

Medserv Plc

06.09.2013



Credit Opinion Positive

Credit Ratings
S&P NR
Moody's NR
Fitch NR

About Medserv Plc

Medserv Plc was incorporated in 1974, and has served as the most significant offshore logistical support provider for the central Mediterranean.

The principal activities of the Group consist of providing services and support to the offshore oil and gas industry operating mainly in the Mediterranean basin with a focus on the industry's activities in North Africa.

Malta operation

Includes the provision of comprehensive logistical support services for the offshore petro-chemical industry from a base in Kalafrana, Malta.

Libya operation

Includes the provision of comprehensive logistical support services for the onshore and offshore petro-chemical industry from a base in Misurata, Libya.

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Positives

- Libyan operation on the road to recovery; Contracts with international oil companies (IOCs) still in place
- The assets of the company are further boosted by a lease on land (2060) and site value estimated at €40m from an independent architect, which reduces the gearing considerably
- A new base will be developed in Cyprus, licence and land is already in place
- A photovoltaic system will be installed which is expected to provide an ancillary revenue stream
- Ambitious expansion projects in the pipeline in central/eastern Mediterranean and Africa

Concerns

- The nature of the business is tied to the oil industry which is volatile
- Relatively small player compared to larger oil servicing companies
- Considerable amount of political risk, which has affected performance in the past
- The short term outlook for the Libya base remains subdued

Would provide comfort

- A return to positive EBITDA
- A constant increase in revenue growth
- Securing contracts in Cyprus
- Return to normal operations in Libya

Would add risk

- Prolonged retraction of IOCs from Libya
- Competitors entering the market given the increased interest in the Mediterranean
- Loss of key personnel
- Negative spill over from developments in Syrian unrest

Financial Highlights and Estimates (in €'000)

	2008A	2009A	2010A	2011A	2012A	2013E*	2014E*
Net Sales	15565	17528	11716	9204	6709	9717	14409
Gross Profit	3118	4781	1659	2294	707	3516	5362
Gross Margin %	20.00	27.28	14.16	24.92	10.53	36.18	37.21
Net Profit	1299	2808	115	817	-378	1550	1048
EBITDA	1065	3256	125	1097	-987	2071	3730
Coverage:							
EBITDA/Gross Interest	8.01	36.58	1.29	11.30	-5.98	6.49	4.62
Quick Ratio	1.02	1.33	1.15	1.36	0.90	4.27	3.25
Leverage:							
T.Debt/EBITDA	7.01	2.24	42.18	4.19	n/a	7.14	0.70

*Estimates provided by Medserv Plc

- The financials, in particular Net Sales reflect the vulnerability of the business to political and economic risk as the company has been negatively affected by the financial crisis (2008), the BP oil spill in the Gulf of Mexico, and Swiss-Libyan disputes (2010) and also the conflict in Libya (2011-2012)
- Gross Margins and Net Profit appear to be somewhat volatile over recent years, which reflects the instability of the companies' operations. The estimates that the company provided, although declared to be highly cautious are based on margins that the company hasn't managed to achieve over the past few years.
- Interest cover appears to have been very encouraging apart from years where the companies' operations have come under pressure due to exogenous reasons.

Altman's Z-score* estimated for non-manufacturers & emerging markets

The Z-score is a linear combination of four or five common business ratios, weighted by coefficients. The coefficients were estimated by identifying a set of firms which had declared bankruptcy and then collecting a matched sample of firms which had survived, with matching by industry and approximate size (assets).

We calculated the **Z-score to be 3.22** using the following inputs in our model.

Current Assets	3,863.00		Co-Eff			
Current Liabilities	4,312.00	T1	6.56	-0.03	-0.22	
Total Assets	13,243.00	T2	3.26	0.07	0.24	
Retained Earnings	957.98	T3	6.72	-0.07	-0.50	
EBIT	-987.00	T4	1.05	0.44	0.46	
Book Val of Equity	2,329.37					
Total Liabilities	5,292.00					Z-Score 3.22

The figures used were taken from the Financial Statements issued by Medserv Plc for the year ended 2012.

Based on the parameters below, according to Altman's Z-score model the company is classified in the '**Grey Zone**' meaning that the company is under no imminent risk of bankruptcy. **The model theoretically rates the company as a high yield issuer.**

Z" > 3.75	"Safe" Zone
1.1 < Z" < 3.75	"Grey" Zone
Z" < 1.75	"Distress" Zone

*Altman's Z-score is just one analysis tool and has its limitations; the analysis of the company should be considered using the entirety of the report.

Investment Considerations

- A timeline as to when the Libyan operations will return back to normal remains questionable; revenue growth will remain suppressed and is not expected to return back to 2009 levels until the companies' operations return back to normal. Currently the company is operating at breakeven levels due to contracts with international oil companies (IOCs) still in place.
- The assets of the company are further boosted by a lease on land (2060) and site value estimated at €40mIn from an independent architect, which reduces the gearing considerably
- There are tangible prospects for revenue growth through a new base which is being developed in Cyprus; a licence and land is already in place
- A photovoltaic system which is being financed by an upcoming bond issue will be installed which is expected to provide an ancillary revenue stream of circa 500K per annum
- Ambitious expansion projects in the pipeline in central/eastern Mediterranean and Africa which may require further debt issuance and leverage
- The nature of the business is tied to the oil industry which is volatile and has also been impacted a considerable amount of political risk, which has affected performance in the past couple of years
- The short term outlook for the Libya base remains subdued, with offshore IOCs giving no indication as to when normal operations will resume

Outstanding Issues in Focus - Recommendations

Medserv 6% 2020-2023 Series1 EUR

ISIN	MT0000311218	S&P	n/r
Issue Size	€13,000,000	Moody's	n/r
Currency	EUR	Fitch	n/r
Rank	Senior Secured		
		Min Piece	2,000
Coupon	6%	Increment	100
Type	Fixed		
CPN Freq	Semi-Annual	Offer Price	100
Next Coupon	31 st March	YTM	6%
Maturity	30 th September 2023		

Call Schedule: Callable at any date from 30th October 2020 at 100

Issue Recommendation: Positive

Medserv Plc has created a niche in its operating segment and has a positive outlook going forward as the worst of the Libyan crisis appears to be over. The company has good growth prospects and at present we believe the company is capable of honouring its obligations in the foreseeable future. Although we take comfort in the fact that the bond is secured and guaranteed, we believe that the 6% yield-to-maturity is not overly generous given the volatile nature of the business. We would have expected a higher yield to compensate for the long duration and extended maturity of the bond. As a comparison Halliburton, the large US oil and gas services provider, which is rated A- (composite) issued a bond which is yielding 4% which also matures in 2023. UnityMedia Hessen, a broadband cable network provider, has a bond maturing in 2023 with a 6% yield and is rated at B+.

We would recommend this bond to investors who would like to add local risk to their portfolio with a reasonable return, however active monitoring of market developments should be maintained unless the intention is to hold the bond to maturity, as the coupon and high duration makes the issue susceptible to interest rate risk. The investment should form part of a well-diversified portfolio of assets and any interested investors should speak to their advisors to determine whether it fits their risk profile.

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