

12 February 2016 | Sector Update

Oil and Gas sector

Negative (for upstream)
Positive (for downstream)

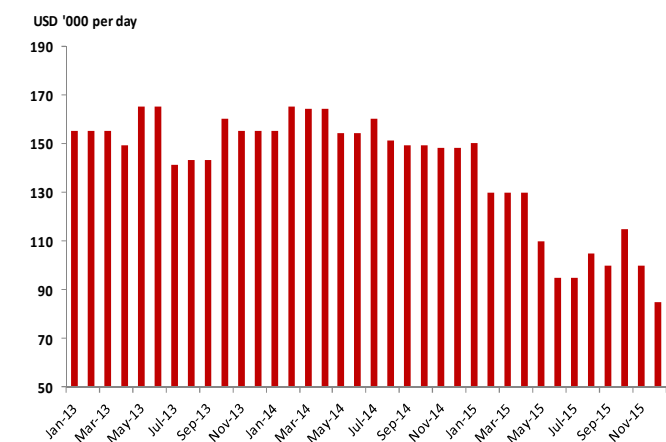
Headwinds to persist for rigs market

- **Marketed utilisation rate for rigs within Southeast Asia as at end-January 2016 was still very weak at 50%, representing further decline of -5% from end-December 2015**
- **Market for jackup rigs (361-400 IC) remained weak as day charter rates went below USD90k per day as at end-December 2015 – Current rates seem to have stabilised**
- **Rig utilisation rate for Malaysia is at approximately 30% as the rest are either ready stacked or cold stacked**
- **We are POSITIVE on downstream and NEGATIVE on upstream with 2016 average Brent crude oil price assumption of USD40pb**

Poor utilisation rates. Utilisation rates for jackup rigs in Southeast Asia have declined from the highs of close to 100% in early 2014 to current lows of nearly 60%. In Malaysia, the utilisation rate of jackup rigs is approximately 29% with 17 of 24 rigs either ready stacked or cold stacked. Of the 43 rigs consisting jackups, tenders, semi-subs, drillships and semi-tenders currently in Malaysia, the total utilisation rate is approximately 30%. We do not believe that this rate will post a meaningful increase in the near term as crude oil prices are still expected to stay subdued until at least the second half of this year. In contrast, rig utilisation rates globally and in Asia Pacific are approximately 68% and 56% respectively. Within Southeast Asia, total utilisation rate for rigs is around 50%. However, the rigs market in the Middle East is still relatively strong at 81%. We believe that this could be due to higher rig standards required in the Middle East market, hence limiting the number of rigs eligible to enter the market there.

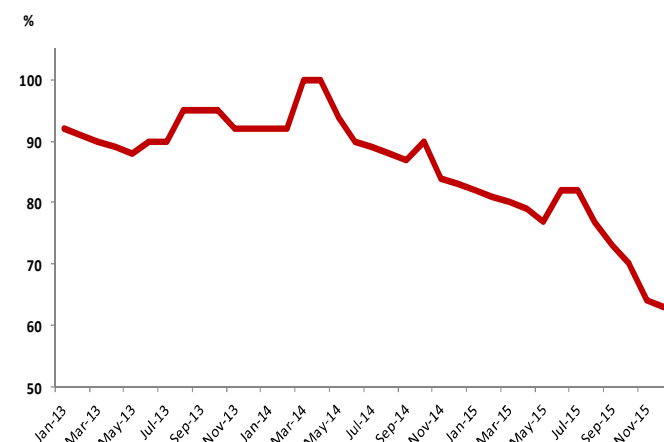
Day charter rates at depressed levels. Apart from the lacklustre utilisation rates, day charter rates (DCR) for rigs have also been depressed in line with the downtrend in rig utilisation rates. From a high of approximately USD160-170k per day for jackup rigs back in 2Q14, DCRs have since nearly halved to current levels of USD80-90k per day. At current price levels, we believe that most operators are still operating at a cash positive level. Industry stakeholders are of the collective opinion that rates may stay sub-USD100k per day for an extended duration due to: (i) Glut in competitive rigs; (ii) Glut in rigs under construction in fabrication yards; (iii) Sharp pullback in offshore exploration activities; and (iv) Relatively weak crude oil price.

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



Source: MIDFR, Rigzone

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



Source: MIDFR, Rigzone

Cautious on rig owners and rig operators. Due to the weak indicators shrouding the rigs market, we are adopting a very cautious stance on rig owners and operators such as UMW Oil & Gas Berhad (not rated)* and Perisai Petroleum Teknologi Berhad (not rated)*. For UMW Oil & Gas, only four of eight of its rigs are currently operational – all four are operating in Malaysian waters. Management noted that they are looking at opportunities in the Middle East as the demand for rigs there is higher and that its rigs should be able to meet the required specifications. As for Perisai Petroleum Teknologi, its sole jackup rig the Perisai Pacific 101 is currently operational in the North Malay Basin. Perisai will also be accepting delivery of two new jackup rigs, the Perisai Pacific 102 and Perisai Pacific 103 by end-1Q16 and 3Q16 respectively.

Table 1: Mobile Offshore Drilling Units (MODU) Worldwide

Rigs*	Total Rigs	Contracted	Available	Utilisation
Drillship	108	81	27	75%
Jackup	401	274	127	68%
Semisub	153	101	52	66%
Tenders	31	20	11	64%
TOTAL	693	476	217	68%

Table 2: Mobile Offshore Drilling Units (MODU) Asia Pacific

Rigs*	Total Rigs	Contracted	Available	Utilisation
Drillship	14	5	9	35%
Jackup	120	74	46	61%
Semisub	35	14	21	40%
Tenders	21	14	7	66%
TOTAL	190	107	83	56%

Source: MIDFR, InFieldRigs

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

Table 3: Rig count in Southeast Asia

	4th Week January 2016	3rd Week January 2016	4th Week December 2015	4th Week January 2015
Total Supply	98	98	99	105
Marketed Supply	89	89	90	98
Marketed Contracted	45	45	50	81
Marketed Utilisation (%)	50.6	50.6	55.6	82.7

Source: MIDFR, InfieldRigs

Table 4: Rig count in Middle East

	4th Week January 2016	3rd Week January 2016	4th Week December 2015	4th Week January 2015
Total Supply	163	163	161	155
Marketed Supply	155	157	154	150
Marketed Contracted	126	122	125	132
Marketed Utilisation (%)	81.3	77.7	81.2	88.0

Source: MIDFR, InfieldRigs

* Bloomberg consensus is negative on both stocks with an average target price of RM0.28 for Perisai Petroleum Teknologi Berhad and RM0.91 for UMW Oil & Gas Berhad


Recommendations. Given the 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 industry. For exposure into Pengerang, we are recommending **KNM Group Berhad (BUY; TP: RM0.62)** as PETRONAS, via Petronas Chemicals Berhad (NEUTRAL; TP: RM5.49) has announced three petrochemical projects within PIPC and KNM Group stands to be a beneficiary for the supply of specialized process equipment. In addition, **Malaysia Marine & Heavy Engineering (NEUTRAL; TP: RM1.01)** offers investors trading opportunities as the company is also a front runner for pre-fabrication works in RAPID. For investors seeking exposure in a more predictable downstream company offering stable earnings, we are recommending **Gas Malaysia Berhad (Buy; TP: RM2.87)** as the adoption of the Incentive-Based Regulation (IBR) regime will provide better earnings visibility and predictability. 

Table 5: Rigs located in Malaysia

No.	Rig name	Manager	Status	Type of Rig	
1	West Prospero	Seadrill Ltd	Operational	Jackup	
2	Aquamarine Driller	Vantage Drilling Co.			
3	ENSCO 52	Ensco Plc			
4	Perisai Pacific 101	Hercules Offshore			
5	UMW Naga 4	UMW Offshore Drilling Sdn Bhd			
6	UMW Naga 7	UMW Offshore Drilling Sdn Bhd			
7	UMW Naga 8	UMW Offshore Drilling Sdn Bhd			
8	COSL Boss	China Oilfield Services Ltd	Ready Stacked		
9	Deep Driller 3	Aban Offshore Ltd			
10	ENSCO 106	Ensco Plc			
11	ENSCO 67	Ensco Plc			
12	Hercules 208	Hercules Offshore			
13	Naga 2	UMW Offshore Drilling Sdn Bhd			
14	Rowan EXL-1	Rowan			
15	Rowan EXL-4	Rowan			
16	Tasha	PT Apexindo			
17	Trident IX	Shelf Drilling Ltd			
18	West Vigilant	Seadrill Ltd			
19	West Lada	Seadrill Ltd			
20	Adriatic VI	Shelf Drilling Ltd	Cold Stacked		
21	ENSCO 56	Ensco Plc			
22	Ocean Spur	Diamond Offshore Drilling			
23	Paragon L785	Paragon Offshore			
24	Rowan Gorilla II	Rowan			
25	SKD T-10	SapuraKencana Drilling Pte Ltd	Operational		Tender
26	SKD T-19	SapuraKencana Drilling Pte Ltd			
27	SKD T-9	SapuraKencana Drilling Pte Ltd			
28	Glen Affric	Scorpio Drilling Intl	Ready Stacked		
29	Glen Tanar	Scorpio Drilling Intl			
30	SKD Teknik Berkat	SapuraKencana Drilling Pte Ltd			
31	Triumph 109	Triumph Drilling (S) Pte Ltd			

32	Ocean Rover	Diamond Offshore Drilling	Operational	Semisub
33	Naga 1	Japan Drilling Co Ltd		
34	ENSCO 8504	EnSCO Plc	Ready Stacked	
35	Hakuryu-5*	Japan Drilling Co Ltd		
36	M.G. Hulme, Jr.	Transocean Offshore Deepwater		
37	Ocean America	Diamond Offshore Drilling		
38	Ocean Apex	Diamond Offshore Drilling	Cold Stacked	
39	ENSCO 5001	EnSCO Plc		
40	Noble Bully II	Noble Drilling	Operational	
41	Deepwater Frontier	Transocean Offshore Deepwater	Ready Stacked	
42	SKD Menang	SapuraKencana Drilling Pte Ltd	Ready Stacked	Semi-tender
43	SKD Kinabalu	SapuraKencana Drilling Pte Ltd	Under construction	

Source: MIDFR, InFieldRigs

*Under inspection

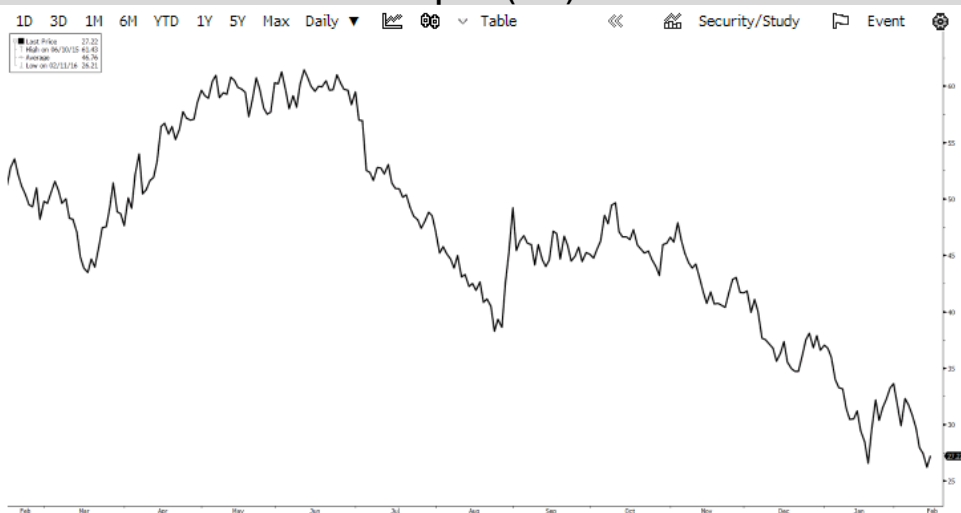
DAILY PRICE CHART

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.