

17 April 2014 | Sector update

Oil & Gas sector

RM13b jobs for listed service providers so far in 2014

Reiterate POSITIVE

WTI Crude: USD103.8pb

- For the year until April 16, the amount of contracts awarded to oil and gas service providers listed on Bursa Malaysia had amounted to RM13b. This is 19% higher compared with the Jan-Apr period in 2013.
- In 2013, the value of jobs awarded to the listed companies grew three-fold. While that is unlikely to be matched this year, we are optimistic that growth will remain strong in 2014.
- Sentiment in the industry is currently positive, buoyed by strong global crude oil prices and continuous efforts by Petronas in the exploration and production segment. The execution of contracts awarded is keeping activity level in the sector high.
- We reiterate our POSITIVE stance on the sector.
- Stock recommendations: SapuraKencana (*BUY; TP:RM5.36*), Bumi Armada (*Buy; TP:RM4.62*), Destini Bhd (*Not rated; TP:RM0.78*), Pantech Group Holdings Bhd (*Not rated; TP:RM1.26*) and TH Heavy Engineering Bhd (*Not rated; TP:RM1.17*)

Strong global crude oil price. The West Texas Intermediate (WTI) crude oil price is currently trading at around USD103pb, an increase of +4.7%ytd. The year-to-date average is USD99.2pb, +1% higher compared with the average for 2013. The key forces driving oil price for this year, thus far, have been geopolitically-related, such as the current Russian and Ukrainian standoff, oil supply worries in Libya and the unrest in South Sudan.

Sanguine on future oil price expectations. The latest Bloomberg consensus indicates that the market is still positive on the WTI crude oil price moving forward. The consensus average forecast for 2014 WTI price is USD98pb, higher than USD97.5pb previously. In addition, the U.S. Energy Information Administration, in its latest April 2014 report has also tweaked its 2014 WTI average price forecast upwards to USD95.6pb from USD95.33pb previously. While we are still maintaining our 2014 average WTI crude oil price forecast USD94pb, the bias in the expectation is certainly upwards.

Sustained high oil prices to fuel exploration and production (E&P). As oil prices are trading at a relatively high level of USD90-110pb, E&P firms are more incentivized to push into deep-water areas. According to Quest Offshore, from 2009-2013, 1,002 hydrocarbon discoveries were made. This represents a +52% increase from what was discovered from 2004-2008 (659 discoveries). As such, we believe that the overall higher pace of hydrocarbon discoveries may potentially drive the demand for drillers, offshore support vessels, oilfield services, equipment and parts supplies, fabrication works and maintenance activities. Almost all of these services are offered by the O&G service providers listed on Bursa Malaysia.

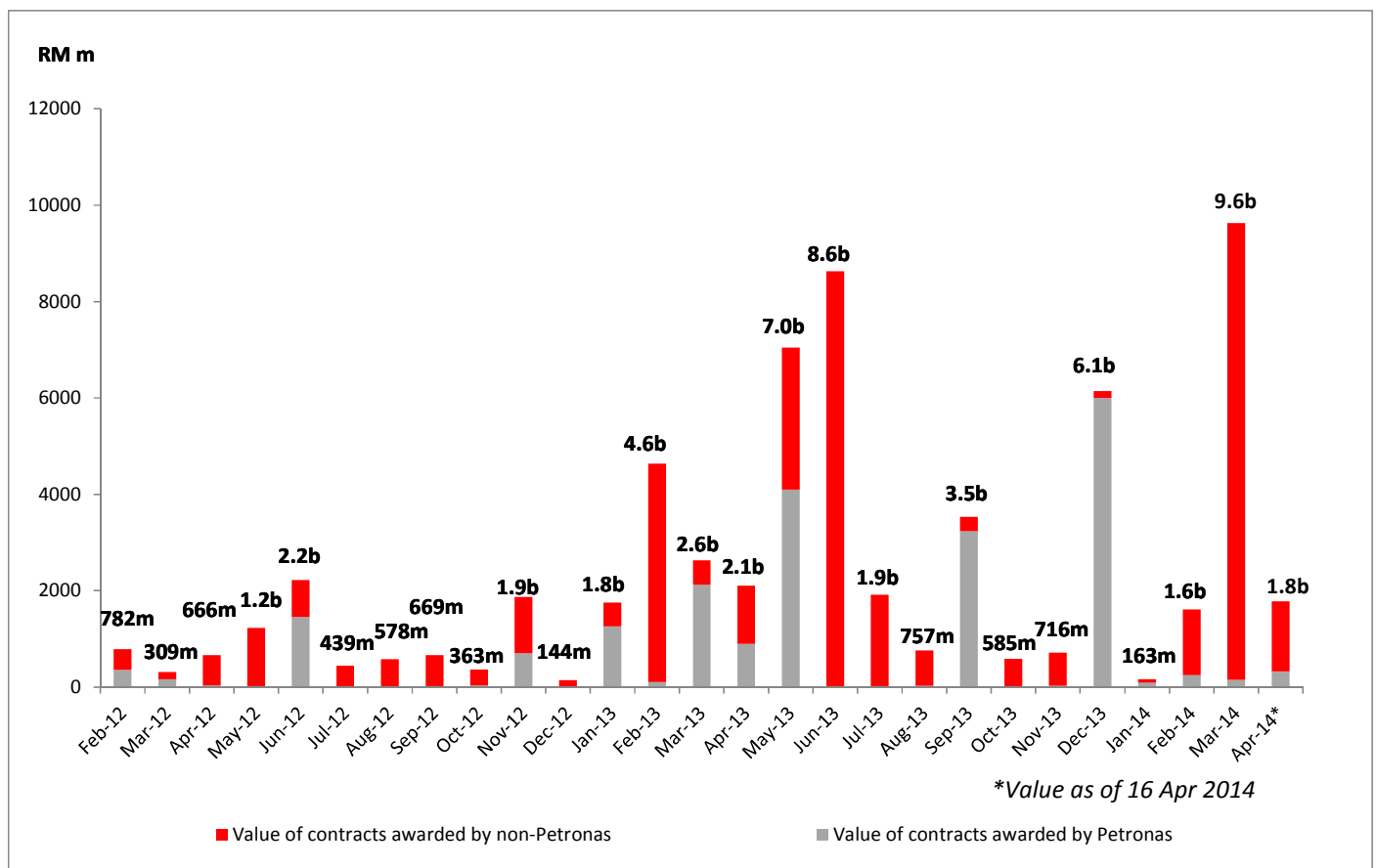
Table 1: WTI crude oil forecasts

Average WTI (USD pb)	Latest		Previous		Revision (%)		YoY (%)	
	2014F	2015F	2014F	2015F	2014F	2015F	2014F	2015F
US EIA	95.60	89.58	95.33	89.58	0.3%	0.0%	-2.5%	-6.3%
Consensus	98.00	95.00	97.50	95.00	0.5%	0.0%	-0.1%	-3.1%
MIDFR	94.00	93.50	94.00	93.50	0.0%	0.0%	-4.1%	-0.5%

Source: Bloomberg, U.S. Energy Information Administration, MIDFR


Sustained contract flows year-to-date. For the year until April 16, the amount of contracts awarded to oil and gas service providers listed on Bursa Malaysia had amounted to RM13b. This is 19% higher compared with the Jan-Apr period in 2013. We note that only a relatively small portion (6.2%) of jobs awarded this year had emanated from Petronas, with the large majority from international O&G firms. This proves that there is no over-reliance of local O&G firms on Petronas for contract handouts. Main beneficiaries in March/April 2014 were Bumi Armada, SapuraKencana, UMW O&G, Uzma, Perdana Petroleum, Handal Resources and Barakah Petroleum. In light of this, companies orderbooks have grown substantially. Our large cap O&G service provider top picks, SapuraKencana's orderbook is currently approx. RM27b while Bumi Armada's orderbook has swelled to RM22.7b with contract extensions worth RM8.9b.

Graph 1: Contracts awarded to Bursa-listed companies



Source: Bursa Malaysia, MIDFR

Upbeat activity level within the industry. Activity level within the industry is healthy. Apart from the active awards of contracts announced this year, there were also very important progress and developments announced. Firstly, the Final Investment Decision (FID) approval for the USD16b Refinery and Petrochemical Integrated Development (RAPID) and the USD11b associated facilities were announced. This is a major milestone as the initiative will boost Malaysia's capability as an oil storage and trading hub, spurring growth in the O&G downstream sector (refer to our sector report dated 4 April 2014). Secondly, Petronas has also announced in March the award of two more risk service contracts (RSC). The fourth round RSC involving the Tembakai field was awarded to Vestigo Petroleum and the fifth round RSC involving the Tanjung Baram field was awarded to Uzma and EnQuest.

POSITIVE on O&G sector. We continue to reiterate our **POSITIVE** stance on the oil and gas sector. We believe that there will still be a steady flow of domestic and international jobs. This is strongly supported by strong planned capex by international oil companies base on strong long-term oil price forecasts. For the large-cap O&G service providers, we recommend **SapuraKencana** (BUY; TP:RM5.36) and **Bumi Armada** (BUY; TP:RM4.62). As for our small-cap picks, we recommend **Destini Bhd** (Not rated; TP:RM0.78 – recently purchased Kejuruteraan Samudra Timur’s oil and gas tubular handling outfit), **Pantech Group Holdings Bhd** (Not rated; TP:RM1.26) and **TH Heavy Engineering Bhd** (Not rated; TP:RM1.17). Write-ups of our small-cap picks can be referred to from our '20 Under a Billion' report dated 20 March 2014. 

DAILY PRICE CHART

West Texas Intermediat crude oil price (CL1)



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Source: Bloomberg, MIDFR

Table 2: Award of contracts to Bursa-listed companies

Company	Projects	Clients	Date	Value (RMm)
Bumi Armada	Provision of FPSO for Block 15/06 Angola	Eni S.p.A	31-Mar-14	9400
Handal Resources	Provision of portable platform crane	UMW Petrodril	12-Mar-14	16
TAS Offshore	Sale of 1 tug boat	foreign customer	14-Mar-14	13
Perdana Petroleum	Provision of 1 accomodation barge	Ocean Pro Offshore	4-Mar-14	52
UMW O&G	Provision of hydraulic workover unit	Petronas Carigali	4-Mar-14	148
SapuraKencana	4 tender-assist rig contracts	Various international	1-Apr-14	1450
Uzma	Small risk service contract	Petronas	1-Apr-14	325

Source: Bursa Malaysia, MIDFR

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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.