

Thalassa Holdings Ltd

SALES DESK NOTE

24 April 2015

Key Statistics

Code : THAL
Listing : AIM
Sector : Oil Equipment & Services
Market Cap : £11.59m
Share in issue : 24.67m
Current Price : 47.0p
12 month High/Low: 265p/40.30p

Stock Performance



Financials

£'m	H1 2014A	H1 2013A	2013A
Revenue	9.26	11.64	30.55
PBT	0.90	1.37	4.96

Source: Thalassa Holdings' Interim Results

Company description

Thalassa Holdings Ltd is established as a holding company, and has two operating subsidiaries in the Energy Services Industry: WGP Group, focused on marine geophysical services in production enhancement, exploration and surveying and Autonomous Robotics (previously GO Science), an Autonomous Underwater Vehicle (AUV) research and development company.

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Fallout from Russian sanctions and meltdown in the oil markets have created an almost perfect storm for many companies in the Oil & Gas Support Services industry particularly those involved in the exploration process; Schlumberger, the sector giant, has cut 20k jobs from its payroll in this area. Thalassa has not been exempt from these impacts and its valuation has taken a significant pounding. However there is a point when even a falling knife rests on the ground and Thalassa's valuation now assumes that the management will be burning a large hole in the significant cash balance for years to come with no pick up in business. This seems very unlikely in view of the past performance of management; who personally have a collective stake of around 26% in the business. The business itself is showing good signs of recovery with several new contracts already being signed this year, and the share buy-back scheme should underpin the share price from here... even if the fact that the market cap is lower than the Sum of the Parts valuation does not.

Thalassa is a holding Company with two wholly owned subsidiaries:

WGP is a marine geophysical services company that offers bespoke project management and geophysical services throughout the global upstream oil and gas industry. WGP's operational expertise spans across the Exploration sector, discovering new hydrocarbon reserves, and beyond into production, presenting contemporary services to increase the value and output of active reservoirs. By specialising in seismic projects driven by modern technology and supporting new methods, WGP has kept at the forefront of the industry. Its focus is to provide bespoke operational solutions for projects.

Autonomous Robotics Limited: In 2013 the Company completed the acquisition of the intellectual property and other assets of GO Science Limited for consideration of £1.86m. Whilst the Unmanned Aerial Vehicle (UAV) market is well established (due to US military demand for combat drones) the Autonomous Underwater Vehicles (AUV) market is significantly smaller and still at a very early stage of development. The use of AUV's in commercial projects in the oil and gas industry is currently limited to control of assets, using cameras, sonar and side sonar for bathymetric mapping. GO Science changed its name to Autonomous Robotics Limited (ARL) reflecting the market sector and expertise/ambitions of the company.

For disclosures, refer to the Disclosure Section

Background

The last published report was the interim to June 2014. There has been so much outside impact to the business since then that it is hardly worth commenting on the numbers, other than to point out the sort of margins that are achievable; GP margin was 44% and the OP margin 8% on sales of around \$9.3m for the half.

A double whammy arrived in the RNS dated 25 November 2014: *"...A number of contracts that the board had expected - at the time of announcement of the interim results - to fall before year-end have not materialised due to the decline in oil prices, the economic uncertainty that this has caused and the on-going budget reviews being carried out by all energy exploration and production companies. Further, for the past months, we have been working on a very significant contract in the Russian Arctic, which would have had a material impact on revenues and profitability of the Company in the current and future financial year. However, the board has been unable to secure conclusive legal opinion from either its US and/or UK lawyers that the Company and its partners would not breach any of the current EU or US sanctions or export restrictions. The Company has informed the client that it is only willing to proceed with prior written approval from the US and/or UK authorities that the delivery of our services and equipment does not breach any US or EU sanctions or export restrictions..."* Of course it never rains and by 31 December 2014 , *"...the board of Thalassa notes that the 23rd Norwegian licence round has not yet concluded and is now expected to conclude in 2015. Accordingly potential multi-client data sales relating to that round, which could generate significant revenue for Thalassa, are now expected to take place in 2015..."*

Outlook

For many companies this might have been terminal; however Thalassa has \$16.4m of cash and world class management, equipment and expertise. On 18 March the Company noted that it still had \$16.4m of cash and had won two contracts already in 2015 worth \$1.6m from the 23rd Norwegian round. The Company forecast that it will break even in the current year based on the contracted orders it has and with conversion of some additional opportunities that are in progress could generate \$1m profit from \$18 revenues.

On 21 April, Thalassa announced another contract to provide seismic services to TGS-NOPEC Geophysical Company ASA (TGS), a provider of multi-client geoscience data products to the Oil and Gas Industry and listed on the Oslo Stock Exchange (TGS.OL). WGP will be acquiring High Resolution 3D (HR3D) data sets in the South East Barents Sea region utilising a 3D P-Cable™ system for the project, which is expected to mobilise this month and last up to a maximum of five months. The contract is for an initial three month fixed term.

The Company instigated a share buy-back program in February to buy back up to £1m of shares. At the last count just £80k had been bought. This will provide some support to the share price.

The board and connected parties have a 26% stake, so there will be every incentive to get this back into black ink.

The PPE was valued at \$13.4m in June – Finding a new valuation will not be straightforward as it will need to take into account the second hand values, the utility value using new rates and potentially the levels of depreciation all of which are somewhat up in the air as a result of the oil price's impact on the sector.

Schlumberger have 'let go' of around 20k people to focus on their 'core' seismic activities – which do not overlap with Thalassa's products and services. In fact there is an argument to say that taking capacity out of the market will be long term favourable for Thalassa as they have an excellent cash to overhead ratio compared to competitors. It is likely that a strong balance sheet will be important when pitching for business in the future.

An important detail to note is that Thalassa's systems are suited to programs designed to increase yields and life of current oil fields, rather than 'wild catting'. Given the enormous well and drilling costs already sunk into offshore fields, this is likely to be a more attractive area of focus for majors and minors alike.

Valuation

The share price has come down from around 200p last summer to 47p now giving a market cap of £11.6m (\$17.4m) a little bit north of the \$16.4m cash that is held. The PPE was valued at \$13.4m in June. In the light of the circumstances since, that probably needs a haircut, but it is probably more of a knife than an axe job. What is clear is that on a sum of the parts valuation, you get paid to take on the business and the management expertise!

Conclusion

This stock is very cheap and underpinned on a share buy-back scheme and a SotP valuation, with arguably no value attached to the business or know-how of the management. The management have a strong track record and 'skin in the game'. Thalassa has the cash and the management skillset to survive the current crisis, which is likely to clear out much of the competition making for a strong potential rebound in both operations and valuation.

Consolidated Statement of Income for the Six Months ended 30 June 2014

	Six months ended 30 June 2014 Unaudited US\$	Six months ended 30 June 2013 Unaudited US\$	Year end 31 Dec 2013 US\$
Revenue	9,259,239	11,643,218	30,551,967
Cost of Sales	-5,209,706	-7,737,486	-21,259,292
Gross profit	4,049,533	3,905,732	9,292,675
Administrative expenses	-2,794,382	-2,293,916	-4,366,937
Operating profit before depreciation	1,255,151	1,611,816	4,925,738
Depreciation	-524,338	-298,400	-685,173
Operating Profit	730,813	1,313,416	4,240,565
Net financial income	167,100	72,922	721,227
Profit before taxation	897,913	1,386,338	4,961,792
Taxation	-160,233	-358,632	-575,722
Profit for the financial period	737,680	1,027,706	4,386,070

Source: Thalassa Holdings' Interim Results

Consolidated Statement of Financial Position at 30 June 2014

	At 30 June 2014 Unaudited US\$	At 30 June 2013 Unaudited US\$	At 31 Dec 2013 US\$
Assets			
Non-current assets			
Goodwill	368,525	368,525	368,525
Intellectual Property	2,907,572	-	2,870,043
Property, plant & equipment	13,382,023	7,591,232	8,153,119
Computer software	254,089	-	-
Multi-client library	472,618	-	-
Available for sale investment	58,503	38,675	38,675
Total non-current assets	17,443,330	7,998,432	11,430,362
Current assets			
Inventory	877,928	1,446,000	690,008
Loans	7,256,904	763,000	1,885,583
Trade and other receivables	11,298,462	5,239,580	7,078,753
Cash and cash equivalents	21,213,030	16,837,567	32,235,155
Total current assets	40,646,324	24,286,147	41,889,499
Liabilities			
Current liabilities			
Trade and other payables	5,561,221	3,787,841	2,084,595
Deferred revenue	-	9,369,196	-
Total current liabilities	5,561,221	13,157,037	2,084,595
Net current assets	35,085,103	11,129,110	39,804,904
Net assets	52,528,433	19,127,542	51,235,266
Equity			
Share capital	250,675	178,175	250,757
Share premium	44,866,060	16,332,196	44,668,608
Treasury shares	-	-384,226	-279,982
Other reserves	199,334	58,768	177,536
Retained earnings	7,066,020	3,013,960	6,272,185
Total shareholder equity	52,382,089	19,081,337	51,088,922
Non-controlling interest	146,344	46,205	146,344
Total Equity	52,528,433	19,127,542	51,235,266

Source: Thalassa Holdings' Interim Results

Consolidated Statement of Cash Flows for the Six Months Ended 30 June 2014

	Six months ended 30 June 2014 Unaudited US\$	Six months ended 30 June 2013 Unaudited US\$	Year end 31 Dec 2013 US\$
Cash flows from operating activities			
Operating profit for the period before depreciation	1,255,151	1,611,816	4,925,738
Shares issued to chairman	-	440,000	-
Increase in inventory	-187,920	-1,364,223	-608,231
Increase in trade and other receivables	-4,219,708	-4,611,502	-6,450,675
Increase in trade and other payables	3,739,342	2,991,998	2,623,293
Increase in deferred revenues	-	9,369,196	-
Increase in multi-client library	-472,619	-	-
Net foreign exchange	-131,358	-188,998	-1,109,570
Taxation	-160,233	-358,632	-69,119
Cash (used in)/generated from operations	-177,345	7,889,655	-688,564
Interest paid	-17,922	-155,248	-166,749
Net cash flow from operating activities	-195,267	7,734,407	-855,313
Cash flows from investing activities			
Disposal of assets	3,883	-	-
Acquisition of intellectual property	-37,529	-	-2,913,201
Interest received	107,907	53	30,958
Purchase of equipment	-5,753,242	-	-941,278
Purchase of computer software	-254,089	-35,776	-
Loan to THAL discretionary trust	-4,902,534	-	-1,885,583
Net cash flow from investing activities	-10,835,604	-35,723	-5,709,104
Cash flows from financing activities			
Exercise of options	8,746	6,656,414	35,366,920
Disposal of treasury shares	-	-	950,183
Net cash flow from financing activities	8,746	6,656,414	36,317,103
Net (decrease)/increase in cash and cash equivalents	-11,022,125	14,355,098	29,752,686
Cash and cash equivalents at the start of the period	32,235,155	2,482,469	2,482,469
Cash and cash equivalents at the end of the period	21,213,030	16,837,567	32,235,155

Source: Thalassa Holdings' Interim Results

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