

26 March 2014 | Sector update

Oil & Gas sector

Building up the ammo

Maintain POSITIVE

WTI Crude: USD99pb

- **Activity level to remain high, spill-over of the robust job awards in 2013**
- **O&G service providers are preparing for an anticipated increase in activities**
- **Petronas' marginal oilfield development still the sector's catalyst**
- **Maintain Positive on Oil & Gas**

Activity level to remain robust in 2014. In 2013, more than RM40b worth of contracts were awarded to the 30 Bursa Malaysia-listed oil & gas service providers. The major contracts awarded were mostly for long term projects – ranging from three to five years. These include hook-up and commissioning, large offshore structure fabrication works and floating, production, storage and offloading (FPSO) and transportation and installation jobs. In 1Q14, more than RM3b worth of job awards has been announced on Bursa Malaysia, indicating sustained contract award activities, albeit at a slightly tapered pace. As such, we strongly believe that the operating level of most O&G service providers will remain elevated in 2014.

Building up the ammunition. For the past six months (4Q13-1Q14), there have been a fair amount of corporate exercise activities undertaken by the listed O&G service providers. Companies are building up their financial muscle in anticipation of new jobs being awarded, to fund existing project operations, to acquire new businesses, to acquire additional assets and to restructure debts in order to meet certain listing requirements. In total, we estimate that more than RM21b worth has been raised by the local listed O&G service providers, primarily via private placements, rights issue and initial public offerings. This is a good indication that sentiment is bullish and the capital market still has confidence in supporting the O&G service providers.

Petronas capex. In 2H11, Petronas guided that its CAPEX will top RM300b for five years (until 2H16). With ten more quarters to go, Petronas has around RM150b left to be spent, which translates to a pro-rated quarterly capex of RM15b or RM60b a year. We believe that this is achievable as it spent RM18b in 4Q13.

West Texas Intermediate (WTI) crude price. From its lowest recorded price level mid-January of USD91.7pb, WTI crude price has risen over +14%, hitting USD104.9pb before settling at around USD100pb currently. We continue to reiterate that given the sustained strong WTI crude price above USD90pb, exploration and production activity levels will continue to remain in high gear, which will subsequently require more services from service providers.

POSITIVE on O&G sector. We continue to reiterate our POSITIVE stance on the oil and gas sector. We premise our view on continued high activity levels, as evidenced by various fund raising corporate exercises.



Notable corporate exercises undertaken by Bursa-listed O&G service providers in the past six months

No.	Companies	Corporate Exercise	Period	Exercise value (RM m)
1	SapuraKencana Petroleum	Signed refinancing deal with 13 local and foreign banks	March-14	16,500
2	Uzma Berhad	Rights issue of up to 132m shares at an issue price of RM0.75	March-14	99
3	Coastal Contracts Berhad	Private placement of 48.3m shares at RM4.30 per share	March-14	208
4	Daya Materials Berhad	Proposed fund-raising via private placements, rights & warrants, bonds and senior debts	News reported on 5 March 2014	950
5	Destini Berhad	Acquisition of Kejuruteraan Samudra's O&G services unit. Paid by issuing new shares.	February-14	80
6	Perisai Petroleum Teknologi	Private placement of 108m share at RM1.68 per share	February-14	166
7	Sumatec Resources Berhad	Private placement of 309m share at RM0.275 per share	Jan-14	85
8	Yinson Holdings Berhad	Rights issue of 259m shares at RM2.30 per share	Jan-14	600
9	Scomi Energy Services Berhad	Wholly-owned subsidiary issued bonds guaranteed by Danajamin	December-13	300
10	Barakah Offshore Petroleum	Listing via reverse takeover of Vastalux.	Nov-13	406
11	UMW Oil & Gas	Initial public offering	Nov-13	2,360
12	Handal Resources Berhad	Private placement of up to 22m shares at a price of RM0.50	October-13	11

Source: Bursa Malaysia, various media and MIDFR

Brent crude oil price (Bloomberg: CO1)



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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.