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**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



Aaron Tan Wei Min  
603-2772 1650

aaron.tan@midf.com.my

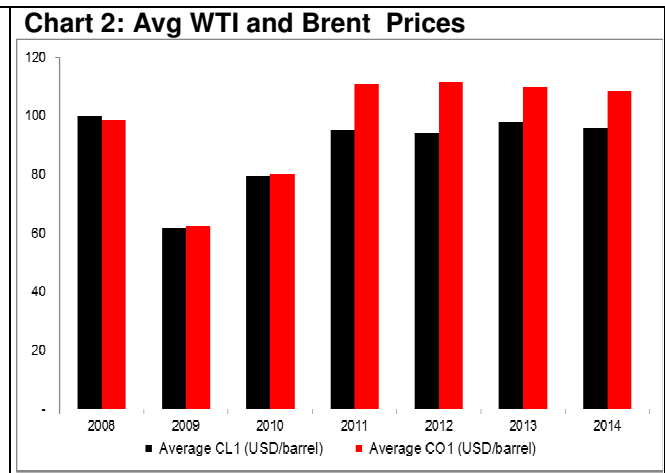
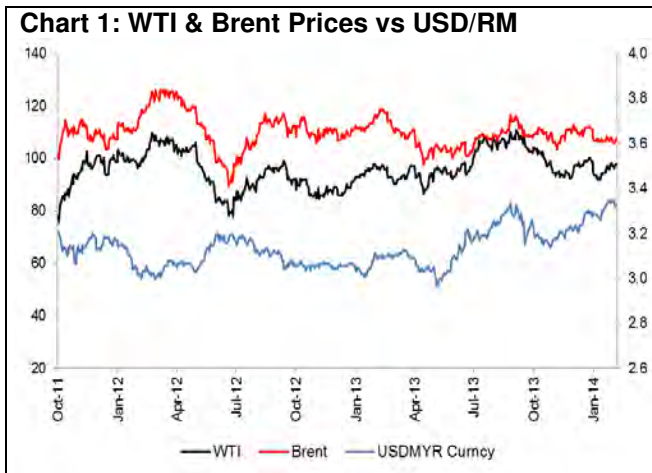
**Sustained oil prices, precursor to upbeat activity levels**

**Maintain POSITIVE**

- The price of West Texas Intermediate (WTI) crude oil has been volatile since the beginning of the year. It dropped steeply in early January 2014 before rebounding to above USD100pb in mid-February.
- When price was falling, it was attributable to higher global supplies, stronger dollar and the resumption of production at Libyan oil fields;
- In recent days, price had rebounded strongly caused by rising demand for gasoline (as cold spells hit the U.S), better demand prospect in China as the monetary started to inject liquidity into the system, and oil flowing via new pipelines to the Gulf Coast;
- Locally, an estimated RM163m worth of jobs were awarded to Bursa-listed oil and gas companies in January 2014. This is a slow start in comparison to the same period a year earlier. This was possibly due to the short working month in January (four public holidays). We also foresee February 2014 to be slow in terms of contract awards due to festivities. **Maintain POSITIVE** on local O&G sector.

### A. OIL PRICES

- The price of West Texas Intermediate (WTI) crude oil has been volatile since the beginning of the year. It dropped steeply from USD98.42pb at the start of the year by -6.9% to USD92pb in the middle of January, before rebounding to above USD100pb by the end of the first week of February 2014. The steep price slump in the first fortnight of January 2014 was due to rising supply of crude oil amid falling demand for gasoline. However, the tides changed as the demand for oil and gasoline rose, driven by the unusually cold spell which hit the U.S, causing prices to touch 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 forecast averaging USD95pb in 2014. Meanwhile, the US Energy Information Administration (US-EIA), is less bullish, forecasting an average 2014 WTI price of USD93.33pb.
- In 2014, we are expecting average oil price 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 CY13 and CY14**

Average WTI (USD pb)	Latest		Previous	Revision (%)	YoY (%)
	2013A	2014F	2014F	2014F	2014F
US EIA	98.05	93.33	95.00	-1.8%	-4.8%
Consensus	98.05	95.65	97.63	-2.0%	-2.4%
MIDFR	98.05	94.00	94.00	0.0%	-4.1%

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

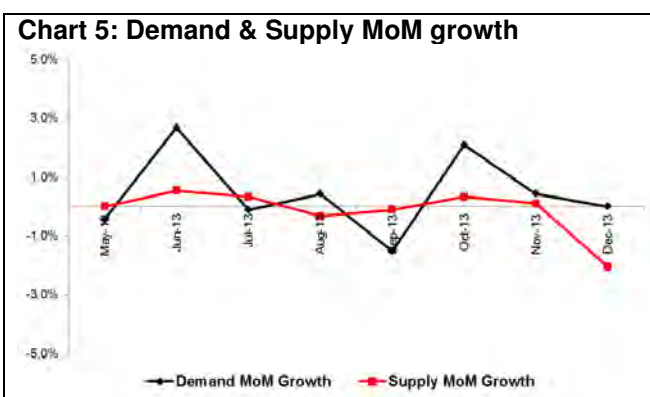
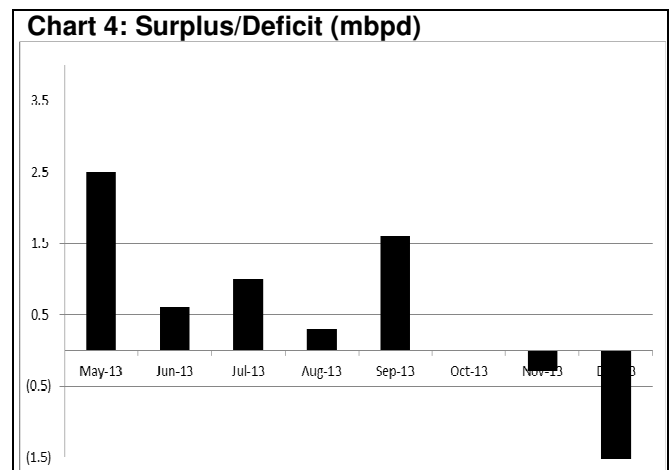
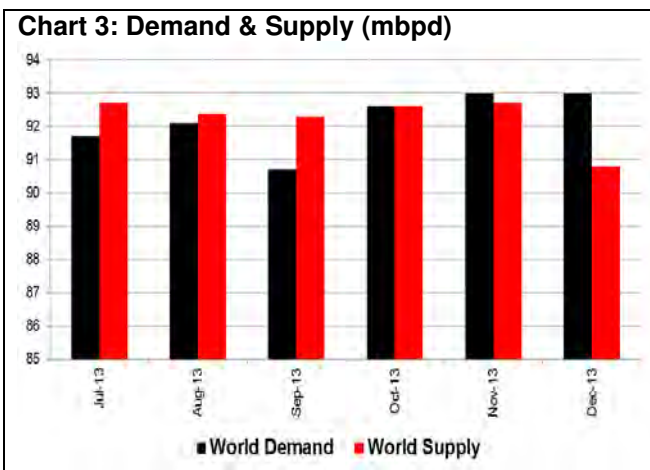
## B. WORLD CRUDE OIL DEMAND (CONSUMPTION)

- The International Energy Agency (IEA), raised the estimate for 4Q13 global oil demand by 135kbpd on unexpectedly strong US deliveries, partly offset by curtailments in China and elsewhere. For 2013 as a whole, growth is estimated at around 1.2mbpd, accelerating to 1.3mbpd in 2014 as the economy continues to recover.
- In its latest report, the Organization of Petroleum Exporting Countries (OPEC) had estimated world oil demand to average 89.86mbpd in 2013, an increase of 0.94mbpd over a year earlier, reflecting actual data and indicating a significant improvement in demand in OECD Americas. For 2014, growth is expected to be around 1.05mbpd, up by a marginal 10kbpd, to reach 90.91mbpd.
- The U.S. Energy Information Administration (US EIA), in its latest report had made minor adjustment to its forecasts, revising its 2013 and 2014 consumption forecast upwards to 90.38mbpd and 91.59mbpd from 90.28mbpd and 91.43mbpd respectively.



## C. WORLD CRUDE OIL SUPPLY (PRODUCTION)

- The IEA indicated that global supplies inched down by 25kbpd month-on-month in December 2013 to 92.23mbpd, with a seasonal fall in biofuel output cutting non-OPEC liquids supplies by 340kbpd. Non-OPEC production grew by 1.63mbpd year-on-year, partly offset by a 535kbpd drop in OPEC crude oil supply.
- According to the OPEC, non-OPEC oil supply is estimated to have averaged 54.11mbpd in 2013, an increase of 1.24mbpd over 2012, up by 50kbpd from its previous report, driven by strong growth from OECD Americas. In 2014, non-OPEC oil supply is projected to grow by 1.27mbpd, up by 70kbpd from the previous assessment, to average 55.38mbpd. Growth is seen coming mainly from the US, Canada, Brazil and the Sudans, while Norway, UK and Mexico are seen declining in 2014.



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	46.0	45.2	91.2	-1.00	45.9	46.5	92.5	0.10	1.43%
OPEC	45.8	44.9	89.9	0.10	45.6	45.3	90.9	0.10	1.11%
US EIA	46.1	44.3	90.4	0.08	46.0	45.6	91.6	0.19	1.34%
<b>Average</b>			<b>90.5</b>	<b>0.09</b>			<b>91.7</b>	<b>0.16</b>	<b>1.29%</b>

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

**Table 4: Global Oil Supply Forecasts (mbpd)**

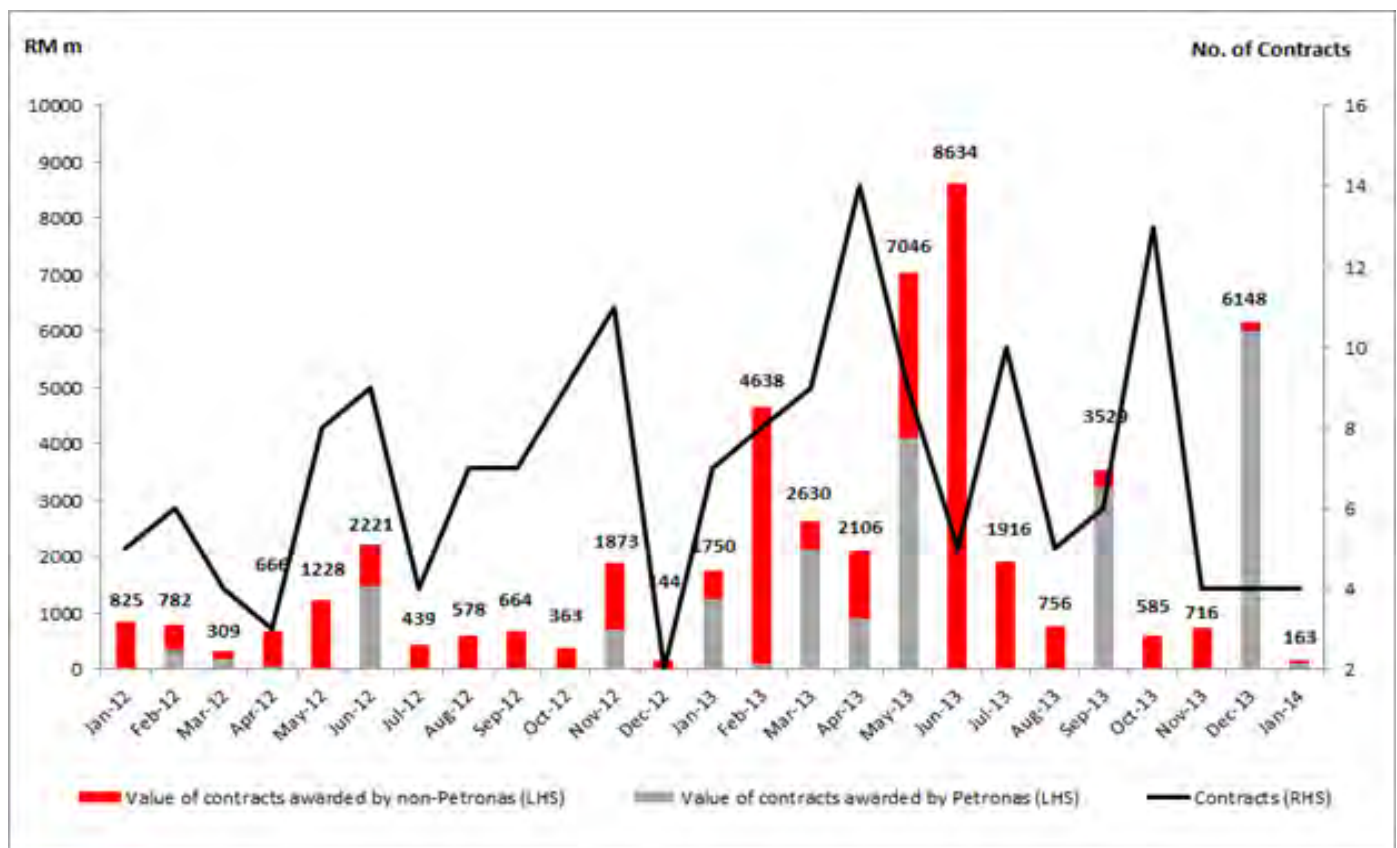
	2013F				2014F				2014F growth
	OECD	Non-OECD	Non-OPEC	Total	OECD	Non-OECD	Non-OPEC	Total	
IEA	21.0	29.6	54.7	nm	22.1	30.1	56.4	nm	nm
OPEC	22.1	32.1	59.9	nm	22.9	38.5	61.3	nm	nm
US EIA	23.8	66.1	54.1	nm	25.2	66.4	56.1	nm	nm
<b>Average</b>				<b>nm</b>				<b>nm</b>	

Sources: US EIA, MIDFR

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

- >RM163m worth of contracts were awarded to locally-listed O&G companies in January 2014. Main beneficiaries were Perdana Petroleum, Scomi Engineering and SILK Holdings.

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

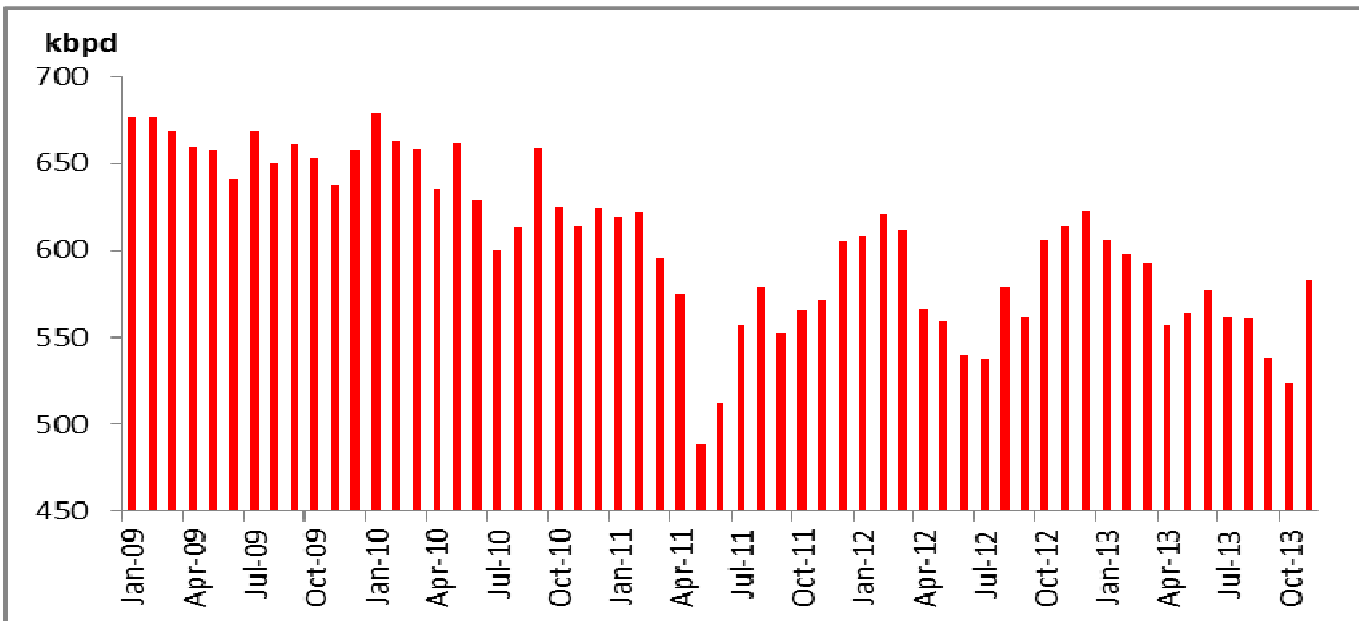


Source: MIDFR, Bursa Malaysia

## E. MALAYSIA'S OIL PRODUCTION LEVEL

The average Malaysia oil production for 2013, according to the latest available data published by Bank Negara Malaysia, was around 569kbpd. This was a drop of -2.8% from 2012. Production in November 2013 was 582kbpd, the highest in eight months. We believe that Malaysia's production levels for December 2013 and for the beginning of 2014 will remain subdued (<600kbpd) due to the relatively low oil prices 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. OUTLOOK FOR 2014 – ACTIVITY LEVELS TO REMAIN HIGH

**Final Investment Decision on RAPID reached.** 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 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.** 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 eight quarters.

**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 are expected a lower average price compared with 2013's average price of USD98pb, 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 January/February 2014**

Company	Projects	Clients	Date	Value (RMm)
SILK Holdings	Provision of 2 AHTS	ExxonMobil	24-Jan-14	23
Alam Maritim	Extension for accommodation barge	ExxonMobil	4-Feb-14	59
TH Heavy Engineering	PCC for Kinabalu NAG	Petronas Carigali	5-Feb-14	250
Perdana Petroleum	Supply of one AHTS	Talisman Malaysia	20-Jan-14	50
Scomi Energy	Provision of drilling fluids & Engineering services	Petronas Carigali	9-Jan-13	90
Muhibbah Engineering	Steel structure Petronas LNG train 9	JGC Malaysia	4-Feb-14	30

Source: Bursa Malaysia, MIDFR

**Table 6: Corporate & industry development in January/February 2014**

Date	Company(s)	Event(s)
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.
20-Jan-13	Petronas	Petronas Carigali has invited bids for its Besar gas field (for two wellhead platforms), according to Upstream Online.

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	3.20	3.15	-1.6	NEUTRAL	9.7	11.2	32.5	28.1
KNM	0.75	0.40	-46.7	SELL	3.2	3.3	12.5	12.1
SapuraKencana	4.54	4.86	7.0	BUY	9	19.8	54.0	24.5
Petronas Chemicals	6.75	6.96	3.1	NEUTRAL	39	49.7	17.8	14.0
MMHE	3.68	2.66	-27.7	SELL	14.8	14	18.0	19.0
Petronas Gas	23.00	20.30	-11.7	NEUTRAL	105.1	96.7	19.3	21.0
Wah Seong	1.93	1.76	-8.8	NEUTRAL	11.3	14.7	15.6	12.0
Bumi Armada	4.02	4.83	20.1	BUY	16.9	23.0	28.6	21.0
Gas Malaysia	3.69	3.65	-1.1	NEUTRAL	14.0	15.5	26.1	23.5
Dayang Enterprise	3.79	4.06	7.1	BUY	16.8	25.4	24.2	16.0

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.