

Mermaid tipped to barge through oil price turmoil



Small-cap Spotlight

www.wise-owl.com

Company: Mermaid Marine Australia (MRM)

Recommendation: HOLD

It was not so long ago that the forecasts of oil hitting \$US200 a barrel were not uncommon.

Such views have quickly been discarded, with oil staging a dramatic pullback in recent months.

Despite the doom and gloom, and given the long-term global supply picture, the prospect of the oil price eventually recovering is hard to argue with.

For anyone who bought into the sector while oil was near its recent peak, a long-term outlook may provide little respite, with the ASX200 Energy index down more than 40 per cent from its high.

In light of this shellacking, investors must be concerned about the implications for oil producers and the companies such as Mermaid Marine that service them.

Mermaid Marine is a diversified operator of tug services, workboats, barges and labour hire, operating off the West Australian coast.

The company also hosts supply bases in Dampier and Broome that offer private wharf and ship repair facilities capable of servicing the range of vessels engaged in offshore support activities.

Mermaid services some of the largest international oil and gas companies including the likes of Shell, BHP and Exxon-Mobil.

Joshua Terlich, analyst at wise-owl.com, notes that the company currently trades on a PE of about 10 times, reported a net profit for full-year 2008 of \$17.9 million, and holds \$56.5 million in the bank.

Terlich says: "The key point to consider is that Mermaid services industry leaders that are constructing projects with decades of production life, and are unlikely to be phased by cyclical swings in the oil price."

"Today's major oil players were around to see crude trading at \$US10 and \$US20 a barrel last decade, and are aware of the importance of developing fields using long-term price assumptions.

"Only if oil was to trend back towards these levels would there be cause for concern for a company like Mermaid."

While excess demand for Mermaid's services are likely to soften as weaker oil limits offshore exploration incentives, demand from its core blue-chip customer base should remain robust.

Terlich says: "Mermaid's contracts for services remain in place well into full-year 2009, and its fleet is operating at close to full capacity."

"While the current outlook is sturdy, we recommend holding this stock."

"Could this change? Absolutely."

"We will be keeping our eyes peeled for any further developments that would change our investment view."

