

THALASSA HOLDINGS
(AIM:THAL)
Share price 170pDate: 27th February 2013**Sector: Oil Equipment, Services
& Distribution**

Market Cap: c£20m

www.thalassaholdingsltd.com**Letter of Intent from Statoil for huge contract
moves the AIM quoted group into the big
league – despite all, valuation remains
compelling!**

The AIM quoted marine seismic operations business has received and executed a letter of intent with **Statoil ASA (STL:OSL)**, the giant (£52bn market cap) Norwegian energy company listed on the Oslo and New York stock exchanges, to provide long-term seismic acquisition services for permanent reservoir monitoring of the Snorre and Grane oil fields in the Norwegian sector of the North Sea.

**- Initial contract value in excess of
US\$50m plus potential for material
extensions!**

The seismic acquisition contract will be for an initial fixed term until the end of 2017, with Statoil's option to extend by two further terms of two years each. The first survey is scheduled to start on 1st October 2013 over the Snorre field.

The total seismic acquisition contract value, excluding any extensions, is approximately USD\$32m and up to approximately USD\$65m if Statoil exercises the options to extend the contract by a further four years.

An indication of the materiality of this contract for the group is that fact that that full year revenue for 2012 is estimated to be US\$12m.

**- Innovative equipment purchase by
the client de-risks things**

Of equal significance from a financing perspective is that Statoil will purchase a bespoke dual portable modular source system ("D-PMSS™"), which WGP shall maintain and operate throughout the

duration of the acquisition contract. The value of this contract to THAL is approximately USD\$19m and delivery of the system is anticipated to occur by 1st October 2013.

Capital expenditure of the level required to support this contract would, applying a traditional contracting model, have been difficult for THAL to support without a substantial and potentially costly financing round which could conceivably have been extremely dilutive to existing shareholders. Management should therefore be congratulated for this innovative solution which looks extremely attractive to both Statoil and Thalassa.

- Statoil underpinning

The procurement process for the D-PMSS™ has commenced and Statoil has agreed to meet all costs incurred by WGP in the event that final contracts are not executed.

It is anticipated that both contracts will be executed imminently.

The contract with THAL is linked to the previous announcement from Geospace Technologies Corp (GEOS:NSQ) on 4th September 2012 with GEOS accepting a non-binding letter of intent with Statoil to provide 600 kilometres of seabed seismic reservoir monitoring system for the Snorre and Grane fields with a final contract value of approximately \$160m over a three-year period.

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A group of Statoil's size with its huge capex budget could have easily selected any of the larger seismic groups and the latest fibre optic technology. Its decision to go with THAL is a huge endorsement of the group's tried and tested PMSS solution which has proven itself in highly demanding conditions in the Arctic and for BP on its Valhall field in 2009.

As Executive Chairman, Duncan Soukup, commented this is "truly a game changing development for Thalassa".

- Supplemental contract in Ecuador

While the Statoil Letter of Intent has dominated the headlines the Group has also announced news of yet another supplemental contract with Joint Stock Company Sevmorgeo ("SMG": www.sevmorgeo.com), the Russian geological sea survey company.

The supplemental contracts are to supply additional services and a vessel as part of seismic data acquisition surveys being conducted by SMG in Ecuador. The supplemental contracts will increase the revenue to THAL by in excess of US\$500,000 to at least \$5.6m in aggregate. The work has commenced and these surveys in Ecuador are scheduled to last until 15th June 2013.

- Material broker upgrades

The house broker has raised earnings expectations for 2013 and 2014 by 31% and 52% respectively. For the year ending December 2013 they have lifted estimated revenue to US\$28.6m, pre-tax profit to US\$2.4m and eps to 16.9 cents (11.17p at current ex-rates), resulting in a one year PER of approximately 15x at the current share price (170p). It's also worth noting that these estimates are only based on contracted revenue, so there is clear scope for upgrades. For 2014 estimated revenue is \$20.6m, pre-tax profit US\$3.0m and eps 21.3 cents (14.07p) resulting in a 2 year PER of 12x.

- Shares receive a huge boost ... but valuation remains compelling

As we commented previously, with lots of positive news coming from THAL, and the seismic sector in general looking in excellent shape, the valuation still looks compelling, especially relative to much larger, yet lower growth, peers. A contract of this size with such a large high profile group as Statoil is bound to attract the attention of other industry participants.

Shares in **Geospace Technologies Corp (GEOS:HSQ)** referred to previously and who are also involved in the contract for the Snorre and Grane fields, trade at 14.82x and 14.95x estimates for 2013 and 2014 respectively.

Oslo listed seismic group **TGS Nopec Geophysical Co (TGS:OSL)**, which has been a tremendous performer over the past

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few years and follows a less capital intensive model than peers, as reflected in the high returns on equity, trades at 12.6x and 11.3x estimates for 2013 and 2014 respectively.

Also listed peer **Petroleum Geo-Services ASA (PGS:OSL)** which owns a substantial fleet of seismic vessels and therefore benefits from operational gearing when times are good, trades at 10.5x estimates for 2013 and 8x for 2014.

Shares in smaller Oslo listed **Dolphin Group ASA (DOLP:OSL)** which also has capital equipment tied up in seismic vessels and has had several capital injections over

the past few years, trades at approximately 6x December 2013 estimates.

**We can only repeat the usual message
that Thalassa Holdings Ltd is definitely
worth following!**

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