

**AmResearch****Sector Report****11 June 2014**

# OIL & GAS

## Disruption to Sabah-Sarawak gas pipeline

**Alex Goh**

alexgoh@ambankgroup.com

+603 2036 2291

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

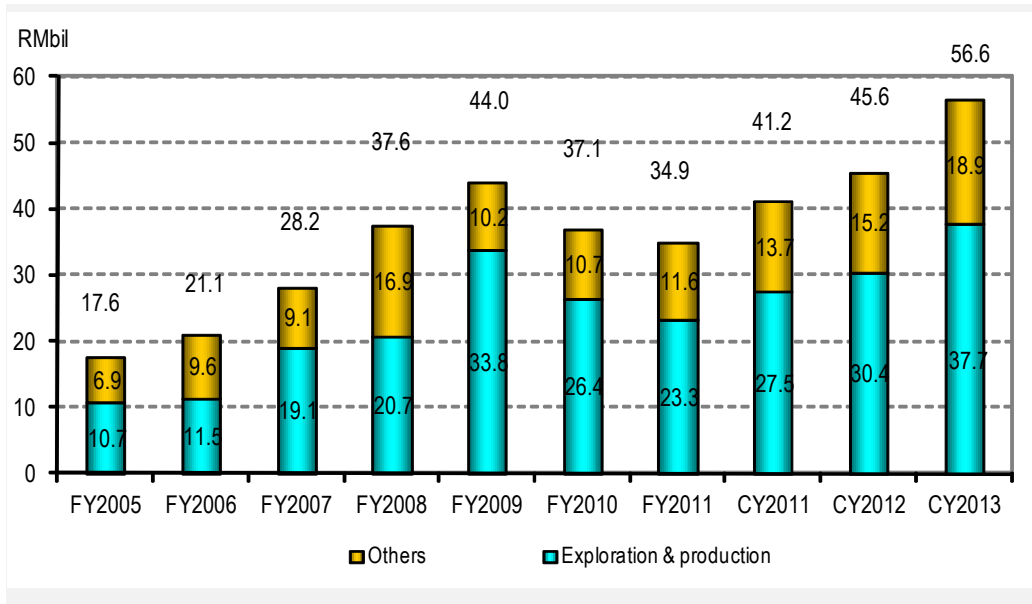
- Newspapers reported that an explosion and fire had occurred yesterday in a section of the Sabah-Sarawak Gas Pipeline (SSGP), located in between Lawas town and Long Sukang in the northernmost district of Sarawak. No lives were lost and the fire had since been extinguished. This has led to a temporary shutdown of Petronas' RM4bil project, which was under the project management of India-based Punj Lloyd, Dialog Group and Petrosab Logistic. Wah Seong's 60%-owned Petro-Pipe (Sabah) was involved in providing part of the pipes and pipe-coating services.
- Villagers at nearby settlements felt the impact of the heat wave and had been advised to evacuate to safer areas temporarily. A full-scale investigation has begun in Lawas and Kuala Lumpur to determine the exact cause of the incident. Sarawak Fire and Rescue Department director Nor Hisham Mohamad said that the pipeline had a safety shut-off system to prevent the fire from spreading in such an event.
- The affected pipeline is 400km from Miri. Long Sukang is a hilly settlement along the rural road into the Ba'kelalan highlands. The pipeline's construction cost was estimated at RM1.6bil at the time of award with completion scheduled by March 2011 but has since been way behind schedule. *The Star* indicated that the pipeline was completed early this year but this was not officially announced by Petronas.
- The SSGP and the Sabah Oil and Gas Terminal (SOGT) in Kimanis involve transporting gas produced off Sabah across a distance of 512km to Bintulu in Sarawak. The pipeline will run 90km in Sabah and 422km in Sarawak, passing through Lawas and Ulu Baram before entering Miri and onwards to Bintulu. SOGT is a storage and processing terminal meant for the oil and gas fields offshore of Kota Kinabalu in Sabah. The crude oil and natural gas condensate produced from the offshore fields will reach the SOGT for storage and/or initial processing.
- We are uncertain if any of the project's service providers such as Dialog or Wah Seong may be liable for any damages pending completion of the probe. But this will likely defer the commencement of the SOGT as well as Petronas Chemicals' US\$1.5bil Sabah Ammonia and Urea (SAMUR) plant in Sipitang, Sabah which had already been delayed due to a fire aboard a vessel carrying critical equipment. But given that the commencement of SAMUR was expected only in FY15, we do not expect any impact to consensus earnings at this stage.
- We understand that the supply of gas has not been affected for Petronas Gas' 60%-owned 300MW Kimanis power plant, which is expected to be progressively completed in 2Q-3Q2014. The first block has already started providing test power to the local electricity grid since 13 January 2014.
- But this incident could cause Petronas to adopt a more cautious stance in implementing its massive projects rollouts and potentially slow down its capex build-up momentum. This is compounded by the increasingly complex offshore projects such as high-temperature and high carbon dioxide, deeper water depth, and marginal developments.
- Pending further announcements by Petronas on this development, we maintain our OVERWEIGHT call given that there are still multiple EOR projects in the pipeline which will sustain excitement in the sector. Our BUY calls are maintained for SapuraKencana Petroleum, MMHE, Bumi Armada, Yinson Holdings and Alam Maritim Resources. Our HOLD recommendations are for Petronas Gas and Dialog Group.

**TABLE 1 : SECTOR VALUATION MATRIX**

Stocks	Call	Market	Fair	EV/	PE		Div yield		ROE	P/BV
		capitalisation	value	EBITDA	CY14F	CY15F	CY14F	CY15F	FY14F	
		RMmil	RM/share	x	x	x	%	%	%	x
Alam Maritim Resources	BUY	1,212	2.05	24.5	15.3	12.1	0.2	0.2	14.1	0.1
Boustead Heavy Industries Corp	HOLD	621	2.40	17.5	17.0	9.6	-	-	19.6	0.2
Bumi Armada	BUY	10,633	5.25	9.7	19.7	16.4	1.4	1.6	15.6	0.2
Dialog Group	HOLD	6,472	3.40	20.8	22.5	17.5	1.2	1.2	18.2	0.2
MMHE	BUY	6,000	4.30	17.1	23.4	17.8	1.3	2.7	9.6	0.4
Petronas Gas	HOLD	48,874	24.30	16.6	29.6	27.6	2.6	2.6	15.9	1.6
SapuraKencana Petroleum	BUY	24,208	5.70	9.3	16.1	14.2	0.4	0.4	13.3	0.3
Yinson Holdings	BUY	2,675	6.25	11.5	11.9	9.9	0.5	0.5	13.9	2.6

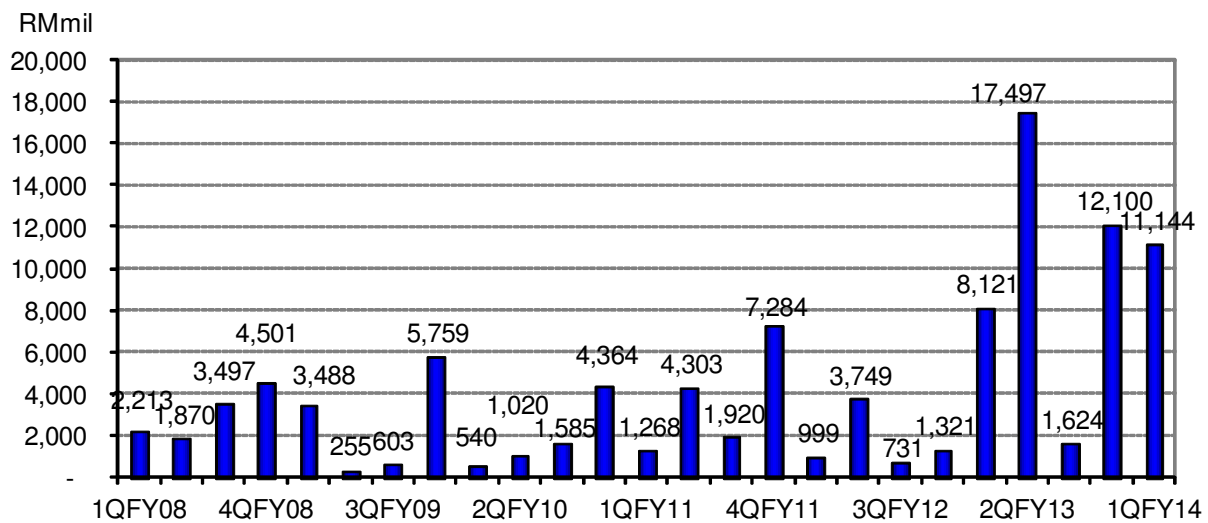
Source: AmResearch

CHART 1 : PETRONAS' CAPEX



Source: Petronas

CHART 2 : OIL & GAS NEW ORDERS FOR MALAYSIAN PLAYERS

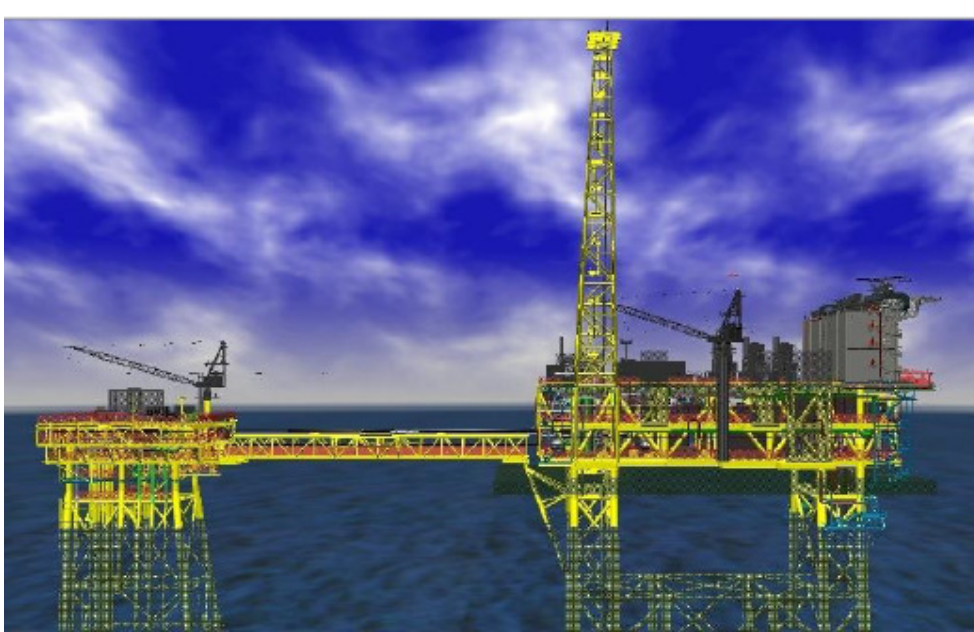


Source: Petronas

---

PICTURE 1 : SK316 CPP, BRIDGE AND WELL-HEAD PLATFORM

---



---

Source: MMHE

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 Delta, 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	Bintulu, 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

## Published by

**AmResearch Sdn Bhd (335015-P)**  
*(A member of the AmInvestment Bank Group)*  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

## Printed by

**AmResearch Sdn Bhd (335015-P)**  
*(A member of the AmInvestment Bank Group)*  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

The information and opinions in this report were prepared by AmResearch Sdn Bhd. The investments discussed or recommended in this report may not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of AmResearch Sdn Bhd may from time to time have a position in or with the securities mentioned herein. Members of the AmInvestment Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgement as of this date and are subject to change without notice.

For AmResearch Sdn Bhd



**Benny Chew**  
Managing Director