition and impacts.
- 2 of its OSVs are currently on diesel-electric engines, which optimise fuel consumption. Intends to expand on this going forward.
- Recorded an overall waste production of 201.29m<sup>3</sup> (Jun-Dec 2020). Adhere to the standards of Annex V of MARPOL 73/78 with regards to water management.
- Was not fined or censured by the authorities for any environmental-related breach or offence in 2020.
- Achieved: (i) zero LTI, (ii) zero restricted work injury and (iii) zero environmental spills in 2020.
- Recorded 13,592,760m total LTI-free man-hours worked or 1,492 days without LTI.
- Overall, 6 recorded incidents in 2020, comprising: (i) 4 property damage, (ii) 1 hydrocarbon release (oil spill) and (iii) 1 medical treatment injury case. No security related incident reported.

### Material S issues

- About 90% of its offshore workforce (strength: 735) comprised marine crew (on contract basis) in 2020.
- 46%/ 28%/ 13% of its onshore-based workforce (89 staff) is of the 30s/ 40s/ 20s age bracket respectively.
- Its total workforce reduced by 26% upon completion of its right sizing exercise in Mar 2020. 15 onshore staff underwent attrition. 26 accepted the offer of rationalisation.
- 100% of its employees are Malaysians. Ethnicity-wise, 81% of its workforce is Malay.
- 65%/ 10% of its onshore workforce/ senior management is female represented.
- Spent MYR0.6m on training and development programmes.

### Key G metrics and issues

- Adopts these policies: (i) anti-bribery & anti-corruption, (ii) anti-fraud, (iii) whistle-blowing and (iv) Code of Ethics (COE) to name a few.
- Icon's board comprises 8 directors - 4 Independent Non-Executive Directors (INEDs), 1 Senior INED (SINED), 2 NINEDs (incl. Chairman), and 1 NIED (Managing Director).
- An experienced and gender-diversified board with good mix of tenure of service - 50% are above 60 years old. 63% have served 6-9 years. 25% are female.
- Ekuias, a major shareholder of Icon (56.1%) has 2 board seat representations (direct appointment).
- The managing Director's total remuneration package of MYR1.2m for 2020 accounted for 2.8% of the Group's pretax profit.
- Icon is externally audited by PricewaterhouseCoopers PLT (PwC), one of the Big Four accounting firms in the world.
- Its Audit and Risk Management Committee is made up of 2 INEDs, 1 SINED and 1 NINED.
- Its board: (i) Nomination & Remuneration Committee and (ii) Employee' Share Scheme Committee comprises 2 INEDs and 1 NINED.
- Its related party transactions (RPTs) in 2020 mainly consisted of sales transactions with Uzma Engineering S/B (MYR17.6m).
- The planned merger with Velesto & Orkim S/B in Jan 2017 was aborted in May 2017 post a due diligence exercise.
- Undertook a debt restructuring exercise (under CDRC) in 2019. Concluded all its corporal proposals (share consolidation, 100 rights-for-1 share @ MYR0.105/shr with warrants for MYR247.2m and issuance of shares to financiers and certain creditors) in Feb 2020.
- Completed the acquisition of a drilling rig from Perisai Petroleum on 2 Feb 2021 for USD42m to venture into the drilling business and diversify its ops.
- Substantial on-off exercises (i.e. impairment/ provisions): MYR376m (2015), MYR136m (2016), MYR34m (2017) and MYR420m (2018).

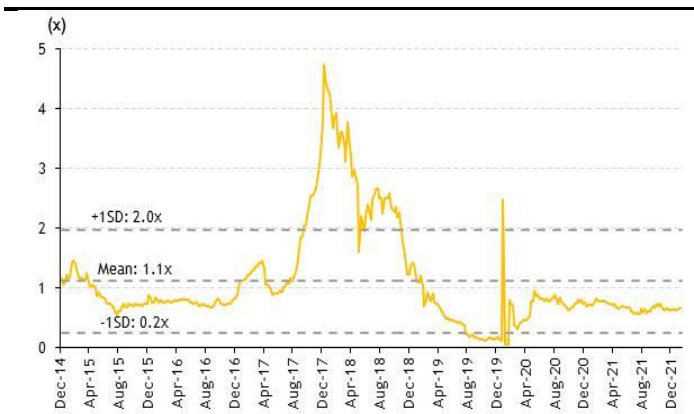
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

SOP valuation

	Value (MYR'm)	MYR/ shr	Description
Drilling	214	0.09	0.6x EV/ replacement value
OSV	166	0.07	0.7x PBV
<b>Total</b>	<b>380</b>	<b>0.16</b>	<b>Share base: 2,375.4m shares</b>

Source: Maybank IBG Research

1-year forward PBV



Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	nm	11.4	9.5	5.8	5.5
Core P/E (x)	nm	63.0	9.5	5.8	5.5
P/BV (x)	3.0	0.7	0.7	0.6	0.6
P/NTA (x)	3.0	0.7	0.7	0.6	0.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	25.6	6.1	5.4	12.4	29.3
EV/EBITDA (x)	10.6	6.7	5.1	4.2	3.5
EV/EBIT (x)	25.7	15.8	10.5	7.5	6.2
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	201.1	212.1	276.2	293.9	294.9
EBITDA	74.1	82.2	108.8	125.9	128.8
Depreciation	(43.4)	(47.1)	(55.9)	(55.9)	(55.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	30.7	35.1	52.9	70.0	72.9
Net interest income / (exp)	(34.3)	(13.9)	(14.1)	(10.3)	(10.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	10.9	21.3	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	7.3	42.5	38.8	59.7	62.6
Income tax	(14.8)	(11.2)	(3.1)	(4.8)	(5.0)
Minorities	(2.5)	(5.6)	(5.7)	(5.7)	(5.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(10.0)	25.7	30.0	49.2	51.9
Core net profit	(20.9)	4.3	30.0	49.2	51.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	30.8	74.8	90.1	125.5	209.0
Accounts receivable	49.0	65.0	13.8	14.7	14.7
Inventory	3.5	2.0	2.8	50.2	50.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	623.7	598.2	680.1	654.2	628.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	47.5	38.2	38.2	38.2	38.2
<b>Total assets</b>	<b>754.6</b>	<b>778.3</b>	<b>824.9</b>	<b>882.9</b>	<b>940.6</b>
ST interest bearing debt	581.3	36.2	36.2	36.2	36.2
Accounts payable	61.7	36.2	47.2	50.2	50.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	34.1	319.8	319.8	319.8	319.8
Other liabilities	10.0	12.0	12.0	12.0	12.0
<b>Total Liabilities</b>	<b>687.5</b>	<b>404.1</b>	<b>415.0</b>	<b>418.1</b>	<b>418.2</b>
Shareholders Equity	67.1	374.2	404.2	453.4	505.3
Minority Interest	0.0	0.0	5.7	11.4	17.1
<b>Total shareholder equity</b>	<b>67.1</b>	<b>374.2</b>	<b>409.9</b>	<b>464.8</b>	<b>522.4</b>
<b>Total liabilities and equity</b>	<b>754.6</b>	<b>778.3</b>	<b>824.9</b>	<b>882.9</b>	<b>940.6</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	7.3	42.5	38.8	59.7	62.6
Depreciation & amortisation	43.4	47.1	55.9	55.9	55.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	6.1	10.9	61.5	(45.3)	(0.1)
Cash taxes paid	(14.8)	(11.2)	(3.1)	(4.8)	(5.0)
Other operating cash flow	43.0	(44.8)	0.0	0.0	0.0
Cash flow from operations	85.0	44.5	153.1	65.5	113.4
Capex	(32.8)	(28.0)	(137.8)	(30.0)	(30.0)
Free cash flow	52.3	16.6	15.3	35.5	83.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	247.2	0.0	0.0	0.0
Change in Debt	(34.2)	(206.6)	0.0	0.0	0.0
Other invest/financing cash flow	(38.3)	(13.2)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(20.2)</b>	<b>44.0</b>	<b>15.3</b>	<b>35.5</b>	<b>83.4</b>

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	0.7	5.5	30.2	6.4	0.3
EBITDA growth	66.4	10.9	32.4	15.7	2.3
EBIT growth	nm	14.2	50.9	32.3	4.1
Pretax growth	nm	482.0	(8.8)	53.8	4.9
Reported net profit growth	nm	nm	16.8	64.0	5.4
Core net profit growth	nm	nm	591.8	64.0	5.4
<b>Profitability ratios (%)</b>					
EBITDA margin	36.8	38.7	39.4	42.8	43.7
EBIT margin	15.3	16.5	19.2	23.8	24.7
Pretax profit margin	3.6	20.1	14.1	20.3	21.2
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	nm	12.1	10.9	16.7	17.6
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	11.3	2.1	2.0	1.9	1.9
ROAE (%)	(14.5)	11.6	7.7	11.5	10.8
ROAA (%)	(2.7)	0.6	3.7	5.8	5.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(126.4)	(75.4)	(54.0)	(41.9)	18.0
Days receivable outstanding	99.6	96.8	51.4	17.5	18.0
Days inventory outstanding	8.0	10.3	6.4	70.7	136.2
Days payables outstanding	234.0	182.5	111.8	130.0	136.2
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.1	1.9	1.3	2.2	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.9	2.0	2.1	2.2
Net gearing (%) (incl perps)	871.9	75.2	64.9	49.6	28.2
Net gearing (%) (excl. perps)	871.9	75.2	64.9	49.6	28.2
Net interest cover (x)	0.9	2.5	3.8	6.8	7.1
Debt/EBITDA (x)	8.3	4.3	3.3	2.8	2.8
Capex/revenue (%)	16.3	13.2	49.9	10.2	10.2
Net debt/ (net cash)	584.6	281.3	266.0	230.5	147.1

Source: Company; Maybank



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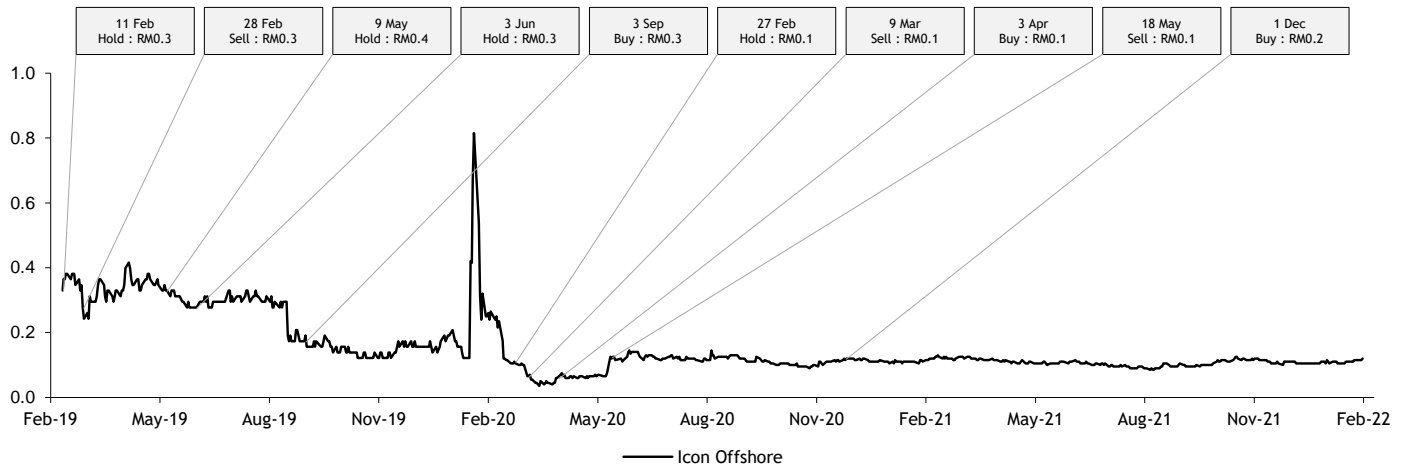
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