Keyfield International

Timed to Perfection

By Lim Sin Kiat, CFA/ limsk@kenanga.com.my

OUTPERFORM

IPO Price:	**RM0.90**
Target Price:	**RM1.90**

KEYFIELD is poised to cash in on the offshore support vessel (OSV) boom in Malaysia, having embarked on expansion during the downcycle of the OSV market in 2014 that enabled it to assemble a young fleet with top-of-the-range specifications at reasonable capital outlays. We initiate coverage on KEYFIELD with an OUTPERFORM rating and a TP of RM1.90.

Expanded at the right time, right place. KEYFIELD strategically expanded in 2014 amidst a prolonged downturn in the local OSV market, leveraging third-party charter contracts to refine the skills necessary for the OSV industry. This period of fleet expansion has enabled the group to enter the OSV vessel ownership market at a lower cost. By focusing on the Accommodation Work Barge (AWB) subsegment within the OSV space, KEYFIELD has positioned itself well to capitalize on the up-cycle for the AWB market.

AWB market is booming. We anticipate that the demand for AWBs in 2024 will surpass the last peak observed in 2019. This is due to an increase in topside maintenance and Hook-Up & Commissioning (HUC) activities in Malaysia, as clients accelerate their upstream maintenance efforts. On the supply side, a persistent deficit is evident, with the count of Malaysian-owned AWBs remaining at 42, and no announcements of new build vessels to date. Therefore, the escalating demand is expected to continue driving up AWB daily charter rates (DCR).

IPO proceeds will free up its balance sheet. Following its IPO, KEYFIELD is expected to transition from a 0.7x net gearing to a slight net cash position in FY24. This change comes as the IPO proceeds will primarily be used to settle cumulative redeemable non-convertible preference shares (CRNCPS) owed to Lavin Group, a major shareholder, with the remaining funds allocated towards acquiring two vessels, Blooming Wisdom and Helms 1. Such financial restructuring is projected to lower the company's finance costs by 64% in FY24, thereby enhancing its bottom line. Additionally, the improvement in financial health provides KEYFIELD with the flexibility to consider acquiring one or two more vessels in the near to medium term.

Possesses an advantage in its fleet. Thanks to its strategic fleet expansion, KEYFIELD's OSV fleet's age profile averaged eight years old, newer than the industry's ten-year average. Newer vessels not only offer improved fuel efficiency but also incur lower maintenance costs. Furthermore, most of KEYFIELD's AWBs are equipped with DP2 systems, enabling operation in harsher offshore environments. This capability makes KEYFIELD's OSVs more attractive to potential clients, potentially allowing the company's vessels to command DCRs that are 10-30% higher than industry average in the current market.

Initiate coverage with an OUTPERFORM call. We are initiating coverage on KEYFIELD with a TP of RM1.90, applying a PER of 11x on its fully diluted FY25F EPS of 17.3 sen (assuming full exercise of ESOS). This valuation aligns with the median forward PER of 10.2x observed amongst Malaysian and Singaporean-listed OSV companies during the 2010-2014 upcycle. We attribute the premium of KEYFIELD's to the peak cycle industry average due to its higher expected net margins and ROE for its OSV business due to its superior fleet profile. We initiate our coverage of the stock with an **OUTPEFORM** call.

KLCI	1,544.76
YTD KLCI chg	6.2%
YTD stock price chg	N.A.

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KEYFIELD MK Equity
Market Cap (RM m)	720.0
Shares Outstanding	800.0
52-week range (H)	N.A
52-week range (L)	N.A
3-month avg. daily vol:	N.A
Free Float	26%
Beta	N.A.

Major Shareholders

Lavin Group	27.0%
Darren Kee	22.7%
Moh Erwan	10.1%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	430.5	431.0	464.2
EBIT	160.5	167.8	193.6
PBT	146.5	167.3	193.3
Net Profit (NP)	**105.5**	**123.5**	**142.8**
Core NP (CNP)	**105.5**	**123.5**	**142.8**
Consensus CNP	-	-	-
Earnings Revision (%)	-	-	-
Core EPS (sen)	13.2	15.4	17.8
CNP Growth (%)	98.3	17.1	15.6
NDPS (sen)	0.0	3.1	3.6
BV/share (RM)	0.4	0.8	1.0
Core PER (x)	6.8	5.8	5.0
Price/BV (x)	2.5	1.1	0.9
Net-gearing (x)	0.7	-0.1	-0.2
Dividend Yield (%)	0.0	3.4	4.0

COMPANY OVERVIEW

Keyfield is principally involved in the chartering of own and third-party vessels, providing offshore accommodation, catering, housekeeping, laundry, and medical support services. Presently, Keyfield owns 11 Malaysian-flagged vessels with capacities ranging from 50 to 500 personnel. They are also Petronas Carigali Sdn Bhd (PCSB) and other Petroleum Arrangement Contractors (PACs) Umbrella Contract panel contractor for drilling and project activities.

Key management of the company:

1. **Darren Kee (CEO)** has been responsible for the overall management of our Group since its establishment, overseeing and driving our strategic and financial planning, business development and day-to-day business operations, including sourcing and negotiating the commercial terms of chartering contracts, liaising with third-party vessel owners, and financing of our Group's operations. He was appointed to the board on 30 November 2020.He incorporated Keyfield Offshores Limited (KOL) and in October 2013, he also incorporated Wisdom Creator Limited (WCL), which was then involved in shipbuilding activities for offshore support service vessels (primarily AWBs). KOL ceased its operations in December 2014 and was deregistered from the Companies Registry (Hong Kong) in June 2021 while WCL ceased its shipbuilding activities in December 2020.

2. Mohd Erwan (Chief Operations Officer) has at least 16 years of experience in project management, shipbuilding and repair of vessels including naval ships, luxury yachts as well as commercial vessels.He began his career in March 2008 as a Technical Executive with Boustead Langkawi Shipyard Sdn Bhd, a company principally involved in the construction, repair and maintenance of boats and yachts where he was attached to the engineering department.In July 2018, he assumed his present position as the Group COO.

3. **Eugene Kang Hong Ngee (Chief Financial Officer)** obtained his Association of Chartered Certified Accountants (ACCA) Qualification in September 1995, and was admitted as an Associate in October 1998, and subsequently became a Fellow of the ACCA in October 2003. In May 2018, he joined S&P International Holding Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited which is principally involved in food and beverage manufacturing as its Chief Financial Officer, where he was responsible for the corporate and financial matters of the group. In September 2020, he left S&P International Holding Limited and assumed his present position in KEYFIELD as Group CFO since October 2020.

INVESTMENT MERITS

We like KEYFIELD for the followings:-

1.Setting up the company to capitalise on the AWB upcycle. The strategic decision to establish the company during the downcycle since 2014 has proven to be a masterful move by management, allowing the group to enter the OSV market at lower costs. This timely entry enabled the acquisition of OSV vessels at favourable prices, positioning the company to benefit from the anticipated upswing in the OSV market significantly, particularly in the accommodation workboat and work barge space.

2. **Substantial interest cost savings in FY24 post-debt repayment after IPO.** The IPO proceeds will be used to pay off RM61.5m worth of cumulative redeemable non-convertible preference shares (CRNCPS), with an additional offering of 90m KEYFIELD shares at the IPO price to settle the remaining CRNCPS. This move will alleviate the group's obligation to pay annual dividends to CRNCPS holders from 2024 onwards.

3. One of the youngest AWB fleets in the OSV industry with favourable specifications (average 8–year profile), puts the group in a more favourable negotiation position with the clients for charters and potentially securing higher daily charter rates (DCR). That aside, five of its work boats are DP2, which will command a DCR premium compared to non-DP2 vessels.

4.The third-party vessel charter business was a stepping stone for eventual vessel ownership since its inception, enabling the transition to vessel ownership and providing the group with decent margins. Typically, KEYFIELD begins by chartering vessels owned by third parties and then rechartering them to end-clients. This strategy not only lays the groundwork for future acquisitions by the group but also establishes a foundation for expanding its operational capabilities and fleet.

1. Setting up the company to capitalise on the AWB upcycle

Planted the seeds in 2014. Keyfield Offshore started in 2014, focusing initially on providing technical support and advisory services for shipbuilding. By 2016, it shifted from advisory services to enter the OSV chartering business, beginning with the third-party vessel, Berkat Teguh. The following year, 2017, marked a significant milestone as the group took delivery of its first owned vessel, LS1, venturing into OSV ownership. In 2018, Keyfield Offshore was granted the vessel owner-operator license by Petronas. Progressing into 2019, the group secured an umbrella contract for OSV with Petronas Petroleum Arrangement Contractors (PAC) for three years, with an option for a two-year extension.

On a vessel acquisition spree since 2020. KEYFIELD continued to expand its fleet by taking delivery of its second vessel, LS2, in 2020, followed by two additional vessels, Falcon and Kindness, in 2021. Acquiring these vessels during the peak of the COVID-19 crisis likely positioned the group advantageously to negotiate for favourable pricing. The fleet expansion didn't stop there; in 2022, KEYFIELD added three more vessels (Grace, Compassion, Commander) to its fleet and secured three additional Standardised Work and Equipment Categories (SWEC) codes for Anchor Handling Tug Supply (AHTS), platform supply vessels, and safety/general purpose vessels, broadening its chartering opportunities with Petronas. The expansion trend persisted into 2023 with the acquisition of three vessels (Lestari, Helms 1, Blooming Vision). Early in 2024, the group further bolstered its fleet with the addition of a vessel named IMS Aman.

Vessels with favourable acquisition cost and age. KEYFIELD's strategic expansion timing has equipped it with OSV vessels that have an impressive average age of just eight years and an average book value per vessel of RM46.2m. This positions KEYFIELD favourably against PERDANA, which has a similar average book value per vessel at RM45.6m but with a much older fleet average age of 13.5 years. Consequently, KEYFIELD's OSVs are likely to secure higher daily charter rates (DCR) due to their younger age. Moreover, the newer specifications of KEYFIELD's vessels are expected to align with Petronas's requirements more closely, offering a competitive edge. Additionally, KEYFIELD's fleet is anticipated to outperform peers in vessel utilisation, benefiting from fewer maintenance needs in FY24 and FY25 due to the younger fleet age.

Exhibit 1: KEYFIELD Fleet Overview

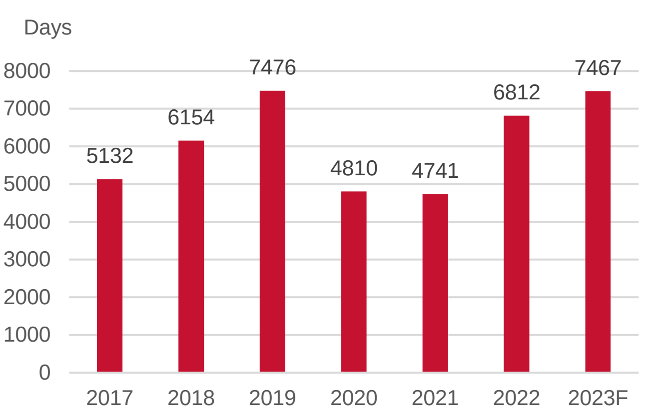
No.	Name	Year built	Person capacity	DP2 (Y/N)	Age (years)
AWB (including boats or barges)					
1	LS1	2017	208	n	7
2	LS2	2020	208	n	4
3	Falcon	2017	200	y	7
4	Compassion	2019	192	y	5
5	Commander	2008	200	y	16
6	Grace	2021	150	y	3
7	Blooming Wisdom	2022	179	n	2
8	Lestari	2014	180	n	10
9	IMS Aman	2009	198	y	15
AHTS					
10	Kindness	2021	5088	DP1	3
PSV					
11	Helms 1	2017	5000	Y	7

Source: Company

Favourably positioned to benefit from the incoming OSV boom. The group is poised to benefit significantly in FY24 and FY25 as the local OSV market enters an up-cycle, driven by a market-wide vessel shortage, especially in workboats and accommodation work barges. The group's accommodation vessels stand out with 50-tonne cranes and deck spaces ranging from 390 sqm to 220 sqm. Its fleet spans from smaller to mid-sized vessels with up to 208 passenger accommodation capacity, to the large-sized barge Blooming Wisdom, which can accommodate up to 500 passengers. Given these features and the fleet's relatively young age, the group is well-positioned to secure DCR between RM100,000 to RM130,000/day in the current market.

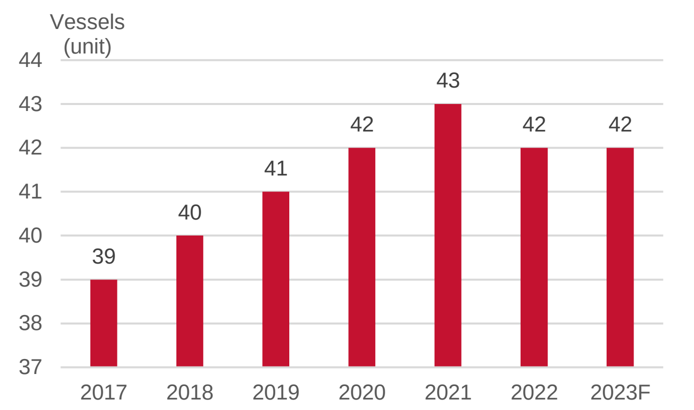
More on AWB and work barge. KEYFIELD's fleet primarily comprises AWBs and work barges, which are essential across the entire lifecycle of oil & gas field projects. While the demand for these types of vessels is cyclical, it tends to surge with increased activities in topside maintenance and hook-up & commissioning (HUC). As such maintenance and HUC activities intensify, the need for AWBs escalates, leading to improved DCRs and vessel utilisation. The surge in demand is largely attributed to the heightened requirement for manpower on offshore platforms during periods of extensive upstream maintenance, necessitating more significant accommodation capacity and onboard amenities to transport cargoes, fuel, freshwater, and various offshore equipment and materials.

Exhibit 2 : AWB Chartered Days (Malaysia)



Source: Providence

Exhibit 3: AWB Vessel Count (Malaysia)



Source:Providence

AWB demand to surpass 2019 high in 2024. According to Providence, the chartered days for AWB will be at 7,467 days in 2023, similar to the high seen in 2019 as topside maintenance & HUC players (DAYANG, CARIMIN, etc) ramp up their activities. We believe that the demand for AWB (in terms of charter days) will be even higher in 2024 (on a YoY basis) as upstream maintenance players continue to ramp up their activities given high oil prices and to catch up with their clients' underspending of maintenance works during 2020-2022. That aside, there is already a higher number of active offshore oil & gas platforms in Malaysia at 451 platforms, significantly higher than 353 platforms back in 2018 (where the maintenance activities have picked up as well). This indicates that if the demand sustains, more vessels or charter days are required to support the active platforms.

The supply gap is still huge in the local AWB market. Despite increasing demand for AWB, Malaysian-owned companies only had 42 vessels in 2022, a number expected to remain unchanged in 2023 as well as 2024. This count mirrors the vessel inventory of 2019, suggesting there was no fleet expansion from 2019 to 2022. The lack of expansion during this period likely stemmed from low AWB DCR, and local companies focusing on deleveraging after gearing up heavily during 2013-2014 up-cycle for fleet renewal and expansion. Additionally, obtaining financing from banks proved challenging due to the sector's downturn, making it harder for oil & gas companies to secure loans.

However, in 2023, the situation for AWBs improved markedly, with DCR for some newer vessels reaching RM100,000. Despite this uptick, significant fleet expansion among local OSV operators has yet to materialize. This trend may continue throughout 2024, as any orders for new AWBs would require one to one and a half years to complete. Therefore, DCRs could keep rising until local companies significantly increase their fleet sizes. Furthermore, Malaysia's cabotage policy, which restricts non-Malaysian ships from participating in domestic shipping activities, offers an additional layer of protection for local OSV operators, reinforcing their market position amidst these dynamics.

2. Substantial interest cost savings in FY24 post debt repayment after IPO.

Utilised alternative financing to expand its fleet during the market downturn (COVID). Facing challenges in securing bank loans, KEYFIELD explored alternative financing options for its vessel acquisitions during the tough OSV market period, especially amidst the COVID-19 pandemic from 2020 to 2022. In December 2015, Wisdom Creator Limited (WCL), also owned by Darren Kee, signed a shipbuilding contract with LS Series Shipbuilders to construct the LS2 (AWB) for USD17m. The rights and obligations associated with LS2 were transferred from WCL to KEYFIELD in 2020, requiring KEYFIELD to fulfil the payment of approximately USD17m, with USD3.8m payable to WCL and the remaining USD13m to LS Series Shipbuilders. To finance this acquisition, KEYFIELD issued shares worth USD12.8m to Lavin Group, an investment holding company, at an issue price of RM0.50/share.

Multiple vessel purchases financed by private investment companies. In February 2022, KEYFIELD expanded its fleet by acquiring two additional AWBs, Compassion and Commander, with RM65m funding from the Lavin Group through the issuance of CRNCPS valued at RM65m at an issue price of RM0.25. Concurrently, in February 2022, it purchased another AWB, Grace, by issuing 260m CRNCPS to Stratos private equity for RM65m. Earlier, in October 2021, KEYFIELD acquired the anchor handling tug supply (AHTS) vessel Kindness for RM17.7m, financing RM13.5m of this through CRNCPS issued to Stratos private equity. However, these CRNCPS were redeemed in November 2021 following a drawdown of a 4-year term loan from a bank.The financial backing from the Lavin Group and Stratos private equity during a difficult period for the OSV market has been instrumental in allowing KEYFIELD to enhance its fleet. This strategic expansion positions the company advantageously for the anticipated upswing in the OSV sector.

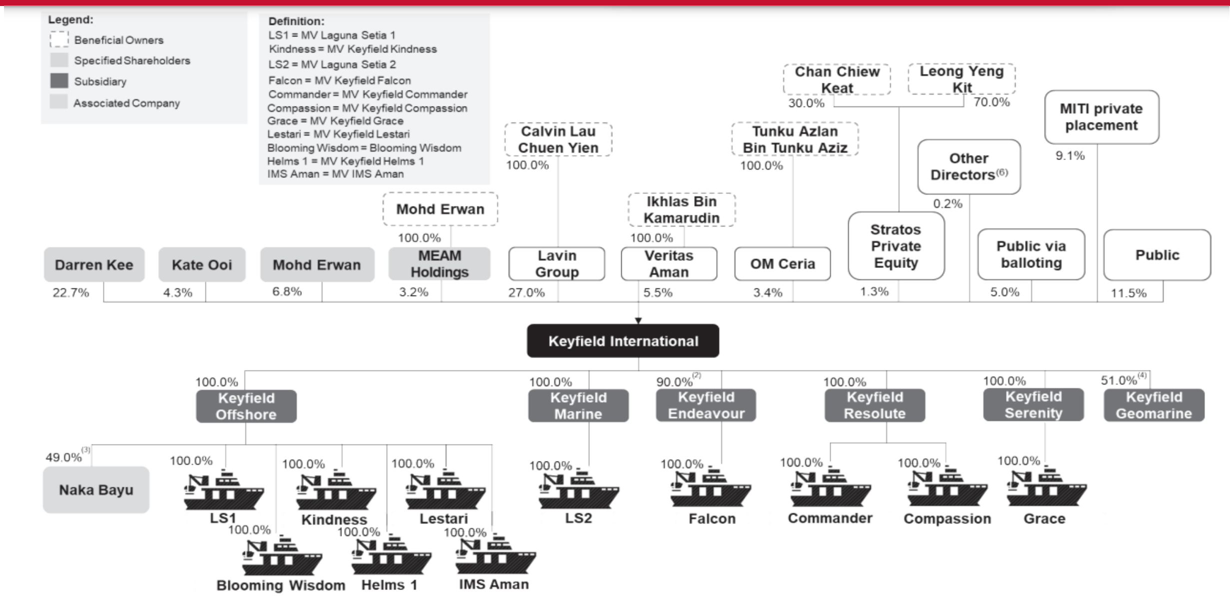
Exhibit 4: Utilisation of the IPO Proceeds

	RM m
Redemption of KEYFIELD CRNCPS	61.5
Repayment of bank borrowings	3.0
Settlement of balance purchase consideration for Blooming Wisdom	65.0
Settlement for balance purchase consideration for Helms 1	35.0
Working capital	14.6
Estimated listing expenses	9.0
Total	188.1

Source: Company

IPO proceeds will reduce finance costs substantially. With the IPO cash proceeds, KEYFIELD plans to allocate RM61.5m to partially redeem its CRNCPS. In tandem, the company will issue 80m new shares at the IPO listing price to redeem another RM81m worth of CRNCPS, completely clearing the CRNCPS from its balance sheet. Additionally, RM65m is earmarked for settling the outstanding purchase consideration for Blooming Wisdom (an accommodation barge) and RM35m for Helms 1 (a platform supply vessel (PSV)). KEYFIELD acquired both vessels in April 2023, with the original agreements stipulating repayment over 48 months for Blooming Wisdom and 29 months for Helms 1. Early repayment of the outstanding purchase consideration facilitated by the IPO proceeds will save approximately RM5m in finance charges annually on the balance owed to the vessel seller, thereby significantly enhancing KEYFIELD's FY24F earnings (50% savings to interest cost).

Exhibit 5: Shareholding Structure After IPO



Source: Company

Net gearing to drop significantly after IPO. Post the IPO, the group's net gearing will improve from 0.7x in FY23 to a slight net cash position in FY24. For context, we also included CRNCPS together with debt borrowings as the calculation for the net gearing of the company. Post IPO, the group will only be left with RM9m borrowings, which can be repaid easily by the group's internally generated funds given the strong expected operating cash flows for FY24 and FY25. Therefore, we believe the IPO exercise will relieve the group from debt encumbrances and help propel the group into stronger growth trajectories in the medium term. All in all, the IPO will reduce the group's finance cost by 96% in FY24 YoY, boosting its bottom line further.

More funding avenues post listing. Going forward, KEYFIELD will access broader financing avenues for potential acquisitions of OSV vessels, capitalizing on the market up-cycle. Assuming no further expansion in the fleet, KEYFIELD will already be in a net cash position after IPO. As a publicly listed company, it could gain easier access to bank loans. Additionally, during this up-cycle, KEYFIELD might consider further equity fundraising in FY24 and FY25 as opportunities emerge. Moreover, Lavin Group, holding a significant 27% stake in KEYFIELD post-IPO, remains a potential financier if other avenues are less feasible. Thus, KEYFIELD is well-positioned for capital raising in the next two years without facing significant challenges.

3. One of the youngest AWB fleets in the OSV industry with favourable specifications

Possesses the younger fleet advantage. KEYFIELD possess a fleet of OSV vessels, primarily AWBs, with an average age of eight years, which is newer than the industry's average age of ten years for such vessels. Its vessels stand out with additional amenities not found on older accommodation vessels, including modern accommodations, cabins with bathrooms and intercom telephones, a mess room that accommodates 50% of the maximum onboard capacity, conference rooms, offices, and VSAT internet connectivity. Newer vessels also offer the benefits of lower operating costs due to better fuel efficiency and reduced maintenance expenses, as they are less susceptible to breakdowns.

Mooring system types are crucial for OSVs. For AWBs, there are two common types namely four-point mooring and DP2. Four-point mooring system uses anchors to secure the position of the position of the vessels. On the other hand, DP2 system uses a computer-controlled system to automatically maintain its position by using its propellers and thrusters and allows for redundancy in the event of a system failure. Hence, DP2-enabled vessels are more suitable for harsher waters (deepwater) while a four-point mooring system is more suitable for shallow water fields with milder weather. During an up-cycle in the AWB market, clients are likely to prefer chartering DP2-enabled vessels, as cost considerations become less of a constraint due to increased margins from oil and gas sales.

A significant portion of KEYFIELD's AWB fleet is DP2-enabled. Among KEYFIELD's fleet of nine AWBs, five (Falcon, Grace, Compassion, Commander, and IMS Aman) are outfitted with both four-point mooring and Dynamic Positioning Systems (DP2), making them adaptable to both standard offshore conditions and more challenging environments, such as deep-water fields where DP2 systems are essential. This dual capability positions these five vessels to secure higher-than-average DCR from clients, especially during the up-cycle in the local OSV market. KEYFIELD is also considering a retrofit for LS2, currently equipped with a four-point mooring system, to include a DP2 system at an estimated cost of RM6m. The feasibility study for this upgrade is underway. Should the outcome be positive, the retrofitting is planned for LS2's expected off-hire period in 2024 or during its scheduled dry docking in 2025. This will incraese its DP2-enabled vessels to six in 2025.

20%-30% premium for DP2 AWBs. AWBs equipped with DP2 currently command a higher DCR of RM120,000 to RM130,000 in the market, which is 20%-30% higher than the RM100,000 for vessels with four-point mooring systems. Additionally, the age of a vessel influences the DCR premium. KEYFIELD, with an average vessel age of 8 years, can command a DCR of up to RM100,000 in the current market for its four-point mooring vessels, whereas older AWBs in the industry typically command a DCR of RM80,00, reflecting up to a 20% discount to the DP2-enabled vessels depending on the market conditions when the charter is secured. This indicates that KEYFIELD's AWB fleet composition positions it well to capitalize on the earnings potential during the current OSV market up-cycle.

Sustainability efforts on vessels. In April 2023, KEYFIELD installed a food composting system (costing RM0.5m) on Blooming Wisdom, its largest capacity accommodation barge, and the system can compost up to 200 litres of organic waste per day which is then transformed into bio-organic compost. It plans to install one similar system on three more of its vessels within the next 12 months, which will cost RM0.9m in total. The group has also completed the first installation phase of the solar photovoltaic system supplier on board Blooming Wisdom, which entails the installation of the solar panels and related engineering works. The second installation phase involves the installation of the battery pack and will be completed by 2QFY24. While at this juncture no DCR premium is seen, we believe vessels with sustainability aspects will be more marketable to its clients.

4.The third-party vessel charter business has been a stepping stone for eventual vessel ownership

Started the OSV business with services. From 2013 to 2016, KEYFIELD was engaged in providing technical support and advisory services related to shipbuilding, catering primarily to KOL and WCL, both established by CEO Darren Kee. These entities focused on delivering vessels to owners, with KEYFIELD offering support and advisory services for shipbuilding. In 2016, KEYFIELD transitioned to chartering third-party AWB (Berkat Teguh), moving away from its advisory business to directly charter and recharter vessels to clients, laying a solid foundation for its expertise in OSV asset management. By June 2018, KEYFIELD had acquired the vessel owner-operator license along with the SWEC code for AWBs, essential for becoming a panel contractor for Petronas and petroleum arrangement contractors (PAC), marking a significant milestone in its operational pivot and expansion.

The 'chartering of third-party vessels, operating and eventually buying business' model. After gaining experience in the OSV business by chartering third-party vessels and familiarizing itself with vessel operations, KEYFIELD transitioned towards owning its fleet, focusing primarily on AWBs. In 2017, the group welcomed its first AWB, LS1, into its fleet and subsequently chartered it out to another OSV operator and owner. KEYFIELD's direct engagement in Petronas tenders became possible in 2018, following the acquisition of the owner-operator license. This pivotal moment allowed the group to capitalize on the full market DCR. Before acquiring them, KEYFIELD had also chartered Compassion and Grace from their previous owners, further expanding its operational scope and fleet.

In February 2022, KEYFIELD completed the acquisition of the vessel Commander, which it had previously chartered from ARMADA (MP; TP: RM0.58) back in FY20. The practice of chartering vessels from third parties before acquiring them has provided KEYFIELD with valuable opportunities to thoroughly understand the operational aspects of the vessels. By doing so, the group reduces the risk associated with acquiring vessels that may have unknown operational issues and minimizes the possibility of overpaying for such assets.

KEYFIELD engages in three main types of arrangements with the owners of third-party vessels it charters:

Category One: The third-party owner offers the vessel on a bareboat charter basis. Here, KEYFIELD is responsible for sourcing, recruiting, and managing the crew, along with procuring any additional equipment needed for operations.

Category Two: In this arrangement, the third-party vessel owner provides the crew and takes charge of operations and maintenance. KEYFIELD contributes by providing catering and housekeeping services, in addition to sourcing equipment.

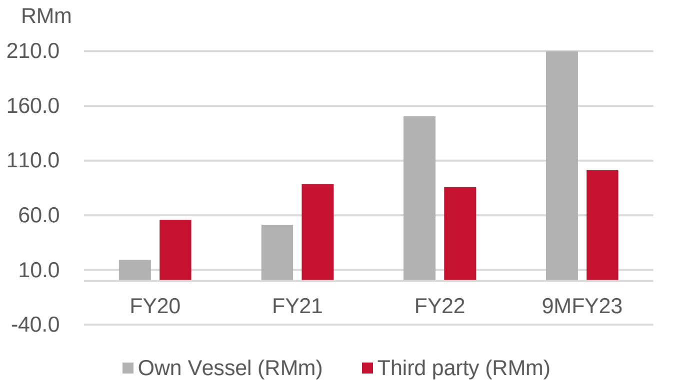
Category Three: The vessel owner handles most services, including crew management, catering, and housekeeping. KEYFIELD's role is limited to sourcing additional services and equipment as required.

Exhibit 6: Vessels' Chartering Categories

	Third-party AWB				
Period	Category 1 (%)	Category 2 (%)	Category 3 (%)	Others (%)	Own Vessel (%)
FY20	5	41	28	0	26
FY21	19	5	39	1	36
FY22	12	6	18	0	64
9MFY23	6	9	17	0	68

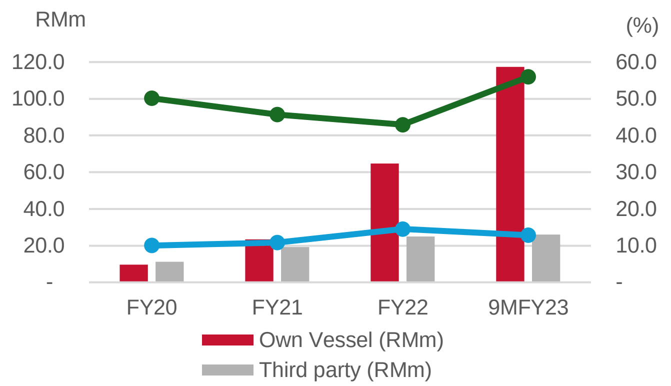
Source: Company

Exhibit 7: Revenue Breakdown by Vessel Type



Source: Company

Exhibit 8: Gross Profit Breakdown and Gross Margin



Source:Providence

Third-party chartering business was the core revenue contributor before FY21. In FY20, KEYFIELD chartered four third-party vessels and rechartered them to its clients. This number increased significantly in FY21, with the group securing charters for 10 third-party vessels, boosting its revenue from these charters. Into FY22, the revenue contribution from third-party vessel charters remained consistent YoY, but revenue from vessels owned directly by KEYFIELD continued to rise, reflecting the group's strategy of converting more third-party charters into self-owned vessels since FY20. The gross margin for third-party vessels from FY20 to 9MFY23 remained strong, consistently above 20%.

The success can be attributed to KEYFIELD's effective management of crew costs and its project management capabilities, ensuring that the charter arrangements between vessel owners and final clients are well-coordinated. In FY24 and the years to follow, KEYFIELD is expected to prioritize its own vessels over third-party charters due to the higher margins these assets typically offer. However, the third-party vessel business will continue to serve a crucial role within the group's strategy. It provides KEYFIELD with a low-risk avenue to scout for potential vessels for future acquisitions, allowing the company to assess operational performance and compatibility without significant upfront investment. This balanced approach supports both immediate financial goals and strategic long-term fleet expansion.

FINANCIAL HIGHLIGHT

Financial review. In FY21, KEYFIELD recorded a 72% increase in core profit to RM23.3m, mainly due to the significant revenue from its three operational vessels (LS1, LS2, and Falcon), up from just one own vessel in FY20. The improvement in the OSV market conditions also led to higher daily charter rates (DCR) for its vessels. Additionally, the increased number of chartered days in the third-party vessel segment contributed to the YoY revenue growth. Core earnings saw further growth in FY22 as KEYFIELD expanded its fleet to seven vessels and witnessed a continuous YoY rise in DCR. However, revenue from third-party vessels dipped slightly in FY22 because these vessels, predominantly AHTS and PSV, usually earn lower DCRs compared to AWBs.

In FY23, KEYFIELD expanded its fleet by acquiring three more vessels (Lestari, Blooming Wisdom, and Helms 1), which contributed to an increase in its top line. This growth received additional support from higher overall vessel utilization (FY23: 79% vs FY22: 66%) and a rise in the average DCR YoY. Revenue from third-party vessels also saw an increase, but was tempered by lower gross margins, as the DCR charged to KEYFIELD by third-party vessel owners rose more quickly. This resulted in a 98% YoY increase in its core net profit.

Financial forecast. We are projecting FY24/FY25F earnings of RM123.5/140.9m, representing +17/14% growth. Our forecast is premised on several key assumptions: -

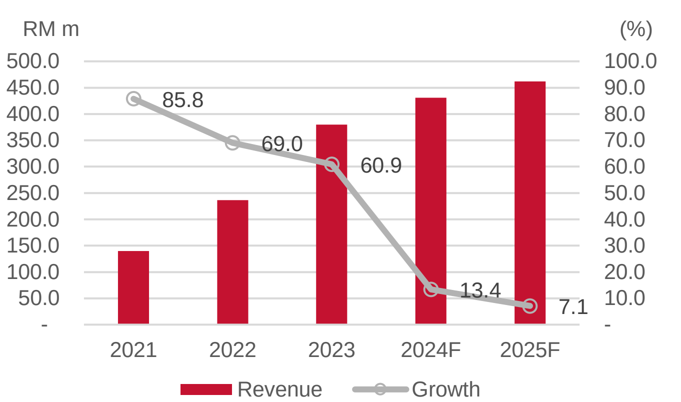
(i) blended DCR assumptions of RM96,967/101,512 for FY24/FY25.

(ii) vessel utilisation of 85/89% for FY24/25.

(iii) +3% YoY inflation rate for cost of sales in FY24/FY25

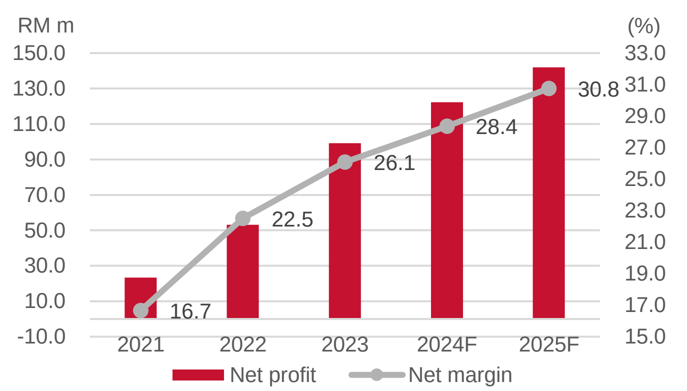
Looking ahead, our projections don't include further vessel acquisitions. However, adjustments will be necessary if the company opts to expand its fleet further in the near to medium term.The group's balance sheet possesses the capacity to acquire another vessel entirely from internally generated funds if the acquisition is by the end of FY24, driven by strong expected operating cash flows. That aside, our blended DCR assumptions also include AWB DCR assumptions of RM106,667/112,222 for FY24/FY25, conservatively reflecting the tightening of the AWB vessel supply in Malaysia.

Exhibit 9: Revenue and Growth



Source: Company

Exhibit 10: Net Profit and Margin



Source:Company

VALUATION

Our target price (TP) for KEYFIELD is **RM1.90**, based on a PER of 11x on fully diluted FY25F EPS of 17.3 sen (assuming full exercise of ESOS leading to 828m shares outstanding in total). We consider the valuation justified, as small-to-mid-cap OSV companies often trade at or above this level. To provide context, we looked at the 2010-2014 period, which marked the last major up-cycle in the upstream services market. During this time, comparable companies had a median PER of 10.2x. We believe KEYFIELD deserves a higher PER of 11x as we expect the group to outperform its peers in net margins. Due to the relatively younger fleet age and its timely expansion in fleet, the group can optimise its fleet in terms of reliability and vessel types, which typically results in better margins for its charters in the short to medium term. For FY25, we expect the group to achieve a 31% net margin compared to the 14% expected for ICON.

Exhibit 11: Peers Valuation

Company	Average Historical Forward PER* (x)
Ezion	11.8
Icon	7.9
Perdana Petroleum	19.0
POSH	8.6
Charisma Energy	20.3
Pacific Radiance	6.6
Median PER	**10.2**

**CY10-14 average*
Source: Bloomberg

KEY RISKS

Unexpected vessel breakdown. KEYFIELD's fleet, with an average age of eight years, is not completely immune to the risks of unexpected OSV breakdowns as the offshore weather could be unpredictable at times. However, the relatively young age of the fleet suggests a lower likelihood of such incidents. Therefore, we expect that fleet utilization will remain above 80% in the upcoming financial years. This confidence is bolstered by the company's meticulous scheduling of dry docking, which further minimizes the risk of unplanned vessel downtime in the near to medium term.

Significant downtrend in Brent crude price. We anchor our positive outlook on KEYFIELD on the anticipated robust demand within the OSV sector. This optimism is contingent upon a sustained elevation in crude oil prices. Should there be a downturn, with prices consistently falling below USD60 per bbl, it could precipitate a reassessment of capital expenditure by oil producers, potentially impacting upstream investment plans adversely. Such a scenario may lead to diminished DCR for FY24 and FY25 than currently forecasted. Despite this risk, the concerted production cut efforts by major oil producers, spearheaded by the OPEC+ alliance, serve as a mitigating factor.

Opening of the local vessel market to foreign vessels. In Malaysia's OSV sector, Petronas often prefers local vessels to support domestic business, contingent on availability. While a complete market liberalisation could introduce foreign competition, potentially pressuring DCR, the current undersupply in both global and local OSV markets (due to the lack of debt financing options and underspending by OSV owners) suggests DCR will likely continue its upward trajectory, even if Petronas liberalizes access.

A significant slowdown in global economy. Upstream capex may not meet our expectations in the coming years, possibly due to shifts in oil producers' budgeting & strategic plans or significantly worse global macro-outlook. An increased focus on ESG investments or a higher possibility of global economic recession could also impact upstream capex, potentially affecting OSV DCR. However, this scenario seems improbable given recent signs that oil producers are intending to boost upstream capex in the next two years, addressing previous underspending. Additionally, oil majors like Exxon and Chevron have announced intentions to scale back new energy initiatives, redirecting investments towards more lucrative upstream ventures.

Income Statement

FY Jan (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	139.8	236.2	430.5	431.0	464.2
EBIT	28.7	73.7	160.5	167.8	193.6
Interest	-3.7	-8.7	-13.9	-0.5	-0.3
Associate	0.0	0.0	0.0	0.0	0.0
PBT	25.0	65.0	146.5	167.3	193.3
Taxation	-7.0	-15.2	-39.4	-41.8	-48.3
MI	0.4	1.0	1.6	1.9	2.2
Net Profit	17.6	48.9	105.5	123.5	142.8
Core Profit	**23.3**	**53.2**	**105.5**	**123.5**	**142.8**

Balance Sheet

FY Jan (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	233	369	501	581	599
Intangible	-	-	-	-	-
Other LT assets	15	21	16	16	16
Inventories	2	2	3	4	4
Receivables	65	88	94	171	184
Other CA	3	1	4	4	4
Cash	21	23	73	44	128
Total Assets	338	504	691	820	935
Payables	34	34	41	63	65
ST Borrowings	43	52	3	3	0
Other ST Liability	18	22	50	14	14
LT Borrowings	50	27	6	6	6
Other LT Liability	47	176	298	70	70
Minorities Int.	3	4	6	8	10
Perpetual	0	0	0	0	0.0
Net Assets	**141**	**188**	**288**	**656**	**770**
Share Capital	125	125	125	394	394
Reserves	16	63	163	262	376
Equity	**141**	**188**	**288**	**656**	**770**

Cashflow Statement

FY Jan (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	21.6	62.5	184.5	110.1	175.3
Investing CF	-29.7	-11.2	-29.0	-120.0	-60.0
Financing CF	2.6	-49.0	-104.1	-19.3	-31.2

Financial Data & Ratios

FY Jan	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	85.8	69.0	82.2	0.1	7.7
EBIT	52.2	156.5	117.6	4.6	15.4
PBT	42.7	159.8	125.4	14.2	15.6
Net Profit	30.4	177.4	115.8	17.1	15.6
Profitability (%)					
Operating Margin	20.6	31.2	37.3	38.9	41.7
PBT Margin	17.9	27.5	34.0	38.8	41.6
Net Margin	16.7	22.5	24.5	28.7	30.8
Effective Tax Rate	28.0	23.3	26.9	25.0	25.0
ROA	6.9	10.6	15.3	15.1	15.3
ROE	16.5	28.3	36.6	18.8	18.5
DuPont Analysis					
Net Margin (%)	16.7	22.5	24.5	28.7	30.8
Assets Turnover (x)	0.4	0.5	0.6	0.5	0.5
Leverage Factor (x)	2.4	2.7	2.4	1.2	1.2
ROE (%)	16.5	28.3	36.6	18.8	18.5
Leverage					
Debt/Asset (x)	0.4	0.5	0.4	0.0	0.0
Debt/Equity (x)	0.8	1.1	0.7	-0.1	-0.2
N. Debt/(Cash)	109.0	205.8	199.6	-34.8	-121.6
Debt/Equity (x)	0.8	1.1	0.7	-0.1	-0.2
Valuations					
EPS (sen)	2.9	6.6	13.2	15.4	17.8
DPS (sen)	0.0	0.0	0.0	3.1	3.6
BVPS (RM)	0.2	0.2	0.4	0.8	1.0
PER (x)	30.9	13.5	6.8	5.8	5.0
Div. Yield (%)	0.0	0.0	0.0	3.4	4.0
P/BV (x)	5.1	3.8	2.5	1.1	0.9

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.585	0.580	-0.9%	3,464.8	N	12/2024	13.8	12.6	144.4%	-8.8%	4.2	4.6	0.5	13.4%	0.00	0.0%
DIALOG GROUP BHD	OP	2.35	3.10	31.9%	13,260.1	Y	06/2024	9.3	10.3	4.0%	11.0%	25.3	22.8	2.2	9.1%	4.19	1.8%
ICON OFFSHORE BHD	OP	0.720	0.800	11.1%	390.0	Y	12/2024	5.3	8.1	285.3%	52.9%	13.5	8.8	1.0	8.0%	0.00	0.0%
KEYFIELD INTERNATIONAL	OP	NA	1.90	NA	NA	N	NA	15.4	17.9	17.1%	15.6%	NA	NA	NA	26.1%	309.00	NA
MISC BHD	MP	7.83	7.51	-4.1%	34,951.1	Y	12/2024	51.9	53.9	7.0%	3.9%	15.1	14.5	0.9	5.8%	30.00	3.8%
PETRONAS CHEMICALS GROUP	MP	6.84	6.88	0.6%	54,720.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.2	14.9	1.3	8.7%	22.43	3.3%
PETRONAS DAGANGAN BHD	MP	21.80	23.70	8.7%	21,657.3	Y	12/2024	99.7	109.8	1.1%	10.1%	21.9	19.9	3.6	16.9%	79.78	3.7%
PETRON MALAYSIA REFINING	MP	4.80	4.74	-1.3%	1,296.0	Y	12/2024	99.6	89.6	-1.1%	-10.0%	4.8	5.4	0.5	10.6%	20.00	4.2%
UZMA BHD	OP	1.29	1.45	12.4%	499.5	Y	06/2024	13.4	14.1	32.8%	5.6%	9.6	9.1	0.9	9.9%	0.00	0.0%
VELESTO ENERGY BHD	OP	0.270	0.340	25.9%	2,218.2	Y	12/2024	1.8	2.3	46.6%	28.8%	15.2	11.8	0.8	5.7%	0.00	0.0%
WASCO BHD	OP	1.27	1.48	16.5%	983.4	Y	12/2024	12.1	14.8	20.0%	22.6%	10.5	8.6	1.2	12.5%	0.00	0.0%
YINSON HOLDINGS BHD	OP	2.44	3.41	39.8%	7,386.0	N	01/2025	17.4	19.4	45.2%	11.0%	14.0	12.6	1.4	10.2%	5.00	2.0%
SECTOR AGGREGATE					**143,616.6**					**42.3%**	**4.2%**	**14.9**	**14.3**	**1.4**	**11.2%**		**1.7%**

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★			
SPECIFIC	Transition to Low-Carbon Future	★	★			
	Conservation & Biodiversity	★	★			
	Effluent/Waste Management	★	★	★		
	Water Management	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my