

14 June 2016 | Sector Update

Oil and Gas sector

Negative (for upstream)
Positive (for downstream)

Persisting stress on utilisation and day rates

- **Marketed utilisation rate for overall rigs within Southeast Asia as at end-May 2016 is still very weak at 46%, representing further decline of -4% from end-January 2016**
- **Market for Southeast Asia jack-up rigs (361-400 IC) remains weak as DCR are currently at a low of USD60k per day**
- **Utilisation rates for jack-ups are also below 50% indicating persistent supply glut**
- **Utilisation rates for tender rigs are above >60%**
- **Maintain POSITIVE on downstream and NEGATIVE on upstream with 2016 average Brent crude oil price assumption of USD45pb**

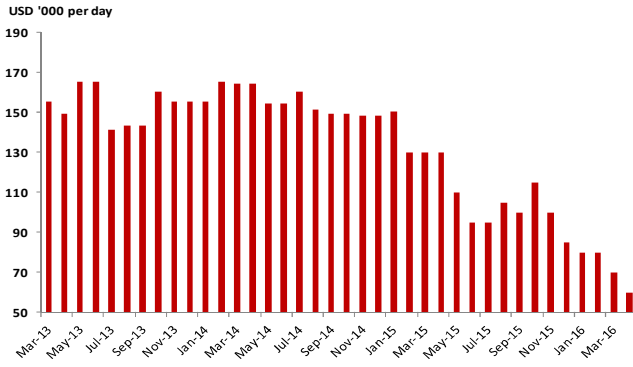
Recap of previous review on rigs market. As per our report four months ago dated 12 February 2016, the utilisation rate for overall rigs within Southeast Asia as at end-January 2016 was at 50% and day charter rates (DCR) were hovering below USD80-90k per day for 361-400 IC jack-up rigs. Furthermore, rig utilisation rates globally and in Asia Pacific at that time were approximately 68% and 56% respectively.

Poor utilisation rates persist and even poorer DCR. Since the past four months, the utilisation rates for 361-400 IC jackup rigs in Southeast Asia have only improved marginally, currently at 59%. Excluding assets which are under construction, retired, destroyed, deemed non-competitive or cold stacked, the average utilisation rate would have been 68%, down from 64% in January 2016. Although utilisation rates have ticked up, the average DCR for the aforementioned jackup rigs are still very depressed, registering a new low of USD60k per day in April 2016. Asset owners are still seen to be delaying and deferring construction and delivery of jack-up rigs in this lull activity climate. Perisai Petroleum Teknologi Berhad (*non-rated*) has recently delayed the delivery of two jack-up rigs the Perisai Pacific 102 and Perisai Pacific 103 to 31 October 2016 from March 2016 and July 2016 respectively.

Tender rigs not fairing any better. Although the general utilisation rates for tenders are largely better compared with that of jack-ups, the average DCR for tenders are still very much depressed at approximately USD135k per day – refer *figure 5*. Excluding assets which are under construction, retired, destroyed, deemed non-competitive or cold stacked, the average utilisation rate would have been 67%, up from 64% in January 2016. The average utilisation rate for tenders globally and in Southeast Asia are presently at 63% and 56% respectively vis-à-vis global low of 47% in October 2015 and Southeast Asia low of 48% in November 2015.

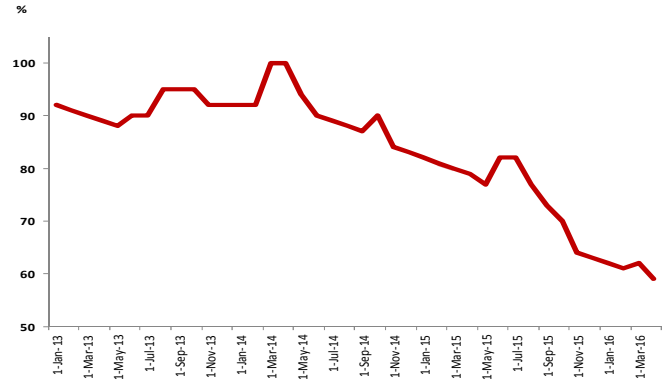
Recommendations. Given this backdrop of volatile and relatively negative sentiment shrouding the upstream segment of oil and gas industry, we are recommending investors to cherry-pick stocks which are specific to the downstream segment of the oil and gas industry. For exposure into Pengerang, we are recommending **KNM Group Berhad (BUY; TP: RM0.59)** as PETRONAS, via Petronas Chemicals Berhad (NEUTRAL; TP: RM6.46), has announced three petrochemical projects within PIPC and that KNM Group stands to be a potential beneficiary for the supply of specialized process equipment. For investors seeking exposure in a more predictable downstream company offering stable earnings, we are recommending **Gas Malaysia Berhad (Buy; TP: RM2.92)** as the adoption of the Incentive-Based Regulation (IBR) regime shall provide better earnings visibility and predictability. 

Figure 1: Average Day Charter Rates for Southeast Asia Jackup 361-400 IC



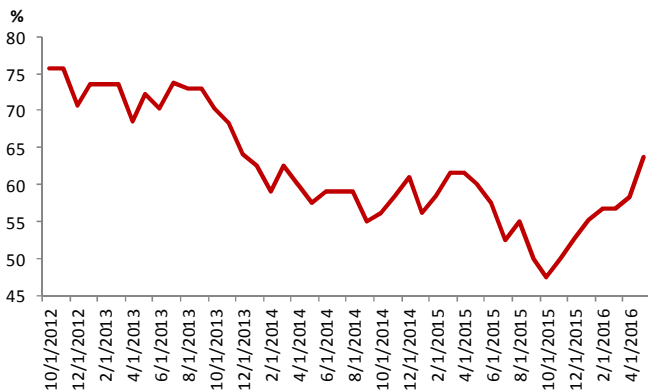
Source: MIDFR, Rigzone, IHS, InfieldRig

Figure 2: Total Contracted Utilisation for Southeast Asia Jackup 361-400 IC



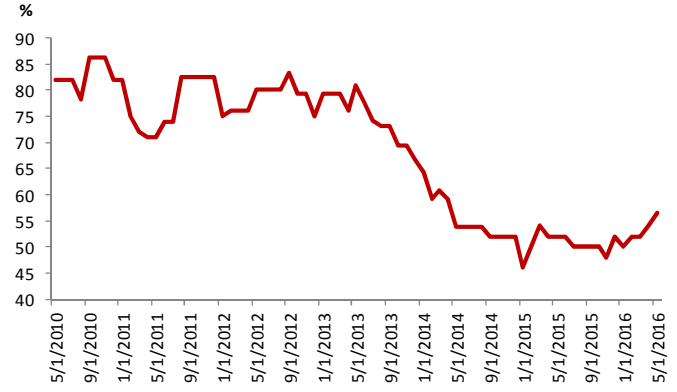
Source: MIDFR, Rigzone, IHS, InfieldRig

Figure 3: Utilisation Rates for Global Tender Rigs



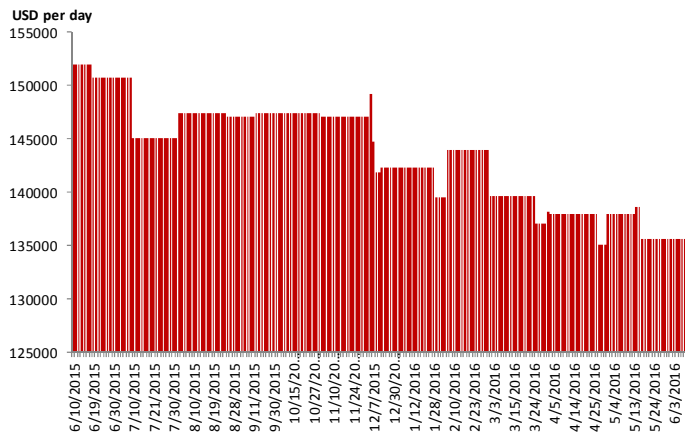
Source: MIDFR, Rigzone, IHS, InfieldRig

Figure 4: Utilisation Rates for Southeast Asia Tender Rigs



Source: MIDFR, Rigzone IHS, InfieldRig

Figure 5: Average Day Charter Rate for Tender rigs



Source: MIDFR, Rigzone IHS, InfieldRig

Table 1: Current Utilisation Rate for Rigs Worldwide

Rigs	Total Rigs	Contracted	Available	Current Utilisation	UR in January 2016
Drillship	104	73	31	70%	75%
Jackup	398	258	140	64%	68%
Semisub	129	88	41	68%	66%
Tenders	31	21	10	67%	64%
TOTAL	662	440	222	66%	68%

Source: MIDFR, Rigzone IHS, InfieldRig

*Utilisation is for drillships, semisubs, jackups and tender rigs

**excludes assets which are under construction, retired, destroyed, deemed non-competitive or cold stacked

Table 2: Global Tender rigs market

No.	Tender Rig	Owner/Manager	Status
1	SKD T-9	SapuraKencana Drilling Ptd Ltd	Operational
2	SKD T-10	SapuraKencana Drilling Ptd Ltd	
3	SKD T-11	SapuraKencana Drilling Ptd Ltd	
4	SKD T-19	SapuraKencana Drilling Ptd Ltd	
5	T-15	Seadrill Partners LLC	
6	T-16	Seadrill Partners LLC	
7	SKD T-17	SapuraKencana Drilling Ptd Ltd	
8	TAD – 1	Saipem	
9	SKD T-20	SapuraKencana Drilling Ptd Ltd	
10	SKD T-18	SapuraKencana Drilling Ptd Ltd	
11	Edrill-2	Energy Drilling Pte Ltd	
12	Edrill-1	Energy Drilling Pte Ltd	
13	SKD Teknik Berkat	SapuraKencana Drilling Ptd Ltd	
14	SKD T-12	SapuraKencana Drilling Ptd Ltd	
15	Triumph 110	SapuraKencana Drilling Ptd Ltd	
16	Alpha	Atlantic Tender Drilling Ltd	
17	Glen Tanar	Scorpio Drilling International	
18	Glen Affric	Scorpio Drilling International	
19	Triumph 109	Triumph Drilling (S) Pte Ltd	
20	Triumph 101	Triumph Drilling (S) Pte Ltd	Cold Stacked
21	SKD T-6	SapuraKencana Drilling Ptd Ltd	
22	GP-18	PDVSA Petroleo SA	
23	GP-14	PDVSA Petroleo SA	
24	MTR – 1	SapuraKencana Drilling Ptd Ltd	
25	MTR – 2	SapuraKencana Drilling Ptd Ltd	
26	SKD T-7	SapuraKencana Drilling Ptd Ltd	Under Inspection/Repair/Maintenance
27	Energean Force	Energean Oil & Gas	
28	Atlantic Gamma	Atlantic Tender Drilling Ltd	Under Construction
29	Prime TB2	Primepoint Drilling Pte Ltd	
30	MTR-3	Mermaid Drilling Ltd	
31	MTR-4	Mermaid Drilling Ltd	
32	Upstream Drilling Tender TBN 1	Upstream Drilling Pte Ltd	
33	Prime TB-1	Primepoint Drilling Pte Ltd	

Source: MIDFR, Infield

Table 3: Global Semi-tender rigs market

No.	Semi-tender Rig	Owner/Manager	Status
1	SKD Alliance	SapuraKencana Drilling Ptd Ltd	Operational
2	SKD Pelaut	SapuraKencana Drilling Ptd Ltd	
3	SKD Setia	SapuraKencana Drilling Ptd Ltd	
4	West Vencedor	Seadrill Operating LP	
5	PV Drilling V	PVD Drilling Division	
6	SKD Jaya	SapuraKencana Drilling Ptd Ltd	
7	Beta	Atlantica Tender Drilling Ltd	
8	SKD Esperanza	SapuraKencana Drilling Ptd Ltd	
9	Atlantica Delta	Atlantica Tender Drilling Ltd	
10	SKD Berani	SapuraKencana Drilling Ptd Ltd	Ready Stacked
11	SKD Menang	SapuraKencana Drilling Ptd Ltd	
12	SKD Kinabalu	SapuraKencana Drilling Ptd Ltd	Under Construction
13	Prime TS-1	Primepoint Drilling Pte Ltd	
14	Edrill-3	Energy Drilling Pte Ltd	

Source: MIDFR, Infield

DAILY PRICE CHART

Brent crude oil price (CO1)



Source: Bloomberg, MIDFR

West Texas Intermediate crude oil price (CL1)



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.