Alam Maritim In The News
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Investing Ideas: Ride O&G wave with Alam Maritim

By Joyce Goh

The oil and gas (O&G) wave has taken the world by storm. With oil prices heading nowhere but up, many investors are upbeat on companies in the O&G industry.
Alam Maritim Resources Bhd is one such company, and is in the O&G support services business. It is involved in the provision of vessel charters and underwater services in the industry.
Since its flotation exercise in July 2006, Alam has been among the more lively O&G stocks on Bursa Malaysia, with its shares gaining by almost 231%.
Analysts are upbeat on this counter, and 90% of those polled by Bloomberg are calling a "buy" on the stock with an average target price of RM2.94. The stock closed at RM2 last Friday. This translates to a 47% upside potential. The stock hit a 52-week high of RM2.72 in October and 52-week low of RM1.32 last March.
CIMB Research says it likes the stock for two reasons ð one, that it is a beneficiary of rising charter rates and, secondly, as Malaysia's exploration works shift to deep waters, Alam plans to venture into diving support in a big way.
"Companies that have been aggressively growing their fleets tend to benefit the most from the rising charter rate. Alam is certainly one of them. In FY2006, it secured three anchor handling tug supply vessels, five supply/utility vessels, a remotely operated vehicle (ROV) and a support and maintenance vessel from local and foreign shipyards. This is high and above the target of two vessels per year it stated during its flotation exercise," says CIMB in a research note.
On top of that, Alam will also be expanding its fleet by another two and six vessels in 2008 and 2009 respectively. According to K&N Kenanga, the company's fleet is expected to almost double from 20 to 34 by end-2010.
"In the same fashion, total engine capacity is expected to leap from 88,844 bhp to 171,144 bhp by end-2010. The earnings of offshore support vessel operators are directly correlated to their total engine capacity," says K&N Kenanga in a research note.
As a result, the research house expects Alam's earnings to grow over the next four years as it takes delivery of 14 offshore support vessels. The company also plans to own bigger vessels as they fetch better charter rates.
No doubt charter rates have been rising, given the fast-paced growth of the O&G industry, and marine support has been one of the money-spinning segments in the O&G sector over the past few years. The rise in crude oil price would fast-track oil exploration and extraction projects, which, in turn, would require offshore support vessels (OSVs). Interestingly, Alam owns and operates one of the largest OSV fleets in terms of tonnage in Malaysia.
"As supply has not been able to keep up with the rising demand for vessels, especially Malaysian-flagged

ones, the charter rate has been scaling new highs the past four years. For a second-hand 10,000hp anchor handling tug and supply vessel, the average rate has jumped from 70 US cents/hp in 2004, US$1 in 2005, US$1.20 in 2006 to US$1.70/hp in 2007," notes CIMB.

According to AmResearch, besides fast-tracked development of deepwater oil and gas fields, Petronas and local PSCs are aggressively working to revitalise existing oil and gas fields to increase reservoir reserve recovery rate from the existing 30% to 35%.

"These intentions will continue to drive demand for offshore marine vessels and ROVs," AmResearch adds.

Also, on top of its fleet expansion riding on rising charter prices, Alam's new venture into diving support is also viewed positively. According to CIMB, diving support is expected to take Alam's underwater services to a higher level.

"As Malaysia's exploration works shift to deepwater or more than 1,000ft, it is only timely that Alam ventures into diving support in a big way. We view the venture as a smart move. In this area, competition appears limited, with Alam being the only local player that owns a diving support vessel," says CIMB.

Additionally, the group is also working to expand and boost its earnings base with venture into drilling rigs market. Currently, Alam is bidding for contracts valued at over RM1.3 billion, both locally and overseas.

Meanwhile, according to Aseambankers, it is understood that Alam is leading the race for a 3+2 year RM600 million to RM1 billion underwater and maintenance project (results are likely to be known by 1H2008) and, may see the emergence of a strategic shareholder from the Middle East, taking up to 10% stake.

"We believe this party could aid Alam in tapping opportunities in the Middle East," Aseambankers adds. The investment banking arm of Maybank predicts a two-year net profit compounded annual growth rate (CAGR) of 39%, driven by Alam's committed fleet expansion programme.

CIMB has forecast a three-year earnings per share CAGR of 23% for Alam, which is higher than the sector average of 21.4%. "Valuations are indeed attractive, especially after the recent share price fall. The stock is currently trading at price earnings ratio of only 9.2 times in FY2009 and 8.7 times in FY2010, slightly lower than the sector averages of 9.7 times in CY2009 and 9 times in CY2010," it added.