

KDN : PP 10744/05/2013/032438

9 January 2014

MALAYSIA EQUITY

The background of the cover is a photograph of an oil rig at sea. The rig is silhouetted against a bright orange and red sky, suggesting a sunset or sunrise. The rig's complex structure of towers and cranes is visible. The sea below is a deep blue with some whitecaps. The overall mood is industrial and dramatic.

THE WILDCAT REPORT

Monthly Review and Outlook of
the Oil and Gas Industry

Monthly review and outlook of the oil and gas industry



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Record high job awards in 2013, momentum sustainable

Maintain POSITIVE

Oil price surged towards the end of 2013. The spot price of West Texas Intermediate (WTI) surged in December, rising from USD92.7pb on 1 Dec to >USD100pb. It ended 2013 at USD98.42pb. Three drivers:

- Worry over continuous oil supply from Libya (15th largest oil producer);
- Decision by the U.S. Federal Reserve to start tapering its asset purchases; and
- Unrest in South Sudan

Locally, 2013 was a record high year for jobs awarded to listed oil and gas service providers. In December alone, >RM6b worth of jobs were awarded to Bursa-listed oil and gas companies. These contracts were from the same Petronas Integrated Transportation & Installation Offshore Facilities campaign, split into roughly five packages, worth approx. RM15-20b in totality. Key winners were SapuraKencana, Barakah Offshore Petroleum and Puncak Niaga Holdings (via GOM Resources).

A. OIL PRICES

- In 2013, the price of WTI crude oil climbed +7.1%, ending the year at USD98.42pb. Back in August 2013, prices scraped a two-year high of USD110.3pb. The average 2013 WTI price was USD98pb, exceeding our forecast of USD96.5pb due to steep spikes in December 2013. The steep price uptrend from the start of 2H13 had been mainly caused by fears of supply interruption from the ongoing Egyptian political turmoil, further exacerbated by possible military strikes in Syria. 2013 average price still outpaced 2012's average of USD94.15pb, appreciating +4.1% year-over-year.
- 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 forecast of WTI average in 2014 at USD97.6pb. However, the US Energy Information Administration (US-EIA), has adopted a less bullish estimate, forecasting an average 2014 WTI price of USD95pb.
- 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 still continue to expand by >7.0% 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.

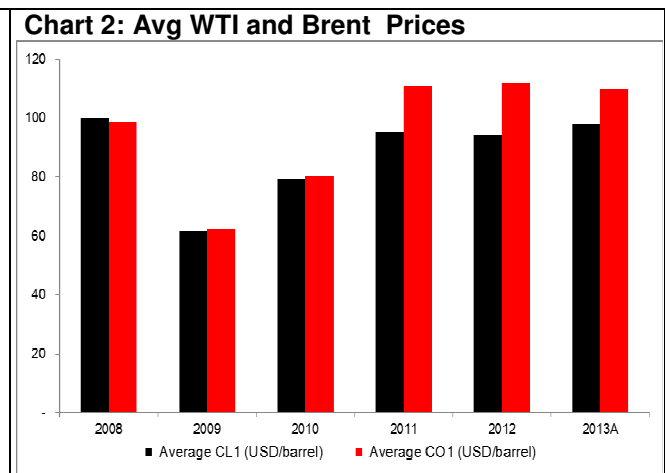
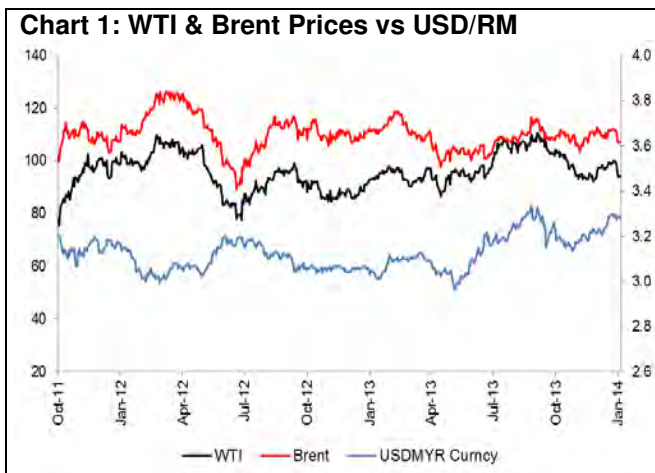


Table 1: Crude Oil Price Forecasts for CY13 and CY14

Average WTI (USD pb)	Latest	Previous	Revision (%)	YoY (%)	
	2014F	2014F	2014F	2013F	2014F
US EIA	95	95	0.00%	4.10%	-3.10%
Consensus	97.63	99.5	-1.90%	4.10%	-0.40%
MIDFR	94	94	0.00%	4.10%	-4.10%

Sources: US EIA, Bloomberg, MIDFR

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

Month-end	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
USDpb	93.46	91.37	97.02	105.03	107.65	102.33	96.38	92.72	100.32
MoM	-3.9%	-2.2%	6.2%	8.3%	2.5%	-4.9%	-5.8%	-3.8%	8.2%
YoY	-10.9%	5.6%	14.2%	19.3%	11.6%	11.0%	11.8%	4.3%	9.3%

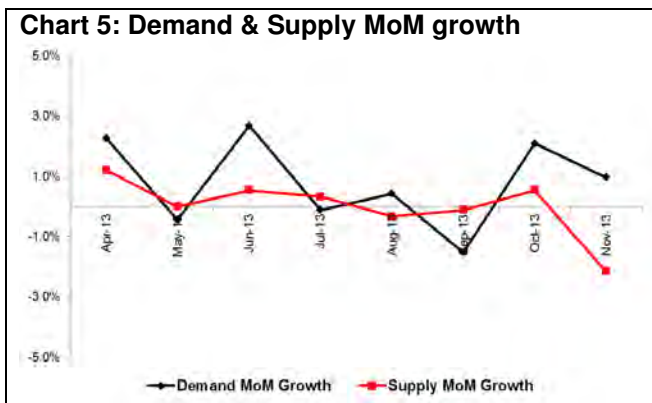
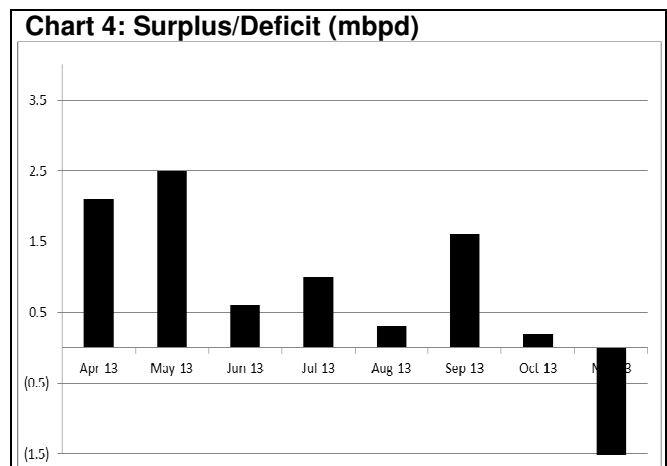
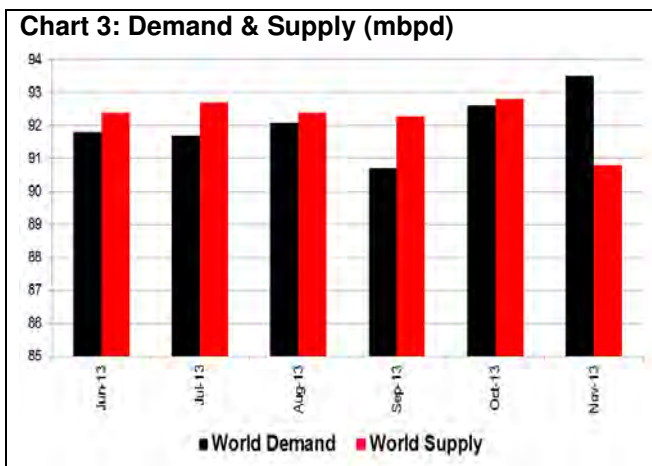
Sources: US EIA, Bloomberg, MIDFR

B. WORLD CRUDE OIL DEMAND (CONSUMPTION)

- According to the International Energy Agency (IEA), the estimated global oil demand for 2013 could be 91.2mbpd, an upward revision by 130kbpd, on stronger-than-expected 3Q13 OECD demand growth of 320kbpd. Global demand is now seen advancing by 1.2mbpd in both 2013 and 2014, to reach 92.4mbpd in 2014.
- In its latest report, the Organization of Petroleum Exporting Countries (OPEC) has estimated world oil demand growth for 2014 to remain at 1.0mbpd. The bulk of this year's growth is expected to come from the non-OECD, which is seen increasing by 1.2mbpd, while OECD demand is projected to contract by 0.2mbpd, which represents an improvement from 2013. China's demand growth in 2014 is expected at 0.3mbpd, in line with growth in 2013. Demand growth in OECD Americas is expected at 0.1mbpd, while OECD Asia Pacific consumption is projected to contract by 0.1mbpd.
- The U.S. Energy Information Administration (US EIA) has made minor adjustment to its forecasts, revising its 2013 and 2014 consumption forecast upwards to 90.28mbpd and 91.43mbpd from 90.25mbpd and 91.39mbpd respectively.

C. WORLD CRUDE OIL SUPPLY (PRODUCTION)

- The IEA indicated that global oil supplies increased by 310kbpd in November to 92.3mbpd, as non-OPEC crude output topped 43mbpd for the first time in decades. Year-on-year, November supplies rose by 810kbpd, as a 1.9mbpd surge in non-OPEC liquids and OPEC NGL more than offset a 1.1mbpd drop in OPEC crude.
- According to the OPEC, non-OPEC oil supply is expected to increase by 1.2mbpd in 2013, up slightly from its last report. In 2014, non-OPEC oil supply is forecast to grow by 1.2mbpd. Output growth is expected to come mainly from the US, Canada, the Sudans, Kazakhstan, Russia, and Colombia, while oil supply from Norway, Syria, the UK, and Mexico is seen declining. In 2014, OPEC NGLs and non-conventional oils are forecast to grow by 0.15mbpd over the current year to average 5.95mbpd. OPEC crude oil production averaged 29.63mbpd in November, a decrease of 193kbpd from the previous month, according to its secondary sources.



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	45.9	45.3	91.2	0.20	45.7	46.7	92.4	0.30	1.32%
OPEC	45.7	44.1	89.8	0.00	45.5	45.3	90.8	0.00	1.11%
US EIA	46.0	44.3	90.3	0.03	45.8	45.6	91.4	0.04	1.27%
Average			90.4	0.08			91.5	0.11	1.23%

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

Table 4: Global Oil Supply Forecasts (mbpd)

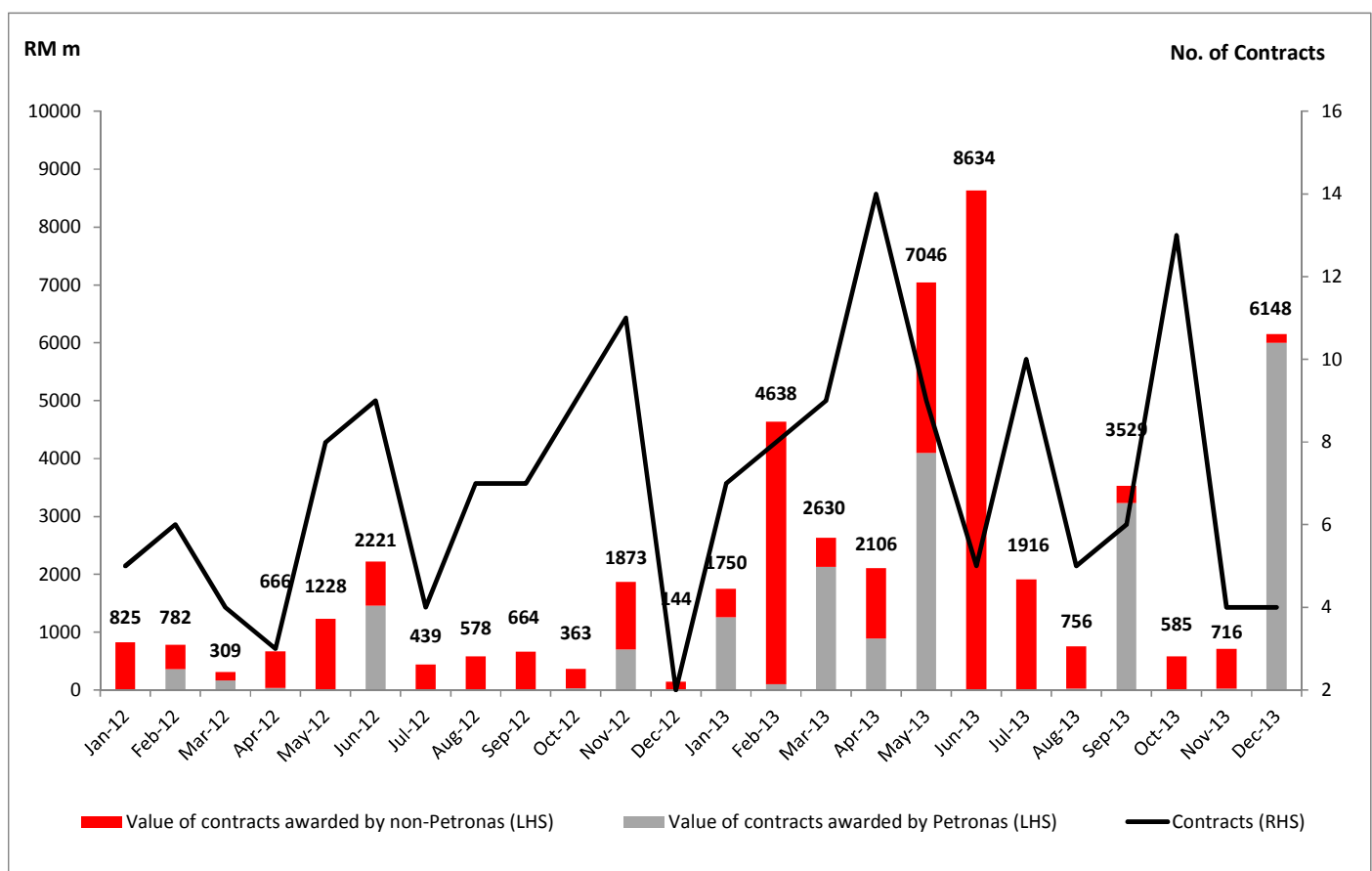
	2013F				2014F				2014F growth
	OECD	Non-OECD	Non-OPEC	Total	OECD	Non-OECD	Non-OPEC	Total	
IEA	21.0	29.6	54.8	nm	22.1	30.2	56.5	nm	nm
OPEC	22.1	37.8	59.9	nm	22.7	38.5	55.3	nm	nm
US EIA	23.8	66.2	54.2	nm	25.2	66.0	55.9	nm	nm
Average				nm				nm	

Sources: US EIA, MIDFR

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

- **>RM6b worth of contracts awarded to locally-listed O&G companies in December 2013 alone.** Total contracts awarded for 2013 was >RM40b. Main beneficiaries were SapuraKencana, Barakah Offshore Petroleum and Puncak Niaga Holdings (via GOM Resources).

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



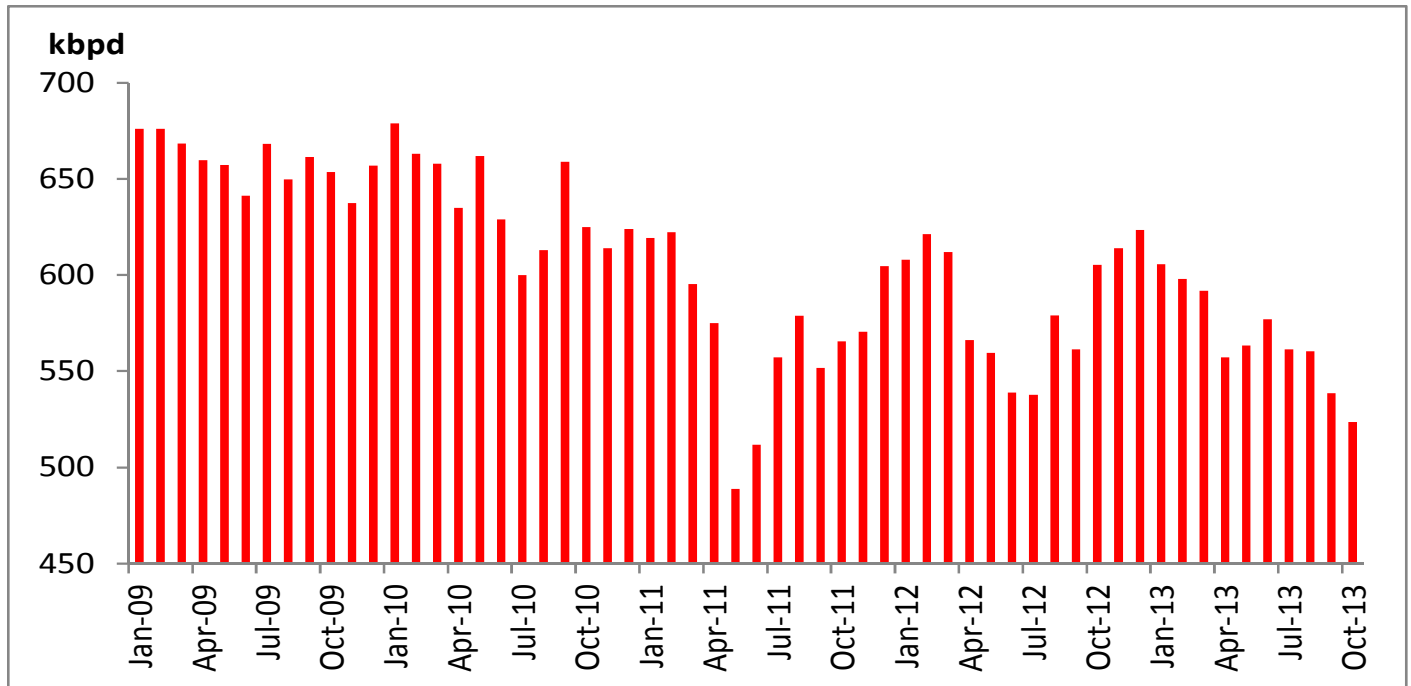
Source: MIDFR, Bursa Malaysia

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 568kbpd. This is a year-over-year drop of -2.9% from 2012. October 2013 registered the lowest production level of only 523kbpd, since May 2011. We suspect that the drop in production levels is a reaction to the -5.8% steep drop in oil prices in that month. For November and December 2013, we believe that Malaysia production

levels will remain subdued due to the relatively low oil prices in November and the partial shutdown of Petronas' South Sudanese oil assets (which hampered oil production activities).

Chart 8: Malaysia crude oil and condensates production



Source: Bank Negara Malaysia, Petronas, MIDFR

F. SOUTH SUDAN CONFLICT

Petronas' stake in South Sudan fields. Petronas owns a 30% stake in the Greater Nile Petroleum Operating Company, 40% stake in Dar Petroleum Operating Company and 34% stake in Sudd Petroleum Operating Company.

Rebels said to have controlled oil fields. According to media reports, rebels have seized control of the oil fields in the Unity states. Other reports have also indicated that oil production has dropped by 45kbpd from an average of approx. 220-240kbpd. As such, there is a possibility that Petronas' collective oil production might have been affected which will possibly impact Petronas group's 2013 financials negatively.

G. OUTLOOK FOR 2014 – ACTIVITY LEVELS TO REMAIN HIGH

Looking forward to Final Investment Decision on RAPID. Petroliaam Nasional Berhad (Petronas) will have the final investment decision (FID) on the RM60bil Refinery and Petrochemicals Integrated Development (Rapid) complex in Pengerang, Johor by 1Q14. 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.

Massive job awards in 2013, activities to flow into 2014. Year-to-date, 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 moving into 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 eight quarters.

Maintain POSITIVE into 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 are expected a lower average price compared with 2013's price forecast of USD96.50pb, we are still optimistic that global oil and gas activities will sustain in high gear as long as oil prices average above USD90pb.



Table 5: List of contracts awarded in December 2013

Company	Projects	Clients	Date	Value (RMm)
SapuraKencana	Pipelaying transportation & Instalation	Petronas + PSCs	16-Dec-13	2000
Barakah Petroleum	Pipelaying transportation & Instalation	Petronas + PSCs	13-Nov-13	2000
Coastal Contracts	Sale of 3 vessels	na	11-Dec-13	148
Puncak Niaga	Pipelaying transportation & Instalation	Petronas + PSCs	13-Dec-13	2000

Source: Bursa Malaysia, MIDFR

Table 6: Corporate & industry development in December 2013

Date	Company(s)	Event(s)
13-Dec-13	Petronas	Petronas announced that it has made new hydrocarbon discoveries from its exploration activities in Malaysia and Indonesia. In Malaysia, gas has been discovered via the Sintok-1 well in the offshore Block SK320, about 240km northwest of Bintulu, Sarawak.
3-Dec-13	Petronas	Former prime minister Tun Dr Mahathir Mohamad relinquished his post as adviser to national oil and gas company Petroliam Nasional Berhad (Petronas)

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)	
					FY13F	FY14F	FY13F	FY14F
Dialog	3.34	3.15	-5.7	NEUTRAL	9.7	11.2	32.5	28.1
KNM	0.47	0.40	-14.9	SELL	3.2	3.3	12.5	12.1
SapuraKencana	4.65	4.86	4.5	BUY	9	19.8	54.0	24.5
Petronas Chemicals	6.58	6.96	5.8	NEUTRAL	47.7	49.7	14.6	14.0
MMHE	3.83	3.36	-12.3	NEUTRAL	12.7	17.7	26.5	19.0
Petronas Gas	23.28	20.30	-12.8	NEUTRAL	79.6	96.7	25.5	21.0
Wah Seong	1.84	1.76	-4.3	NEUTRAL	11.3	14.7	15.6	12.0
Bumi Armada	4.05	4.83	19.3	BUY	16.9	23.0	28.6	21.0
Gas Malaysia	3.99	3.65	-8.5	NEUTRAL	14.0	15.5	26.1	23.5
Dayang Enterprise	5.67	6.08	7.2	BUY	38	40.9	16.0	14.9

Source: MIDFR estimates

Chart 8: WTI Price Chart



Bloomberg, MIDFR

Source:

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.