

10 October 2014

Anton Oilfield Service (3337. HK)

Earnings guidance of 2014 lacks highlights

HONG KONG | OIL&GAS SERVICE | COMPANY RESULTS

Rating: **Neutral**

- Recently, Antonoil published the earnings guidance for the year of 2014. Antonoil is expected to see a slight increase of revenue in 2014, but it still bears relatively big cost pressure because of the increase of manpower, depreciation and interest cost due to the human resource, equipment, and funds reserved in advance by the company for the sake of long term development. Besides, calling of accounts receivable will promote significant improvement of the operating cash flow in the second half of the year in comparison with that in the first half of the year.
- The guidance has a positive view of the industry development prospects. Antonoil believes, the domestic demand for natural gas will continue increasing, and the overseas market business will continue keeping high speed growth, so in the long run, the revenue will still hold a high-speed increase. At the same time, the net profit margin will fluctuate in a short term due to changes of the market, but in the long run, along with the increase of capacity utilization rate, the net profit margin is expected to come back to the previous normal level.
- The declining of newly added orders and orders in hand makes the operation of Antonoil face a severe test, and the duration of the negative impact of the anti-corruption campaign on the company is longer than we have expected. We expect that, in the next half year PetroChina will continue to slow down its release of land oil service orders to private oil service companies, and Antonoil needs to increase efforts to obtain oil and gas services orders from other pipelines, but overall sluggish situation of orders in 2014 has already been established.

How we view this

The company's earnings guidance of 2014 also lacks more highlights, and the market reflection is neutral. In addition, the orders of Antonoil in the second quarter are disappointing, furthermore, the negative impact of the anti-corruption campaign on the upstream capital expenditure of PetroChina still continues. In the aspect of industry competition structure, though the announcement of the Big Tiger case has eliminated some uncertainties and made the market activity increased, the oil and gas services companies are still facing the challenges brought about by the new interest structure dividing.

Investment Action

Because of reform of state-owned enterprises, internal cost control, and implementation of marketization of major oil companies, it is difficult for Antonoil to get rid of the difficulty in a short term. We cut its 12m TP to HK\$2.2, giving a "Neutral" rating.

Key Financial Summary

FYE	11A	12A	13A	14E	15E
Revenue (RMB mn)	1,259	2,005	2,533	2,720	3,119
Net Profit, adj. (RMB mn)	77	303	382	160	250
EPS, adj. (RMB)	0.04	0.14	0.18	0.07	0.11
P/E (X),adj.	28.00	22.87	20.44	23.84	15.26
BVPS (RMB)	0.770	0.970	1.060	1.150	1.260
P/B (X)	1.45	3.37	3.47	1.51	1.38
DPS (RMB)	0.02	0.05	0.07	0.02	0.03
Div. Yield (%)	1.79%	1.53%	1.90%	1.15%	1.72%

Source: Bloomberg, Antonoil

*All multiples & yields based on historical price and current market price

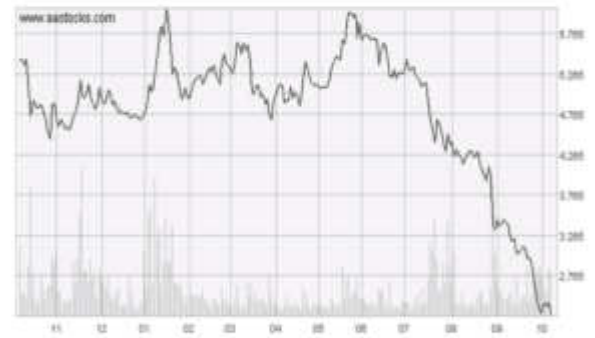
Target Price (HKD)	2.20
Forecast Dividend (HKD)	0.04
Closing Price (HKD)	2.29
Potential Upside	-2.10%

Company Description

Anton Oilfield Services (Anton) is a private oil services company in China, with a focus on conventional gas and tight gas services. Overseas, Anton is following China's state-owned energy enterprises to penetrate foreign markets. We have a positive view on the oilfield services space in the long term, given booming natural gas development in China.

Company Data

Raw Beta (Past 2yrs weekly data)	0.93
Market Cap. (HKD Mn)	5,068
Ent. Value (HKD Mn)	4,433
52 week range(HKD)	2.24-6.20



Major Shareholders

Shareholder	(%)
1.PRO DEVELOPMENT	30.60
2.SCHLUMBERGER	19.14

Valuation Method

P/E

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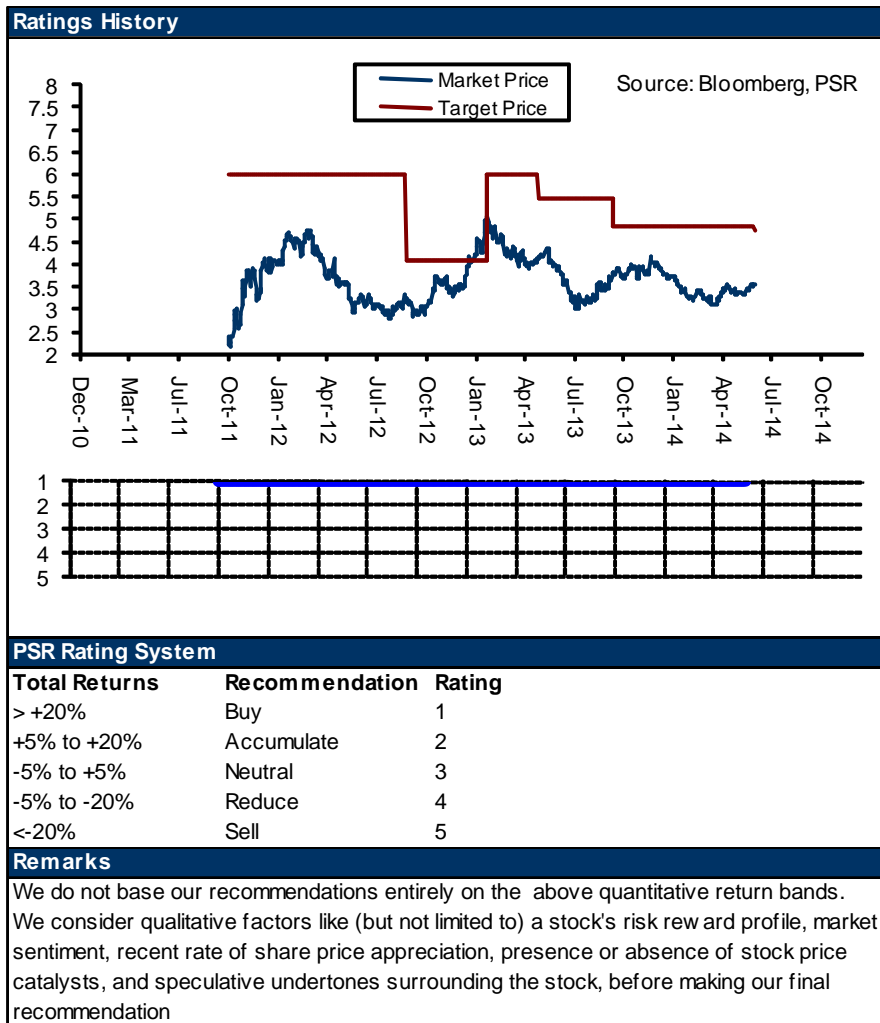
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FYE	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratios							
P/E (X), adj.	56.00	18.67	28.00	22.87	20.44	23.84	15.26
P/B (X)	1.53	1.56	1.45	3.37	3.47	1.51	1.38
EV/EBITDA (X), adj.	18.86	7.47	6.16	5.16	12.35	17.89	12.88
Dividend Yield (%)	0.89%	1.79%	1.79%	1.53%	1.90%	1.15%	1.72%
Per share data (RMB)							
EPS, reported	0.02	0.06	0.04	0.14	0.18	0.07	0.11
EPS, adj.	0.02	0.06	0.04	0.14	0.18	0.07	0.11
DPS	0.01	0.02	0.02	0.05	0.07	0.02	0.03
BVPS	0.730	0.720	0.770	0.970	1.060	1.150	1.260
Growth & Margins (%)							
Growth							
Revenue	n.a.	37.83%	32.39%	59.25%	26.33%	7.38%	14.67%
Operating profit	n.a.	314.29%	22.76%	123.60%	43.72%	-22.90%	25.17%
EBT	n.a.	273.68%	-20.42%	224.78%	33.51%	-48.57%	34.13%
Net Income, adj.	n.a.	265.63%	-34.19%	293.51%	26.07%	-58.12%	56.25%
Margins							
Operating margin	5.07%	15.25%	14.14%	19.85%	19.34%	16.20%	17.70%
Net profit margin	4.64%	12.30%	6.12%	15.11%	15.08%	5.88%	8.02%
Key Ratios							
ROE (%)	2.11%	7.47%	4.72%	14.74%	16.76%	16.45%	19.93%
ROA (%)	1.72%	5.86%	3.30%	8.43%	6.41%	6.12%	7.59%
Net Debt/(Cash)	net cash	8	net cash	net cash	560	635	650
Net Gearing (X)	net cash	0.49%	net cash	net cash	24.50%	23.78%	21.20%
Income Statement (RMB mn)							
Revenue	690	951	1,259	2,005	2,533	2,720	3,119
Operating profit	35	145	178	398	572	441	552
EBT	38	142	113	367	490	252	338
Tax	1	16	21	50	87	70	64
Tax rate	2.63%	11.27%	18.58%	13.62%	17.76%	27.78%	19.00%
Profit for the year	38	126	91	318	403	182	274
Minority interests	6	9	14	15	21	22	24
Net profit	32	117	77	303	382	160	250

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PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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