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Corporate News Flash

Coastal Contracts

MOU With Ramunia Terminated

OIL & GAS

BUY ↔
Fair Value
Previous
Price

RM4.85
RM4.85
RM3.64

THE BUZZ

Yesterday, Ramunia announced to Bursa Malaysia that Coastal's 100%-subsidiary, Pleasant Engineering SB and Ramunia had both agreed not to proceed with the MOU signed on 28 Jan 2010 for the proposed collaboration to undertake tendering, bidding and fabrication in relation to structures for the O&G industry.

OUR TAKE

Newsflow is within expectation. To recap, back in Jan 2011, Oilfab SB, 51%-owned indirect subsidiary of Oilcorp had accepted Ramunia's offer to acquire the Pulau Indah integrated fabrication yard and both its moveable and immovable assets located there for RM83.8m. Hence, since Ramunia now owns a fabrication yard again and there is still minimal new fabrication jobs being awarded to other fabrication companies besides Kencana and MMHE, it would make sense for Ramunia to terminate the MOU.

Minimal impact to Coastal too. Although on the surface, it may look like a set back to the company, but having signed this MOU earlier in Jan 2010, Coastal did put in minimal investment to transform its Sandakan yard into a repair and maintenance as well as fabrication yard that would enable the company to explore this business opportunity as and when it arose. In fact, with the MOU out of the way, we think Coastal would be a more attractive candidate to partner since its asset (yard in Sandakan) is no longer committed to any party. Furthermore, we understand that management had been talking to a few parties earlier, both locals and foreigners and this recent development may fasten its potential partnership or M&A progress. Finally, as for its shipbuilding business, it can be done through third parties in China which are good enough to fulfill its existing orders and hence continue to provide a stable income to the company in the event if its Sandakan yard were to be used purely for O&G fabrication or repair and maintenance jobs.

Maintain Buy. Our fair value for Coastal remains unchanged at RM4.85 based on the existing PER of 8x FY11 earnings. We continue to like Coastal for its strong delivery track record and we think its performance would be sustainable as it still has a strong orderbook of RM760m which can keep the company busy over the next 12 months while it proceeds to enhance its shareholders' value by finding a business partner for the O&G opportunities mentioned earlier.

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