

30 July 2014 | Sector update

## Oil & Gas sector

**Reiterate POSITIVE**

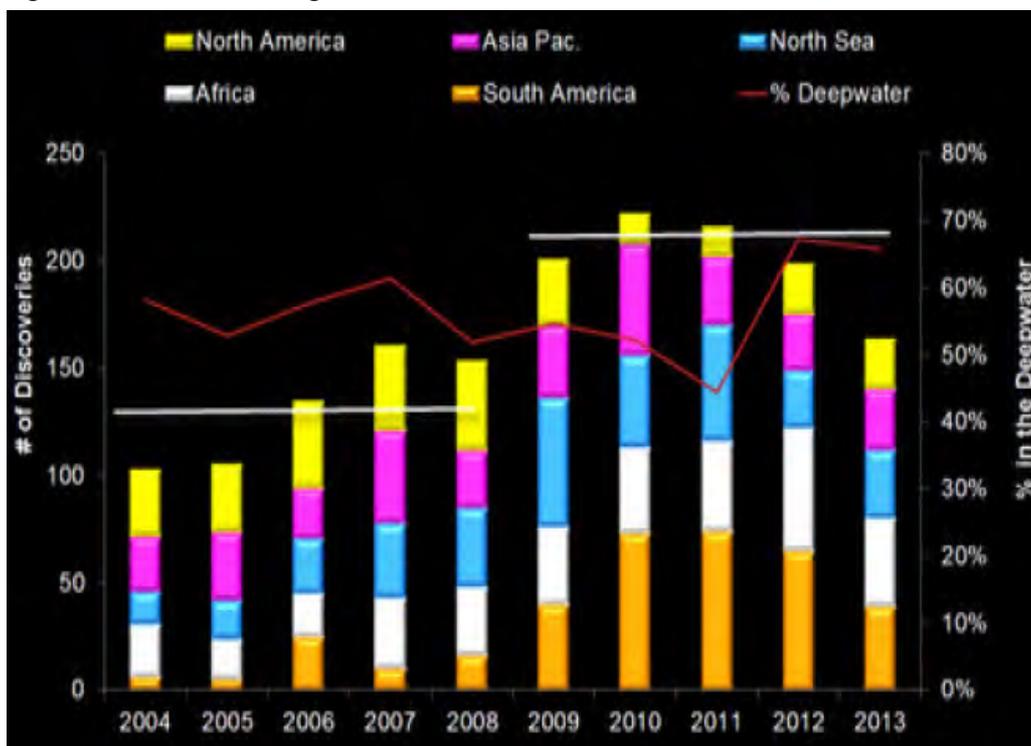
Deepwater discoveries to spur demand for service providers

WTI Crude: USD100.95pb

- Close to 70% of new hydrocarbon discoveries in the past two years are from deepwater fields
- Higher pace of oil exploration will drive demand for offshore service providers ie. drillers and OSVs
- Two key local beneficiaries of this positive development are SapuraKencana and Bumi Armada – strong fleet of vessels with deepwater capabilities
- We are reiterating our POSITIVE stance on the oil & gas sector premised on sustained offshore activities, high global oil prices and growing global oil demand

**Significant increase in offshore discoveries the past five years.** According to Quest Offshore, in the period of 2009-2013, about 1,002 hydrocarbon discoveries were made\*. This represents a growth of >52% over the 659 discoveries made within the period of 2004-2008. The key drivers for the continuous push into deeper waters are sustainably high oil prices (in excess of USD90pb), technological advancements, depleting shallow water fields (for the case of Malaysia) and high capex pledged by international oil companies.

Figure 1: Global oil and gas discoveries



- Recent discoveries are made in **South America and Africa**, but less in the North Sea
- Close to 70% of new discoveries are made in **deepwater** fields

Source: Quest Offshore, Bloomberg Industries, MIDFR

\*Source: Bloomberg Intelligence (Drilling and Drilling Support Team)

**Key beneficiaries.** As more deepwater discoveries are made, there will be more opportunities for these new discoveries to be developed. We believe that the two Bursa-listed companies which will stand in the forefront for these deepwater jobs are **SapuraKencana** (Buy; TP: RM5.59) and **Bumi Armada** (Buy; TP: RM4.51)

**Table 1: Ten biggest gas discoveries in 2013**

No.	Field(s)	Explorer	Estimated barrels of oil equivalents (BOE)
1	Agulha/Coral offshore Mozambique	Eni	700 million
2	Lontra offshore Angola	Cobalt International Energy	900 million
3	B14/B17 offshore Malaysia	Newfield (now owned by SapuraKencana)	850 million
4	Ogo offshore Nigeria	Afren Energy and Lekoil	775 million
5	Nene Marine offshore Congo	Eni	700 million
6	Tangawizi offshore Tanzania	Statoil	575 million
7	Coronado in U.S Gulf of Mexico	Chevron	550 million
8	Salamat in Egypt's East Nile Delta	BP	500 million
9	Maximino in Gulf of Mexico	Pemex	500 million
10	Bay du Nord offshore Canada	Statoil and Husky	450 million

Source: Forbes, MIDFR

**Maintain POSITIVE on sector.** We are maintaining our **POSITIVE** stance on the oil and gas sector. We are confident that the local oil and gas scene will sustain moving forward given the stubbornly high global oil prices of over USD95pb which will spur E&P activities, capex commitments by international oil companies including PETRONAS, positive industry sentiment and also with the visible developments happening with PETRONAS' RAPID project in Pengerang leading to potential contract awards for oil and gas companies. 

## DAILY PRICE CHART

**West Texas Intermediate crude oil price (CL1)**



Source: Bloomberg, MIDFR

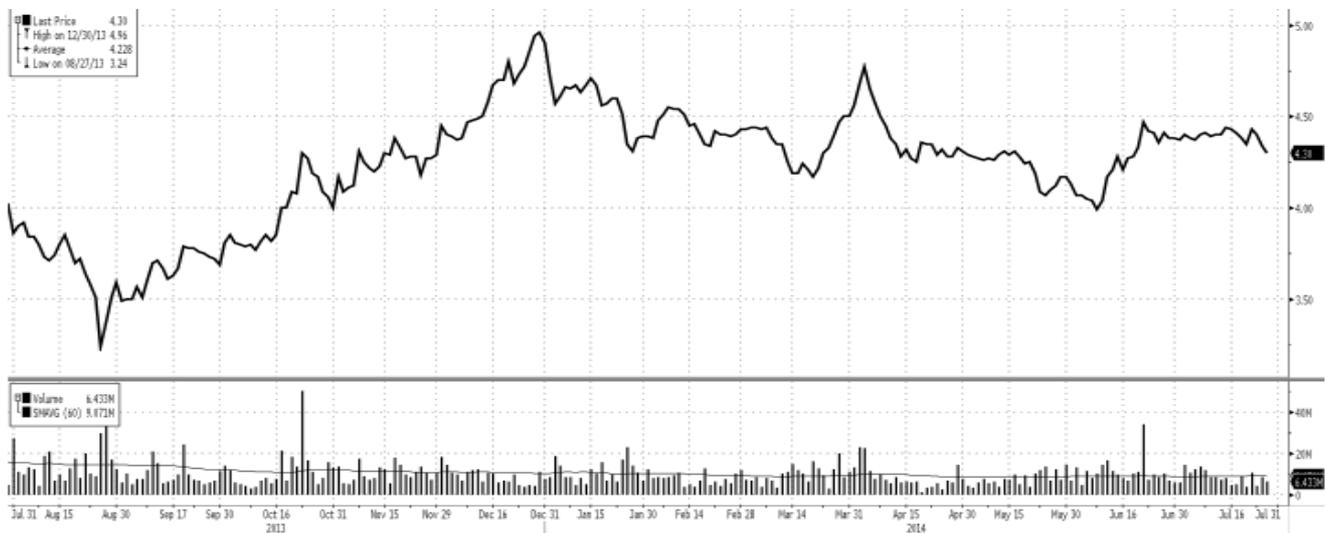
**Brent crude oil price (CO1)**



Source: Bloomberg, MIDFR

## SapuraKencana Petroleum Bhd

**BUY; TP: RM5.59**



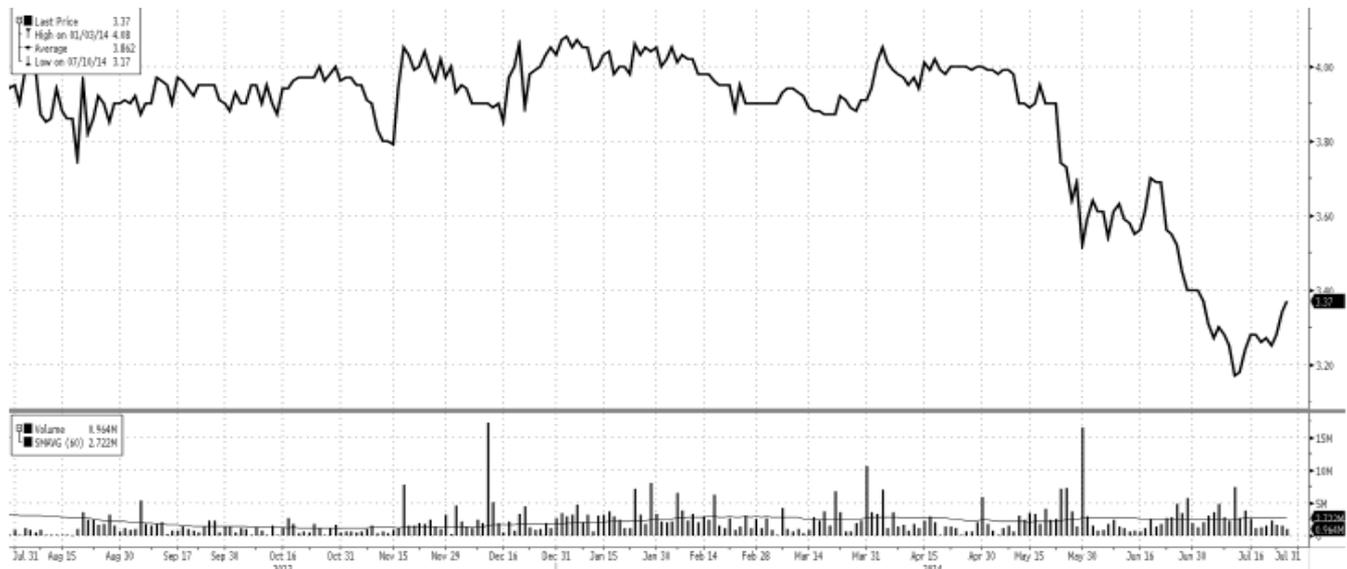
**SapuraKencana.** SapuraKencana is a fully-integrated oil and gas company involved in almost the entire value chain of the oil and gas services industry. The key reason why we believe that SapuraKencana stands to benefit from deepwater discoveries is due to the types of assets the company owns and the collaborations it has with international service providers such as Seadrill, Subsea7 and Toubro & Larsen. The company's first deepwater gig is the charter of its deepwater flexible pipe laying support vessels for Petroleo Brasileiro in Brazil worth USD2.7b in June 2013. SapuraKencana also has a fleet of eleven tender barge rigs and seven semi-tender rigs capable of deepwater drilling campaigns. The company's orderbook remains healthy at approximately RM30b, stretching up to year 2024 while tenderbook mimics the orderbook in terms of quantum. More than 20% of the orderbook is expected to be recognized in FY15.

**Bullish on SapuraKencana.** We are still bullish on SAKP and we are recommending a **BUY** on the stock with a TP of **RM5.59** per share. Our TP is premised on PER16 of 23x and EPS16 of 24.3sen. We are bullish on SapuraKencana for its strong quality and well diversified orderbook, healthy earnings and consistent job wins. Our target PER is based on the lowest average monthly rolling forward PER over the past year.

FYE Jan	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM m)	2,556.4	6,912.4	8,378.8	8,396.8	8,632.5
EBIT (RM m)	560.8	1,104.4	1,845.6	1,498.1	1,618.4
Pretax Profit (RM'm)	519.5	829.8	1,207.8	1,406.6	1,524.1
Net Profit (RM m)	581.6	524.6	1,086.9	1,326.3	1,383.1
EPS (sen)	11.6	10.5	19.1	23.3	24.3
EPS Growth (%)	42.8	-9.8	82.00	22.00	4.30
PER (x)	37	41	22.6	18.5	17.7
Net Dividend (sen)	3.6	0	0	3.5	3.5
Net Dividend (%)	0.8	0	0	0.8	0.8

## Bumi Armada Bhd

**BUY; TP: RM4.51**



**Bumi Armada.** With deepwater and ultra-deepwater fields being developed further away from the shoreline, the demand for floating production storage and offloading (FPSO) vessels is growing. Bumi Armada is currently the fourth largest FPSO operator in the world with eight FPSO vessels currently, of which seven FPSOs either being converted or being commissioned. In addition, the company is embarking and venturing into the floating, storage & regasification unit (FSRU) business by enhancing its floating liquefied natural gas (FLNG) vessel capabilities. The need for such technology is expected to increase in the near future. This is due to the fact that more deepwater gas fields are being discovered and developed, making conventional pipeline construction to the shore uneconomically viable.

**Bullish on Bumi Armada.** We are recommending a **BUY** on Bumi Armada premised on expanding topline, increasing quality orderbook value coupled with sizable extension options, blended sustainable margins of more than 20% and undemanding valuation. We are valuing the stock at a TP of **RM4.51** per share derived from forward PE multiple of 22x and EPS15 of 20.5sen. Our target PER is premised on a 1-standard deviation discount over its average lowest four-quarter rolling PER over the past two years (since listing). At this juncture, BAB trades at a forward PER of 17x. This is below its average PER of 25x since listing in 2011.

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM m)	1543.9	1659.2	2073.0	2218.5	2411.6
EBIT (RM m)	518.3	551.8	544.0	768.6	803.5
Pretax Profit (RM'm)	435.9	468.6	480.0	683.0	717.9
Net Profit (RM m)	359.7	385.8	435.1	570.3	599.4
EPS (sen)	12.3	13.7	14.7	19.5	20.5
EPS Growth (%)	2.5	11.5	7.3	32.5	5.1
PER (x)	27.4	24.6	22.9	17.3	16.5
Net Dividend (sen)	2.5	2.5	3.3	3.5	3.5
Net Dividend (%)	0.7	0.7	0.8	0.9	0.9

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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.