

**AmResearch****12 August 2013**

# OIL & GAS

*Vestigo eyeing FPSO or FSO for marginal field***Alex Goh**

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**(OVERWEIGHT)***Rationale for report : Thematic Research***Investment Highlights**

- **Upstream** reported last Friday that Petronas' newly-established Vestigo Petroleum is sounding out the market for a charter of a relatively small floating production, storage and offloading (FPSO) vessel or floating storage and offloading (FSO) vessel capable of holding up to 150,000 barrels of crude oil. The storage or production floater will be deployed to support crude production of up to 6,000 barrels per day over a fixed-term charter running between two and seven years.
- This could mean that Vestigo has already identified development targets among the 10 fields on offer in the nation's third risk service contract (RSC) licensing round. **Upstream** suggested Vestigo will initially concentrate on fields off Sabah, East Malaysia. Three of the 10 fields on offer are Rusa Timur, Mutiara Hitam and Kuda Terbang. Rusa Timur lies within the vicinity of the producing Barton, South Furious and St Joseph fields, and is considered among the high-profile targets offered under the third RSC round.
- As with the initial three Malaysian RSCs already in development, Vestigo has flagged up an ambitious first oil date in the fourth quarter of 2014 from its intended floater. In line with the RSC licensing policy so far, Vestigo will need to bring in third party players and conclude a deal with Petronas before year-end in order to push for a production start-up next year from its first such contract.
- Recall that Vestigo was introduced last month as Petronas' primary vehicle to pursue marginal field developments, which involve building niche technical and executional capabilities which can be replicated for Petronas' overseas ventures. But Vestigo's immediate challenge could be to reaccelerate the development schedules in Malaysia given delays in the commencement of oil production for the first three RSCs in Malaysia. Coastal Contract recently announced that its 70:30 JV with Petra Energy will be postponing the first oil schedule for the Kapal, Banang and Meranti field from July this year to late 2013 due to delays in the modifications of its mobile offshore production unit.
- We understand that the RSCs have attracted interest mostly from small to medium-sized oil and gas independents or foreign oilfield services contractors, such as KrisEnergy, Enquest, Genel Energy, Ping Petroleum and Hydra Energy. Malaysian players who are interested to participate with them include SapuraKencana, Bumi Armada, UMW Oil & Gas, Puncak Oil & Gas, Alam Maritim Resources, Daya Materials, Deleum and Scomi Group. Recall that the earlier rounds of RSC tenders have resulted in only 3 awards: the Berantai field off Terengganu to Petrofac-SapuraKencana; Balai-Bentara cluster off Sarawak to Australia-listed RocOil-Dialog Group-Petronas Cargali consortium; and Kapal, Banang and Meranti cluster (KPM) off Peninsula Malaysia to the UK-listed Coastal Energy-PetraEnergy joint venture. The award of the Tembikai RSC to Cue Energy Resources-Scomi Group JV was eventually aborted.
- The rising momentum for marginal field developments will continue to partly drive interest in the sector, as 2Q2013 O&G orders surged by 2.2x QoQ to RM17bil. But in the short- to medium-term, excitement in the sector will still largely stem from the larger field projects in Malaysia such as the enhanced-oil recovery projects and gas cluster developments for the North Malay basin, as well as in Sabah and Sarawak which are tied to the completion of the Bintulu LNG complex expansion in 2015. We maintain our **OVERWEIGHT** call on the sector with our top pick being SapuraKencana Petroleum while our other BUYs are Alam Maritim, Dialog Group and Petronas Gas.

**TABLE 1 : SECTOR VALUATION MATRIX**

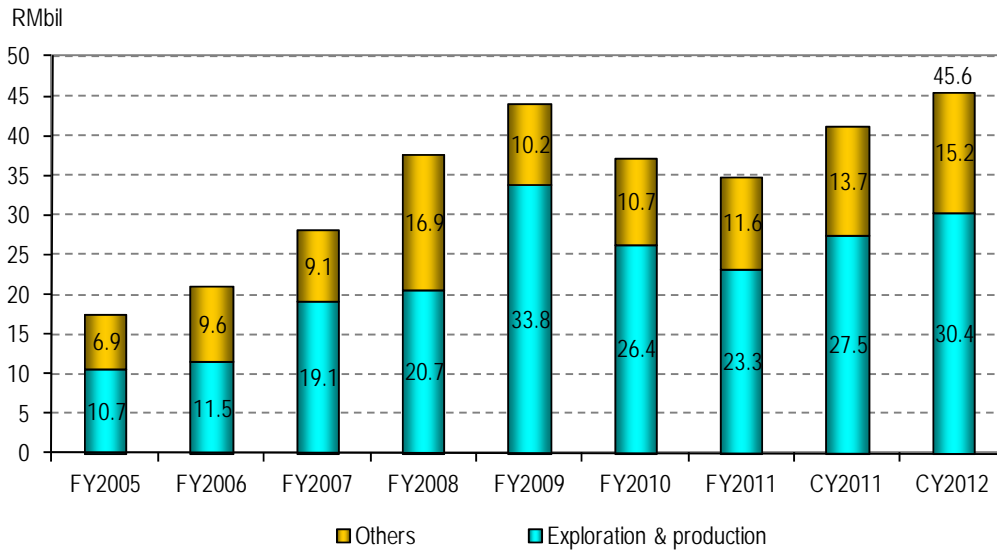
Stocks	Call	Market	Fair	PE		Div yield		ROE	P/BV
		capitalisation	value	CY13F	CY14F	CY13F	CY14F	FY13F	
		RMmil	RM/share	x	x	%	%	%	x
Alam Maritim Resources	BUY	1,181	2.45	15.1	10.0	0.2	0.2	13.0	2.3
Boustead Heavy Industries Corp	BUY	631	3.80	12.7	5.9	2.6	2.6	16.7	2.2
Bumi Armada	HOLD	11,336	4.30	22.0	18.8	0.9	1.1	12.9	3.0
Dialog Group	BUY	6,857	3.55	27.0	20.4	1.1	1.1	15.2	5.4
KNM Group	HOLD	445	0.49	11.9	9.6	2.2	2.8	4.5	0.4
MMHE	SELL	6,768	3.30	29.2	25.9	2.4	2.4	9.7	2.7
Petronas Gas	BUY	40,999	24.30	26.9	21.6	2.9	3.0	16.1	4.3
SapuraKencana Petroleum	BUY	22,770	4.65	24.8	18.5	0.2	0.3	12.3	2.5
Wah Seong Corporation	HOLD	1,426	2.16	17.9	14.3	4.1	4.6	8.0	1.5

TABLE 2 : UPCOMING OIL &amp; GAS PROJECTS

<u>EPCIC jobs</u>	<u>Location</u>	<u>Scope of works</u>	<u>RMmil</u>	<u>Likely bidders</u>
<b>Upstream</b>				
Exxon-Mobil's enhanced oil recovery	Rejuvenation of Tapis, Telok, Seligi, Guntong, Semangkok, Irong Barat, Tabu and Palas oilfields off Peninsula, Sabah & Sarawak.	Central processing platforms, gas compression systems, process equipment, MOPU, tender rigs, offshore vessels.	10,000	MMHE, SapuraKencana, Wah Seong, Bumi Armada, Alam Maritim
Carigali-Hess' North Malay gas project- fast track basis	North Malay basin (Blocks PM301 and PM302), near JDA	Central processing platform, 8 well head platforms, 200km pipeline	16,000	MMHE, SapuraKencana, Wah Seong, Bumi Armada, Alam Maritim
Shell's deepwater Malikai project	Malikai field, off Sabah	Fabrication of tension leg platform, installation of pipelines and facilities	5,000	MMHE, SapuraKencana, Wah Seong, Bumi Armada, Alam Maritim
Petronas Carigali's EOR projects	Dulang, Semarang, Bokor	3 Central Processing Platforms for enhanced oil recovery.	5,000	MMHE, SapuraKencana, Wah Seong, Bumi Armada, Alam Maritim
Petronas' 1mil tonne FLNG	Kimanis gas field	1st floating liquefied natural gas carrier	6,000	Technip-Daewoo, MMHE
Murphy Oil, 1.5mil tonne FLNG	Rotan, off Sabah	2nd floating liquefied natural gas carrier	9,000	JGC Corp, Toyo Engineering
Shell Malaysia's EOR projects	Baram Della, off Sarawak and North Sabah	Enhanced oil recovery projects	38,000	MMHE, SapuraKencana, Wah Seong, Bumi Armada, Alam Maritim
25 marginal field projects	Peninsula, Sabah & Sarawak	New risk-sharing contract from Petronas.	52,500	SapuraKencana, Dialog Group, Petra Energy, Scomi Marine, Puncak Niaga, UMW Oil & Gas, Bumi Armada
Petronas' umbrella tender for shallow water jobs	Peninsula, Sabah & Sarawak	5-year Hook-up & Commissioning, maintenance contracts.	10,000	SapuraKencana, Dayang, Alam Maritim, Perdana Petroleum
<b>Downstream</b>				
Petronas' Refinery & Petrochemical Integrated Development and other multinationals	Pengerang, Johor	Refinery, petrochemical projects	120,000	Dialog, SapuraKencana, Muhibbah Engineering, Ranhill, KNM
Tank Terminal Projects	Southern Johor- Pengerang, Tanjung Bin, Tanjung Langsat	Tank terminals for crude oil, petrochemicals, LNG.	10,000	Dialog, MMC, Benalec, Muhibbah Engineering, Ranhill
LNG Regassification plants	Malacca, Lahad Datu, Pengerang, Lumut	LNG Regassification plants	12,000	Dialog, Muhibbah Engineering, Ranhill
Malaysia LNG Train 9	Binlulu, Sarawak	3.6 mil tonne increase to MLNG's liquefaction facilities	10,000	JGC Corporation, Chiyoda-Saipem
Petronas' Samur ammonia/urea plant	Sipitang, Sabah	Fertilizer plant	4,500	Muhibbah Engineering, Ranhill
<b>Total</b>			<b>308,000</b>	

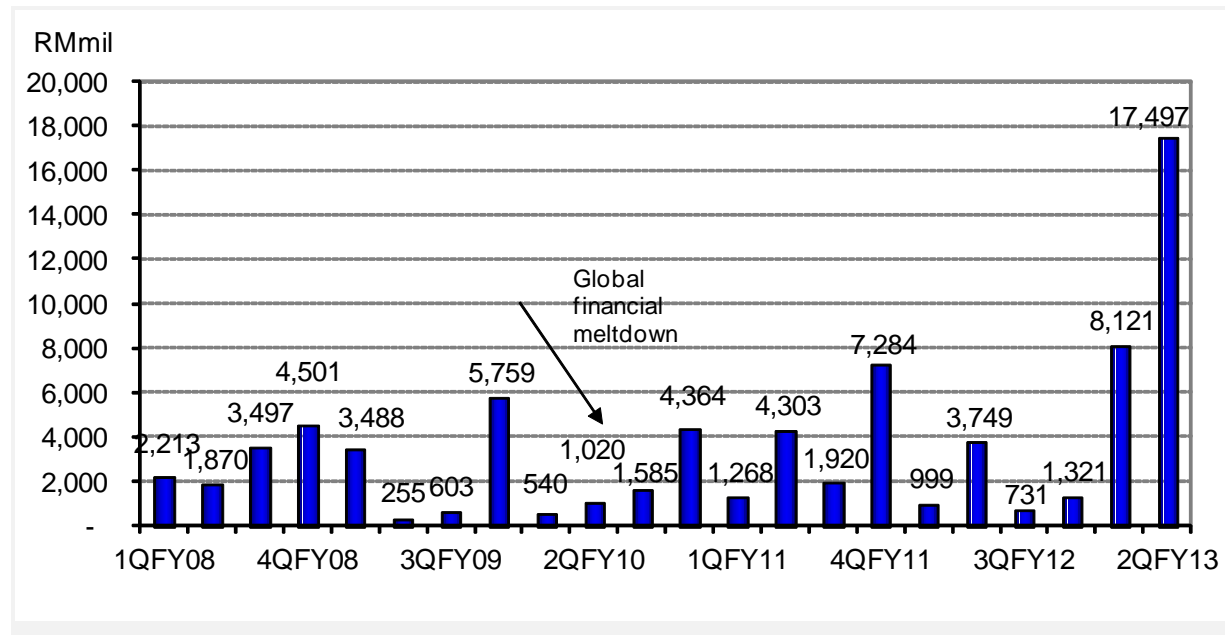
Source: AmResearch, various sources

CHART 1 : PETRONAS' CAPEX



Source: Petronas

CHART 2 : OIL & GAS NEW ORDERS FOR MALAYSIAN PLAYERS



Source: Petronas

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