



GBCM Research: Renaissance Services- Q1 2019 Results- Initial View

(Closing Price: RO 0.374; Rating: Accumulate, Fair Value: RO 0.405)

Strong set of results, Well above our estimates...

Q1 2019 revenue of the group company stood at RO 70.301 million as compared to RO 51.601 million in the same period of last fiscal year, reporting a strong increase of 36.2% YoY and 1.2% QoQ. **This is the highest quarterly revenue in absolute terms since Q4 2012.** Despite estimated weak first quarter due to Winter impact, the company has reported strong set of topline, this could be on the back of stable contribution from Tengiz (without any impact of winter) and increase in contribution from Duqm Village. The revenue growth is well above our estimates of RO 53 million.

Total operating costs for the quarter increased by 14.7% YoY to RO 39.683 million. The depreciation charges increased by 27% YoY to RO 10.774 million mainly due to capitalization of Tengiz vessels and other new vessels added during 2018. **Total operating profit for Q1 2019 stood at RO 19.844 million, an increase of 132.5% YoY, this is well above our estimates.** The strong growth in EBITA during the quarter to support positively to the debt covenants of the company.

On the other hand, total financing expenses increased by 26% YoY to RO 8.917 million amid increase in interest costs and higher borrowing levels, this continued to remain as a concern area. We believe the upcoming outcomes of Topaz Capital enhancement program would in a way sort out this issue of higher financing expenses, we expect progress on this during the coming quarters.

Net profit of the group company stood at RO 7.811 million as compared to RO 874K in the same period last year. **Net profit (after minority) to the Parent for Q1 2019 stood at RO 6.138 million as compared to RO 206K in the same period last year, this is well above our estimates. This is the higher quarterly net profit since Q4 2014**

As per our estimates, the contribution from high-margin Tengiz Project has led to increase in operating profit and thereby net profit during the quarter. We believe this positive trend to be seen during 2019 and remain supportive to net profit. As per our view, despite higher profit from Tengiz, the cash flow contribution from this project is lower due to the nature of this contract which is pre-funded by the client towards vessel capex.

Outlook- Improved Earnings visibility in 2019, Remain Positive

During our latest interactions with the Management, the Group company along with Topaz remained positive for 2019 amid incremental growth coming from new projects (Tengiz, Duqm PAC etc.) We do also estimate the company to improve higher revenue and profitability during the current fiscal year. We anticipate the operating margins to improve with the contribution coming from these projects.



Key focus area for the investors would be the conclusion of Topaz Capital Enhancement program, this would be the key trigger for the shareholders of Renaissance. The company is looking at several options which include capital raising, equity offering and M&A initiatives, the decision is expected during H2 2019, depending on the market conditions.

We believe the company would benefit from the higher oil prices / OSV utilization levels, full deployment of vessels in Tengiz project and higher level of occupancy in Duqm PAC. Overall, we estimate the performance to improve during 2019E and 2020E on increase in OSV utilization and higher contribution from Tengiz and Duqm Project.

The profitability of the group company to increase strongly in 2019E and 2020E on the back of TCO and Duqm Projects. On the other hand, TCO project would have lower cash generation, since the project capex has been pre-funded by the client.

Valuations reasonable, further upside seen...

We have revised our earnings estimates for 2019E and 2020E. At the current levels, the stock trades at PE (2019E) of 9X and PE (2020E) of 8X (post strong Q1 results, we would need to revise our estimates). On PBV basis, the stock trades at PBV (2019E) of 2X and PBV (2020E) of 1.6X. Our fair value of the stock is at RO 0.405, we have Accumulate rating on the stock. This is one of the stocks in our Top 10 recommendations for 2019. We believe Tengiz and Duqm to drive the earnings in 2019E.

Overall debt ratios of Topaz and Renaissance Group remain at elevated levels, the completion of Topaz capital raising program would be key for the Group deleveraging, this would remain as a key test for the management guidance. Caveat to remain on delay in Topaz Capital Enhancement program which would also led to delay in deleveraging initiatives. In addition, the increased contribution from Duqm village would also strengthen Group balance sheet. Delay in Duqm contribution to impact the contract services segment performance.



Stock Rating Methodology:

- Buy** - Upside more than 20%
- Accumulate** - Upside between 10% and 20%
- Neutral** - Upside or downside less than 10%
- Reduce** - Downside between 10% and 20%
- Sell** - Downside more than 20%
- Not Rated** - Stocks not in regular research coverage

LT- Long Term

ST- Short Term

Contact Details,

Equity Research

Kanaga Sundar
Kumail Al Humaid

Contact

(+968) 22350727
(+968) 22350728

Email

sundar@gbcmoman.net
kumail@gbcmoman.net

Institutional Broking

Talal Al Balushi
Abdullah Al Shamosi
Ahmed Al Maawali

(+968) 22350725
(+968) 22350718
(+968) 22350719

talal@gbcmoman.net
abdullah@gbcmoman.net
almaawali@gbcmoman.net

Institutional Sales

Hunaina Banatwala

(+968) 22350717

hunaina@gbcmoman.net

Report Disclaimer: This document has been prepared and issued by Gulf Baader Capital Markets SAOC ("the Company") on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all care has been taken to ensure that the facts stated are accurate and the opinions given are reasonable, neither Gulf Baader Capital Markets SAOC nor any employee shall be in anyway responsible for the contents of this report. The Company may have a position and may perform buying/selling for itself or its clients in any security mentioned in this report. This is not an offer to buy or sell the investments referred therein.