

THALASSA HOLDINGS LTD (AIM:THAL)
Share price 29.5p**Net cash and trading at close to 50% tangible NAV**
– a seismic offering!

The recent seismic seminar in Oslo hosted by Norwegian broker **Fearnley Fonds** (www.fearnleyfonds.com) highlighted the excellent market for seismic contractors in 2012 and 2013. With day rates expected to improve during 2012 and incremental demand from all corners of the globe (Angola, Gulf of Mexico, Australia, Mediterranean, Brazil, North Sea and Greenland, to name a few) this should lift demand further.

The shares of leading seismic shares such as **Petroleum Geo Services** (OSL:PGS) and **CGG Veritas** (PAR:BVI) have performed strongly in 2012 and even smaller players such as **Polarcus** (OSL:PLCS) have seen their share prices moving substantially higher. Despite the strong share price moves, the valuation of many of the leading seismic players still looks modest based on 1 year forward multiples, the likelihood of upgrades and what more importantly has been achieved previously. For example PGS currently trades on an enticing multiple of only 10x 2013 consensus estimates of earnings per share of US\$1.44 in 2013. It's worth noting that previous peak earnings for PGS in 2008 were US\$2.17 with talk that they could deliver eps of as much US\$2.6 in 2013.

With the above in mind we had a look for lesser known seismic opportunities on AIM and came across little **Thalassa Holdings Ltd** (AIM:THAL).

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 the financial system subsequently in meltdown and oil prices falling from a high of \$147 to \$34 per barrel in Feb 2009, it proved a bold initiative by the small Group to be an early mover in the use of an innovative system that is now being adopted by many of the large seismic groups.

The PMSS™ equipment is installed on vessels in order to provide the seismic (sound) source to allow Exploration & Production companies to perform reservoir monitoring. To get a better idea of the operation of PMSS it's worth visiting the web site of WGP Energy Services Ltd www.wpggrouppltd.com

WGP Exploration Ltd ("WGPE"), a seismic contractor with 20 years experience, and THAL originally entered into the Equipment Procurement and Operations Management Agreement under which WGP provided procurement, assembly and operational management services in relation to the PMSS™. WGPE, which has recently been acquired by THAL, is an established independent British seismic research contracting company based in Cornwall which currently provides a wide range of geophysical services to the oil and gas industry.

- 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.

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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.

- Committed Founder shareholder

THAL was founded by Duncan Soukup (Executive Chairman) who originally subscribed for 528,894 shares on Admission to AIM at a price of US\$1 per share. In addition, Mr Soukup was issued with 2,300,927 shares in satisfaction of a loan of US\$2,300,927 made by him to the Company to fund capital expenditure, costs of incorporation and Admission costs prior to float. On Admission to AIM, Mr Soukup and his family members had an interest in approximately 33.4% of the Share Capital which has now fallen to 29.1% following the recent 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.

In addition to the issued shares, on 23rd July 2008 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 clearly very dilutive 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 previously waived his entitlement to fees for years 2008, 2009 and 2010 (see later). Should the options be exercised the

effective blended share price of his stake is approximately 30p per share.

- Opportunistic investment success

During 2009 Mr Soukup loaned the Group a further US\$1,280,619, waiving his entitlement to interest rate of 10% for the year to 31 December 2009.

Money loaned was used to make investments through new investment vehicles, Thalassa Public Investments Ltd and Thalassa Private Investments Ltd. The timely investments ultimately resulted in combined gains of US\$1.3m in 2009 and 2010 financial years.

Both Mr Soukup and operating partner WGP also waived their fees of US\$324,571 and US\$9,314 respectively in 2009. Mr Soukup also waived all interest accrued on related party loans during 2010 totaling US\$104,367 plus a further US\$215,240 of fees and interest accrued and owed to his management company.

- Seismic Activities

THAL's end customers are upstream E&P companies that have established oilfields which are seeking to monitor reservoir flow, depletion and pay zones.

The following helpful explanation was extracted from the AIM Admission document

There is also an excellent video on Thalassa web site covering the BP Valhall producing area

www.wgpgroupltd.com/Features/features_valhall_media.html

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The method by which reservoir monitoring is undertaken is to perform repeated seismic data acquisition surveys, or “time lapse” surveys, at frequent intervals in order that data sets can be compared over time as a tool to analyse the reservoir and assist with the extraction process. This methodology is also termed 4-D seismic, with the 3 dimensional (space) data set plus time as the fourth element.

The components of a reservoir monitoring service are:-

- (1) seabed cables – laid on the seabed above the oil field (reservoir) that is to be monitored.
- (2) recording system – remotely operated and installed on the associated platform and connected to the sea bed cable.
- (3) seismic source (**e.g. the PMSS™**) – installed on a vessel and used to generate a signal which will travel down from the sea surface, through the water, through the sub surface strata upon which the signal is refracted/reflected back towards the seabed cables. On the return path the compression (p waves) and shear (s waves) are detected by sensors in the seabed cables.
- (4) Quality control processing – as the data is recorded and sent ashore via the production platform, it undergoes a sequence of processing steps to “clean up” the data; whereupon it is passed to geophysicists for analysis and interpretation.

This monitoring process involves a permanent seafloor deployment of sensor cables or a fibre-optic network above an identified reservoir and mobilising the PMSS™ at regular intervals to shoot each survey. The PMSS™ provides the energy source required to stimulate the sensors in the seabed cable. The resulting data is then transferred to the production platform that

is extracting the hydrocarbons from the reservoir. The data is then passed to a processing centre and then to geophysicists for analysis. The process monitors the long-term performance and development of subsea producing reservoirs and is known as Life of Field Seismic (“LoFS”).

The PMSS™ is installed on vessels, typically stand-by or Platform Supply Vessels (“PSV’s”) owned by customers. The purpose of LoFS monitoring is to extend the life and increase the yield of hydrocarbons extracted from a reservoir and thereby increase the return on investment for the production company.

- Thalassa of today

Having ‘survived’ the collapse of Lehmans and an oil price sell off and made some very healthy investment gains the Thalassa of 2012, though still very small, has evolved into a proper integrated seismic business.

On 17th November 2011 THAL acquired WGP Exploration Ltd (‘WGPE’), the Company's long term operating partner. The consideration was satisfied by the issue of 2,688,707 shares in THAL based on the agreed price of £0.30 per share or £806,612.

WGPE pro-forma revenues for the 12 months to 31 October 2011, excluding intra-group items, were approximately US\$6.0m. At the time of the acquisition WGPE currently had contracted revenues for 2012 of approximately \$2.3m. Management commented that combining the two companies should lead to operational and commercial synergies and that the transaction has the potential to be significantly earnings enhancing in 2012 –

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one suspects a combination was the original intention at time of float!

As a result of the acquisition WGPE shareholders hold 27.6% of THAL.

- Results for year ending 31st December 2011***Income statement***

THAL generated revenue from continuing operations of US\$ 2,427,985 for the 12 months ending 31st December 2011 (2010:US\$ 404,086) and an operating profit after depreciation of US\$ 344,712 (2010: Loss US\$190,751). Earnings per Share were US\$ 0.04 (2010: Loss US\$(0.01)).

Revenue generated from operations includes the completion of two 'shoots' in the LoFS surveys at BP's Valhall field in the North Sea, and from the survey completed for ION Geophysical Corporation as part of their Arctic exploration programme. WGPE contributed revenue of US\$ 174,994 since the acquisition in November 2011.

Administrative Expenses of US\$1,216,877 increased by 150% largely due to WGP's costs since acquisition (US\$ 259,714), legal and advisory fees relating to the acquisition (US\$ 79,585) and an increase in corporate costs of US\$194,484. The last of these is somewhat unusual with consultancy fees and administrative fees paid to a company in which the Chairman has a beneficial interest. Fees of US\$ 200,000 and interest of US\$ 15,240 had been waived by the Chairman in 2010 while the PMSS equipment was not being fully utilized.

Impairment looks very prudent

There was also a large impairment charge of US\$499,060 on the PMSS™ equipment following an assessment of the equipment as part of the annual impairment review and a charge applied to write it down to its net realisable value. It is our understanding that the units in question, though still usable, are not currently supported by the manufacturers, accordingly as they are not considered primary pieces of equipment management considered it was prudent to impair these.

Balance sheet

Net assets at 31st December 2011 were US\$9,009,709 or approximately £5.7m, of which tangibles (principally PMSS equipment) were US\$8.6m or £5.42m. This compares to the current market capitalisation of only £2.9m. The company is debt free with cash of US\$1.97m at year end equating to approximately 12p per share.

- Outlook positive

Management commented in the results how the nature of the Group's business is based on a small number of large contracts, each of which has the potential to significantly affect the Group's results for the year. At the year end the Group had approx **US\$2.6m of contracted revenue for 2012** and is in discussions on several significant opportunities for the year. Known and potential projects include:

- BP Valhall: Due to the extent of SIMOPS (simultaneous operations) planned to take place in and adjacent to the Valhall producing area through 2012, the number of LoFS surveys will be restricted to a single

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survey which is scheduled to be acquired between May and June 2012.

- 2012 Arctic Operations: WGP is due to sign a Letter of Intent with a Russian State Geophysical Organisation for a 2nd consecutive season of activity in the High Arctic. This will involve utilising components of the PMSS™ installed on an Arctic research vessel, accompanied by an ice-breaker vessel, to continue work to delineate and understand the Russian continental shelf.

- P-Cable Joint Venture: WGP is due to execute a joint venture agreement with P-Cable AS to provide 'Short Offset 3D' for high resolution, shallow target data acquisition. A Letter of Intent is due to be received from a Norwegian private Energy Company to complete a 2 month survey on its behalf in the Norwegian sector of the Barents Sea during Q2/3 2012. This will be the first commercial survey utilising the technology developed by P-Cable and will use WGP's vessel conversion and operational expertise and experience to provide a turnkey service to the Client.

- PRM Consultancy Services: WGP has been contracted by two major energy companies to provide consultancy services pertaining specifically to new PRM projects in the North Sea and offshore Brazil. The service, will look at both the feasibility of utilising PMSS™, and the permanent trenching of cables, respectively. Whilst early stages in these projects, it is encouraging that additional PRM activity is coming online. This could result in WGP being involved in 4 out of the 6 current and potential PRM projects.

Note 19.8 to the accounts states that "Had WGP been consolidated from 1 January 2011, the consolidated statement of

comprehensive income would have included revenue of US\$ 8,576,754 and profit after tax of US\$ 834,230." While in no means an indication of what is likely in the current year it does offer a guide.

- Broker estimates

House broker Daniel Stewart has recently issued a research note with forecast revenue of US\$6.5m for the year ending December 2012, profit before tax of US\$400,000 and eps of 3.9 cents (2.46p), resulting in a current year multiple of just over 12x. With the seismic market looking in good shape and plenty of project potential there is a good chance of upgrades.

- Excellent value at current levels

In summary we currently have a business operating in a highly attractive market, with a decent contract backlog, trading at close to 50% of its tangible net asset value which includes a lump of cash. Given the seasonality of activities there will probably be a net cash outflow in the early months of the year however that's to be expected. The big impairment looks sensibly prudent and the combative Founding shareholder clearly has a big incentive to drive shareholder value.

The newly acquired WGP Exploration Ltd has considerable experience in the seismic arena and was acquired for what appears to be a very reasonable price with the management of this company also fully committed through their material stake in the quoted vehicle.

We can hope for some positive announcements over the coming months.

26th March 2012**THALASSA HOLDINGS LTD (AIM:THAL)
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