

04 April 2014 | Sector update

## Oil & Gas sector

Green light for RAPID

**Maintain POSITIVE**

WTI Crude: USD100pb

- The board of Petronas has approved the final investment decision (FID) for the development of the Pengerang Integrated Complex (PIC)
- The PIC comprises the USD16b Refinery and Petrochemical Integrated Development (RAPID) in Pengerang and USD11b associated facilities
- However, refinery start-up has now been pushed back by a year to early-2019
- Near term key risks include relocation of current settlers, graves and securing stable water supply
- Long term risk is the construction of the Kra Canal, Southern Thailand
- **Maintain Positive Oil & Gas sector**

**Green light given.** The board of Petroliaam Nasional Berhad (Petronas) has finally approved the FID for the development of RAPID and its associated facilities. The project is estimated to cost a total USD27b (approx. RM89b). However, the project's expected start-up has now been pushed back by a year to early-2019.

**Key details on RAPID.** Petronas had previously signed partnership head of agreements with Evonik (Germany), Versalis (Italy), Itochu (Japan) and PTT Global Chemicals (Thailand, which has stated its intention to pull out). One of the aims of the PIC is to meet ever-growing demands for quality petroleum products such as Euro 4M and Euro 5 fuels. Citing media reports, the PIC will sit on a 6,242-acre site with a 300,000bpd refinery and petrochemical complex with a combined capacity of producing 7.7mtpa of various grades of products, including differentiated and specialty chemicals products such as synthetic rubbers and high-grade polymers. Petronas further added that at the height of the construction projects, PIC would employ a workforce of about 70,000 people and will require over 4,000 employees upon commencement.

**Near term key risks.** Although we are positive on this development, we are still cautious as there are some unresolved near term teething problems such as the relocation of villages and settlements, relocation of Muslim and Chinese cemeteries, sporadic land acquisitions and water supply issues.

**Long term risk.** Apart from these short term stumbling blocks, a greater risk would be the potential construction of the Kra Canal (now known as the Thai Canal) which will pass through southern Thailand. The length of the proposed canal could range from a mere 50km to 100km, bypassing over 1000km distance around Peninsula Malaysia and Singapore. Recently, media sources reported that three Chinese firms have formed a work team to start preliminary operational activities on this canal. The Chinese firms are Sany Heavy Industry Co., Ltd., Xuzhou Construction Machinery Group Co., Ltd., and Guangxi Liugong Machinery Co., Ltd.

**POSITIVE on O&G sector.** We continue to reiterate our POSITIVE stance on the oil and gas sector. Although the construction of the PIC will not directly benefit most of the Bursa-listed O&G players as most are upstream service providers, the project would benefit oil and gas civil contractors and manufacturer such as Dialog Group, KNM Group, Muhibah Engineering and Eversendai, amongst other. Nonetheless, we believe that this new development will further invigorate and lift investors' sentiment on the local oil and gas sector.



## Potential locations for the Kra Canal (Thai Canal)



Source: Wikipedia, MIDFR

## DAILY PRICE CHART

### 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.