



Alam Maritim In The News

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Oil play back in favour

By CECILIA KOK

FOLLOWING the rebound in crude oil prices over the past two months, oil and gas-related counters are now back in favour with investors. They are now the top bets among pundits because their prospects are deemed to have considerably brightened up.

Most oil and gas players in Malaysia do not actually have direct exposure to oil prices. The industry has a wide range of business models, and most of the local players provide services to Petroliam Nasional Bhd (Petronas) and other oil majors, comprising Petronas production sharing contractors (PSCs) such as Murphy Oil, Shell and ExxonMobil.



Datuk Kamarul Redzuan Muhamed anticipates order book to improve soon.

Because they undertake and manage development, and exploration and production (E&P) activities in the country, Petronas and its PSCs are the ones immediately affected by the rise

and fall of the oil market. The bottom line of oil and gas companies in Malaysia hinges on the demand for their products and services by companies involved in the E&P activities.

Towards the latter half of last year, there were some delays on the E&P scene as the slump in oil prices rendered some of the activities and projects unprofitable. However, the present string of encouraging economic data, helped by some speculative investment, have pushed crude oil prices upwards, almost double their level at the end of last year.

Oil prices are currently hovering in the region of US\$70 to US\$72 per barrel. The prices are expected to settle at between US\$75 and US\$80 by the end of this year.

Bull's perspective

Analysts are generally bullish about the oil and gas sector. They believe that its stability is underpinned by support from Petronas. The majority of the local players' jobs are attached to the national oil company and its PSCs.

There has been no cutback in Petronas' capital expenditure (capex). In fact, it is estimated to increase its capex from RM37.6bil in the financial year (FY) ended March 2008, to an estimated RM45bil in FY2009.

As it is, the company has signed more than 60 PSC deals with international oil companies. This bodes well for local oil and gas service providers, as there are more opportunities to grow their order books.

CIMB Investment Bank Bhd and OSK Research Sdn Bhd are among the local research houses that have an overweight call on the oil and gas sector. Both have Kencana Petroleum Bhd listed as their top pick, but OSK also favours Alam Maritim Resources Bhd, Petra Perdana Bhd and Wah Seong Corp Bhd.

OSK Research analyst Jason Yap says higher oil prices are always good for the industry as they stimulate E&P activities, especially in the unconventional and marginal oil fields such as tar sands.

For instance, KNM Group Bhd, whose revenue comes mainly from overseas, where production costs vary from US\$30 to US\$80 per barrel, will likely see the revival of some projects that have previously been put on hold, now that crude oil prices are riding high.

As long as there is profit to be made, new jobs should flow out soon and this should benefit local oil and gas service providers, he explains.

In its latest report, OSK Research views most of the conventional production activities across the globe as already commercially viable when oil is at US\$40 per barrel. The average cost

of production in recent months has already fallen to between US\$10 and US\$30 per barrel, with deepwater production costing around US\$40 to US\$50 per barrel.

Contrarian view

But not every analyst is as bullish on the sector. Some of them believe that the current resurgence in oil prices is not sustainable because the global economy is not out of the woods yet. They doubt that the world demand for the commodity has recovered.

Maybank Investment Bank, for one, has an underweight call on that sector. Its analyst explains to *StarBizWeek* that the current uptrend in oil prices has been driven mainly by liquidity, and not fundamentals, as investors reallocate their asset portfolio and switch to commodities as an inflation hedge amid rising optimism.

He expects crude oil prices to remain volatile at least for the next 12 months, as fundamental data continue to signal weakness ahead. He points out that global consumption has yet to grow because the global oil market is still suffering a demand destruction cycle in a flooded supply state.

Global economic recovery is still hazy. The recent share price run-ups offer an opportunity to sell into strength, he says.

Meanwhile, ECM Libra Investment Research prefers to remain neutral on the sector. It nevertheless acknowledges that there could be a potential return of contract flows in the months ahead.

An ECM Libra analyst notes a dismal tone going into the second half of the year as less than RM3.5bil worth of contracts have been awarded so far this year compared with more than RM10bil by this time last year.

Whatever the view, the local players are definitely gearing up in anticipation of more projects coming up.

Integrated oil and gas industry solutions provider Uzma Bhd managing director and CEO Datuk Kamarul Redzuan Muhamed tells *StarBizWeek* that although new projects are not coming in yet, because the improvement of crude oil prices has happened only recently, the company anticipates its order book to improve soon.

The element of uncertainty in the industry, which surfaced when crude oil prices rose to its historic level last July and then the sudden plummet by more than 70% early this year, is dissipating, he says.

Previously, many oil and gas companies had to reassess their investment decisions due to the drastic slump. Uzma too saw some of its projects being deferred and its projects in the Indian subcontinent and Australia cancelled.

But things are looking brighter now for the company. It had successfully drilled two wells in Inner Mongolia last month, and the prospects have been good and promising. The two wells are expected to commence production any time soon, says Kamarul.

Uzma is also putting in a lot of effort to market its expertise in reviving old and idle wells through its low-pressure system technology to boost its order book.

In another development, Dialog Group Bhd recently signed a memorandum of understanding with the Johor government to develop an independent deepwater petroleum terminal at Pengerang.

Pending feasibility and environmental impact studies, the project involves an investment of up to US\$1bil and is expected to be completed within three to four years.

The proposed petroleum hub is aimed at supporting the growing oil trade within Asia for the long term and providing international traders an alternative to Singapore's oil storage facilities. Analysts are upbeat about the potential of the project generating long-term earnings and cash flow for Dialog.

Going into the high seas

Meanwhile, OSK Research gathers that Petronas has been scouting the market for more than 50 new vessels since the end of last year.

Hence, it believes news flow on contract awards should be coming in stages from now to next year, potentially benefiting companies like Alam Maritim, Petra Perdana and Tanjung Offshore Bhd.

Offshore marine support services are needed from greenfield exploration to brownfield maintenance. Currently, most of the available vessels are fully utilised to support existing production activities.

Hence, new vessel capacity will be needed to support the development of new oil fields.

On average, most of the vessel contracts are locked in for about three to four years and this provides recurring income to the vessel operators.

Over the week, Petra Perdana chairman and CEO Tengku Datuk Ibrahim Petra Tengku Indra Petra told *StarBiz* that the company would take delivery of 14 new vessels over the next two years to expand its fleet and boost its capacity to secure more contracts.

Of the new vessels, 11 would be delivered this year.

The group currently has 19 vessels in its fleet, two or three of which will likely be disposed of this year.

Tengku Ibrahim said he was confident that contracts for the new vessels would be forthcoming because there was still demand, particularly for bigger vessels as exploration activities head to deeper waters.

The recent US\$2.1bil PSC contract signed between Petronas and ExxonMobil to rejuvenate seven existing oilfields off the coast of Terengganu could potentially benefit Petra Energy Bhd and Eastern Pacific Industrial Corp Bhd, OSK Research says in its report.

Such contracts, the research outfit says, could potentially increase the demand for warehouse facilities and cargo-handling services, while at the same time benefit offshore service providers like Kencana.

Other players such as Wah Seong, a pipe coating and corrosion protection service major, may also receive new orders in the months ahead. For instance, the award of Gorgon, Western Australia, LNG (liquefied natural gas) contract will be announced in August.

Indeed, market conditions seem to have taken a turn for the better for many oil and gas players.

Just recently, Vastalux Energy Bhd, an onshore and offshore engineering company for oil and gas, was reported to be bidding for projects worth RM700mil in Malaysia and US\$20mil in Indonesia. Analysts say more of such news flow is expected for the industry.