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MALAYSIA EQUITY

A large silhouette of an offshore oil rig is positioned on the left side of the cover. The rig's complex structure, including its derrick and various platforms, is set against a bright orange and red sky, suggesting a sunset or sunrise. The rig's reflection is visible in the dark blue water below.

THE WILDCAT REPORT

Monthly Review and Outlook of
the Oil and Gas Industry

Monthly review and outlook of the oil and gas industry



Aaron Tan Wei Min
603-2772 1650

aaron.tan@midf.com.my

Strong rebound in non-Petronas jobs

Maintain POSITIVE

In February 2014, price of WTI crude oil spiked +6.6%, climbing to as high as USD104.92pb, before settling at USD101pb early March 2014. This has brought the 2014 year-to-date price average to USD98.09pb, at par with 2013's average of USD98.02pb.

The uptrend in crude oil price in February was predominantly due to:

- Cold weather in the U.S;
- Russia's invasion of Ukraine, one of the largest energy producers

Locally, RM1.61b worth of jobs were awarded in February 2014. This was a surge from the RM163m awarded in January 2014, despite February being a festive and short working month. Key beneficiaries in February 2014 include Alam Maritim, Coastal Contracts, Muhibbah Engineering, TH Heavy Engineering and UMW Oil & Gas.

A. OIL PRICES

- The WTI crude oil started the year on a strong price of USD98.42pb. However, price sank drastically by -6.9% in the middle of January before rebounding to levels above USD100pb by the end of the first week of February 2014. In the middle of Feb 2014, prices topped USD104.9pb. As of early March 2014, prices are still hovering stubbornly above USD100pb.
- MIDF's average WTI oil price projection for 2014 is maintained at USD94pb on the back of our world GDP forecast of 3.8-4.1% for 2014. Growth will mainly stem from Asia. According to Bloomberg's survey, the market remains optimistic, with consensus forecasting WTI to average USD97.5pb in 2014, up from USD95.6pb. However, the US Energy Information Administration (US-EIA) is not convinced that the high spot price is sustainable and reckons that it could just be an over-reaction to global events. The administration has in fact, trimmed its 2014 price forecast lower to USD93.22pb from USD93.33pb previously.
- In 2014, we are expecting average oil prices to be supported above USD90pb by a few key factors, with upside bias. On the demand side, global GDP growth should be higher, led mostly by Asian countries. We forecast China's GDP to expand by 7.7% in 2014. Asia is expected to lead oil consumption growth at 21.7mbpd in 2013 compared with 21.1mbpd the year before. Consumption in Europe is expected to decline while that in the Americas may remain flat.

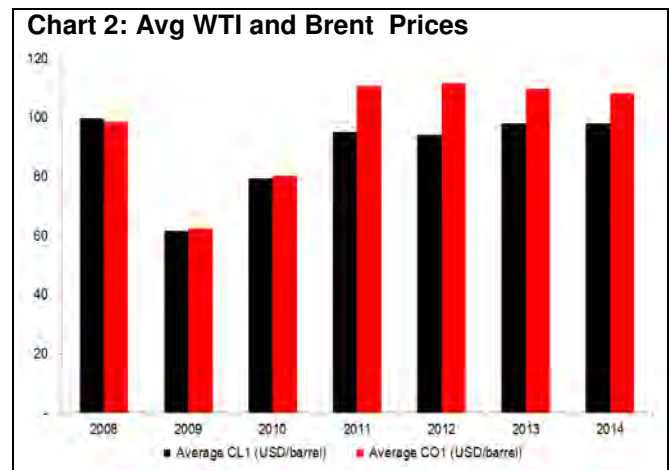
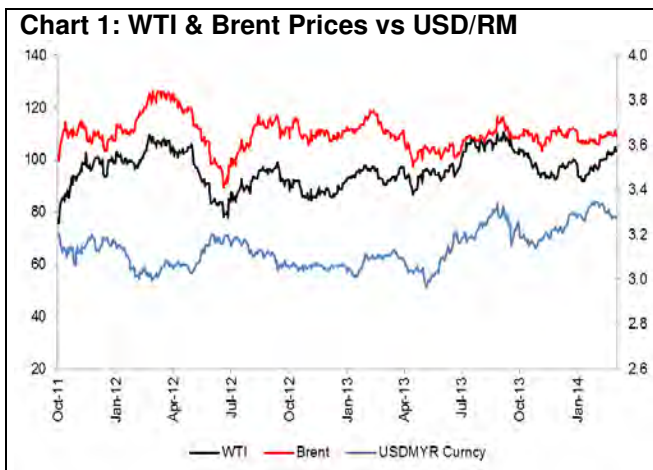


Table 1: Crude Oil Price Forecasts for CY14 and CY15

Average WTI (USD pb)	Latest		Previous		Revision (%)		YoY (%)	
	2014F	2015F	2014F	2015F	2014F	2015F	2014F	2015F
US EIA	93.22	89.58	93.33	89.58	-0.1%	0.0%	-4.9%	-3.9%
Consensus	97.50	95.00	95.65	95.00	1.9%	0.0%	-0.6%	-2.6%
MIDFR	94.00	93.50	94.00	93.50	0.0%	0.0%	-4.1%	-0.5%

Sources: US EIA, Bloomberg, MIDFR

Table 2: Historical Crude Oil WTI Prices (USD'pb)

Month-end	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
USDpb	97.02	105.03	107.65	102.33	96.38	92.72	98.42	97.49	102.59
MoM	6.2%	8.3%	2.5%	-4.9%	-5.8%	-3.8%	6.1%	-0.9%	5.2%
YoY	14.2%	19.3%	11.6%	11.0%	11.8%	4.3%	7.2%	0.0%	11.5%

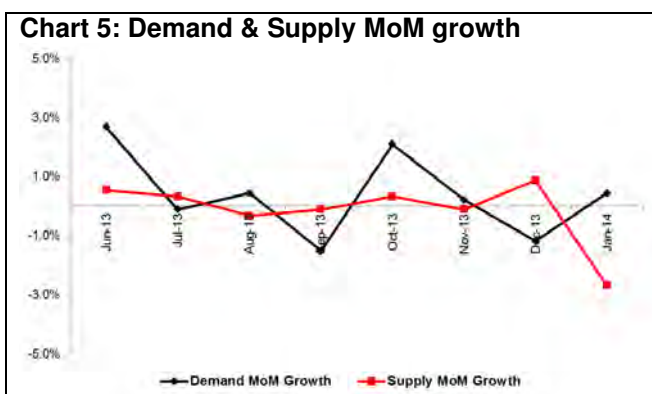
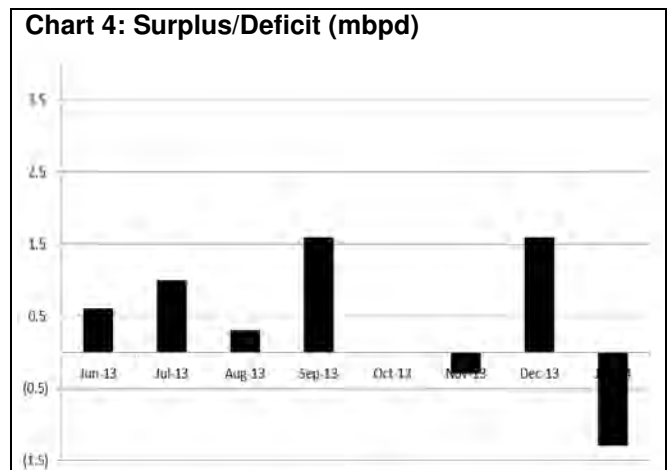
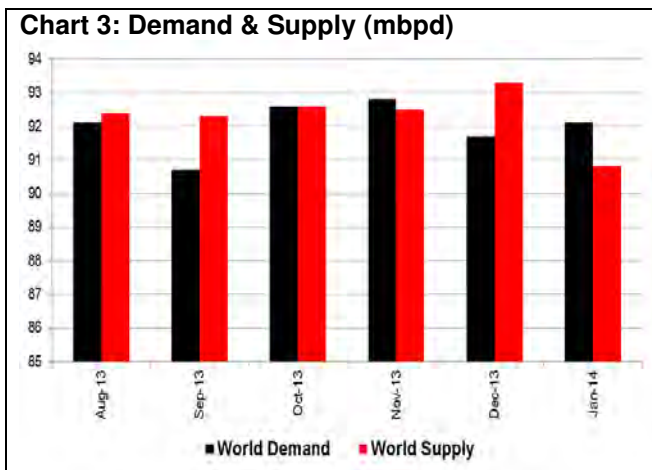
Sources: US EIA, Bloomberg, MIDFR

B. WORLD CRUDE OIL DEMAND (CONSUMPTION)

- The International Energy Agency (IEA) raised the estimate for 2013 and 2014 global oil demand estimates by 0.1mbpd to 91.3mbpd and 92.6mbpd respectively. The agency further noted that OECD oil demand growth rebounded in 2H13, but non-OECD countries still accounted for more than 90% of global growth of 1.2mbpd for 2013 as a whole, and will make up all of the 1.3mbpd increase forecast for 2014, as the OECD resumes its structural decline. Demand growth is expected to accelerate in 2014 in line with the broader economy.
- In its latest report, the Organization of Petroleum Exporting Countries (OPEC) noted that it has revised oil demand upwards by 30kbpd to average 89.89mbpd in 2013, an increase of 0.97mbpd over a year earlier, reflecting the most recent data and indicating the latest improvement in OECD Americas oil consumption. For 2014, growth is expected to be around 1.09mbpd, up by 45kbpd, to reach 90.98mbpd.
- The U.S. Energy Information Administration (US EIA), on the other hand is looking at 2013, 2014 and 2015 consumption forecasts of 90.36mbpd, 91.62mbpd and 92.99mbpd respectively – almost in-line with the IEA's outlook.

C. WORLD CRUDE OIL SUPPLY (PRODUCTION)

- The IEA indicated that global supplies fell by 290kbpd in January, to 92.1mbpd, on lower non-OPEC output. Supplies were up 1.50mbpd year-over-year, however, as steep growth of 1.90mbpd in non-OPEC output and OPEC NGLs surpassed a drop of 390kbpd in OPEC crude production. Its forecast for non-OPEC supply growth for 2014 is unchanged at 1.7mbpd.
- According to the OPEC, non-OPEC oil supply is estimated to have averaged 54.14mbpd in 2013, an increase of 1.28mbpd over a year earlier and up by 30kbpd from the previous report, driven by strong growth from OECD Americas. In 2014, non-OPEC oil supply is projected to grow by 1.29mbpd - up by 20kbpd from the previous assessment - to average 55.43mbpd. OPEC NGLs production is forecast to average 5.95mbpd in 2014, following output of 5.80mbpd in 2013, unchanged from its last report. In January 2014, OPEC production rose by 28kbpd to average 29.71mbpd, according to its secondary sources. As a result, preliminary data indicates that global oil supply decreased 0.03mbpd in January to average 90.50mbpd.



Sources: Bloomberg, Energy Intelligence Group, MIDFR

Table 3: Global Oil Demand Forecasts (mbpd)

	2013F				2014F				2014F growth
	OECD	Non-OECD	Total	+/-*	OECD	Non-OECD	Total	+/-*	
IEA	46.1	45.2	91.3	0.10	46.0	46.6	92.6	0.10	1.42%
OPEC	45.8	44.1	89.9	0.00	45.7	44.7	91.0	0.10	1.22%
US EIA	46.0	44.3	90.4	-0.02	46.0	45.6	91.6	0.03	1.39%
Average			90.5	0.03			91.7	0.08	1.35%

Sources: US EIA, IEA, OPEC, MIDFR *Compared with the forecasts in previous month

Table 4: Global Oil Supply Forecasts (mbpd)

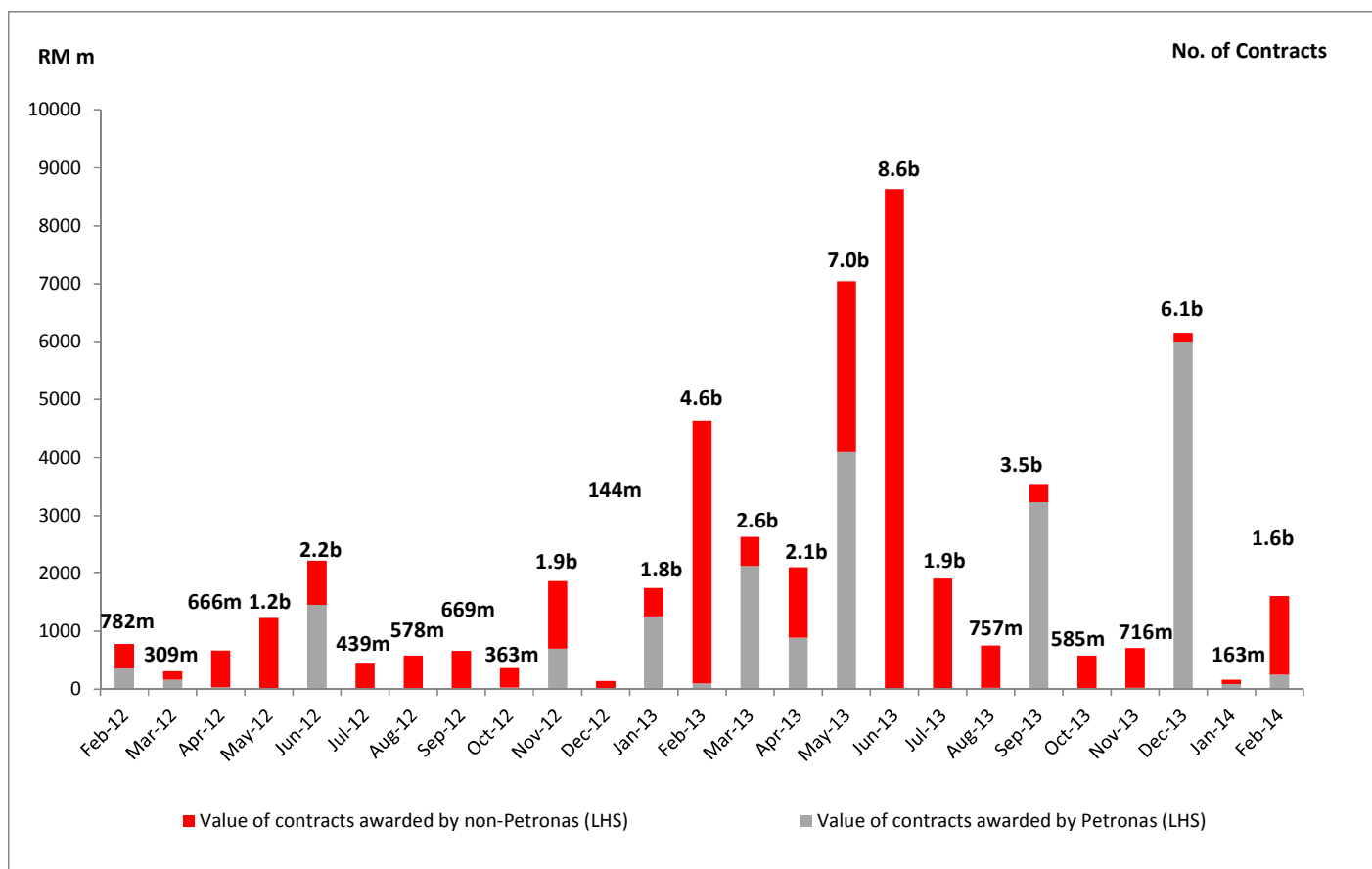
	2013F				2014F				2014F growth
	OECD	Non-OECD	Non-OPEC	Total	OECD	Non-OECD	Non-OPEC	Total	
IEA	21.0	29.6	54.7	nm	22.1	30.1	56.4	nm	nm
OPEC	22.1	32.1	59.9	nm	22.9	38.5	61.3	nm	nm
US EIA	23.8	66.1	54.1	nm	25.2	66.4	56.1	nm	nm
Average				nm				nm	

Sources: US EIA, MIDFR

D. LIST OF MAJOR CONTRACTS AWARDED TO COMPANIES LISTED ON BURSA MALAYSIA

- Locally, RM1.61b worth of jobs were awarded in February 2014.** This was a surge from the RM163m awarded in January 2014, despite February being a festive and short working month. The total contracts awarded in the first two months is now RM1.8b. Main beneficiaries were Alam Maritim, Coastal Contracts, Muhibbah Engineering, TH Heavy Engineering and UMW Oil & Gas.

Chart 7: FY12/13/14 Contracts awarded by Petronas and non-Petronas Companies

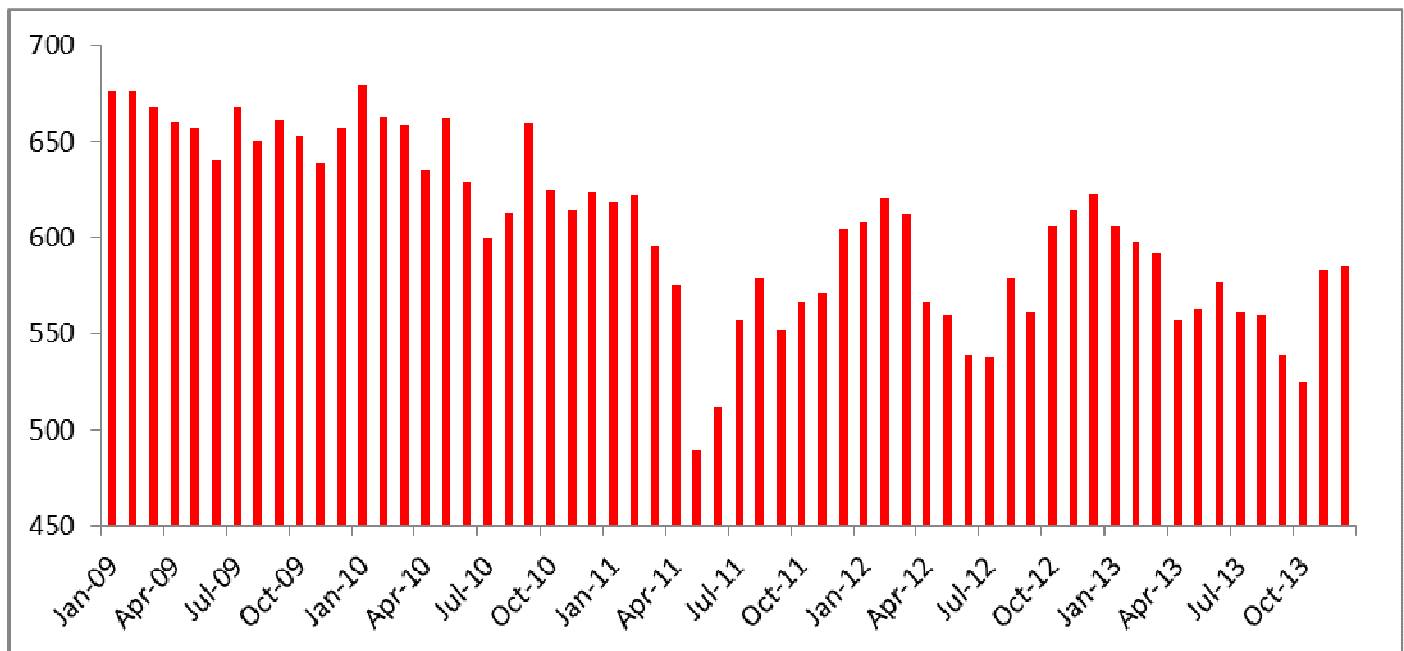


Source: MIDFR, Bursa Malaysia

E. MALAYSIA'S OIL PRODUCTION LEVEL

The average Malaysia oil production for 2013, according to the latest available data published by Bank Negara Malaysia, is around 570kbpd. This is a year-over-year drop of -2.7% from 2012. December 2013 registered a production level of 585kbpd, highest level for the past nine months. Looking back at historical records, we believe that Malaysia's production levels for 1Q14 could possibly breach >600kbpd, supported by relatively high oil prices of >USD100pb.

Chart 8: Malaysia crude oil and condensates production



Source: Bank Negara Malaysia, Petronas, MIDFR

F. OUTLOOK FOR 2014 – ACTIVITY LEVELS TO REMAIN HIGH

Final Investment Decision on RAPID reached. Petrolia Nasional Berhad (Petronas) will have the final investment decision (FID) on the RM60bil Refinery and Petrochemicals Integrated Development (Rapid) complex in Pengerang, Johor by this month, at least according to the company. We view this as a positive sign as it will spur the downstream petrochemical sector. So far, Petronas has signed agreements with Versalis SpA (Italy), Itochu (Japan) and PTT Global Chemicals (Thailand) as joint-venture partners to build specialty chemical plants. We do not, however, think that the RAPID initiative will directly benefit most Bursa-listed oil and gas service providers as these companies are mainly upstream offshore support service providers. It will, however, be a positive news-based catalyst for the sector as a whole.

More risk service contracts (RSC) to be awarded. Petronas President and CEO, Tan Sri Shamsul Azhar Abbas mentioned that there will be two RSCs that will be awarded soon, but the values are likely to be smaller than that for the previous contracts.

Massive job awards in 2013, activities to flow into 2014. In 2013, more than RM40b worth of jobs were awarded to Bursa-listed oil and gas service providers. This represents an increase of more than three-folds from what was awarded in 2012. As such, we believe that in 2014, the level of oil and gas activities will remain high and this will translate into higher corporate earnings for the companies. In addition, Petronas' RM300b 5-year capex plan remains intact with more than RM150b to be spent in the remaining ten quarters until mid-2016.

Maintain POSITIVE in 2014. We are maintaining our positive stance on the Oil & Gas sector. We believe that 2014 will mimic 2013 with strong award of contracts, new oil and gas discoveries and new mergers and acquisitions to further strengthen competitive position to compete globally. Our West Texas Intermediate (WTI) average crude oil price forecast for 2014 is USD94pb. Although we expect a lower average price compared with 2013's average price of USD98pb, we are still optimistic that global oil and gas activities will remain in high gear as long as oil price averaged above USD90pb.



Table 5: List of contracts awarded in February/March 2014

Company	Projects	Clients	Date	Value (RMm)
Alam Maritim	Extension for accomodation barge	ExxonMobil	4-Feb-14	59
TH Heavy Engineering	PCC for Kinabalu NAG	Petronas Carigali	5-Feb-14	250
Coastal Contracts	Charter of 1 Jack-up Gas Compression unit	Pemex	10-Feb-14	1240
UMW O&G	Provision of hydraulic workover unit	PTTEP	27-Feb-14	33
Perdana Petroleum	Provision of 1 accommodation barge	Pemex	4-Mar-14	52
UMW O&G	Provision of hydraulic workover unit	Petronas Carigali	4-Mar-14	148

Source: Bursa Malaysia, MIDFR

Table 6: Corporate & industry development in February/March 2014

Date	Company(s)	Event(s)
5-Mar-14	Petronas	Petronas President and CEO, Tan Sri Shamsul Azhar Abbas mentioned that there will be two RSCs that will be awarded soon, but noted that the values will be smaller than the previous contracts. Tan Sri further noted that the interest for bidding is getting lesser. (Business Times)
27-Feb-14	Petronas	Petronas is seeking to sell its stakes in exploration and production projects in Vietnam. Sources indicated that the amount seeked by Petronas amounted to USD300m.
26-Feb-14	Petronas	Petroleum Nasional Bhd (Petronas) has agreed to sell a 25% stake in its Canadian shale gas assets to an Indian company, says its president and chief executive officer, Tan Sri Shamsul Azhar Abbas.
24-Feb-14	Petronas	The Financial Daily today reported that Petronas is looking at another delay in the RM60b RAPID project as the FID cannot be made before the deadline by 1Q14. In addition, it is reported that Petronas will incur a sunken cost of RM4b.
21-Feb-14	Murphy Oil	The Star reported that Murphy Oil Corp is looking at divesting 30% of its oil and gas assets in Malaysia for USD2-3b. Murphy's PSCs include PM372, SK309, SK311, SK314B, Block K and Block H.
17-Feb-14	ExxonMobil	EXXONMOBIL Exploration and Production Malaysia Inc (EMEPMI), a subsidiary of ExxonMobil Corp, has started production from the Damar natural gas field located offshore Peninsular Malaysia.
14-Feb-14	Petronas	Petronas has awarded a large contract to build its second floating liquefied natural gas facility (PFLNG2) to a consortium comprising Japan's JGC Corp and South Korea's Samsung Heavy Industries Co Ltd. The PFLNG2 is expected to be ready for start-up by early 2018. (Business Times)

13-Feb-14	OPEC	OPEC raised its 2014 outlook for world oil demand by 40kbpd, becoming the second major forecaster this week to predict higher fuel use. (OPEC)
12-Feb-14	Petronas	Petronas has postponed the start of operations at a floating oil and gas production facility in Sabah by at least 3 months due to technical issues. (Reuters)
7-Feb-14	Petronas Dagangan	Petronas Dagangan Bhd's (PDB) net profit cooled down to RM811.75m in the year ended December 2013, from RM836.84m previously amid volatile oil prices last year. The group, however, continued to register higher revenue to RM32.34b, up RM2.83b than in 2012. PDB managing director and chief executive officer Mohd Ibrahimuddin Mohd Yunus said the unfavourable Means of Platts Singapore (MOPS) price movement had resulted in a lower pre-tax profit of RM1.11 billion last year. Still, it was able to post an 8.5 per cent higher sales volume. (Bursa Malaysia, Business Times)
7-Feb-14	Lundin Petroleum	Lundin Petroleum AB, against the backdrop of several successful hydrocarbon discoveries, has budgeted USD385m (RM1.28m) to carry out exploration, appraisal and development activities in Malaysia this year.

Sources: Company, Media, MIDFR

Table 7: Summary of O&G Stocks under MIDFR's Coverage

Company	Last Price (RM)	TP (RM)	Upside (%)	Call	EPS (sen)		PER (x)	
					FY14F	FY15F	FY14F	FY15F
SapuraKencana	4.43	4.86	9.7	BUY	19.8	24.3	24.5	20.0
Bumi Armada	3.90	4.62	18.5	BUY	22.0	22.8	21.0	20.3
Dayang Enterprise	3.86	4.06	5.2	BUY	25.4	27.3	16.0	14.9
Dialog	3.42	3.41	-0.3	NEUTRAL	9.7	11.2	35.2	30.4
KNM	0.69	0.53	-23.2	NEUTRAL	3.3	3.4	16.1	15.6
Petronas Chemicals	6.72	6.37	-5.2	NEUTRAL	45.5	46.4	14.0	13.7
Petronas Gas	23.16	20.30	-12.3	NEUTRAL	96.7	98.6	21.0	20.6
Wah Seong	1.91	2.06	7.9	NEUTRAL	14.7	18.6	14.0	11.1
Gas Malaysia	3.63	3.65	0.6	NEUTRAL	15.5	17.5	23.5	20.9
MMHE	3.64	2.66	-26.9	SELL	14.0	15.2	19.0	17.5

Source: MIDFR estimates

Chart 8: WTI Price Chart



Source: Bloomberg, MIDFR

Chart 9: Brent Price Chart



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.