SINGAPORE

OFFSHORE & MARINE

RECOMMENDATION

OVERWEIGHT

NEUTRAL

UNDERWEIGHT

SECTOR NOTE

Notes from the Field

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Contents

Highlighted Companies

Ezion

35% of Ezion's fleet of 37 service rigs are on time charter contracts. These are liftboats, which are deployed in Southeast Asia. The remaining units are on bareboat charter. Counterparty risks are sometimes mitigated through the use of escrow accounts.

PACRA

PACRA time-charters its entire fleet of 61 wholly-owned OSVs. Hence, it is subjugated to market and operating risks. For example, in a market downcycle, it faces downward rate pressures while a vessel breaking down can be cause for termination.

Swissco

Swissco, which aspires to be an operating company, currently bareboat-charters its entire fleet of nine jack-up rigs. For Swissco, we deem that it is imperative to consider counterparty risks.

Rules of the game

The oil price tumult has shown that charter contracts are not sacrosanct and that bargaining power lies with the oil customers. We examine the different forms of charter contracts and evaluate the appropriate valuation basis to price their respective risks and rewards.

Figure 1: Rig charter cancellations

Date	Oil major	Rig name	Owner
25 Jun 15	Statoil	COSL Pioneer Semisub	COSL
14 May 15	Pemex	Three contract cancellations (L781, L1113, B301)	Paragon
31 Mar 15	BP	DS-4 drillship	Ensco
31 Mar 15	BP	West Sirius semisub	Seadrill
24 Feb 15	Pemex	Five contract cancellations (Ocean Baroness, Ambassador, Nugget, Summit, Lexington)	Diamond Offshore
13 Feb 15	Petrobras	Two contract cancellations (West Taurus, Eminence)	Seadrill

SOURCES: CIMB, COMPANY REPORTS

We also delve into one of the most widely-used forms of time charters for OSVs, SUPPLYTIME 2005. On a whole, we keep a Neutral rating on the sector but reinstate Ezion as one of our two preferred picks since the overhang from the AMS legal wrangle has now passed. Trading below its liquidation value, PACRA remains the other key pick. Otherwise, we maintain our stock ratings, target prices and earnings estimates.

Rules of the game

The biggest fundamental difference between bareboat and time charter is that the vessel owner takes on operational risks in time charter. Thus, we will term him 'vessel operator'. Also, oil majors generally only enter into time charters. We note that bareboat charters exist in two forms, operating or finance lease. Generally, the terms of the latter are usually non-negotiable and non-terminable. For the operator, the onus lies on him for vessel performance. A vessel breaking down can be cause for termination. Hence, the risks for a bareboat owner, especially one that leans towards financial leases, are mainly counterparty and asset risks (the vessel is taken out of their control) and not contract cancellations or rate reductions. A vessel operator faces operational and market risks. That said, risks and liabilities from vessel operations are shared between the operator and the charterer. In triangulating valuation methodologies for bareboat owners, we should apply heavier weightage for NAV and 'returns'-based measures, such as CROCI-EV or ROE-BV. For operators, the name of the game is *really* utilisation. 'Performance'-based metrics, such as P/E and EV/EBITDA, capture some of the execution ability of operators.

Some interesting facets of SUPPLYTIME 2005

For efficiency, standardised forms of contracts are often used in offshore & marine projects. SUPPLYTIME 2005 is one of the most commonly used forms of time charter for OSVs. An interesting facet of the form is 'knock for knock', which is a reciprocal indemnity agreement used to allocate liabilities between the operator and charterer (and their respective contractors). Big Oil typically insists on an early termination clause, which gives them the convenience to terminate charters at any time. Meanwhile, the substitute vessel clause allows the operator to provide a substitute vessel in cases of non-performance. Hence, having a sizeable fleet has added benefits to economies of scale.

Neutral maintained

We keep a Neutral rating as trough valuations, especially for small/mid-oil service providers, are counterbalanced by a lack of catalysts. That said, we increasingly see scope for a tactical trade as the valuation gap between safe and 'unloved' sectors continues to widen.

Figure 2: Peers Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US$ m)	FD Core P/E (x) CY2015	CY2016	CY2017	2-year EPS CAGR (%)	P/BV (x) CY2015	CY2016	Recurring ROE (%) CY2015	CY2016	CY2017	EV/EBITDA (x) CY2015	CY2016	CY2017	Dividend Yield (%) CY2015	CY2016
Keppel Corporation	KEP SP	Add	8.32	9.97	11,206	10.1	10.1	11.1	-14.1%	1.34	1.25	13.9%	12.8%	10.8%	10.8	8.8	9.1	4.5%	4.5%
Keppel Corporation	SMM SP	Reduce	2.87	2.61	4,443	12.2	12.1	14.5	-8.4%	1.86	1.72	16.0%	14.8%	11.5%	7.1	7.1	7.8	3.9%	4.0%
Singapore offshore - big cap weighted average						**10.6**	**10.6**	**11.9**	**-12.8%**	**1.45**	**1.35**	**14.4%**	**13.2%**	**11.0%**	**9.8**	**8.4**	**8.8**	**4.3%**	**4.3%**
Cosco Corporation	COS SP	Reduce	0.49	0.47	813	22.7	8.8	na	73.0%	0.81	0.79	3.6%	9.1%	na	8.6	8.1	na	2.0%	2.3%
Yangzijiang Shipbuilding	YZJSGD SP	Hold	1.41	1.56	4,004	8.1	8.1	9.1	-6.4%	1.10	1.00	14.2%	13.0%	10.6%	6.8	6.3	6.0	3.7%	3.7%
Chinese Shipbuilder weighted average						**9.2**	**8.2**	**9.1**	**-0.3%**	**1.03**	**0.96**	**11.7%**	**12.1%**	**10.6%**	**7.3**	**6.9**	**na**	**3.4%**	**3.4%**
Sembcorp Industries	SCI SP	Hold	3.96	4.30	5,236	10.4	9.5	9.1	-5.4%	1.17	1.09	11.7%	12.0%	11.6%	5.7	4.6	4.2	3.6%	4.0%
ST Engineering	STE SP	Add	3.35	3.93	7,721	18.2	16.9	15.9	4.5%	4.65	4.41	26.5%	26.8%	26.9%	11.0	10.5	10.7	4.4%	4.7%
SIA Engineering	SIE SP	Reduce	3.88	3.80	3,229	23.2	21.8	20.7	-3.8%	3.20	3.12	13.9%	14.4%	14.9%	24.6	23.2	22.5	3.8%	4.1%
Industrial conglomerate weighted average						**15.1**	**13.9**	**13.3**	**-1.7%**	**2.25**	**2.12**	**15.4%**	**15.7%**	**15.5%**	**8.6**	**7.6**	**7.2**	**4.0%**	**4.4%**
Nam Cheong	NCL SP	Reduce	0.28	0.28	435	6.7	7.8	8.1	-20.1%	1.19	1.09	19.2%	14.6%	12.9%	6.3	6.2	5.7	5.1%	5.1%
Triyards Holdings Ltd	ETL SP	NR	0.41	na	98	3.2	2.9	na	7.7%	na	na	14.6%	14.0%	na	3.5	3.2	na	3.1%	na
Vard Holdings Ltd	VARD SP	Reduce	0.60	0.36	520	11.7	11.5	23.7	-8.7%	0.94	0.89	8.2%	8.0%	3.7%	18.9	12.5	17.3	3.3%	3.0%
Singapore-listed OSV builder weighted average						**8.7**	**9.4**	**12.7**	**-15.6%**	**1.04**	**0.97**	**12.5%**	**10.6%**	**7.5%**	**11.6**	**9.6**	**10.6**	**4.1%**	**3.9%**
Singapore-listed OSV builder (all simple average)						**7.2**	**7.4**	**15.9**	**-7.0%**	**1.06**	**0.99**	**14.0%**	**12.2%**	**8.3%**	**9.5**	**7.3**	**11.5**	**3.8%**	**4.0%**
Ezion Holdings	EZI SP	Add	1.05	1.55	1,223	6.5	5.1	4.8	12.7%	0.88	0.76	14.1%	16.2%	14.8%	7.1	5.7	4.6	0.1%	0.1%
Ezra Holdings	EZRA SP	Reduce	0.18	0.38	386	3.8	4.3	na	-4.9%	0.10	0.10	2.9%	2.4%	na	7.0	6.4	na	0.0%	0.0%
Mermaid Maritime	MMT SP	Hold	0.21	0.24	220	9.9	6.8	4.1	-11.0%	0.37	0.35	3.8%	5.3%	8.2%	3.0	7.9	4.1	5.9%	2.6%
Pacific Radiance	PACRA SP	Add	0.56	0.85	301	9.3	4.7	4.0	-4.7%	0.66	0.59	7.4%	13.2%	14.0%	11.8	9.2	8.5	1.8%	3.6%
Pacc Offshore Services Holding	POSH SP	NR	0.44	na	586	6.9	4.8	4.2	47.0%	0.44	0.43	6.6%	8.3%	10.1%	8.3	6.6	5.9	4.7%	6.2%
Swiber Holdings	SWIB SP	Reduce	0.17	0.50	116	48.5	na	na	na	0.15	0.16	0.4%	-3.7%	na	15.8	47.6	na	0.0%	0.0%
Swissco Holdings	SWCH SP	Add	0.42	0.61	207	5.2	6.6	5.3	-14.1%	0.72	0.70	16.9%	12.2%	14.5%	12.2	11.8	10.2	5.0%	5.0%
Singapore OSV owner (weighted avg - excl NR)						**6.8**	**5.7**	**4.6**	**5.3%**	**0.48**	**0.45**	**7.5%**	**8.5%**	**13.4%**	**8.3**	**8.2**	**na**	**1.4%**	**1.3%**
Singapore OSV owner (all simple average)						**12.9**	**5.4**	**4.5**	**4.2%**	**0.47**	**0.44**	**7.4%**	**7.7%**	**12.3%**	**9.3**	**13.6**	**6.7**	**2.5%**	**2.5%**
Alam Maritim Resources Bhd	AMRB MK	NR	0.53	na	129	9.5	8.0	7.8	-2.9%	0.58	0.54	6.1%	6.4%	6.2%	7.8	7.5	7.2	0.8%	0.8%
Coastal Contracts Bhd	COCO MK	NR	2.72	na	382	6.9	6.6	6.2	6.3%	0.89	0.81	14.0%	13.0%	13.2%	4.5	4.0	3.9	3.2%	3.3%
Malaysia Marine & Heavy Eng	MMHE MK	Add	1.22	1.50	518	12.8	12.2	12.1	3.7%	0.85	0.82	6.4%	6.9%	6.7%	8.0	7.3	6.7	5.7%	6.6%
Perdana Petroleum	PETR MK	Hold	1.53	1.61	304	21.2	10.0	9.3	6.9%	1.00	0.80	6.1%	8.9%	8.6%	11.1	7.5	7.0	2.0%	2.6%
Perisai Petroleum	PPT MK	Reduce	0.46	0.50	146	17.6	9.7	7.7	155.0%	0.63	0.55	3.1%	6.0%	6.7%	8.2	7.4	7.0	0.0%	0.0%
SapuraKencana Petroleum	SAKP MK	Add	2.41	3.14	3,833	12.4	11.5	10.6	-15.9%	1.77	1.61	10.2%	10.4%	10.7%	11.4	11.0	9.9	2.1%	2.3%
TH Heavy Engineering	RH MK	Reduce	0.23	0.20	68	na	14.2	9.0	na	0.54	0.47	-1.6%	3.5%	4.7%	27.9	5.1	2.7	0.0%	0.0%
UMW Oil & Gas	JMWOG MK	Add	1.73	2.78	993	14.4	9.3	9.3	20.4%	3.12	3.10	12.0%	33.3%	33.3%	9.6	7.0	7.0	1.2%	1.7%
Malaysia offshore (weighted avg - excl NR)						**13.4**	**11.0**	**10.2**	**-4.9%**	**1.56**	**1.42**	**9.0%**	**10.9%**	**11.1%**	**10.7**	**9.3**	**8.5**	**2.1%**	**2.5%**
Malaysia offshore (all simple average)						**13.5**	**10.2**	**9.0**	**24.8%**	**1.17**	**1.09**	**7.0%**	**11.0%**	**11.3%**	**11.1**	**7.1**	**6.4**	**1.9%**	**2.2%**
Logindo Samudramakmur Tbk PT	LEAD IJ	NR	270.0	na	52	7.6	5.0	4.4	-27.0%	0.38	0.35	7.4%	9.9%	10.9%	5.4	4.4	5.0	0.0%	0.0%
Wintermar Offshore Marine	WINS IJ	Hold	336.0	450.0	102	31.7	5.8	4.9	-11.3%	0.46	0.43	1.5%	7.7%	8.4%	5.8	3.4	3.9	0.0%	0.0%
Indonesia offshore (all simple average)						**19.6**	**5.4**	**4.6**	**-19.1%**	**0.42**	**0.39**	**4.4%**	**8.8%**	**9.7%**	**5.6**	**3.9**	**4.5**	**0.0%**	**0.0%**
Samsung Heavy Industries	010140 KS	Hold	17,200	19,000	3,557	15.4	10.1	na	61.2%	0.65	0.62	4.3%	6.3%	na	11.9	9.0	na	1.5%	1.5%
Hyundai Heavy Industries	009540 KS	Add	118,000	200,000	8,033	17.0	9.6	8.3	na	0.58	0.54	3.5%	5.8%	6.3%	12.8	10.8	8.8	0.0%	1.7%
Daewoo Shipbuilding & Marine	042660 KS	Add	14,000	25,000	2,400	9.7	5.9	4.3	96.9%	0.53	0.49	5.6%	8.6%	10.9%	11.0	10.6	7.4	2.1%	2.1%
Hyundai Mipo Dockyard	010620 KS	Add	68,100	140,000	1,220	14.1	9.1	6.8	na	0.72	0.67	5.2%	7.6%	9.3%	19.3	15.8	14.4	0.0%	1.5%
Korean Shipbuilder weighted average						**14.6**	**8.8**	**6.8**	**na**	**0.60**	**0.56**	**4.2%**	**6.6%**	**7.6%**	**12.7**	**10.8**	**na**	**0.7%**	**1.7%**
TK Corp	023160 KQ	Add	10,500	21,000	249	9.7	7.5	5.7	29.4%	0.57	0.53	6.0%	7.3%	8.9%	5.7	4.4	3.2	0.1%	0.1%
Sung Kwang Bend	014620 KQ	Add	12,400	24,000	318	6.8	6.4	na	9.9%	0.69	0.63	10.7%	10.2%	na	4.3	4.2	na	1.2%	1.2%
Korean offshore equipments weighted average						**7.8**	**6.8**	**5.7**	**16.4%**	**0.63**	**0.58**	**8.5%**	**8.8%**	**8.9%**	**4.8**	**4.3**	**na**	**0.8%**	**0.8%**
Average (All ex NR co)						**12.2**	**10.1**	**9.7**	**79.0%**	**1.05**	**0.98**	**8.7%**	**9.9%**	**10.3%**	**10.2**	**8.9**	**na**	**2.9%**	**3.3%**
Average (All simple)						**13.2**	**8.8**	**8.9**	**13.0%**	**1.05**	**0.98**	**8.9%**	**10.5%**	**11.5%**	**10.1**	**9.2**	**7.8**	**2.3%**	**2.4%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

Rules of the game

CHARTER PARTY CONTRACT 101

Types of charters

A charter party agreement is a conventional title given to a private contract between two parties. The typical charter party agreements (CPA) in the OSV sub-segment are:

1. **Bareboat charter** – the charterer takes over the complete possession, manning, operations and maintenance of the vessel. In most cases, the charterers are vessel-owning companies (in the Singapore context, these are EMAS Offshore, Pacific Radiance, POSH, etc.) or EPCIC (engineering, procurement, construction, installation & commissioning) companies, such as Ezra, Swiber, etc. Oil majors typically do not enter into bareboat charter contracts.

Functionally, bareboat charters exist in two forms, operating and finance leases. In accounting speak, a lease is considered a finance lease if it transfers substantially all the risks and rewards of the leased asset to the lessee. Otherwise, it is an operating lease.

Bareboat charters in the form of finance leases include sales-and-leaseback or credit sales, whereby the charter period stretches over a long time and may include a purchase option. The terms of such bareboat charters (i.e. charter rates and contract duration) are often non-negotiable and non-terminable. In this case, the risk to the vessel owner is counterparty risk.

Depending on commerciality, the terms of bareboat charters in the form of operating leases can be variable, negotiable and terminable, similar to a time charter.

From the bareboat owner's perspective, he is assured of regular fixed payments under a bareboat charter. The downside is that the owner does not retain control of the vessel and its maintenance schedule.

From the charterer's perspective, a bareboat charter enables him to deploy the asset without financing the initial cost of the vessel. The downside is that any idle time and costs are borne by him while premature termination of the charter could incur heavy compensation. Also, a substantial portion of the marine risks are borne by the charterer.

2. **Time charter** – the charterer hires the vessel for a specified period of time, with crew and maintenance under the owner's management. Unlike bareboat charters, the vessel owner carries the operational risks. For example, non-performance (i.e. vessel breaking down) can be cause for termination of the charter. To differentiate between bareboat and time charters, we will term the vessel owner in a time charter, 'vessel operator'.

Vessel operators also face market risk. As has been observed, operators are subjugated to rate reductions in a downcycle. This is because most time charters are entered into with the oil majors, which have significant bargaining power over the vessel operators.

From a vessel operator's perspective, he is assured of income and employment under a time charter. Furthermore, he retains control of the vessel and is able to maintain his asset well.

From the charterer's perspective, time charter rates are better than spot rates and he is assured of performance by the operator. Risks and liabilities are also shared between the operator and charterer.

*"It's all about the game and how you play it.
All about control and if you can take it.
All about your debt and if you can pay it.
It's all about pain and who's gonna make it.*

"The Game" performed by Motorhead

3. **Spot charter** – Otherwise known as task, tow or voyage charter. This type of charter is usually for a specified task. Certain classes of vessels, such as tugs and barges, are hired on spot charters as they are designed for one-time specific purposes (i.e. a rig move). The charter rate is based on the spot rate, which is dependent on the demand and supply conditions in the market. Contrarily, time charters carry a fixed rate, regardless of fluctuations in the market.

Spot charters usually command higher day rates vs. time charters as it offers the charterer flexibility of employment (as and when needed). However, in a tight market, the charterer bears the risk of a vessel being unavailable in the time of need.

The North Sea market can be considered a true spot market for OSVs, underpinned by a maritime cluster with the underlying network infrastructure and a transparent regulatory framework (i.e. established and transparent broking and financing arrangements are readily accessible to support the hive of activities there).

Figure 3: Features, risks and rewards of different types of CPA

CPA	Features	Risks	Rewards
Bareboat Charter	• Charterer has the right to engage and hire Master and the Crew • Charterer provides victualing and supplies • Charterer is the Principal Party to all contracts • Charterer undertakes Protection & Indemnity (P&I) insurance • Charterer will have the right/option to buy the vessel • Vessel Owner undertakes Hull & Machinery (H&M) insurance	➢ Charterer bears all marine risks ➢ Charterer bears Idle time and costs ➢ Charterer will incur heavy liabilities for premature termination of the CPA	❖ Charterer do not need to finance the initial cost of the vessel ❖ Charterer has full control on the trading zones and flag convenience ❖ Vessel Owner is assured of regular fixed payments
Time Charter	• Vessel, Master and Crew are at the disposal of the Charterer for specified time-frame • Fixed day rate despite fluctuations in the market • Risks and liabilities are shared between the Vessel Owner and the Charterer • Charterer pay for bunkers & consumables • Vessel Owner undertakes all insurances	➢ Charter is responsible for safe re-delivery on "As Good as Delivered" basis ➢ Vessel Owner bears all marine risks ➢ Vessel Owner guarantees performance and speed ➢ Repair & maintenance or Class approvals delay can become a cause for termination of the CPA	❖ Charterer gets better charter rate vs. spot price ❖ Charterer gets reliability of service with exchange-of-similar-vessel clause in the CPA ❖ Vessel Owner is assured of income and employment
Spot Charter	• Day/spot rate-based charter • Fluctuations in day rates are based on demand & supply conditions • Charterer pays only day rate while Vessel Owner incurs all other costs (ie. bunkers & consumables) • Reporting time for Vessel Owner is fixed • Time for the trip is subject to weather conditions	➢ Vessel must be sea-worthy at all times ➢ Charterer bears risk of vessel unavailability in time of need ➢ Vessel Owner ensures that the vessel is in a thoroughly efficient state at all times	❖ Charterer is able to enjoy flexibility of employment for the vessel ❖ Charterer has to bear higher day rates vs. time charter ❖ Charterer has limited commitments and lesser liabilities

SOURCES: CIMB, TIBERIAS MC & AUTHORS

Standardised forms of contracts*

For efficiency, standardised forms of contracts are often used in offshore & marine projects. Specifically for OSV chartering, the BIMCO forms are the most widely used. BIMCO (Baltic and International Maritime Council) is the world's largest international shipping association, with 2,300 members from around 130 countries. Starting from the offshore industry in the North Sea and the well-established Norwegian marine insurance industry, BIMCO has been instrumental in launching standard CPA forms to facilitate commercial operations for its members.

BIMCO provides a gamut of standardised forms for different types of CPAs, OSVs and scopes of work, including 1) CPAs for bareboat charters (BARECON 2001), 2) time charters for OSVs (SUPPLYTIME 2005), 3) ocean towage agreements on a daily hire basis or lump-sum payment (TOWHIRE 2008 or TOWCON 2008), 4) barge charters (BARGEHIRE 2008), 5) charters of more specialised vessels, such as subsea assets (PROJECTCON 2008), and 6) specialist transportation services for rigs, process modules and offshore structures (HEAVYCON 2007).

**In one of its efforts to establish itself as a premier international maritime centre, Singapore, led by the Singapore Maritime Foundation, launched the Singapore Ship Sale Form (SSF) in 2011 as an alternative form, catering to the Asian maritime community's needs. SSF 2011 is concerned with the sale and purchase agreements of vessels/offshore assets.*

CIMB

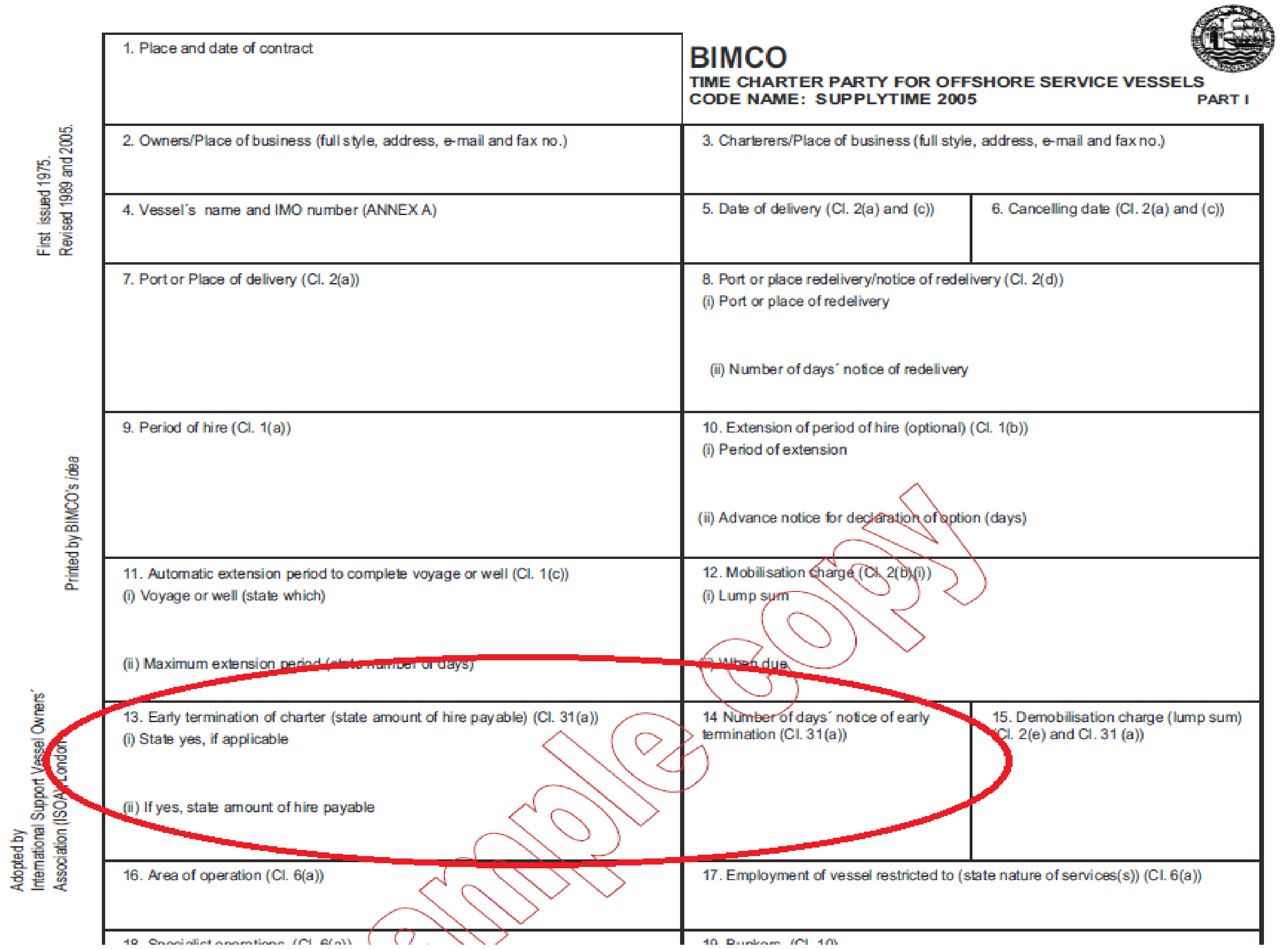
SUPPLYTIME 2005 – STANDARD FORM OF TIME CHARTER FOR OSV

Characteristics of SUPPLYTIME 2005

By scope and frequency of its practical application, SUPPLYTIME 2005 is one of the most commonly used CPAs in the offshore industry. SUPPLYTIME 2005 is the third and latest edition of BIMCO's standard form of time charter for OSVs. The first edition of SUPPLYTIME was developed by BIMCO in 1975 and the second edition in 1989.

The face of SUPPLYTIME 2005 begins with the "famous boxes". Essentially, these boxes are used to fill in contract clauses. The information placed in the boxes is used by the respective clause that references it. In other words, the boxes are used to make changes to the operative text of the CPA.

Figure 4: Face of SUPPLYTIME 2005 – the "famous boxes": As shown by boxes 13 and 14, charter party contracts are not sacrosanct. The charterer is able to terminate the CPA at his convenience



First issued 1975.
Revised 1989 and 2005.
Printed by BIMCO's idea
Adopted by
International Support Vessel Owners' Association (ISOA) London

1. Place and date of contract	BIMCO TIME CHARTER PARTY FOR OFFSHORE SERVICE VESSELS CODE NAME: SUPPLYTIME 2005 PART I
2. Owners/Place of business (full style, address, e-mail and fax no.)	3. Charterers/Place of business (full style, address, e-mail and fax no.)
4. Vessel's name and IMO number (ANNEX A)	5. Date of delivery (Cl. 2(a) and (c)) / 6. Cancelling date (Cl. 2(a) and (c))
7. Port or Place of delivery (Cl. 2(a))	8. Port or place redelivery/notice of redelivery (Cl. 2(d)) (i) Port or place of redelivery (ii) Number of days´ notice of redelivery
9. Period of hire (Cl. 1(a))	10. Extension of period of hire (optional) (Cl. 1(b)) (i) Period of extension (ii) Advance notice for declaration of option (days)
11. Automatic extension period to complete voyage or well (Cl. 1(c)) (i) Voyage or well (state which) (ii) Maximum extension period (state number of days)	12. Mobilisation charge (Cl. 2(b)(i)) (i) Lump sum (ii) When due
13. Early termination of charter (state amount of hire payable) (Cl. 31(a)) (i) State yes, if applicable (ii) If yes, state amount of hire payable	14 Number of days´ notice of early termination (Cl. 31(a)) / 15. Demobilisation charge (lump sum) (Cl. 2(e) and Cl. 31 (a))
16. Area of operation (Cl. 6(a))	17. Employment of vessel restricted to (state nature of services(s)) (Cl. 6(a))
18. Specialist operations (Cl. 6(a))	19. Bunkers (Cl. 10)

Sample copy

SOURCES: CIMB, BIMCO

In addition, SUPPLYTIME 2005 contains 38 clauses that can be grouped into five categories, namely 1) operative data (identifies the parties, purpose, limitations and hire period), 2) explanatory clauses (defines operative terms and interprets obligations of the parties), 3) responsibilities (defines obligations of each party and details of payments), 4) compliance (states class requirements, flag state and legislative compliances), and 5) maritime laws/conventions (lists insurances, liabilities and indemnities under specific events, such as collision, pollution, etc.)

Figure 5: SUPPLYTIME 2005 contains 38 clauses that can be grouped into five categories, namely operative data, explanatory clauses, responsibilities, compliance and maritime laws/conventions

PART II
SUPPLYTIME 2005 Time Charter Party for Offshore Service Vessels

Definitions
"**Owners**" shall mean the party stated in Box 2
"**Charterers**" shall mean the party stated in Box 3
"**Vessel**" shall mean the vessel named in Box 4 and with particulars stated in ANNEX "A"
"**Well**" shall mean the time required to drill, test, complete and/or abandon a single borehole including any side-track thereof.
"**Offshore Unit**" shall mean any vessel, offshore installation, structure and/or mobile unit used in offshore exploration, construction, pipe-laying or repair, exploitation or production.
"**Employees**" shall mean employees, directors, officers, servants, agents or invitees.

1. Charter Period
(a) The Owners let and the Charterers hire the Vessel for the period as stated in Box 9 from the time the Vessel is delivered to the Charterers.
(b) Subject to Clause 12(b), the Charterers have the option to extend the Charter Period in direct continuation for the period stated in Box 10(i), but such an option must be declared in accordance with Box 10(ii).
(c) The Charter Period shall automatically be extended for the time required to complete the voyage or well (whichever is stated in Box 11(i)) in progress, such time not to exceed the period stated in Box 11(ii).

2. Delivery and Redelivery
(a) Delivery. - Subject to Clause 2(b) the Vessel shall be delivered by the Owners free of cargo and with clean tanks at any time between the date stated in Box 5 and the date stated in Box 6 at the port or place stated in Box 7 where the Vessel can safely lie always afloat.
(b) Mobilisation. –
(i) The Charterers shall pay a lump sum mobilisation charge as stated in Box 12 without discount.
(ii) Should the Owners agree to the Vessel loading and transporting cargo and/or undertaking any other service for the Charterers en route to the port of delivery or from the port of redelivery, then all terms and conditions of this Charter Party shall

the expiration or earlier termination of this Charter Party free of cargo and with clean tanks at the port or place as stated in Box 8(i) or such other port or place as may be mutually agreed. The Charterers shall give not less than the number of days notice in writing of their intention to redeliver the Vessel, as stated in Box 8(ii).
(e) Demobilisation. - The Charterers shall pay a lump sum demobilisation charge without discount in the amount as stated in Box 15 which amount shall be paid on the expiration or on earlier termination of this Charter Party.

3. Condition of Vessel
(a) The Owners undertake that at the date of delivery under this Charter Party the Vessel shall be of the description and Class as specified in ANNEX "A", attached hereto, and in a thoroughly efficient state of hull and machinery.
(b) The Owners shall exercise due diligence to maintain the Vessel in such Class and in every way fit for the service stated in Clause 6 throughout the period of this Charter Party.

4. Structural Alterations and Additional Equipment
The Charterers shall, at their expense, have the option of making structural alterations to the Vessel or installing additional equipment with the written consent of the Owners, which shall not be unreasonably withheld. Unless otherwise agreed, the Vessel is to be redelivered reinstated, at the Charterers' expense, to her original condition. The Vessel is to remain on hire during any period of these alterations or reinstatement. The Charterers shall at all times be responsible for repair and maintenance of any such alteration or additional equipment. However, the Owners may, upon giving notice, undertake any such repair and maintenance at the Charterers' expense, when necessary for the safe and efficient performance of the Vessel.

5. Survey
The Owners and the Charterers shall jointly appoint an independent surveyor for the purpose of determining and agreeing in writing, the condition of the Vessel, any

SOURCES: CIMB, BIMCO

At the end of the form are Annex A, which offers a detailed assessment of the vessel's specifications and capabilities, and Annex B, which states the various insurances to be obtained by the charterer and operot. Sometimes, the contract parties also insert special rider clauses to the CPA. These are additional clauses or clauses designed to change the wording of the standard forms.

Figure 6: Annex A – vessel specification

ANNEX "A" to Time Charter Party for Offshore Service Vessels
Code Name: SUPPLYTIME 2005

VESSEL SPECIFICATION

1. **General**
   (a) Owner: Name:
   Address:
   (b) Operator: Name:
   Address:
   (c) Vessel's Name: Builder:
   (d) Year built:
   (e) Type:
   (f) Classification and Society:
   (g) Flag:
   (h) Date of next scheduled drydocking:
2. **Performance**
   (a) Certified Bollard Pull (Tonnes):
   (b) Speed/Consumption (Non-Towing)
   (Approx. Daily Fuel Consumption) (Fair Weather)
   Max Speed: Kts (app.) Tonnes
   Service Speed: Kts (app.) Tonnes
   Standby (main engines secured): Tonnes
   (c) Approx. Towing/Working Fuel Consumption

(e) Stabilisers:
(f) Bow Thruster(s):
(g) Stern Thruster(s):
(h) Propellers/Rudders:
(i) Number and Pressure Rating of Bulk Compressors:
(j) Fuel Oil Metering System:

5. **Towing and Anchor Handling Equipment**
   (a) (i) Stern Roller (Dimensions):
   (ii) Anchor Handling/Towing Winch: /
   (iii) Rig Chail Locker Capacity (linear feet of 3 in. Chain):
   (iv) Tugger Winches:
   (v) Chain Stopper Make and Type:
   (b) (i) Towing Wire:
   (ii) Spare Towing Wire:
   (iii) Work Wire:
   (iv) Spare Work Wire:
   (v) Other Anchor Handling Equipment
   (e.g. Pelican Hooks, Shackles, Stretchers etc.):

SOURCES: CIMB, BIMCO

Figure 7: Annex B – insurance policies

ANNEX "B" to Time Charter Party for Offshore Service Vessels
Code Name: SUPPLYTIME 2005

INSURANCE

Insurance policies (as applicable) to be procured and maintained by the Owners under Clause 17:

(1) Marine Hull Insurance. – Hull and Machinery Insurance shall be provided with limits equal to those normally carried by the Owners for the Vessel.

(2) Protection and Indemnity (Marine Liability Insurance. –
Protection and Indemnity (P&I) or Marine Liability Insurance with coverage equivalent to the cover provided by members of the International Group Protection and Indemnity Associations with a limit of cover no less than USD
for any one event. The cover shall include liability for collision and damage to fixed and floating objects to the extent not covered by the insurance in (1) above.

(3) General Third Party Liability Insurance. – To the extent not covered by the insurance in (2) ABOVE, Coverage shall be for:
Bodily Injury per person
Property Damage per occurrence.

(4) Workmen's Compensation and Employer's liability Insurance for Employees. –
To the extent not covered in the insurance in (2) above, covering Owners' employees and other persons for whom Owners are liable as employer pursuant to applicable law for statutory benefits as set out and required by local law in area of operation or area in which the Owners may become legally obliged to pay benefits.

(5) (Comprehensive General Automobile Liability Insurance. –
Covering all owned, hired and non-owned vehicles, coverage shall be for:
Bodily Injury According to the local law.
Property Damage In an amount equivalent to single limit per occurrence.

(6) Such other insurances as may be agreed.

SOURCES: CIMB, BIMCO

Responsibilities and liabilities under SUPPLYTIME 2005

We detail some of the key responsibilities and liabilities undertaken by the vessel operator and charterer under SUPPLYTIME 2005. At the heart, these clauses enforce the performance of the contract.

The **charter period** specifies the period for which the vessel will be under hire and includes an extension option. In today's environment, the typical term charter is around one year, with an extension period of one month. The neither long nor short period reflects the uncertainties that both the vessel operators and oil customers face in the sector's paradigm shift. The two are locked in tight tension as operators are unwilling to lock themselves in at depressed rates for a lengthy period but are also keenly aware of the need to stymie losses during the downcycle. Faced with budget cuts, the oil majors are also adopting a wait-and-see attitude, with hopeful anticipation that rates could dive even lower as newbuildings flood the market. The push-and-pull forces have resulted in a market norm of a one-year charter period.

Vessel delivery. The vessel delivery clause is a condition preceding the formation of the contract, detailing for the vessel to be delivered at a specified location and date (i.e. the vessel has to be delivered between the delivery date and the cancelling date). Depending on the location, the typical period between the delivery and cancelling dates is 7-14 days. Additionally, the vessel has to comply with the description in the CPA. If the vessel does not arrive in time and the charterer does not agree to any extension, then the CPA can be terminated.

Operators' responsibilities. The operator is responsible for the wages of the master, officers and crew as well as maintenance of the vessel during the charter period. The operator also undertakes all insurances.

Charterers' obligations. During the charter period, the charterer pays for all other operating costs, including bunker fuel, consumables (i.e. lubricants, water, dispersants), port expenses, pilotage and stevedoring costs.

Hire and payments form the consideration of the CPA. It states the daily charter rate of the vessel, the hire rate computation method and extension hire. It also details the invoicing procedures and bank account details. To ensure timely payments for the operator, interests rates and late payment provisions are also applied.

Generally, invoices are issued monthly and paid within 30-60 days from the date of the invoice. When the operator does not receive payments by the due date, he notifies the charterer and may also suspend the performance of the contract. If payment has not been received after five days following the notification, the operator may withdraw the vessel and terminate the CPA.

Suspension of hire protects the charterer from the non-performance of the contract. The charterer does not pay hire for time lost if the vessel is not in working condition due to a deficiency of crew or breakdown of machinery. That said, the charterer grants the operator a maximum of 24 hours on hire per month for maintenance and repairs. Hire can be suspended when the time used for maintenance exceeds the stated allowance.

Meanwhile, the operator's liability for any loss borne by the charterer as a result of the vessel being prevented from working is limited to the suspension of hire.

Substitute vessel. To offer operators some flexibility, the substitute vessel clause allows the operator to provide a substitute vessel, as agreed previously by the charterer. The clause helps to prevent the disruption of performance.

Key clauses that could make or break your investment

Additionally, SUPPLYTIME 2005 includes critical clauses for limiting liabilities, such as indemnities, liquidated damages, limitation of liability as well as exit clauses, including determination of breaches of contracts, termination clauses, etc.

'Knock for knock' indemnity. The 'knock for knock' agreement, also called the reciprocal indemnity agreement, is used to provide a clear allocation of liabilities between the vessel operator and charterer (and their respective contractors), regardless of who is at fault. Under the agreement, the operator and charterer agree to take full responsibility for bodily injury or property damage claims made by its own employees, regardless of which party may actually be responsible for the injury (with the exception of *gross* negligence). Essentially, 'knock for knock' deals with liabilities and indemnities arising for various parties within the operator group and the charterer group. It is a shorthand way to assign insurance risk.

To illustrate, if a vessel is on hire with an oil major and comes into collision with the customer's platform, 'knock for knock' protects the vessel operator from claims for damages, even if it is shown that the damage is caused by the operator's negligence. The operator will accordingly be responsible for damages for his vessel while the oil major will be responsible for damages to its own field equipment. Hence, 'knock for knock' is useful in avoiding cases of disputes, helps to make operations more efficient and manages insurance risks.

The right to limit liability. The operators and charterers have the right to limit their liabilities for property damage and personal injury, typically based on a formula on the gross tonnage of the vessel. The spirit behind this principle is simply the risk/reward ratio for vessel operators. The support vessel may be earnings tens of thousands of dollars per day vs. the hundreds of thousands per day for the rig operators and the millions per day for an oil company. Consequently, the oil companies and rig operators can absorb large losses vs. the OSV operator.

The pollution indemnity clause is set to allot the liabilities for any loss or damage arising from pollution caused in the process of a works contract. In principle, causation comes first and then the party responsible for the root cause and contributory causes, if any. Subsequent to the Deepwater Horizon blowout, vessel operators and oil majors place more emphasis than ever before on pollution indemnity clauses.

Penalty clauses are designed to dissuade parties from breaching contract terms through poor performance. Such clauses are known as liquidated damages clauses and are based on a genuine approximation of actual damages and are largely enforceable in the courts. The parties designate a fixed sum during the formation of the CPA for the injured party to collect as compensation upon a specific breach. However, neither party is liable to the other for any defined consequential damages. An example of consequential damages is the loss of foreseeable profits.

The early termination clause offers charterers the convenience or option to terminate the CPA at any time. Usually, the charterers have to give a 1- to 3-month termination notice and may compensate the operator for early termination. This clause is generally insisted upon by international oil companies (Big Oil) or national oil companies.

Termination clauses are usually written on a mutual basis, enabling either contract party to bring the contract to an end. A simple termination clause will commonly consist of two basic elements, namely, breach of contract or insolvency/receivership.

Clauses in SUPPLYTIME 2005 that invoke automatic termination include class approval delays, bankruptcy, non-payment of hire as well as breakdown and loss of vessel within a specific period. For the latter two, the operator is able to remedy the non-performance by providing a substitute vessel.

Force majeure. Translated from French as 'superior force', this is a clause that frees both parties from obligations when an unexpected event/circumstance beyond their control prevents them from fulfilling their obligations. Essentially, force majeure is a catch-all risk clause.

Common grounds for force majeure are the outbreak of war, government requisition or intervention, perpetration of a crime, rioting and striking as well as acts of God, such as natural disasters, including hurricanes, tornadoes, tsunami, flooding and earthquakes.

VALUATION AND RECOMMENDATION

Understanding the rules of the game (*vessel owner perspective*)

An appreciation of the rules of the game allows us to better price the risks and rewards of asset owners. The biggest fundamental difference between bareboat and time charter contracts is that vessel owners take on operational risks in time charter contracts. There is also a difference in the identities of charterers as oil majors generally only enter into time charters and not bareboat contracts.

In addition, we have to differentiate between types of bareboat charters, distinguishing between an operating or finance lease. If the bareboat charter is a finance lease (i.e. sale and leaseback), then the risk for a bareboat owner is mostly counterparty risk. The terms of such a bareboat charter are usually non-negotiable and non-terminable. If the bareboat charter is an operating lease, then the bareboat owner is subject to market risks. For example, in a market downcycle, the bareboat owner faces downward pressures in rates while contracts could also be terminated. In both forms, the owner faces asset risks as the vessel is not in his control.

For the owner in a time charter, the onus lies on him for vessel performance. A vessel breaking down can be cause for termination. He is also subject to market risks as the early termination clause allows the charterer to end the CPA at its convenience.

Through the looking glass

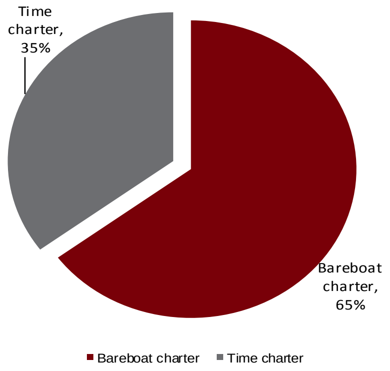
For bareboat owners who lean towards financial leases, you should consider their counterparties to evaluate the likelihood of default. Also, accessibility to cheap funding and balance sheet strength are competitive advantages for bareboat charterers. That said, the latter is generally true for asset owners.

For vessel operators, you should examine their control and work processes, crew and equipment to gauge their operational strengths. Moreover, having a sizeable fleet is a competitive advantage as it allows the operator to not only enjoy economies of scale but also invoke the substitute vessel clause to keep the CPA alive. Having the right fleet mix for the right region is also imperative.

Keeping this in mind, we profile the fleet mix of the asset owners in our coverage, Ezion, PACRA and Swissco. We find that 35% of Ezion's fleet of 37 service rigs are on time charter contracts. These are liftboats that are deployed in Southeast Asia.

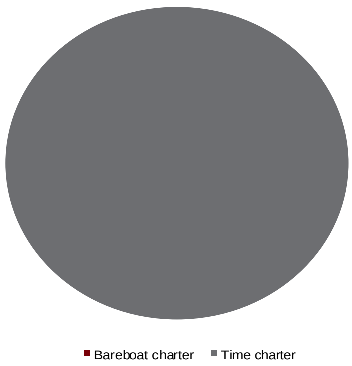
Swissco, which aspires to be an operating company, currently bareboat-charters its entire fleet of nine jack-up rigs. On the other hand, PACRA time-charters its entire fleet of 61 wholly-owned OSVs.

Figure 8: Ezion operates 35% of its fleet of 37 service rigs. The operated units are liftboats working in ASEAN



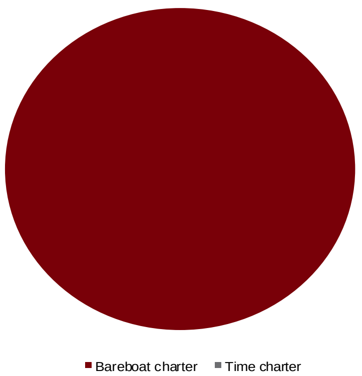
SOURCES: CIMB, COMPANY REPORTS

Figure 9: PACRA time-charters its entire fleet of 61 OSVs



SOURCES: CIMB, COMPANY REPORTS

Figure 10: Swissco bareboat-charters its fleet of nine jack-up rigs

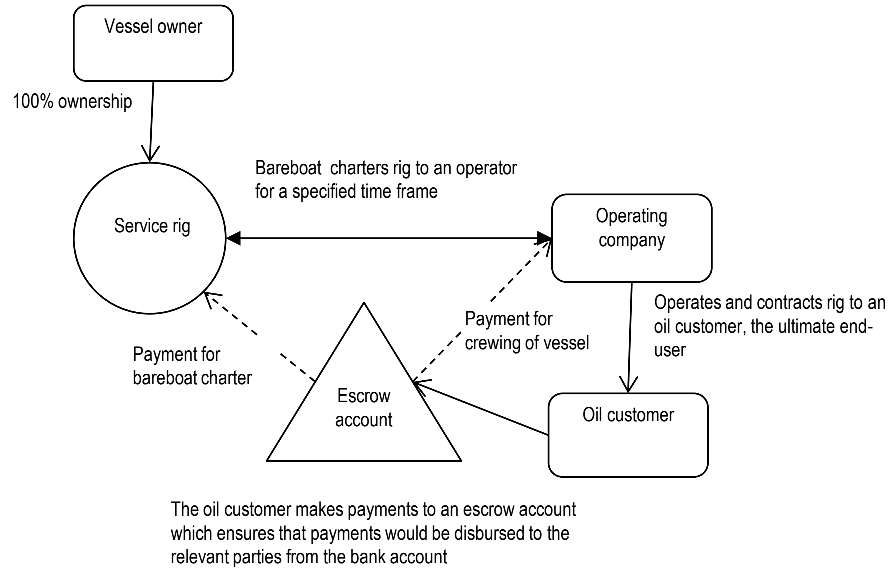


SOURCES: CIMB, COMPANY REPORTS

The fact that about two-thirds of Ezion's fleet of 37 service rigs and Swissco's entire fleet of nine jack-up rigs are chartered out on a bareboat basis suggests that we should consider their counterparties, especially if some of these charters are finance leases in nature.

For Ezion and Swissco, the counterparty risk is sometimes mitigated through the use of an escrow account, where payments are disbursed to relevant parties from the bank account, per standing instructions. Therefore, the owner and the operator are ensured of their payments. Still, we note that there are some receivable/default risks if there is a mismatch between the time-charter periods as defined by the operator and oil customer and the bareboat period as defined by the vessel owner and operator. For example, if the vessel is no longer on hire with the oil customer, the oil customer does not need to make payments, but the operating company is still obliged to make payments to the owner if the vessel remains on bareboat hire.

Figure 11: Illustration of the three-way operatorship model: counterparty risk can be somewhat mitigated through the use of an escrow account



SOURCE: CIMB

Triangulating valuation methodologies for bareboat and time business models

In our view, most investors favour a bareboat business model over a time charter due to the surety of fixed and regular payments of a bareboat contract. Moreover, the bareboat business model is deemed to be much 'cleaner' and easier to understand. On the surface, profitability measures rank a bareboat owner higher than a vessel operator. In fact, the EBITDA margins under a bareboat business model are 100%. When the vessels are contracted, a bareboat owner also scores 100% utilisation vs. an operator.

However, we now know that using such operational metrics to judge a bareboat owner, especially if the charters are finance leases in nature, is simply missing the point. Instead, we deem that 'returns' measures, such as return on invested capital and return on equity, are a better way to evaluate bareboat owners.

In triangulating valuation methodologies for bareboat owners, we apply heavier weightage for NAV calculations through discounted cash flow models and 'returns'-based valuations, such as CROCI-enterprise value or ROE-BV. NAV calculations are also a useful reference point as O&M stocks tend to significantly overshoot NAV in a bull market and undershoot in a bear market. Significant premiums or discounts serve as indicators for exit and entry levels, respectively.

For operators, the name of the game is really utilisation. Due to the additional layer of crew and maintenance costs, the operating leverage for a time charter business model is higher than a bareboat's. Utilisation is the double-edged sword that either amplifies profits or incurs hefty losses, depending on the operator's ability to maintain the sea-worthiness of the vessel during the contract and keep the vessel gainfully employed when the existing contract rolls over.

We regard that 'performance'-based metrics, such as P/E and EV/EBITDA, do capture some of the execution ability of operators.

Finally, we believe that bareboat owners naturally evolve into operators, especially if they desire to entrench themselves in the industry. One of the motivations is that bareboat owners do not directly work with the oil customers and therefore may not be able to sufficiently understand specific field requirements and future demand trends. Working directly with the oil majors also bring about a closer relationship. Another important factor is the desire to maintain the asset properly as an owner loses control of his vessel in a bareboat charter.

Neutral maintained

We keep a Neutral rating on the sector as trough valuations, especially for small/mid-oil service providers, are counterbalanced by a lack of catalysts. That said, we increasingly see scope for a tactical trade as the valuation gap between safe and 'unloved' sectors continues to widen.

PACRA remains our small/mid-cap top pick, supported by its newbuild programme (i.e. implies earnings growth and increase in market share) as well as attractive valuations (the stock is trading below its liquidation value).

We also reinstate **Ezion** as our small/mid-cap top pick since the overhang from the AMS (Atlantic Marine Services) legal wrangle has now passed. Accordingly, AMS has withdrawn its suit against Ezion. There has also been a change in the management of AMS. Following this, AMS intends to cooperate and work closely with Ezion to support the operations of the three service rigs in the North Sea.

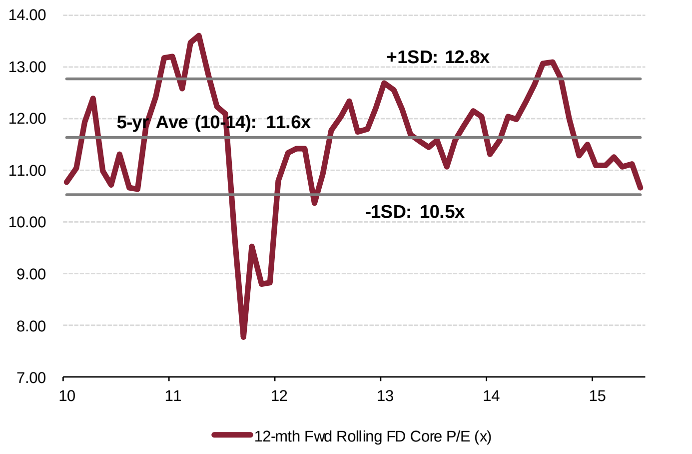
Where do we differ from consensus? As Ezion has also grown its fleet considerably over the years, we view that investors should start looking at Ezion from a portfolio perspective vs. bean-counting the individual vessels. In a portfolio, there will inevitably be some units that outperform and some that run into trouble.

We have modelled in a fleet utilisation of 80% to incorporate this portfolio effect. This implies that for FY15, we project that Ezion's fleet will not contribute for 20% of the total available vessel days. As observed, the downtime could stem from various factors, such as technical issues with the service rigs or the rigs encountering accidents. The units could also experience downtime in between contracts. Meanwhile, we estimate that two units are required to undergo mandatory dry-docking in 2015 due to the 5-year periodic surveys. We also think that the 80% utilisation assumption factors in any unexpected contract cancellation/defaults.

As a result, our FY15-17 EPS estimates are 15% lower than consensus. We view that the consensus is too optimistic/unrealistic in incorporating 100% uptime for Ezion's fleet. Despite the conservatism, we still project a 2-year EPS CAGR of 19% through 2015-17, thanks to oncoming units that secured contracts prior to the oil price ballyhoo.

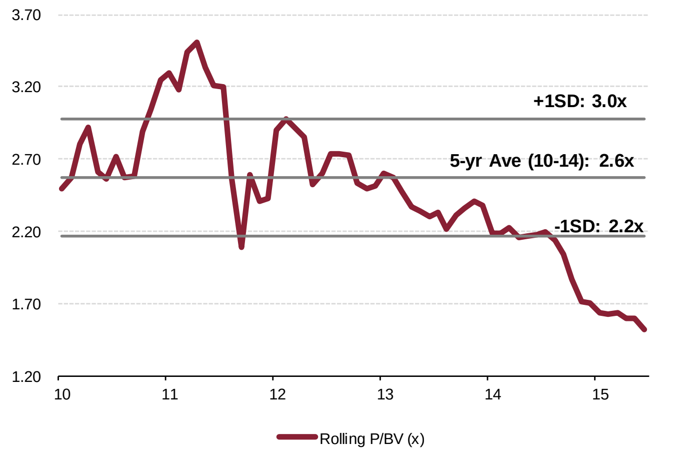
Lastly, we least prefer **Ezra**, which faces multiple headwinds from offshore support and subsea, and **Vard**, which is suffering an order drought.

Figure 12: Rigbuilders' 12-month rolling forward core P/E



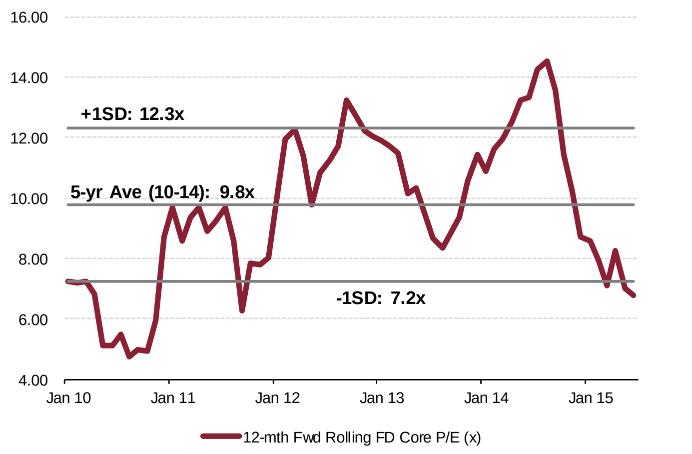
SOURCES: CIMB, BLOOMBERG

Figure 13: Rigbuilders' rolling P/BV



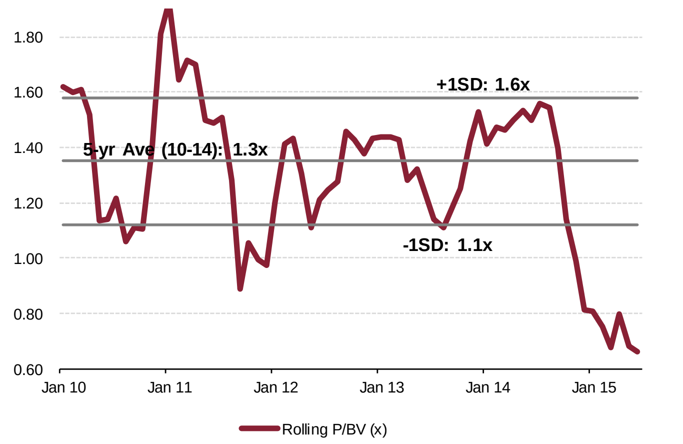
SOURCES: CIMB, BLOOMBERG

Figure 14: Small/mid-cap oil services' 12-month rolling forward core P/E



SOURCES: CIMB, BLOOMBERG

Figure 15: Small/mid-cap oil services' rolling P/BV



SOURCES: CIMB, BLOOMBERG

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#03

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	Rating Distribution (%)	Investment Banking clients (%)
Add	55.4%	6.6%
Hold	31.3%	3.8%
Reduce	13.2%	1.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.
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Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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