

22 April 2015 | Sector Update

## Oil and Gas Sector

**Maintain POSITIVE**

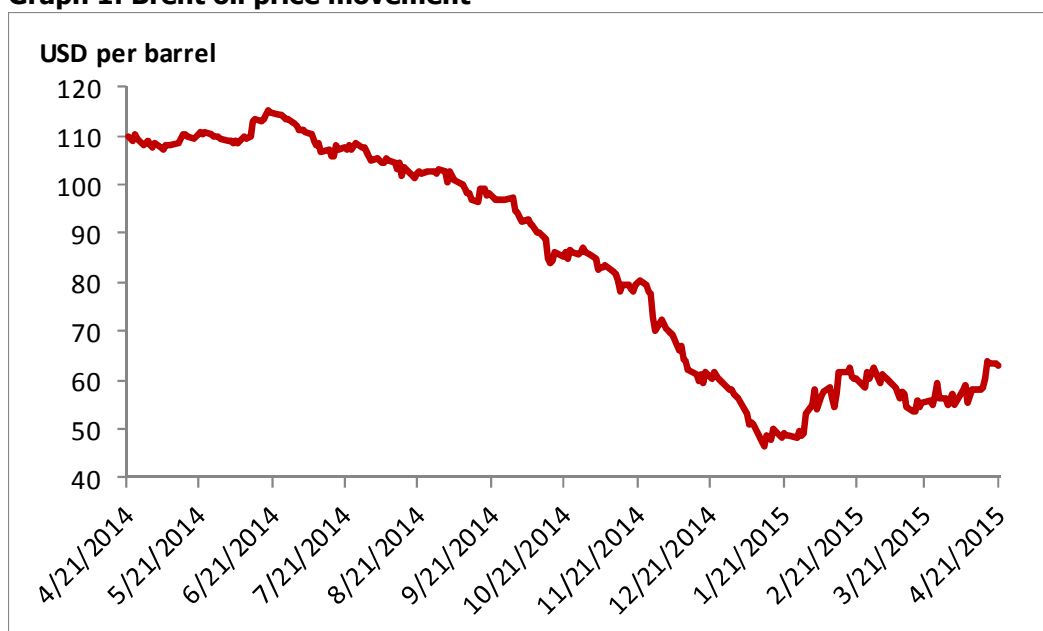
### *Local contract flow and oil production remain robust*

- **Contract flow remains healthy since start of 2015**
- **Brent crude oil price has appreciated by +11.5% year-to-date**
- **Maintaining 2015 Brent crude oil house price forecasts at USD60-70pb**
- **Oil and gas stocks under MIDF Research’s universe of coverage outperformed market**
- **Malaysian January 2015 crude oil production at 680kbpd – highest in seven years since 2009**
- **Reiterate POSITIVE on oil and gas sector**

**Contract flow healthy.** Since the start of 2015, the number and value of new contracts awarded to locally listed service providers have only been marginally lower compared to the same period in 2014. It could have been worse given the substantially weaker global crude oil market. The flow of local contracts is still commendable given the less-than-confident sentiment shrouding the local oil and gas scene. Year-to-date, approximately RM11b worth of new contracts (RM13.4b from Jan-Apr 2014) were awarded to local service providers by Petronas, other local production sharing contractors and from international sources. Despite the drop in contract value, service providers concur that activity levels are still at a comfortable level and expected to sustain moving forward as global crude oil prices are seen as bottoming and may further strengthen. In addition, service providers are still looking forward to more maintenance contracts being awarded this year although at a lower value.

**Brent crude oil performance.** Year-to-date, the price of Brent crude oil price has appreciated by +11.5% to USD63pb. This has been fuelled by the anticipated decline in US oil shale monthly production, unrest in the Middle East and lower oil inventory and stockpile in the United States. Since early January 2015, we have forecasted Brent crude oil to average between **USD60-70pb** in 2015. At this juncture, the year-to-date average price is USD55pb and we are maintaining our 2015 oil price forecast.

**Graph 1: Brent oil price movement**




Source: Bloomberg

**Oil and gas stocks under MIDF Research coverage outpaced broader market gains.** On average, the oil and gas stocks under our coverage have appreciated by +8.5% year-to-date, energised by the appreciation in Brent crude price. Stocks under our **BUY** recommendation however, have appreciated by +14%ytd, far outpacing the broader market FBMKLCI gain of only +5.7%ytd.

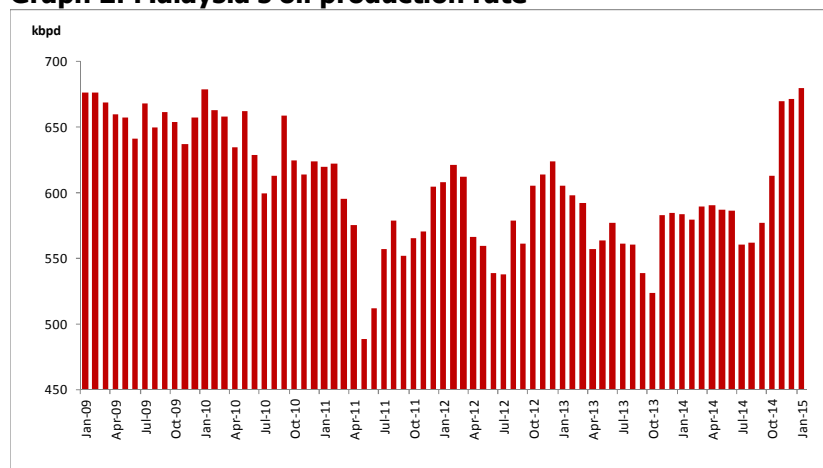
**Table 1: Contracts won by Bursa-listed oil and gas service providers in 2015**

No.	Company	Contract	Value (RM m)	Awarder
1	Bumi Armada	Supply of a floating storage unit	1,100	Electrogas Malta Ltd
2	KNM Group	1. Pengerang Integrated Petroleum Complex jobs 2. Petrochemical Complex Projects at Turkmenistan	204	Toyo Engineering & Tecnicas Reunidas
3	Barakah Offshore Petroleum	Provision of topside maintenance service	n.a	Kebabangan Petroleum Operating Company
4	Destini	Provision for six lifeboats and integrated davits	2.8	SapuraAcergy
5	Petra Energy	Umbrella contract for the provision of Spot Charter Marine Vessel Services from 2015 to 2017	n.a	Petronas Carigali
6	Perisai Petroleum Teknologi Bhd	Bareboat charters of its offshore support vessels	13	Emas Offshore
7	Alam Maritim Resources	1. Spot charter of marine vessels 2. Charter of accommodation work barge 3. Provision of diving support services	19.9	Petronas Carigali & ExxonMobil
8	Icon Offshore	Umbrella contract for the provision of Spot Charter Marine Vessel Services	n.a	Petronas Carigali
9	Yinson Holdings	Provision of an FPSO	9,158	Eni Ghana
10	Coastal Contracts	Sale of offshore support vessels	197	n.a
11	TAS Offshore	Sale of offshore support vessels	143	n.a

Source: Bursa Malaysia, MIDFR

**Maintain positive.** We reiterate our **Positive** stance on the oil and gas sector, pinning our optimism on supported global crude oil prices, sustained local oil output and sustained activities to support oil output levels. Despite the cautious sentiments reverberating throughout the sector, contracts continued to flow from Petronas and the other production sharing contractors. In addition to the award of contracts, activity levels remain robust in Malaysian waters as can be seen from the huge increase in national crude oil production. For full year 2014, the average production rate was approximately 597kbpd but in 4Q14, the production rate was boosted by more than +15% exceeding 670kbpd and continued to rise at 680kbpd in January 2015 – highest in seven years since 2009. 

**Graph 2: Malaysia's oil production rate**



Source: Bank Negara Malaysia, MIDFR

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**Table 2: MIDF Research's Oil & Gas stocks universe**

Company	Market cap (RM m)	Target price	Last price	Upside (%)	Call	EPS (sen)		Earnings per share (sen)		Current PER (x)		PBV (x)	
						FY14	FY15F	FY14	FY15F	FY14	FY15F	FY14	FY15F
Bumi Armada	7,332.8	1.12	1.25	-10.4	Neutral	0.04	0.07	4.3	7.0	25.3	17.86	1.0	1.1
Dayang Enterprise Holdings	2,262.1	3.82	2.58	48.1	Buy	0.21	0.24	21.3	23.9	13.6	10.79	2.6	2.3
Dialog Group	8,387.4	1.57	1.66	-5.4	Neutral	0.05	0.05	4.6	4.6	40.9	36.09	5.8	5.1
Gas Malaysia	3,364.1	3.4	2.62	29.8	Neutral	0.13	0.14	13.1	14.2	24.6	18.45	4.1	3.3
Sapurakencana Petroleum	16,358.6	3.7	2.73	35.5	Buy	0.18	0.22	18.1	22.1	14.8	12.35	1.6	1.6
KNM Group	1,360.5	1.15	0.7	64.3	Buy	0.03	0.07	2.9	7.2	16.9	9.72	0.4	0.5
Malaysia Marine & Heavy Engineering (MMHE)	2,080.0	1.19	1.3	-8.5	Sell	0.08	0.09	8.1	8.5	22.0	15.29	1.1	0.8
Petronas Gas	45,313.0	19.09	22.9	-16.6	Neutral	0.93	0.9	93.2	90.1	23.8	25.42	4.1	4.3
Petronas Chemicals	48,390.0	5.01	6.04	-17.1	Neutral	0.31	0.36	31.0	35.8	17.6	16.87	1.8	2.0
Wah Seong Corp	1,040.0	1.88	1.35	39.3	Buy	0.16	0.16	16.3	15.7	7.4	8.60	0.7	0.8
Perdana Petroleum	1,010.0	1.26	1.35	-6.7	Neutral	0.12	0.13	12.0	12.6	9.3	10.71	1.3	1.5
Favelle Favco	1,636.0	4.51	2.92	54.5	Buy	0.41	0.41	40.6	41.0	6.8	7.12	1.3	1.4
Petronas Dagangan	20,982.8	17.47	21.12	-17.3	Neutral	0.51	0.62	50.5	62.3	53.5	33.90	5.6	4.4

Source: 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.