

**THALASSA HOLDINGS**  
**(AIM:THAL)**  
**Share price 50p**Date: 9<sup>th</sup> November 2012**Sector: Oil Equipment, Services  
& Distribution**

Market Cap: c£4.9m

[www.thalassaholdingsltd.com](http://www.thalassaholdingsltd.com)**With the seismic sector in excellent shape  
this AIM minnow looks compelling value**

Recent news from the AIM quoted seismic group and the geophysical sector in general has been highly positive, although you wouldn't think so with shares remaining modestly valued relative to achievements to date and growth potential.

**- Background**

Thalassa Holdings Ltd (AIM:THAL) was established in September 2007 to acquire marine seismic equipment, specifically something called a Portable Modular Source System ("PMSS™"). The Group was admitted to AIM on 29th July 2008 having raised a gross US\$6.2m at a price of US\$1 per share (Approx £0.50 at the time) with a further 2,300,927 shares issued to the founder in satisfaction of a loan of US\$2,300,927 made by him to the company resulting in total issued share capital of US\$8.5m on Admission.

The 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 Filed Seismic.

WGP Exploration Ltd ('WGPE'), a seismic contractor with 20 years experience, and THAL originally entered into a Equipment Procurement and Operations Management Agreement under which WGP provided procurement, assembly and operational management services in relation to the PMSS™.

WGPE ([www.wgp-group.com](http://www.wgp-group.com)), which was subsequently acquired by THAL in November 2011 from Westland GeoProjects (Holdings) Ltd ("Westland GeoProjects"), is

an established independent British seismic research contracting company based in Cornwall which provides a wide range of geophysical services to the oil and gas industry.

To get a better idea of activities have a look at the video on the THAL web site covering the BP Valhall producing area [www.wgp-group.com/Features/features\\_valhall\\_media.html](http://www.wgp-group.com/Features/features_valhall_media.html).

**- Use of PMSS**

PMSS™ is used in Life of Field Seismic ('LoFS'), a process using ocean bottom cables or fibre optic networks to produce 4-D (3-D time-lapsed) seismic data to define reservoir fluid-flow.

THAL contracts with energy majors, either directly or through multi-national contractors, with the work involving the use of marine vessels and survey positioning systems to map the sub-surface of the earth as an aid to monitoring fluid flows in a sub-sea reservoir.

The equipment is also extremely versatile giving THAL the opportunity to use the equipment more widely than if they were restricted only to PRM work.

**- Successful contract in challenging conditions**

The Group recently announced the successful completion by WGP Survey Ltd ("WGPS") of the seismic data acquisition survey on the Norwegian Continental Shelf for Spring Energy Norway AS [www.springenergy.no](http://www.springenergy.no) ("Spring Energy").

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Spring Energy is a privately owned Norwegian oil and gas exploration, development and production company focused on the mature and immature areas of the Norwegian Continental Shelf.

WGPS is a joint venture arrangement between WGP Group ("WGPG") and P-Cable 3D Seismic AS [www.pcable.com](http://www.pcable.com) ("P-Cable") to commercialise P-Cable's patented 3D seismic technology.

The benefits of P-Cable's new technology include the ability to produce low cost high-resolution 3D seismic data with rapid deployment and retrieval from small vessels, as well as high production rates and the ability to acquire data in shallow waters.

WGPG and P-Cable believe that their combined capabilities provide an attractive offering for oil and gas exploration and production companies operating on the continental shelf throughout the North Sea and further afield.

The contract with Spring Energy was the first piece of work carried out by WGPS and demonstrates the significant potential that the P-Cable technology will afford to THAL's clients.

The completion of the Contract, which comprised the acquisition of six valuable high-resolution 3D data sets over 134 km<sup>2</sup> of shallow target anomalies in the Barents Sea, was carried out despite being severely affected by very poor weather in the North Atlantic.

As a result of its success "in unusually challenging conditions" management reported that they are now in discussions

with Spring Energy and other potential clients regarding possible repeat business and expanded operating opportunities in 2013.

Its shallow water application also means the P-Cable technology is highly relevant for wind farm installation as well, thereby offering a further 'renewables' opportunity to the THAL Group.

**- Arctic contract offers further  
credibility**

Despite its small size THAL supports large corporate clients including BP, Royal Dutch Shell, Statoil and the Russian government. The last of these was illustrated by the announcement on 23<sup>rd</sup> October 2012 of the successful completion by WGP Energy Services Ltd ("WESL") of the 2D survey completed in the Russian High Arctic on behalf of State Sevmorgeo Company [www.sevmorgeo.com](http://www.sevmorgeo.com) ("SMG").

In order to work in Arctic waters, WESL converted and outfitted a Russian icebreaker in northern Norway, which involved the installation of a combination of the Group's Portable Modular Source System ("PMSS"), a seismic streamer and associated deck-handling equipment. During the survey programme, the icebreaker was also escorted by another icebreaker, to act as a lead vessel through pack ice and provide replenishments – one can gauge that this was demanding!

A whopping 5,300 line kilometres of towed streamer data was ultimately acquired, plus acquisition of OBS (Ocean Bottom Seismometers) data.

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We would support those comments of Marcus Smith, WGP's Operations Manager when he said that "To achieve over 5,000 survey kilometres without incident or damage to in-water equipment endorses WGP's expertise of working in challenging and frontier locations, providing bespoke marine geophysical services and solutions".

**- Financials**

**Balance Sheet**

Shares in the Group continue to trade below tangible book value (Current market cap £4.9m vs tangible net asset value of £5.8m, or US\$9.3m equivalent at 30<sup>th</sup> June 2012, which included US\$1.9m of cash). This also assumes that no value is currently being assigned to the highly skilled people who have just completed such an excellent job for Spring Energy as well as the highly demanding work in the Arctic!

**Income statement**

Results for the 6 months to 30 June 2012 showed a 756% increase in revenue to US\$3,978,560 reflecting the incorporation of WGP Exploration Ltd ('WGPE') for the period following its acquisition in November 2011.

Revenue in the first half was generated from the seismic shoot on the Valhall field that completed in June 2012, the new turnkey contract with SMG to provide seismic data acquisition surveys in the Arctic and with Spring Energy as part of the new joint venture with P-Cable. Due to the operational phase of both these contracts falling into the second half of the year, the contribution to revenue and profit of these projects will be significantly higher in the second half.

Operating Profit before depreciation was US\$501,884 compared to a profit of US\$58,885 for the comparative period.

Earnings per share were US\$0.04/£0.03 compared with a diluted loss per share of US\$(0.01)/£(0.01) in the prior period.

Despite the severe weather in the North Atlantic making life difficult, management announced at the time of the interims in September that full year revenue would be around US\$14m for the year as compared to US\$15m previously estimated but that post tax profit would exceed previous estimates of approx US\$1.2m.

**- Committed long-term shareholders**

THAL was founded by Executive Chairman Duncan Soukup who originally held 33.4% of the issued share capital. This subsequently fell to 29.1% following the acquisition of WGP.

Mr Soukup was formerly an investment banker for 10 years and, amongst other things, established AIM listed Acquisitor plc, famed for its intervention with Baltimore Technologies plc.

Mr Soukup was also granted a five year option to subscribe for 2.125m shares at US\$0.01 per share, which remain unexercised. While these Founding shareholder options are dilutive it's worth noting that Mr Soukup did not derive any premium from establishing the business initially and advanced the company substantial sums in support of establishment costs. He also committed a further significant sum at float and

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previously waived his entitlement to fees for years 2008, 2009 and 2010.

Following a recent share reorganisation Mr Lal Tolani, a long-term supporter of Westland GeoProjects, now holds 18.5% of the company with Westland GeoProjects shareholding falling to 9.2%.

**- Positive industry news**

The recent announcement from OYO Geospace (now Geospace Technologies Corp [www.oyogeospace.com](http://www.oyogeospace.com) NASDAQ:GEOS) that it has accepted a non-binding letter of intent with Statoil to provide 600 kilometers of seabed seismic reservoir monitoring system for the Snorre and Grane fields on the Norwegian continental shelf could be positive for THAL.

Under the letter of intent, Statoil is contractually obliged to pay OYO Geospace US\$2.5m for certain pre-award work related to a potential final contract, implying that it is more likely than not to proceed! If it is awarded in October 2012 the final contract would result in total revenue of approximately \$160m over a three-year period for GEOS.

Statoil selected the OYO cable although many in the industry thought they would have gone for an optical cable solution. Large Norwegian listed peer Petroleum Geo-services ([www.pgs.com](http://www.pgs.com) OSLO:PGS) has fibre optic next generation cable and Norwegian TGS Nopec Geophysical ([www.tgs.com](http://www.tgs.com) OSLO:TGS) recently acquired Stingray Geophysical who offers optical sensing arrays. Statoil chose to go with the proven OYO cable which is the most prevalent and widely used and therefore the obvious selection for a

staggering 600km length.

THAL has experience with the OYO cable having used it on the Valhall field Life of Field Seismic project conducted for BP.

The oil industry is also notoriously reluctant to adopt new untested technology. To illustrate, although the P-Cable technology has been in development for 10 years the recent contract with Spring Energy was, we believe, the first commercial application in the oil and gas sector.

**- Results from peers**

Recent 3rd quarter results from both PGS and TGS were very positive.

PGS commented that overall tendering volumes (as measured by "All Sales Leads – including active tenders") have shown an increase from August 2012 levels and now sits at approx US\$1.7-\$1.8B, +94% above 2010 trough levels although still well below 2008 peak levels of US\$3.4B. PGS also commented that despite ordering 2 more new builds, demand is expected to continue to outstrip supply - possibly out to 2015.

**- Equipment requirements**

In June 2012 THAL announced the enhancement of its operational capability with the acquisition of a further two compressor units. The compressor units, which usually cost around US\$2m each when new, were purchased for less than half of the cost of a single new unit. While clearly a positive opportunistic purchase it also illustrated the high cost of even basic equipment in this industry.

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Should THAL secure the shooting of a seismic contract of the size being contemplated by Statoil it would necessitate new equipment. The Group's current available equipment is single source. For example, the increased data generation and the level of seismic required for Statoil would demand a dual source which enables more seismic shoots for twice the data and higher definition data. The existing equipment developed by the Group could be expanded to support this new work.

As a small player in a sector often requiring the deployment of large amounts of capital equipment THAL clearly has its challenges, notably in terms of flexible access to the desired equipment. It would be beneficial if they could partner with a well-funded group to support their capital equipment needs.

**- Rosneft BP 'partnership'**

Recent news of the tie up between Rosneft and BP could also be good news for THAL as both are effectively clients of THAL, the former via SMG and the latter as a result of the Valhall project. It's been documented that Russia may seek to sell licences to foreign companies for Arctic exploration as this will secure them access to new technology and know how; P-Cable represents one such technology!

**- Backlog**

Potential investors may be concerned that the confirmed backlog for 2013 is not more material, however, the current situation in terms of backlog is similar to previous years with projects for the second half of 2013 only likely to be awarded at the beginning of the year. With the Group's

current focus in the North Atlantic and Arctic regions operations are also restricted to the summer months.

In order to smooth out returns one of the Group's key aims is to increase activities in the Southern hemisphere, being counter cyclical to the Northern hemisphere seasons, or in equatorial regions where there is less seasonal variance.

**- Russian seismic float in London**

Recent news of the planned floatation in London of Russian seismic group IG Seismic Services, could highlight the attractions of the sector to UK investors.

IG Seismic Services was formed in December 2011 when Integra Group, a Russian oilfield services provider, merged its seismic unit – co-owned with Schlumberger of the US – with Geotech Oil Services, a company part-owned by Gennady Timchenko, the billionaire oil trader.

It was reported that in the six months to June 30th 2012, IGSS had revenues of \$391m and earnings before interest, tax, depreciation and amortisation of \$66m.

**- Broker estimates**

THAL's previous broker's currently published estimate for 2013 is for profit before tax and minority interest of US\$1.9m on turnover of US\$15.4m resulting in earnings per share of 12.6c or approx 7.8p. This results in a forward multiple of a lowly 6.2x at the current share price.

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**Having demonstrated an ability to  
deliver at the operating level in the  
most demanding of conditions, with a  
strong balance sheet and with the  
seismic market in excellent shape, this  
valuation looks very modest.****DISCLAIMER**

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