

THALASSA HOLDINGS
(AIM:THAL)
Share price 193p

Date: 12th September 2013
Sector: Oil Equipment, Services & Distribution
Market Cap: c£32m (cUS\$50m)
www.thalassaholdingsltd.com

**Trading significantly ahead of expectations,
the good news continues!**

The AIM quoted marine seismic operations business that has issued a host of positive news over the last few months has announced that results for the year ending 31st December 2013 are now anticipated to "significantly" exceed previous expectations.

This latest highly positive news follows the outstanding interim results issued on 30th July.

- Forecasts move substantially higher

For the year ending December 2013 house broker estimates were previously for revenue of US\$30.6m, pre-tax profit of US\$2.7m and eps of 15.2 cents (10p).

Current year estimates are now raised to pre-tax profit of US\$3.6m on revenue of US\$30.6m, highlighting the improved margins secured through focus on the delivery process. Forecast earnings per share move to 20.1 cents (12.7p) resulting in a one year PER of approximately 15.1x at the current share price (193p).

We highlighted previously that estimates may have appeared overly cautious, suggesting a dramatically reduced margin on the Statoil procurement contract which will be completed in the current financial year. However, we fully appreciated the broker's caution and acknowledgement that the Group needed to ensure efficient mobilisation of the D-PMSS™ and deliver a first seismic shoot for Statoil as efficiently as possible from October of this year.

With the pipeline also looking extremely positive 2014 broker estimates are also raised. Estimates are now for sales of

US\$36.5m (previously US\$20.6m) and pre-tax profit of US\$5.0m (previously US\$3.0m) and eps of 25.2 cents (15.94p equivalent).

There is clearly a greater certainty of conversion of the pipeline of US\$100m referred to in the interim announcement, which was a significant comment in itself from this cautious Group.

For 2015 estimates are for revenue of US\$41.6m, pre-tax profit of US\$6.1m and eps of 30.8 cents (19.48p).

- Strong financials supportive

The Balance Sheet is in great shape with 30th June 2013 period end cash of US\$16.8m (FY12: US\$2.5m) and tangible net assets of US\$18.8m underpinning the valuation. The attractive cash flow model of the significant Statoil contract is another key attraction.

Our interim results commentary highlighted that the gross margin of 33.54% (2012:46.8%) was lower than previously, largely due to increased contingency allowance for the increased work load, to cover potential operating "snags". A good number of those snags have clearly not materialised!

- Focus on manufacturing excellence brings rewards

In order to ensure the efficient manufacture of the D-PMSS™ for Statoil the Group has enlisted the help of SGS SA (www.sgs.com) to analyse the manufacturing process and monitor the supply chain. Zurich listed SGS (SGSN:VTX) is the world's leading

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inspection, verification, testing and certification company with a market capitalisation of approx £12bn. This commendable initiative is clearly now reaping rewards.

- Growing interest in Permanent Reservoir Monitoring

The Group's PMSS™ equipment is installed on vessels in order to provide the seismic (sound) source to allow Oil and Gas Exploration & Production companies to primarily perform Permanent Reservoir Monitoring ("PRM") or Life of Field Seismic in which there appears to be growing interest.

With PRM surveys increasingly being undertaken well ahead of drilling activity the Group's expertise in this area, acquired over more than 10 years, combined with the compelling features of the D-PMSS™ cable/node system, means it is well placed to benefit.

Management commented that industry insiders estimate that the PRM market has the potential to grow to US\$20bn over the next 30 years peaking in 2025.

The following link to the Statoil web site illustrates the benefits of PRM, specifically for the Thalassa contract for the Snorre and Grane oil fields:

http://www.statoil.com/en/NewsAndMedia/News/2012/Pages/13Dec_Permanent_Reservoir_Monitoring.aspx

Management also alluded to the additional demands associated with delivering on this, notably an increase in personnel needs and increased capital requirements.

Up to now growth has been admirably managed, long may this continue!

- Attraction of the Thalassa model

While many of its peers are listed on the Oslo Bors in Norway, the traditional place for seismic, we continue to believe that UK listed THAL offers investors seeking exposure to the seismic arena a more compelling investment model, despite its small size. With the Group's core cost base now supported by long term contracts they can more effectively plan and invest capital.

A terrific story continues to evolve!

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