

Event Flash on Renaissance Services...

Update on Topaz Group

12-Sep-11

Renaissance Services (CMP: RO 0.685; Fair Value: RO 0.665; Rating: Neutral)

Event: Update on Topaz Group

Renaissance has clarified that the independent third party investigation by professional investigating auditors has now been completed and the company has provided the following updates:

- ✓ Investigation has been centered on US\$2.9 million of cash over a six-and-a-half year period (as given previously).
- ✓ Re-confirming that the control weaknesses have been strengthened to avoid any similar loophole being exploited.
- ✓ Confident that the financial fraud is an isolated case, in one of its foreign subsidiaries, in one business unit, and there is no other similar case in any of the other businesses.
- ✓ Confirm the amount is fully provided in the accounts of the company. Added, with these sums were misappropriated over a long period, at this stage, the company assumes the same shall not be recovered.
- ✓ However, the company has reported other breaches in the company's Code of Business Conduct in some other subsidiaries of Topaz. As per the statement, these are not cases of cash misappropriation and are categorized as potential business ethics violations.

The company has also provided the Capital Market Authority (CMA) with a copy of the independent investigation report and is keeping the CMA informed of the self-reporting process. Added, Renaissance has also clarified and confirmed that the,

- ✓ None of the issues arise in the home market of the Sultanate of Oman.
- ✓ None of the potential ethics violations involve the clients or their employees.

Added as per the company statement, Renaissance is committed to conduct business legally and professionally under the highest standards of business ethics and moral code. This same high standard is expected and required of all Renaissance subsidiary companies and people working at every level throughout the group. (Source: MSM)

Source: MSM announcement; <http://www.msm.gov.om/pages/default.aspx?c=127&nid=11820>

Outlook - Enhancing Disclosures, Bringing in the needed clarity...

- ✓ As part of implementing a new business code of conduct in Topaz during early April 2011, the company has identified a financial fraud in one of its overseas subsidiary. Overall impact of the same is about USD 2.9 million in Cash over the last 6.5 years, which the company claims to have fully provided in its accounts. As per the management, the company does not expect further provisioning in this regard.
- ✓ Overall we see the announcement of the company on a positive note in terms of disclosure policy. As we have discussed in our Investment update report on Renaissance Services dated 22-Aug-2011, the company is building up its credibility among the investor community in terms of clarifying the extent of the financial fraud along with the enhancement of the corporate disclosure norms.
- ✓ We believe this as the appropriate step towards building up of integrity among the investors by regaining the shakeup of investor belief in the growth story of the company. This may be taken as a constructive step towards developing the trustworthiness of the company over a medium to longer term.
- ✓ At the current levels, the stock trades at 16.3X of P/E (FY11E Adj. EPS of RO 0.042) and 8.1X of P/E (FY12E EPS of RO 0.085). The stock is still trading at the lower valuations for the next fiscal year (*FY2012E Earnings*) as compared to the global offshore support vessel (OSV) players. Based on a combination of SOTP, ERR and PE valuation methodology, we have arrived at weighted fair value of RO 0.665 (*Refer - GBCM Research - Investment update on Renaissance Services dated 22-Aug-2011*). Our target price has been achieved in a short frame of time.
- ✓ ***With the stock price increasing by about 22% from our last report release date, we recommend a Neutral rating on the stock at the current levels.*** We would be revisiting our Valuations and Recommendations post the announcement of Q3 2011 results, which is expected around mid of Nov 2011. With the emergence of clarity from the company, we may possibly see the re-rating of the valuation multiples in the coming quarters.

(The stock price has gained about 22.3% since the release of our Report - GBCM Research - Investment update on Renaissance Services dated 22-Aug-2011)



Stock Rating Methodology:

Buy - Upside more than 20%

Accumulate - Upside between 10% and 20%

Neutral - Upside or downside less than 10%

Reduce - Downside between 10% and 20%

Sell - Downside more than 20%

Not Rated - Stocks not in regular research coverage

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