

## Speculative Buy

Price 0.34p

Target Price 0.75p

Reuters/BBG	AMED.L / AMED LN
Index	FTSE AIM
Sector	Speciality Finance
Market Cap	£11.1m
Shares in Issue	3,265m
NAV	0.5p
Gearing	NA
Interest Cover	NA

Performance	All-Share	Sector
1 month:	14.6%	22.1%
3 months:	-32.6%	-23.6%
12 months:	-54.8%	-60.7%
High/Low	1.1p / 0.3p	

### Key Data:

EPS CAGR 3-year	NA
ROCE	NA
Free Cashflow Yield	NA

Last Results	Finals – Jun
Next Results	Interims – Sep
Next Event	AGM – Jun



Source: Capital IQ

**Analyst** John Cummins  
+44 (0)207 2201755  
john.cummins@wh-ireland.co.uk

\*WH Ireland acts as Broker & NOMAD to this company

### Marketing Communication

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## Amedeo Resources\*

### Progress continues against a challenging backdrop

Amedeo Resources is a resource and energy related infrastructure and asset investment company. The Group benefits from a management team with a proven track record, a strong senior partner in its first major investment with Yangzijiang Shipbuilding, in combination with the Qatar Investment Corporation as the majority shareholder. Amedeo's associate, YZJ Offshore, received its first order in 2012 for a Le Tourneau Super 116E Class design jackup rig, which is scheduled to be completed in late H2 2015. Amedeo also owns a stake in a small commodities trading business, MGR, and we anticipate further investments to be undertaken in due course. Whilst the market backdrop has become more difficult following the decline in the oil price, and this is still a relatively early stage in the Group's development, the medium-term growth potential for Amedeo's key investment in YZJ Offshore is significant. We initiate coverage with a Speculative Buy recommendation and 0.75p share price target.

**Results demonstrated continued progress** Importantly, the first rig order is expected to be completed late H2 2015, on schedule and with the build quality as specified. MGR has been impacted by the fall in the iron ore price but remains profitable.

**The short-term focus for investors is very much on the delivery of the first rig and news on further contract wins** Explorer 1, the first rig to be built, is reported to be on schedule. With the current backdrop, new orders have been slower coming through than expected but work is being carried out at the yard for Yangzijiang Shipbuilding, with discussions ongoing for further offshore orders, which are reported to be a varying stages.

**We would highlight key risks as:** A limited track record, availability of credit and dependency on the end customer's financial position, near-term dependency on Explorer 1, dependency on senior executives, the current market backdrop in oil services, and potential future cash requirements.

**Valuation** Placing a fair value on the shares is certainly somewhat of a challenge. The potential for the Group is significant given the backing provided by operating partners, majority shareholder and track record of management. However, set against these positives, this remains an early stage investment in a Group and a key investment with a limited track record in an extremely challenging market. We set a 12-month share price target of 0.75p per share with scope for this to be raised in due course.

Estimates (Dec - US\$m)	2014A*	2014A <sup>#</sup>	2015E	2016E
Revenue	0.1	0.1	0.1	0.1
EBITDA	-2.3	-1.7	-1.6	0.3
PBT	-2.1	-1.3	-1.3	0.6
EPS (c)	-0.1	0.0	0.0	0.0
PER (x)	NA	NA	NA	27.4
EV/EBITDA (x)	NA	NA	NA	43.2
Net Cash/(Debt)	0.6	1.2	2.6	3.3
Net Assets	17.6	24.4	23.0	23.8

Source WH Ireland Research

\*12-months to Jan-14, <sup>#</sup>11-months to Dec 2014

WH Ireland Limited, 11 St James's Square, Manchester, M2 6WH

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# INCOME STATEMENT

Y/E Dec (US\$m)	2014A*	2014A <sup>#</sup>	2015E	2016E
<b>Revenue</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<i>Growth (%)</i>	<i>NA</i>	<i>-30.6</i>	<i>10.0</i>	<i>10.0</i>
Administration costs	-0.7	-0.7	-0.7	-0.7
Share of gain (loss) of associates	-1.0	-0.9	-1.0	1.0
Foreign exchange gains (losses)	-0.7	-0.2	0.0	0.0
<b>EBITA</b>	<b>-2.3</b>	<b>-1.7</b>	<b>-1.6</b>	<b>0.3</b>
<i>EBITA Margin (%)</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
Dividend income	0.1	0.0	0.0	0.0
Interest	0.2	0.4	0.3	0.3
<b>PBT (underlying)</b>	<b>-2.1</b>	<b>-1.3</b>	<b>-1.3</b>	<b>0.6</b>
Non-underlying	0.5	-0.1	0.0	0.0
Other non-underlying	1.9	-0.1	0.0	0.0
<b>PBT (headline)</b>	<b>0.3</b>	<b>-1.5</b>	<b>-1.3</b>	<b>0.6</b>
Tax Rate (%)	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Attributable Clean	-2.1	-1.3	-1.3	0.6
Shares in Issue (Avg)	2738.6	3222.3	3265.4	3265.4
<b>EPS (c) Clean</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>Growth (%)</i>	<i>NA</i>	<i>NA</i>	<i>6.8</i>	<i>NA</i>
<b>Dividend (c)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>Growth (%)</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>

# CASH FLOW & BALANCE SHEET

Y/E Dec (US\$m)	2014A*	2014A <sup>#</sup>	2015E	2016E
Group operating profit	-2.3	-1.7	-1.6	0.3
Depreciation	0.0	0.0	0.0	0.0
Working Capital	0.0	-0.4	0.0	0.0
Other	1.8	0.8	0.9	0.0
<b>Operating Cashflow</b>	<b>-0.5</b>	<b>-1.3</b>	<b>-0.7</b>	<b>0.3</b>
Net Interest	0.2	0.4	0.3	0.3
Tax	-0.1	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>-0.5</b>	<b>-0.9</b>	<b>-0.4</b>	<b>0.6</b>
Investments in associates	0.0	-5.1	0.0	0.0
Investments in subsidiaries	0.0	-2.0	0.0	0.0
Equity Dividend Paid	0.0	0.0	0.0	0.0
Other	-1.7	0.0	2.0	0.0
<b>In/outflow b/f</b>	<b>-2.2</b>	<b>-8.0</b>	<b>1.5</b>	<b>0.6</b>
Total Financing	0.0	8.6	0.0	0.0
<b>Net Cashflow</b>	<b>-2.2</b>	<b>0.6</b>	<b>1.5</b>	<b>0.6</b>
<b>Net Cash</b>	<b>0.6</b>	<b>1.2</b>	<b>2.6</b>	<b>3.3</b>
<b>Net Assets</b>	<b>17.6</b>	<b>24.4</b>	<b>23.0</b>	<b>23.8</b>

\*12-months to Jan-14, <sup>#</sup>11-months to Dec 2014

## Investment Case

**Amedeo Resources** is a resource and energy related infrastructure and asset investment company, with the Qatar Investment Corporation being the majority shareholder. The Group is headed up by Glen Lau as Chief Executive, previously having held senior positions at PPL Shipyard in Singapore. The Group's first investment has been in YZJ Offshore in which it holds an indirect 19.0% stake, in conjunction with Yangzijiang Shipbuilding, a US\$4.1bn market cap shipbuilder. YZJ Offshore received its first order in 2012 for a Le Tourneau Super 116E Class design self-elevating mobile offshore jackup drilling rig, which is scheduled to be completed in H2 2015. Amedeo also owns a stake in a small commodities trading business, MGR, and we anticipate further investments to be undertaken in due course. Whilst the market backdrop in oil services has become more difficult following the decline in the oil price, the medium-term growth potential for Amedeo's key investment in YZJ Offshore is significant, particularly given its major shareholder, the JV partner and the track record of management. We initiate coverage with a Speculative Buy recommendation and 0.75p share price target.

**Qatar Investment Corporation as the majority shareholder** The Qatar Investment Corporation currently holds a 61% stake in Amedeo Resources, having invested in the original placing in June 2012. Its backing gives further credibility to the medium-term growth prospects for Amedeo.

**A minority equity stake in YZJ Offshore with a powerful senior partner** Even against the current malaise in the oil services sector, we believe that YZJ Offshore has the potential to succeed in its ambition to become a major offshore yard in Asia. YZJ Shipbuilding, the senior partner in the JV, is a US\$4.1bn market cap shipbuilder, quoted in Singapore and Taiwan. In addition to growing the existing business, Yangzijiang Shipbuilding is undertaking a strategy to diversify, including moving into the offshore market.

**Amedeo benefits from a highly experienced Board with a proven track record** Most notably are Glen Lau, the Chief Executive, who has previous experience at Singapore's PPL and Ghanim Bin Saad Al Saad, Non-Executive Chairman, the founder of one of Qatar's most successful private sector business groups. The Board's cash remuneration is low, being heavily incentivised with equity. It should be noted that the Chief Executive received warrants in March 2015, with an exercise price of 1.0p.

**The short-term focus for investors is very much on the delivery of the first rig 'Explorer 1' and news on further contract wins** YZJ Offshore's first order for the S116E jackup rig is scheduled to be completed in late H2 2015, which management report is on schedule, on budget and importantly, in line with quality requirements.

**We would highlight key risks as:** Availability of credit and dependency on the end customer's financial position, near-term dependency on Explorer 1, a limited track record, dependency on senior executives, the current market backdrop in oil services, and potential future cash requirements.

**Valuation** Placing a fair value on the shares is certainly somewhat of a challenge. The potential for the Group is significant given the backing provided by operating partners, majority shareholder and track record of management. However, set against these positives, this remains an early stage investment in a Group and the key investment has a limited track record in an extremely challenging market. We see fair value of 0.75p per share on a 12-month view, with scope for this to be raised in due course as further contracts are secured.

## Results demonstrate continued progress

Results from Amedeo for the 11-months to 31 December 2014 demonstrated the continued progress that has been made in the period at the Group's initial two investments against what have been a challenging market backdrop. Importantly, the Explorer 1 rig is expected to be completed in late H2 2015, on schedule and with the build quality as specified. MGR has been impacted by the sharp fall in the iron ore price but importantly remained marginally profitable. Against the wider backdrop of a lower oil price and where capital expenditure has been significantly reduced, no new orders have been secured to date, although management note that discussions remain ongoing and at various stages. Importantly, YZJ Offshore has taken on work from its JV partner Yangzijiang Shipbuilding, constructing blocks for containers and carrier vessels. It was also announced that subject to approval at the AGM, a 1 for 100 share consolidation will become effective 1 July.

**Fig 3: Historic financials**

US\$m	11months to Dec 14	12months to Jan 14	Variance (%)
<b>Revenue</b>	<b>0.1</b>	<b>0.1</b>	<b>-30.6%</b>
Administration costs	-0.7	-0.7	-5.0%
Share of gain (loss) of associates	-0.9	-1.0	-12.0%
Foreign exchange gains (losses)	-0.2	-0.7	-72.5%
<b>EBITA</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-27.4%</b>
Dividend income	0.0	0.1	-100.0%
Interest	0.4	0.2	183.2%
<b>Underlying profit before tax</b>	<b>-1.3</b>	<b>-2.1</b>	<b>-39.4%</b>
Underlying EPS (c)	0.0	-0.1	NA
<b>Net cash</b>	<b>1.2</b>	<b>0.6</b>	<b>93.7%</b>

Source: Amedeo Resources/WH Ireland

### Revenue

Trading revenue in the period stood at US\$91,000, relating to business development and marketing services provided by Amedeo to MGR. This was down from US\$128,000 for the year to January 2014, reflecting the shorter reporting period and activity levels.

### Costs

Underlying administrative expenses were broadly flat at US\$678k, excluding US\$149k of one off items. Amedeo's share of loss in associates stood at US\$924k, made up of a US\$942k loss at the YZJ JV, with a profit of US\$20k from MGR. Foreign exchange losses amounted to US\$197k in the period.

### Loss before tax/loss per share

Finance income was received in the period totalling US\$444k from MGR. This resulted in an underlying loss before tax of US\$1.3m/0.04c per share. However, excluding non-cash and exceptional items, the cash loss on ordinary activities before tax stood at US\$128k, a reduction of 53% on the comparative period.

### Cashflow

Cash as at 31 December 2014 stood at US\$1.2m, an increase of US\$0.6m from 11-months earlier and reflecting both the equity raised in March 2014 and the subsequent investments made. Since year-end, management reported that MGR has paid back US\$2.0m of the loans made, with the Group's current cash position standing at US\$3.0m.

### Net assets

As at 31 December 2014, Amedeo's Balance Sheet showed net assets of US\$24.4m. The key elements of this were investments in associates of US\$19.2m, the US\$3.8m loans receivable from MGR and cash of US\$1.2m.

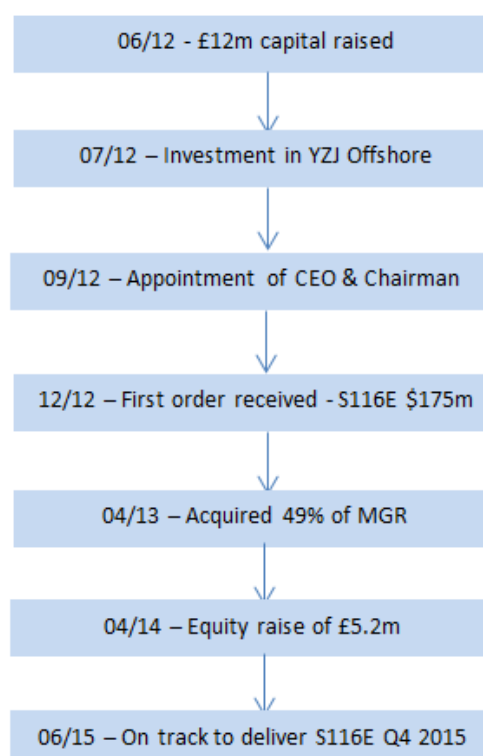
## Strategic review

Amedeo Resources is a resource and energy related infrastructure and asset investment company, with the Qatar Investment Corporation being the majority shareholder. The Group is headed up by Glen Lau as Chief Executive, previously having held senior positions at PPL Shipyard in Singapore, a US\$1bn revenue offshore rig producer, part of Sembcorp Marine (listed in Singapore). The first investment has been in YZJ Offshore, which is currently building its first rig at its yard, located 130 kilometres north of Shanghai on the Yangtze river. Amedeo also owns a stake in a small commodities trading business, MGR.

### Recent History

Looking at the recent history of Amedeo Resources (originally Creon Resources), £12m was raised in June 2012 to fund a strategy of investing in the resources and supporting infrastructure market segments. The largest investor in the fundraise was the Qatar Investment Corporation at a price of 0.5p. Shortly after this, the Group made its first investment in YZJ Offshore, with the current Chief Executive, Glen Lau and Chairman, Ghanim Bin Saad Al Saad being appointed. In December 2012, YZJ Offshore received its first order for a Le Toureau Super 116E design jackup rig worth US\$170m (subsequently increased to US\$175m).

**Fig 4: Timeline**



Source: Amedeo Resources/WH Ireland

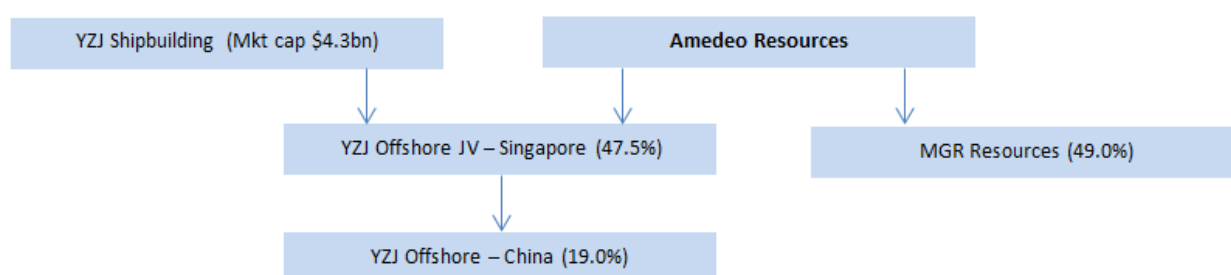
In April 2013, Amedeo acquired a 49% stake in MGR Resources for £30,000 plus a 15% coupon convertible loan to MGR of up to US\$1.95m for working capital. A further £5.2m in equity was subsequently raised at a price of 1.0p in April 2014, of which £3.3m was used to fully pay up Amedeo's stake in the YZJ Offshore JV.

### Group structure & investments

Amedeo's investment policy is to invest primarily in the resources and energy related infrastructure sectors worldwide, whether it be a controlling or non-controlling stake and act as an active or a passive investor. Investments may be either quoted or unquoted and maybe in companies, partnerships, joint ventures or direct interests in projects. The structure of Amedeo's investments needs to be clearly understood, particularly in relation to the YZJ Offshore JV, where Yangzijiang Shipbuilding (SGX:BS6) is the other significant shareholder.

Amedeo holds a 47.5% stake in YZJOE SingCo, a JV established between Amedeo and Yangzijiang Shipbuilding, which in turn owns a 40.0% stake in YZJ Offshore China, providing Amedeo with an indirect 19.0% stake in the yard. Amedeo's second investment is at 49% stake in MGR Resources, a small physical commodities trader, the aim of which is for the profits due to Amedeo to cover Group overheads.

**Fig 5: Investment structure**



Source: Amedeo Resources

### YZJ Offshore

In July 2012, Amedeo made its first investment, costing an initial £9.6m by taking an original 46.5% stake in YZJ Offshore Engineering Pte Ltd (subsequently full paid up with a further £3.3m investment), which has a 40.0% stake in YZJ Offshore. Amedeo's partner in this venture is Yangzijiang Shipbuilding, the largest non-state owned shipbuilder in China. YZJ Shipbuilding's shares are quoted in Singapore and Taiwan, with a market capitalisation of US\$4.1bn. YZJ Shipping produces a range of large commercial vessels, such as container ships, bulk carriers and LNG vessels, having gained a reputation for delivering its vessels on time, on budget and strictly to the quality standards set. YZJ Shipping has backed this venture with Amedeo as it looks to expand into adjacent markets, in line with China's economic strategy to move increasingly up the value chain.

There are currently ten offshore yards in China, including YZJ Offshore's yard, capable of producing rigs; the other nine are state owned. Rigs built in China to date out of the nine state owned yards have had a number of quality issues. However, the economics of building rigs in China are clearly highly attractive if these quality issues can be addressed. The Chinese Government is firmly behind YZJ Offshore, providing the land on which the yard is located at an attractive rate, in combination with investing in the surrounding infrastructure such as roads.

### MGR Resources

The decision to invest in MGR Resources in April 2013, in which Amedeo now holds a 49.0% stake, was taken with a view that dividend payments from MGR to Amedeo would cover the day to day running costs of the company. The business historically focused on

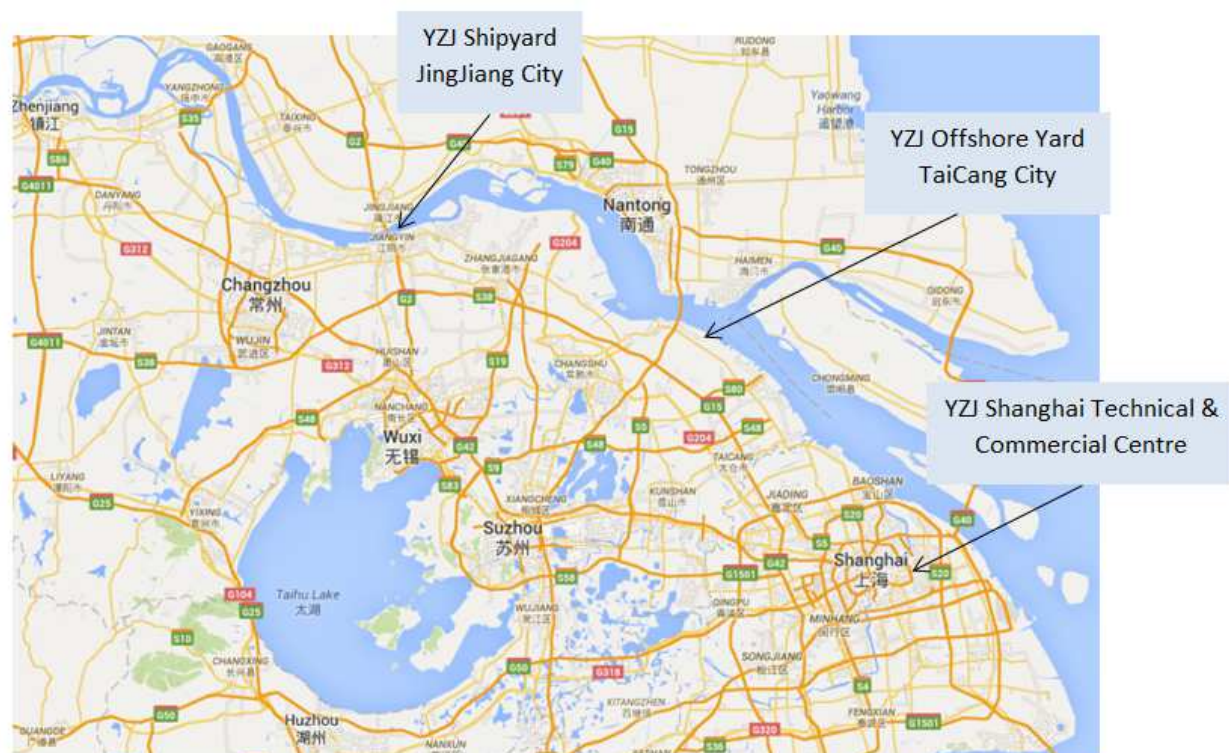


ferrous metals and ore into China. With the fall in the price of iron ore, and subsequent fall in brokering margins, MGR has since been exploring opportunities in other areas.

#### YZJ Offshore yard

The YZJ Offshore yard is located on 1.6m square metres of prime shorefront land in Taicang, 60 km north west of Shanghai and about three hours' drive south east from the main YZJ Shipping yard. It is an ideal location for rig construction due to its deep water and absence of bridges (unlike the main YZJ Shipbuilding yards) to the open sea.

**Fig 6: YZJ Rig Yard location**



Source: Map data 2015 AutoNavi, Google

The New Yard was fully completed, ahead of schedule, in Q4 2014, with a capacity to build up to ten offshore rigs, four semisubmersibles and two drill ships simultaneously.

**Fig 7: YZJ Offshore Yard/S116E rig under construction**



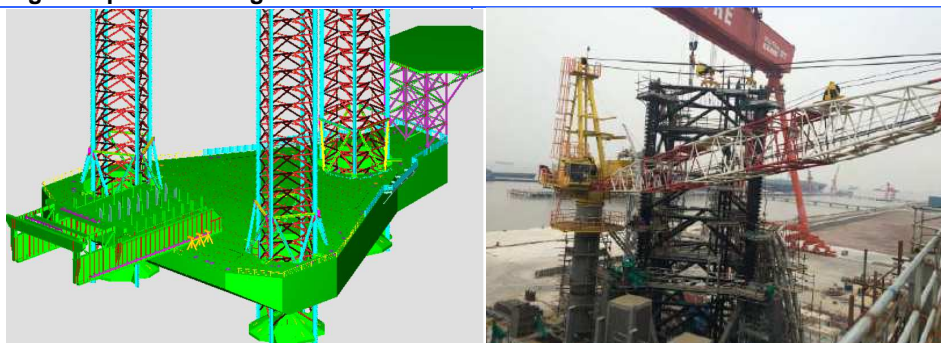
Source: Amedeo Resources



YZJ Offshore is currently constructing its first offshore rig, a Le Tourneau Super 116E Class design self-elevating mobile offshore jackup drilling rig ("Explorer 1"), following the award of the contract in December 2012. The end customer is Explorer 1 Ltd, with the project, managed by Offshore Logistics (Asia Pacific) Pte Ltd.

The order for Explorer 1 was secured some 18-months in advance of the yard being completed as a result of a combination of YZJ Shipbuilding's reputation, alongside YZJ Offshore's senior management and Amedeo management's track records.

**Fig 8: Explorer 1 design/construction**



Source: Amedeo Resources

The yard's first rig, Explorer 1, is due to be ready for commissioning in late H2 2015. Management has stated that the customer is currently pleased with the build quality of the rig. Given the perception in the market of Chinese built rigs, in addition to being able to deliver on time and on budget, we view the build quality to be key to YZJ Offshore's future success in attracting further orders and establishing the business in the market.

### **A challenging market backdrop but one from which to thrive**

The market backdrop has changed dramatically in the last 12-months. Oil prices, whilst having seen a rise in recent weeks, are well below the US\$100+ levels seen last year. Both oil majors and smaller explorers are reducing both capex and opex and service companies such as Transocean are cutting back on capex, scrapping existing equipment and taking large write-downs on remaining equipment. As such, utilisation levels across the industry are moving lower, with only 63% of jackup rigs currently in use (Source: Rigzone 12/05/15), down from 73% only a month or so ago, with much of the existing stock now aging and unsuitable for today's low oil price environment. Set against these challenges, we believe YZJ Offshore is well placed to benefit.

Whilst the yard's current order is for a drilling rig, we expect YZJ Offshore to secure contracts in other areas such as accommodation platforms given the capacity of the Yard to construct up to ten offshore rigs, four semisubmersibles and two drill ships simultaneously. In addition, YZJ Offshore is able to construct blocks for other vessels such as container ships and gas carrier vessels. We believe this flexibility and diversity provides a key defensive attribute for the business in more challenging markets.

Furthermore, through being a subsidiary of YZJ Shipbuilding, whilst the offshore business is being built up, the YZJ Offshore yard has the benefit of YZJ Shipbuilding being able to subcontract work through it and utilise its docking facilities for its vessels following sea trials and prior to handing over to the customer. Whilst we would not expect this to result in a profit for the YZJ Offshore yard, what this will do is ensure a constant workflow as utilisation levels increase from the core offshore business and ensures well-trained staff can be kept.

Anecdotally, a trend is also beginning to emerge for the National Oil Companies to look toward local equipment suppliers, rather than the majors, a trend YZJ Offshore should benefit from in due course.

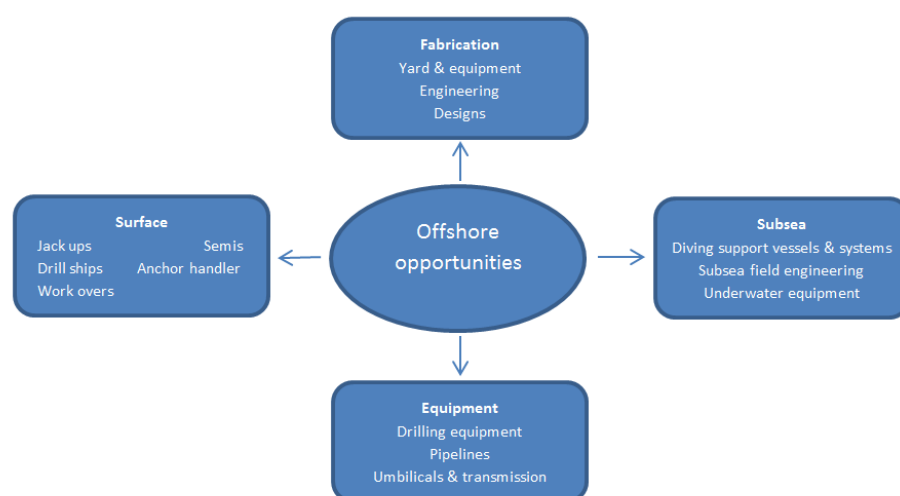
## Expansion into new markets

Amedeo's vision is to be a resource and energy related infrastructure and asset investment company. The two segments we have seen investments made to date have been in the offshore services market with YZJ Offshore and in the resources space with MGR. However, looking further out, this approach could well expand and the potential exists to realise value for shareholders through the disposal of these assets in due course.

### Offshore

Amedeo's Board intends to grow the offshore operations to become a leading player in the offshore infrastructure and asset segment. This can be categorised into four key areas, as demonstrated in Figure 9 below.

**Fig 9: Potential offshore segments**



Source: Amedeo Resources

### Resources

Amedeo's initial investment in MGR was principally undertaken with an aim of covering the Group overheads. However, given the connections across a number of territories and experience in the wider resources market, the potential exists to expand this area of investment further, perhaps even into the ownership of physical resource assets. For example, MGR predominantly buys ore from Africa, the Middle East and India, reselling into China using well established relationships. Given the current backdrop across the wider resources market, asset prices are at relative historic lows. This presents an interesting opportunity should attractive businesses or assets become available where existing relationships could be leveraged to enhance the value through supply chain agreements.

## Forecasts

We believe that Amedeo's first investment in YZJ Offshore is well positioned to increase shareholder value over the medium-term given the track record of management and backing of YZJ Shipbuilding. However, with the market backdrop and uncertainty in timing of further orders ahead of the delivery of Explorer 1, our forecasts do not assume any further contracts beyond the first rig, currently under construction. Management has stated that Explorer 1 is on schedule to be completed in late H2 2015. Given the exact extent of the time lag between completion and final delivery to the customer being unknown, we have assumed that the share of profit from the YZJ Offshore associate falls into FY 2016E.

**Fig 10: Summary forecasts**

Estimates (Dec - US\$m)	2014A*	2014A <sup>#</sup>	2015E	2016E
Revenue	0.1	0.1	0.1	0.1
Gross profit	0.1	0.1	0.1	0.1
Admin expenses	-0.7	-0.7	-0.7	-0.7
Share of profit (loss) from associates	-1.0	-0.9	-1.0	1.0
FX gains (losses)	-0.7	-0.2	0.0	0.0
Loss from operations	-2.3	-1.7	-1.6	0.3
Dividend income	0.1	0.0	0.0	0.0
Finance income	0.2	0.4	0.3	0.3
Profit (loss) before tax	-2.1	-1.3	-1.3	0.6
EPS (c)	-0.1	0.0	0.0	0.0
Net Cash/(Debt)	0.6	1.2	2.6	3.3
Net Assets	17.6	24.4	23.0	23.8

Source: Amedeo Resources/WH Ireland, \*12-months to Jan-14, <sup>#</sup>11-months to December 2014

### Revenue

Due to the structure of the business as an investment company, the nature of revenue related predominantly to marketing and consultancy fee income from MGR, with profit and dividends from investee companies come further down the Income Statement.

### Gross profit

As a result of the nature of the revenue derived, this almost entirely flows through to the gross profit line.

### Admin expenses

Underlying admin expenses in the year to 31 December 2014 stood at US\$678k, broadly unchanged in the year. We anticipate this remaining broadly unchanged throughout our forecast time horizon.

### Share of profit/loss from associates

The share of profit/loss from associates principally refers to the Group's investment in YZJ Offshore. Following the investment made, losses are written off against this investment, with no impact on cash. Amedeo reported a loss from associates of US\$922k in the 11-months to 31 December 2014. In FY 2015E, we are forecasting the Group to report a loss from associates of US\$1.0m, with delivery of Explorer 1 conservatively expected to take place in FY 2016E. With this being the first rig order under construction at the yard, we assume a 3% margin is achieved, equating to a reportable profit to Amedeo of US\$1.0m.

#### **Dividend income**

Dividend income principally relates to dividend income paid out from MGR. Due to the backdrop of the weakness in the iron ore market, there was no dividend declared in the year and our estimates do not assume an improvement in our forecast time horizon.

#### **Finance Income**

Finance income relates to the interest received from the 15% coupon loans from Amedeo to MGR. We are forecasting finance income of US\$300k per annum going forward.

#### **Profit (loss) before tax**

We are forecasting the Group to report a similar financial performance in FY 2015E as that reported in the 11-months to 31 December 2014, resulting in a loss before tax of US\$1.3m. We forecast Amedeo to report a profit before tax in FY2016E of US\$0.6m following the delivery of Explorer 1.

#### **Cashflow**

We are forecasting a net cash inflow in FY 2015E of US\$1.5m, the Group benefiting from the repayment of one of the loans to MGR since year-end of US\$2.0m, interest received from the loan to MGR, offset in part by the cash administration expenses. This results in a year-end net cash position of US\$2.6m.

#### **Net assets**

We are forecasting a year-end net asset position of US\$23.0m, equivalent to 0.5p per share. As at 31 December 2014, Amedeo's Balance Sheet showed net assets of US\$24.4m. The key elements of this were investments in associates of US\$19.2m, the US\$3.8m loans receivable from MGR and cash of US\$1.2m.

## Valuation

Placing a fair value on the shares is certainly somewhat of a challenge. The potential for the Group is significant given the backing provided by operating partners, majority shareholder and track record of management. However, set against these positives, this remains an early stage investment in a Group and key investment with a limited track record.

**Fig 1: Peer group valuation**

EPIC	Company	Share Price (US c)	Market Cap (USD) (m)	EV/Revenue FY1 (x)	EV/Revenue FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	PER FY1 (x)	PER FY2 (x)	P/NAV FY0 (x)	12m SP return (%)
SGX:BN4	Keppel Corporation Limited	649	11795	1.7	1.7	10.6	10.3	10.0	9.9	1.5	-17.7%
LSE:AMFW	Amec Foster Wheeler plc	1451	5647	0.8	0.8	9.6	8.9	12.2	11.4	1.9	-23.2%
LSE:PFC	Petrofac Limited	1382	4712	0.9	0.8	8.1	6.1	14.6	8.8	2.6	-29.7%
SGX:S51	Sembcorp Marine Ltd	223	4662	1.2	1.3	9.3	9.5	12.0	12.6	2.0	-27.7%
LSE:WG.	John Wood Group PLC	1120	4117	0.6	0.7	8.7	9.2	13.7	14.5	1.6	-8.5%
LSE:HTG	Hunting plc	941	1381	1.6	1.5	10.8	9.1	23.7	18.0	1.0	-26.2%
LSE:LAM	Lamprell plc	233	796	0.6	0.6	5.4	5.3	13.6	13.8	1.2	-4.2%
LSE:CIU	Cape plc	384	465	0.6	0.6	5.8	5.0	9.1	8.6	2.4	-17.7%
AIM:POS	Plexus Holdings plc	331	281	6.3	4.9	11.3	13.0	36.2	23.8	5.2	-29.4%
AIM:KBC	KBC Advanced Technologies plc	179	146	1.2	1.1	7.6	6.6	13.5	12.2	1.4	-10.2%
AIM:PRES	Pressure Technologies plc	412	59	0.5	0.5	0.0	0.0	8.7	5.9	1.1	-58.3%
AIM:GDL	Greka Drilling Limited	12	49	0.8	0.8	3.9	3.8	13.6	22.2	0.7	-27.3%
AIM:GTC	GETECH Group Plc	84	27	1.4	1.4	5.4	5.3	10.0	9.6	2.1	9.9%
AIM:THAL	Thalassa Holdings Ltd.	96	21	0.2	0.1	11.7	1.2	NM	29.2	0.5	-73.2%
AIM:NTQ	Enteq Upstream Plc	29	17	0.2	0.3	4.1	41.2	NM	NM	0.2	-44.4%
AIM:GEL	Greka Engineering & Technology Ltd.	3	12	1.4	1.0	7.2	4.0	NM	13.7	0.4	-50.0%
	<b>Median</b>			<b>0.8</b>	<b>0.8</b>	<b>7.8</b>	<b>6.4</b>	<b>13.5</b>	<b>12.6</b>	<b>1.5</b>	<b>-26.7%</b>
AIM:AMED	Amedeo Resources plc	1	15	NA	NA	NA	47.8	NA	27.4	0.7	-60.0%

Source: Capital IQ/WH Ireland estimates

### PER

We have constructed a peer group comprising the London listed oil services businesses, with the addition of the two main Singaporean rig builders, Keppel Corporation and Sembcorp Marine. Following the decline in the oil price and subsequent impact on sector valuations, the peer group currently trades on a FY1 PER of 13.5x falling to 12.6x. On EV/EBITDA criteria, the multiples stand at 7.8x falling to 6.4x.

However, Amedeo is in its infancy with only one investment and with the profit coming from YZJ's first rig expected to be lower than for future projects. In arriving at our fair value estimate for the shares, we assume that a 15% operating margin is achieved on each future order constructed (whether it be a rig, an accommodation deck, vessel etc) and that the average order value is US\$150m per order. This would imply an operating profit of US\$22.5m per contract, US\$4.3m/0.08p per share of which would be attributable to Amedeo shareholders.

Assuming two major contracts are delivered in FY 2018E and that MGR pays a dividend and interest to Amedeo equal to the Group administration costs, this would result in a hypothetical EPS of 0.17p. Ascribing a conservative PER multiple of 6x, a 52% discount to the year-2 peer group PER multiple, this would imply a share price of 1.0p.

**NAV**

As at 31 December 2014, Amedeo's Balance Sheet showed net assets of US\$24.4m. The key elements of this were investments in associates of US\$19.2m, the US\$3.8m loans receivable from MGR and cash of US\$1.2m. This is equivalent to 0.5p per share, almost 50% above the current share price.

**Share price target**

Taking an average of these metrics implies fair value for the shares of 0.75p per share, which forms the basis of our 12-month share price target. Clearly, this has scope for upward revision in due course as further contracts are secured and the strategy is progressed.

**Fig 2: Share price target (p)**

	<b>Fair value</b>	<b>Weighting</b>	<b>Total</b>
PER	1.0p	50%	0.50p
NAV	0.5p	50%	0.25p
<b>Weighted average</b>			<b>0.75</b>

Source: WH Ireland



## Key risks

### **Availability of credit and dependency on the end customer's financial position**

The value of the vessels designed and built by YZJ Offshore is significant. The ability to construct such vessels is dependent on YZJ Offshore's ability to obtain credit to fund the builds. YZJ Offshore also has the risk that following the completion of vessels, the purchaser is not able to make the payment to take delivery (typically 90% of the total price of the vessel). If this were to happen, YZJ Offshore would take possession of the vessels, and then find a buyer or lessee for the vessels. Its ability to resell or lease the vessels is dependent on the nature of the vessels and the demand for the vessels at the time of completion, which may be very different from when the order to build the vessels was placed.

### **Near-term dependency on Explorer 1**

With the key investment to date being in YZJ Offshore, there is a near-term dependency on the successful delivery of Explorer 1, both for the success of YZJ Offshore as well as Amedeo. Management has reported that this is set to be completed in late H2 2015, on budget and with build quality to standard, which provides comfort but this will remain a risk in the short-term.

### **Limited track record**

YZJ Offshore is a new offshore yard and as such its ability to attract new orders is dependent up the success of its first few builds, particularly given the quality issues previously having been seen from Chinese rig yards. This is somewhat mitigated from both the reputation of management, in combination with the backing of YZJ Holdings but will remain a risk until a track record has been established.

### **Execution risk**

As with any acquisition vehicle, execution risk will remain a risk for Amedeo, particularly in the early stages of any start-up investments. This will reduce in time as the Group is less dependent upon individual investments.

### **Dependency on senior executives**

Amedeo is dependent upon a small number of executives to execute its strategy successfully. As such, the fate of the Group is dependent upon a small number of individuals, including Glen Lau, the Chief Executive.

### **Market backdrop**

This is twofold. Firstly, the market backdrop for commodity assets and related industries will drive the valuations paid for investments, meaning that Amedeo may overpay for assets if the timing of the cycle is called incorrectly. Secondly, driven by the lower oil price and overcapacity in the rig market, the backdrop for YZJ Offshore, as well as other rig builders, means that new orders are harder to come by.

### **Competitive environment**

As a result of the lower oil price, the competitive environment for rig builders is particularly tough. Pricing for new build rigs has moved lower with competition for those contract available becoming intense. However, in the longer-term, this is likely to play to YZJ Offshore's low cost advantage.

### **Adverse trading at MGR**

MGR amalgamates disparate supplies of ferrous and related ores and metals, and then sells them into East Asia and China, primarily on a spot or short term contract basis. As such, its performance depends on its ability to source such supplies and then find buyers for them. MGR is exposed to demurrage risk on the ores and metals it purchases and transports. There is the risk of shipments being delayed for any number of reasons, and the risk that between purchase and sale the price of the commodity changes (though this is minimised by the nature of contracts). In addition, there is the risk that purchasers fail to

perform on their obligations, in which case MGR has to find other purchasers for its ferrous and related ores and metals.

**Cash requirements**

Amedeo's cash position as at the 31 December 2014 stood at US\$1.2m, a US\$0.6m increase on the prior period. Subsequent to the year-end, MGR paid back a loan of \$2.0m to Amedeo, increasing the Group's cash position to \$3.0m. The equity investment in YZJ Offshore is fully paid up, with losses from the JV being written off against the value of the equity in the Group's balance sheet. Whilst MGR remained profitable in FY 2014A, it was not enough to cover the Group's operating costs. Set against this is a highly supportive majority shareholder.

**Potential equity dilution**

There are currently 3,265m shares in issue, with 502m warrants implying a potential maximum dilution of 15%, with the exercise price ranging from 0.5p to 1.0p. It should be noted that 260.7m of these warrants were awards to Chief Executive Glen Lau on 11 March 2015 with an exercise price of 1.0p, 194% above the current share price. Furthermore, an equity raise would be required should Amedeo undertake further acquisitions prior to the disposal of existing investments.

## Management team

### **Mr Ghanim Bin Saad Al Saad Al Kuwari - Non-Executive Chairman**

Mr Ghanim Al Saad is a businessman of international repute. He joined the board as Non-Executive Chairman in October 2012. He is the founder of Ghanim Bin Saad Al Saad & Sons Group Holdings, which is one of Qatar's most successful private sector business groups with investments in more than 40 companies around the world operating in the fields of aviation, maritime, automobiles, oil & gas, real estate, manufacturing, finance & asset management, engineering, education, fitness, hotels and hospitality, information technology and telecommunications. Until recently, Mr Ghanim Al Saad was also Managing Director of Qatari Diar Real Estate Investment Company, which was established in 2005 by the Qatar Investment Authority, the sovereign wealth fund of the State of Qatar.

### **Glen Lau – Director and Chief Executive**

Glen joined the board as Chief Executive in September 2012. Glen graduated from the National University of Singapore in 1989 with a BSC in Mathematics and Economics and achieved a MSC in Financial Engineering from the same university in 2001. Glen has over 23 years' experience working in the financial sector, with a particular expertise in investment banking and fund management. Glen is a director of Fulton Capital Management Limited, and was instrumental in helping to secure Amedeo's joint investment agreement with Yangzijiang Shipbuilding (Holdings) Pte Ltd, announced 17 July 2012.

### **Zafarullah (Zafar) Karim - Executive Director**

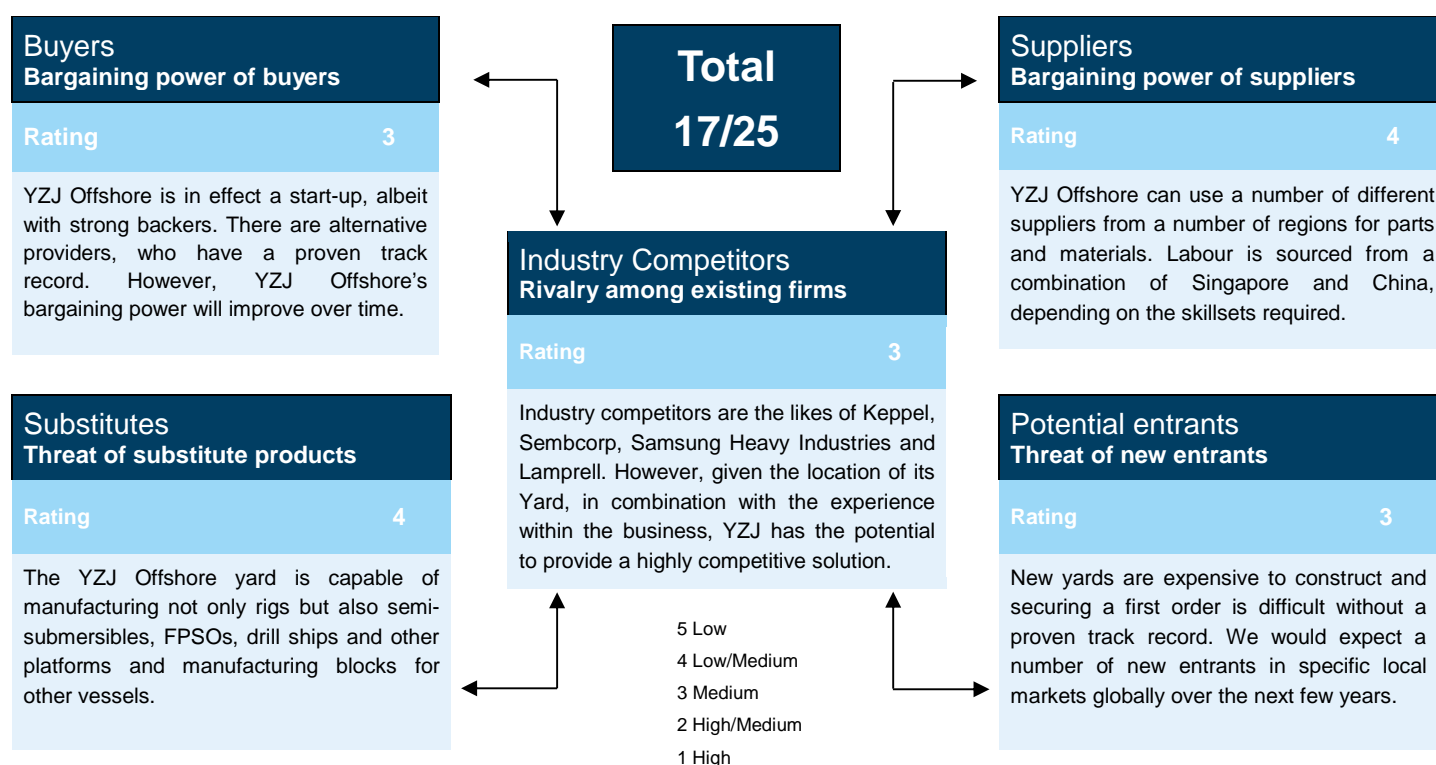
Zafar Karim, 45, brings over two decades of business and financial experience, including investment banking, investment and risk management, financial strategy and growing and restructuring companies. Zafar has been the impetus in driving change and growth at several companies where he has served as a board member. He has also acted as a consultant to various businesses and entrepreneurs in relation to their financial and investment strategies. Zafar started his career in 1990 with the investment banking division of Salomon Brothers. He then worked for several years for NM Rothschild in a variety of developed and emerging markets. Zafar has an M.A. in economics from the University of Cambridge.

### **Philippe Petitpierre - Non Executive Director**

Mr Petitpierre aged 65, is a Swiss national who holds two Masters Degrees in Environmental Sciences and Energy from the EPFL (Lausanne Institute of Technology). He represents Switzerland on the Board of IGU (International Gas Union) and is a member of the board of directors of EUROGAS in Brussels. Mr Petitpierre is vice-chairman of the SWISSGAS Company and of the Swiss Gas Industry Association. He is also active in the regional economy, chairing two Banks and the Economic Development Council of Canton de Vaud.

## Analysis of the environment

### Porter's five competitive forces model



### SWOT analysis

#### Strengths

YZJ Offshore is backed by YZJ Shipping (\$4bn market cap)

Strength of management team and shareholders' connections

Experienced Singaporean engineers combined with low cost labour

#### Threats

Wider sector backdrop – low oil price, capex reductions, over capacity

Currently dependent upon one major project

Lack of a firm order book in place

#### Weaknesses

Unproven track record of the yard

The Group is currently loss making

Dependent upon key individuals

#### Opportunities

Potential to be a major player in the Asian market

Capability to build not only rigs but to move into other areas

To undertake acquisitions in other verticals in the wider energy space

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## Disclosures

### WH Ireland Recommendation Definitions

#### Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

#### Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

#### Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

#### Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

#### Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

#### Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

### Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

### Stock Rating Distribution

As at the quarter ending 31 Mar 2015 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	55	82	40
Speculative Buy	10	14	9
Outperform	1	2	0
Market Perform	1	2	0
Underperform	0	0	0
Sell	0	0	0
<b>Total</b>	<b>67</b>	<b>100</b>	<b>49</b>

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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\*WH Ireland acts as broker and Nomad to Amedeo Resources.

Within the past 12 months, WH Ireland has received compensation for investment banking services from this company.

### Analyst Certification

The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer.

### Companies Mentioned

Company Name	Recommendation	Price (p)	Price Date/Time
Keppel Corporation Limited	NA	425	01/06/15 17:00
Yangzijiang Shipbuilding	NA	70	01/06/15 17:00
Amec Foster Wheeler plc	NA	950	01/06/15 17:00
Petrofac Limited	NA	905	01/06/15 17:00
Sembcorp Marine Ltd	NA	146	01/06/15 17:00
John Wood Group PLC	NA	734	01/06/15 17:00
Hunting plc	NA	616	01/06/15 17:00
Lamprell plc	NA	153	01/06/15 17:00
Cape plc	NA	251	01/06/15 17:00
Plexus Holdings plc	NA	217	01/06/15 17:00
KBC Advanced Technologies plc	NA	118	01/06/15 17:00
Pressure Technologies plc	NA	270	01/06/15 17:00
Greka Drilling Limited	NA	8	01/06/15 17:00
GETECH Group Plc	Buy	55	01/06/15 17:00
Thalassa Holdings Ltd.	Buy	63	01/06/15 17:00
Enteq Upstream Plc	NA	19	01/06/15 17:00
Greka Engineering & Technology Ltd.	Speculative Buy	2	01/06/15 17:00

### Disclaimer

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**Share Price Date/Time**

Company Name	Recommendation	Price	Price Date/Time
Amedeo Resources	Speculative Buy	0.34p	01/06/15 17:00

**Summary of Company Notes**

Headline	Date
Progress continues against a challenging backdrop	03/06/15

**Summary of Security Recommendations**

Recommendation	From	To	Analyst
Speculative Buy	03/06/15	Current	CA

*Current Analyst (CA), Previous Analyst (PA)*

## Contacts

### Research

John Cummins	Consumer/Support Services	020 7220 1755	john.cummins@wh-ireland.co.uk
Eric Burns	Technology/Other Financials	0113 394 6608	eric.burns@wh-ireland.co.uk
Matthew Davis	Technology	0113 394 6620	matthew.davis@wh-ireland.co.uk
Brendan D'Souza	Oil & Gas/Technology	020 7220 1688	brendan.dsouza@wh-ireland.co.uk
Ian Berry	Industrials/Media	020 7220 1757	ian.berry@wh-ireland.co.uk
Alex Pye	Life Sciences	020 7220 1687	alex.pye@wh-ireland.co.uk
Paul Smith	Mining	0113 394 6609	paul.smith@wh-ireland.co.uk
Nick Spoliar	Support Services	020 7220 1761	nick.spoliar@wh-ireland.co.uk
Miles Nolan	Head of Communications	020 7398 1101	miles.nolan@wh-ireland.co.uk

### Sales & Trading

Jasper Berry		020 7220 1690	jasper.berry@wh-ireland.co.uk
David Kilbourn		020 7398 1106	david.kilbourn@wh-ireland.co.uk
Harry Ansell		020 7220 1670	harry.ansell@wh-ireland.co.uk
Jay Ashfield		0207 220 1658	jay.ashfield@wh-ireland.co.uk
Dan Bristowe		020 7220 1648	daniel.bristowe@wh-ireland.co.uk

### Investor Relations

Jessica Metcalf	Head of Investor Relations	0113 394 6623	jessica.metcalf@wh-ireland.co.uk
Margaret Featherby		020 7398 1108	margaret.featherby@wh-ireland.co.uk
Francesca Dellanzo		0113 394 6607	francesca.dellanzo@wh-ireland.co.uk

## Amedeo Resources

### Company Overview

Amedeo Resources is a resource and energy related infrastructure and asset investment company, with the Qatar Investment Corporation being the majority shareholder. The first investment has been in YZJ Offshore, which is currently building its first oil rig. Amedeo also has a stake in a small commodities trading business.

Valuation	2014A*	2014A <sup>#</sup>	2015E	2016E
P/E (x)	NA	NA	NA	27.4
EV/EBITDA (x)	NA	NA	NA	43.2
EV/Sales (x)	125.3	173.7	143.7	125.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Cash Yield (%)	-3.2	-37.8	-3.1	4.5
P/CFPS (x)	NA	-2.9	-37.9	27.4
P/NAV (x)	0.8	0.7	0.7	0.7
PEG (x)	NA	NA	NA	NA

Returns Profile	2014A*	2014A <sup>#</sup>	2015E	2016E
ROCE (%)	-10.8	-5.8	-6.3	-0.3
WACC (%)	10.0	10.3	10.9	11.2
Spread (%)	-20.8	-16.0	-17.2	-11.5
CROCE (%)	-10.8	-5.8	-6.3	-0.3
ROE (%)	-11.8	-5.2	-5.8	2.6

I/S Data	2014A*	2014A <sup>#</sup>	2015E	2016E
Revenue (\$m)	0.1	0.1	0.1	0.1
Growth (%)	NA	-30.6	10.0	10.0
EBITDA (\$m)	-2.3	-1.7	-1.6	0.3
Growth (%)	NA	NA	NA	NA
PBT (\$m)	-2.1	-1.3	-1.3	0.6
Growth (%)	NA	NA	NA	NA
EPS (c)	-0.1	0.0	0.0	0.0
Growth (%)	NA	NA	NA	NA
Dividend (c)	0.0	0.0	0.0	0.0
Growth (%)	NA	NA	NA	NA
Dividend Cover (x)	NA	NA	NA	NA
Interest Cover (x)	NA	NA	NA	NA
EBITDA Margin (%)	NA	NA	NA	NA
EBIT Margin (%)	NA	NA	NA	NA
PBT Margin (%)	NA	NA	NA	NA

Cashflow & B/S Data	2014A*	2014A <sup>#</sup>	2015E	2016E
Net Assets (\$m)	17.6	24.4	23.0	23.8
Net Cash (\$m)	0.6	1.2	2.6	3.3
Gearing (%)	NA	NA	NA	NA
Free Cash EPS (c)	0.0	-0.2	0.0	0.0
NAV (c)	0.6	0.7	0.7	0.7

\*12-months to Jan-14, <sup>#</sup>11-months to Dec 2014