



MERISTEM EQUITY RESEARCH

PUBLIC OFFER REPORT

EXECUTIVE SUMMARY & INVESTMENT RATIONALE

- Japaul Oil & Maritime Services Plc was incorporated in 1994 as a private limited liability company. The company commenced active business operations in 1997 and was listed on the Nigerian Stock Exchange on August 10, 2005 as the first company in the maritime sector to be quoted on the Exchange.
- The company is the only indigenous firm in the oil and maritime services industry that is quoted on the Nigerian Stock Exchange. It renders dredging access services in newly discovered oilfields; provides construction materials to oilfields by marine transport, facilitates oil drilling and production among other services. The company has a number of subsidiaries such as Japaul Trading Company Limited and Japaul Gulf Electromechanical LLC which are already in operation and the other subsidiaries, Dubai-UAE, Japaul LLC, Maryland-USA and Japaul Mines and Products Limited, which are coming on stage.
- Japaul Oil plays vital roles in upstream segment of the oil and gas sector having outstanding relationships with oil majors. It recently entered into contracts with major oil Exploration and Production Companies such as the Shell Petroleum Development Company (SPDC) limited, Daewoo Nigeria Limited, Hyundai Heavy Industries HHI, Total Final Elf PH (supply of security vessels through sub-contracts) and Exxon Mobil Unlimited. Japaul also has a subsisting joint venture agreement with reputable companies such as; Oil& Gas Group Limited (in U.K and UAE and its affiliates) as well as PROCON Pipeline Limited (PPL).
- In order to keenly pursue its expansion and diversification strategies in key segments of oil servicing and maritime business which form its areas of core competencies, the company

undertakes to shore up its capital base via a hybrid Offering of Offer for Subscription of 1,007,488,188 shares of 50k at N3.95k and Rights Issue of 291,549,045 shares of 50k at N3.50k **(in the ratio of 1 for 4 shares held as at Friday, July 6, 2007)**.

- We arrive at forecasts turnover and after-tax profit of N2.1bn and N409.1m for year ending December 13, 2007. This translates to forecasts earnings per share of N0.35k; and with a pay-out of 40 per cent, this implies a dividend per share of N0.14k for existing investors.
- Our valuation reveals that Japaul Oil's Public Offer price of N3.95 is at a marked discount of 50.9 per cent relative to its fair value. **We recommend the Offer a GOOD BUY for speculators and value investors alike.**

THE NIGERIAN MARITIME INDUSTRY:

Maritime services are indispensable in Nigeria's oil and gas offshore exploration and production logistics. Thus, growth in the Nigerian Maritime Industry is a critical success factor to the Nigerian oil and gas industry as a whole.

At present, the industry is beset by a myriad of problems such as foreign dominance, lack of proper regulations, inadequate supply of craft and plants, a cumbersome documentation system, dilapidated port infrastructure, low labour productivity and volatile dock labour, corruption, vandalism, criminal damage, multiplicity of government and security agencies. Unlike in developed economies where there are formidable regulations restricting foreign access to local maritime transportation, there is no legal provision reserving the provision of maritime transport services to indigenous firms until recently. In stead, the nation's coastal and inland water transportation dominated by foreigners. Nigerian ports are generally regarded as far below international standards and commercially unfriendly, charging high tariffs and delivering poor service.

However, in recent times, the industry has witnessed some significant transformations ushered in by the democratic dispensation in early 2000. These changes range from crafting of new

policy on maritime business, enactment of cabotage laws (the local content policy) and ports reforms to mention a few.

The introduction of a cabotage law, which requires that vessels operating on inland coastal waters be owned and managed by Nigerians (local content policy), is seen as the only way for the development of a national fleet as it is obtained in other developed economies such as the US. Industry analysts advocate for protectionist policy with a view to overturning the present situation for better. The industry future remains bright as oil and gas operations in Nigeria continue to be the key driver for economic growth and development. The increasing spate of investments in exploratory activities by foreign oil majors is correlated with the rise in logistics and support services as a big chunk of these investments is in offshore operations. The recent decision of the current administration to unbundle erstwhile Nigeria National Petroleum Corporation (NNPC) with a view to improving efficiency in the oil and gas industry also portends good prospects for oil servicing companies among other operators.

BUSINESS SUMMARY

Business Model

The activities of the company focus on the ultimate goal of becoming an oil servicing company of choice, with the vision of playing major roles in energy sector in the near future. The immediate strategic intent of the company is to acquire capacity as a major player in the oil and gas sector, in the light of the evolving enabling environment for optimal performance by the indigenous companies in Nigeria.

Management & Ownership:

Japaul Oil & Maritime Services Limited evolved as an owner-manager firm in 1994 and gradually transformed into what it is seen today as an indigenous publicly quoted company with strong desire to play leading roles in Nigeria's oil and maritime sectors. The company is steered by a board of seven directors, made up of two (2) Executive Directors and five (5) non-Executive Directors. The board members are high-calibre professionals and entrepreneurs with vast experience and good track records in oil and maritime industries. As at

December 31, 2006, the total share outstanding of the company stood at 1.166bn out of which 24.17 per cent was held by Paul Jegede (against 68 per cent ownership in June 2004) while over 70 per cent was held by other Nigerians.

Risks Profile

Japaul Oil operates in an industry that is dominated by foreign players with huge capital base, wide clientele and excellent track records. Thus, competition is a key risk factor for Japaul Oil. However, the company's ongoing plans to shore up its capital via rights issue and Offer for Subscription are expected to help boost its strength and, possibly, market position in the oil servicing industry.

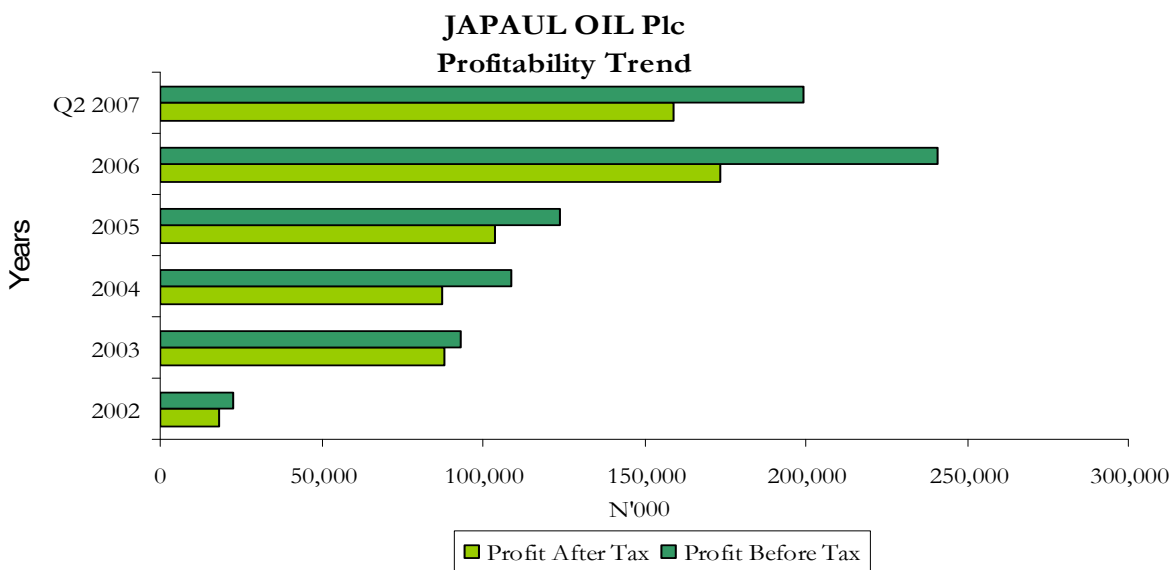
Another important risk factor to Japaul Oil is government policy. Although the subsisting government local content policies in the oil and gas industry, which provide enabling environment to indigenous oil servicing firms like Japaul Oil, portends favourably outlook for the company, the inconsistencies in government policies observed in recent past might imply a probable change in the status quo which might unfavourably impact on the company's prospects. However, this risk is mitigated by the company's quality improvement drives and expansion plans which are key to sustaining its prospects, even in the face of unfavourable government policy.

Also critical to Japaul Oil's business is the **political and social unrest in the Niger/Delta region** where most operations of the oil firms are situated. The incessant operation disruptions in this region, if not properly managed, could impair severely on the performance of Japaul Oil and other oil firms. As this risk is largely beyond the control of Japaul Oil's management, reliance on government efforts in curbing the crisis in the region appears the sole option. However, in an attempt to further mitigate this risk, the company has commenced the process of identifying and developing new business opportunities, with a view to diversifying its operations outside its immediate geographical location.

ANALYSIS OF FINANCIALS

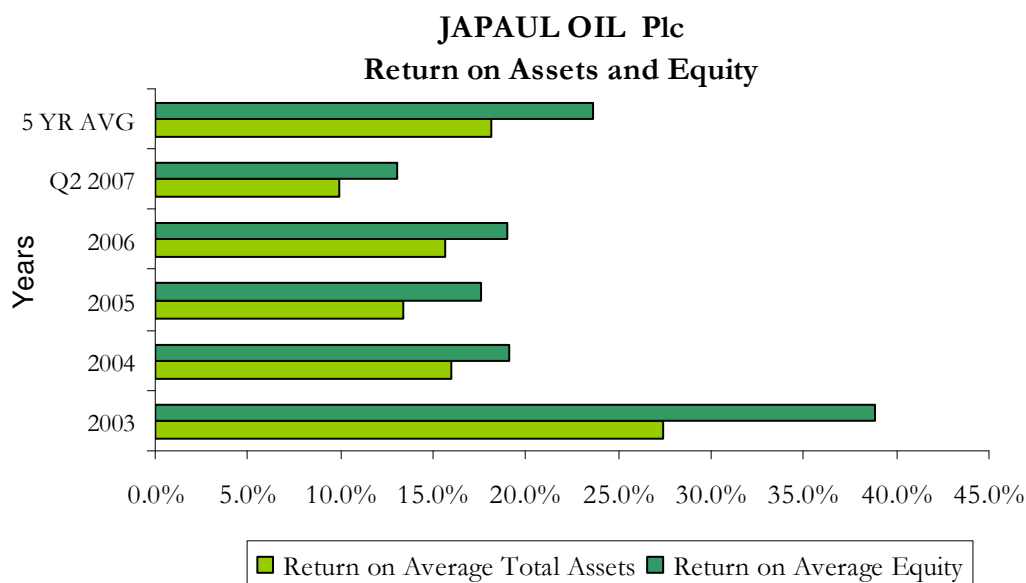
Growth and Profitability

Japaul Oil has grown rapidly, reporting a turnover of N1.40 bn in 2006, up from N0.199 bn in 2002, translating into a 5-year average annual turnover growth rate of 62.98 per cent. In the past 5 years, the company recorded turnover growth in excess of 100 per cent in 2003 and 2006. For the half year ended June 30, 2007, Japaul recorded a turnover of N0.951 bn as against N0.33bn in similar period of prior year, implying over 200 per cent growth. Our forecast turnover for the full year ending December 31, 2007 stands at N2.1 bn, representing an implied forecast turnover growth rate of about 50 per cent. Other operating income for the company has grown considerably over the years, with recent increase from N26m (FY 2006) to N59m (Q2-2007). This is expected to improve its earnings and growth indicators. Also, after-tax profit for Japaul has grown by 75.1 per cent (CAGR), from N18.5m FY 2002 to N173.59m FY 2006, with the Q2-2007 PAT standing at N158.864m.



Japaul Oil Plc has a 5-year average gross margin of 45.2 per cent. Though this ratio has shown consistent decline in the past 3 years, dwindling from 45.5 per cent (FY 2004) to 31.2 per cent

(FY 2006), the recent half year gross margin of 38.4 per cent suggests the company is beginning to have a better control of its various expenses which are incurred directly in the provision of services. Operating margin for the company which remained in the range of 24 per cent in the past years, showed a decline to 18.0 per cent in FY2006, but improved to 24.7 per cent (Q2 FY 2007). Similarly, the After Tax Profit margin which has been fluctuating over the years improved in Q2-2007 from 12.2 percent (FY 2006) to 15.7 per cent. Increasing operating and non operating costs have accounted for the decline in the profit performance of the company in the recently ended financial year (FY 2006). Our analysis of Japaul Oil financials reveals that all the profitability indicators which have hitherto been on a downward trend are expected to improve in FY 2007. **With our projected after-tax profit of N409.1m, it implies a forecast growth rate of 135.7 per cent by the company for the year ending December 31, 2007. (The company's forecast as contained in the offer document is 156 per cent).**

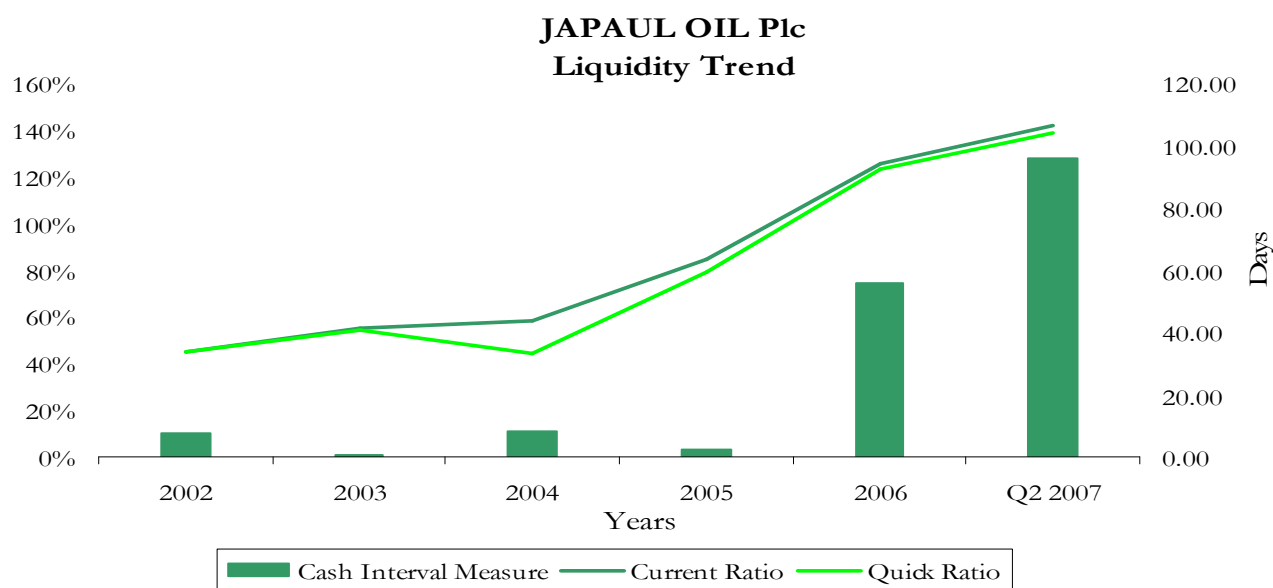


Liquidity, Efficiency and Financial Stability

Japaul Oil has shown an improving liquidity over the years reviewed. FY 2006 Acid and Current ratios stood at 1.23:1 and 1.26: 1, which implied an improvement over prior years' performance. The Acid and Current ratio of 1.38:1 and 1.41:1 for the half year ended 30 June, 2007 have shown further improvements. Other liquidity measures such as Operating Cash

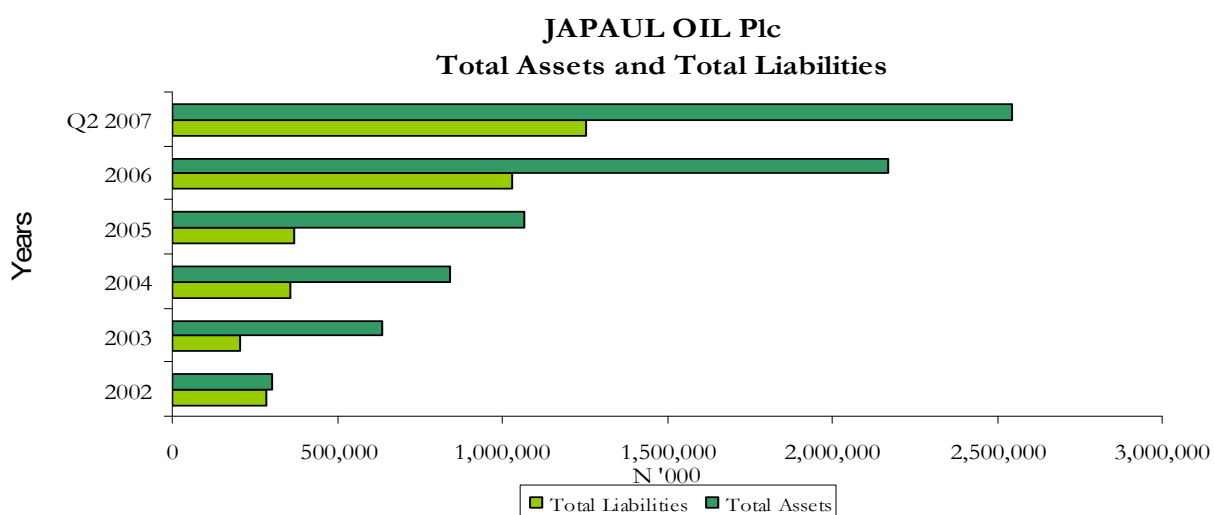
flow /Net Income and Cash interval measure improved for the half year ended 30 June, 2007. The Free Cash flow generated by the company though still negative, improved from (N550m) to (N24m). The improved liquidity position could be traced to the company's improved profit status Q2 2007.

Japaul Oil being a service company has short inventory days (a 5 year average of approximately 10 days) implying that it accumulates only a limited stock of consumables. The inventory days has declined over the years indicating improved inventory management. However, the company has been having a build up of contract debts, other debts and prepayments as aptly revealed by its escalating receivables days and similar ratios. Although the company's liquidity has been improving over the years, the escalating receivable days has been an impediment since the level of credit from suppliers has not increased in tandem. The Q2-2007 results, however, show improvements in the overall working capital management of the company.



Japaul Oil has been employing increasing amount of interest bearing debt in the form of bank overdraft and term loans, both on short and long term basis. The Total Debt/Total Asset ratio and Total Debt/Equity have been on the increase. The Total Debt/Equity increased from 54 per cent (FY 2005) to 91 per cent (FY 2006) and stood at 97 per cent (Q2-2007). The

company's Interest Cover has responded to the increasing leverage, declining from 32 times (FY 2005) to 22 times (FY 2006) and recently 6.6 times (Q2-2007). The increasing leverage which has not really had significant impact on the company's bottom-line should be watched closely by management. It is expected that the intended offer will boost the company's equity and reduce its debt ratio.



Return to Investors

Japaul Oil Plc has recorded a growth of 62 per cent (CAGR) in EPS which increased from 9.2k (FY2002) to 14.89k (FY2006). The company has paid dividend in the past 3 years, 10k each in 2004 and 2005 and 11k for the recently ended financial year (FY 2006). This translates to a dividend yield of 5.9 per cent in 2005 and 9.09 per cent in 2006. For the half year ended 30 June, 2007, the company has recorded an EPS of 13.65k. Barring unforeseen circumstances; the company stands good chance of exceeding its annualized EPS (FY 2007) of 27.3k as our forecasts arrive at an EPS of 35k

Japaul Oil and the Stock Market:

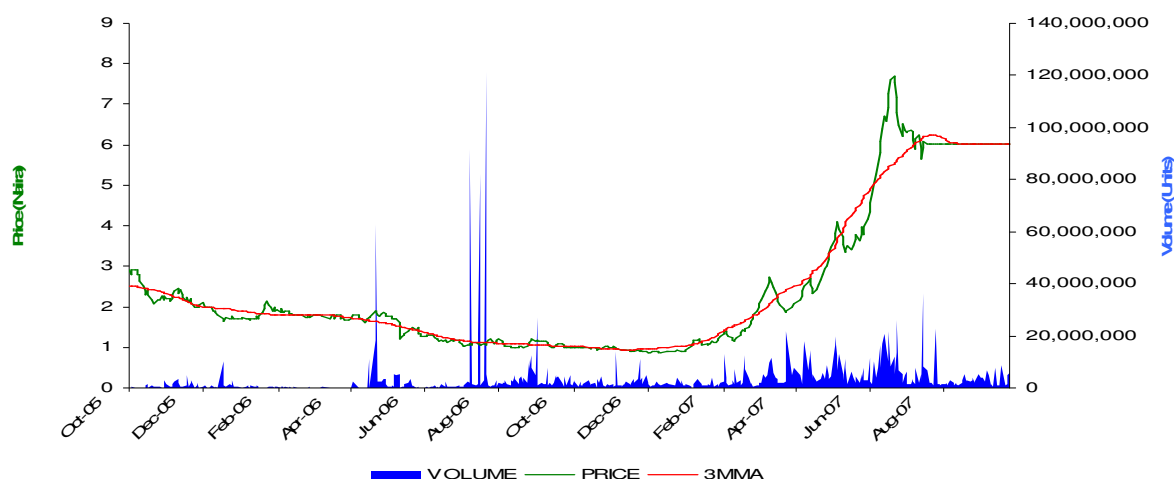
Japaul Oil was listed on the Nigerian Stock Exchange at a price of N2.31 on August 10, 2005. Subsequently, the stock enjoyed huge patronage and rose as high as N2.97, translating to 28.57 per cent gain in less than two months. However, the stock experienced a major downward trend in the last quarter of 2005, closing the year at N1.70, with a total capital loss of 26.4%

for the year. Although the downward trend might have been influenced by the usual end-of-year effect among other factors, the stock's performance fell short of the overall market return of 10.7 per cent over the same period for which Japauloil was traded on the Exchange in the year.

The bearish trend which began in the last quarter of 2005 was, due to investors' perception about the company's prospects, maintained throughout the year 2006, during which the stock reached an all-time low of 86k but eventually closed at N1.21, thus showing a capital loss of 28.8 per cent for the year. This performance was abysmal relative to the market which gained 37.7 per cent in the same year.

However, investors' interest in Japaul Oil was renewed in 2007 sequel to the implementation of the Federal Government local content policy in the oil and gas industry, which greatly favours wholly indigenous oil services firm like Japaul Oil. This, further strengthened by impressive results posted for both the financial year ended December 31, 2006 and the first quarter ended March 31, 2007, triggered a bullish trend in the stock price, which reached an all-time high of N7.70 and was later placed on technical suspension at N6.02 following its application to the Exchange for its Public Offer. With a year-to-date return of 397.5 per cent, Japaul Oil has greatly outperformed the market which achieved a year-to-date return of 53.6 per cent.

Japaul Oil Price-Volume Chart



Valuation:

We used two different classes of methods in arriving at a fair value for Japaul Oil Plc. The first class of method is based on trading multiples. The second valuation method is based on the Present Value of Japaul Oil's future cash flows, measured by discounting our dividend payment projections into the future.

Valuation Metrics Table:

P/E Valuation	
Company P/E	23.06
Forecast EPS	0.35
Valuation	8.07
P/BV Valuation	
Company P/B	6.18
Forecast BVPS	1.13
Valuation	6.98
P/Sales Valuation	
Company P/Sales	3.39
Forecast Sales per share	1.80
Valuation	6.10
Valuation Summary- Per	
Price to Earnings	8.07
Price to Book value	6.98
Price to Sales	6.10
DCF Valuation*	11.05
Average	8.05

*The Discounted Cash Flow (DCF) valuation is based on a WACC of 14.33 per cent and a terminal growth rate of 10 per cent. Our proxy for risk free rate is 10.75 per cent, while risk premium is set at 6.0 per cent.

Valuation Summary & Projections

- Our valuation reveals N8.05 as the fair price of Japaul Oil, which implies that the stock is currently trading at a discount of 25.22 per cent to its fair value. Also, with an offer price of N3.95 in the primary market, Japaul Oil shares are being offered at a discount of 50.9 per cent relative to fair value.

NB: The Offer document contains that the new shares being offered shall rank pari-passu in all respect with the issued Ordinary Shares of the company, except that they will not qualify for any dividend or bonus declared for the year ending December 31, 2007.

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