

MALAYSIA



OIL & GAS - EQUIPMENT & SVS

SHORT TERM (3 MTH) LONG TERM
 TRADING BUY **OVERWEIGHT**
 TRADING SELL NEUTRAL
 UNDERWEIGHT
SECTOR FLASH NOTE

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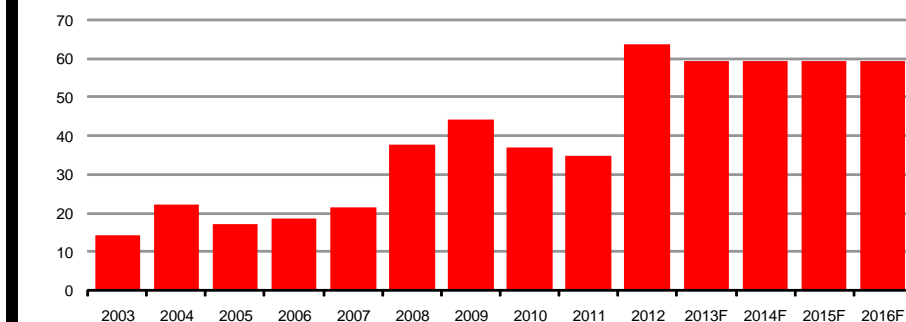


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Contract opportunities point North

After Perisai's FPSO and Wah Seong's pipe-coating wins in the North Malay Basin, more contracts should be rolled out to support Petronas's and Hess's US\$5.2bn development of the basin. A large fabrication contract is up for grabs, with more to come, Upstream reported.

Figure 1: Petronas's capex, 2003-16F (RM bn)



SOURCES: CIMB, PETRONAS

The sector remains an Overweight, with the strong contract pipeline arising from Petronas's capex as catalyst. Our top picks are SapuraKencana among the big caps and Perisai among the small caps.

What Happened

Industry publication, *Upstream*, wrote that the race for a contract to provide a central processing platform (CPP) and wellhead structure at the Bergading field in the North Malay Basin has started. Hess has prequalified three consortiums to participate in the tender running through May 2014. First gas is targeted for end-2016. The three consortiums are: 1) Hyundai Heavy Industries with Sabah-based KKB and the Malaysian unit of Norway's Aker Solutions; 2) Samsung Heavy Industries with SapuraKencana and Ranhill Worley; and 3) McDermott with TH Heavy Engineering.

What We Think

We understand that the contract value of the Bergading CPP is around US\$1bn. What is more exciting is the likelihood that Hess will call for a competition soon for three more wellhead platforms for installation at the Zetung, Anggerik and Kezumba fields, also in the North Malay Basin (see page 3 for more information).

We are pumped by the continuous positive newsflow on the sector. The news on the North Malay Basin's fabrication work comes hot on the heels of the Prime Minister's reaffirmation of major oil & gas projects and announcement of a RM3bn maritime fund in his 2014 budget presentation last Friday (see page 3 for more).

What You Should Do

Stay invested and watch for newsflow on Petronas's capex programme which is expected to keep the excitement going for oil & gas service providers.

Highlighted Companies

SapuraKencana

SapuraKencana has integrated its rig business with Seadrill. It recently proposed to acquire Newfield's assets in Malaysia, an exercise that will allow the company to become a full-fledged producer.

Perisai

Perisai is expanding its fleet aggressively. It took delivery of its first FPSO vessel earlier this year and will roll out its first rig next year. The FPSO vessel is working at the Kamelia field in the North Malay Basin.

Wah Seong

Wah Seong's North Malay Basin pipe-coating contract is its second major scoop this year, after a RM627m Polarled contract in Norway secured in Feb.

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY2013	CY2014		CY2013	CY2014	CY2013	CY2014	CY2015	CY2013	CY2014	CY2013	CY2014
Bumi Armada	BAB MK	OUTPERFORM	3.96	5.17	3,702	21.9	17.1	19.4%	4.14	3.32	21.5%	21.5%	17.6%	10.4	9.2	0.8%	0.8%
Dialog Group	DLG MK	OUTPERFORM	2.77	3.46	2,128	28.0	21.2	23.1%	5.83	4.99	22.9%	25.6%	24.0%	17.1	12.8	1.2%	1.3%
Malaysia Marine & Heavy Eng	MMHE MK	NEUTRAL	3.90	4.00	1,990	31.6	22.6	10.7%	2.58	2.55	8.4%	11.4%	12.1%	21.6	15.7	2.6%	2.6%
Perdana Petroleum	PETR MK	OUTPERFORM	1.99	2.78	329	19.4	12.9	48.3%	2.01	1.98	10.8%	15.4%	17.3%	12.0	9.7	0.0%	0.0%
Perisai Petroleum	PPT MK	OUTPERFORM	1.47	2.48	508	17.8	12.9	12.8%	2.98	2.06	17.3%	19.5%	20.9%	11.4	7.4	0.0%	0.0%
Petronas Dagangan	PETD MK	OUTPERFORM	30.76	32.80	9,746	29.2	23.1	19.6%	3.70	3.38	13.7%	15.3%	14.5%	16.9	14.4	3.4%	3.4%
SapuraKencana Petroleum	SAKP MK	OUTPERFORM	4.17	5.60	7,969	26.2	19.0	35.8%	3.83	3.91	13.0%	18.2%	20.8%	17.9	15.3	0.0%	0.0%
Wah Seong Corp	WSC MK	OUTPERFORM	1.72	2.70	423	13.2	9.9	35.1%	2.03	2.30	16.0%	21.9%	24.8%	5.4	4.8	3.9%	4.1%
Malaysia average						27.4	20.7	20.7%	3.74	3.53	13.5%	16.7%	17.3%	17.1	14.4	1.8%	1.8%
ASL Marine	ASL SP	OUTPERFORM	0.67	0.86	227	7.9	8.0	3.0%	0.68	0.64	9.2%	8.3%	8.3%	5.8	4.6	3.0%	3.0%
Cosco Corporation	COS SP	UNDERPERFORM	0.80	0.46	1,447	38.1	38.6	-20.4%	1.37	1.34	3.7%	3.5%	3.9%	11.3	11.0	1.2%	1.2%
CSE Global	CSE SP	OUTPERFORM	0.89	1.03	369	8.5	7.6	8.9%	1.74	1.53	22.1%	21.3%	20.0%	5.6	4.9	5.1%	5.4%
Ezion Holdings	EZI SP	OUTPERFORM	2.22	2.68	1,727	12.5	6.5	64.8%	1.92	1.49	19.1%	26.9%	27.2%	16.4	7.5	0.1%	0.1%
Ezra Holdings	EZRA SP	UNDERPERFORM	1.25	1.00	984	100.3	17.7	49.5%	0.89	0.85	0.9%	4.9%	6.0%	23.9	15.1	1.1%	1.1%
Jaya Holdings	JAYA SP	OUTPERFORM	0.69	0.88	427	13.6	12.0	12.5%	0.78	0.77	5.9%	6.5%	7.9%	6.2	5.5	5.8%	5.8%
Mermaid Maritime	MMT SP	OUTPERFORM	0.33	0.51	371	13.8	7.0	93.6%	0.50	0.47	3.7%	6.9%	6.6%	3.7	2.4	0.0%	0.0%
SembCorp Marine	SMM SP	OUTPERFORM	4.55	4.80	7,680	16.7	13.7	11.0%	3.53	3.20	22.3%	24.6%	23.9%	11.8	10.2	3.6%	4.4%
Swiber Holdings	SWIB SP	OUTPERFORM	0.65	0.91	318	6.3	5.3	9.9%	0.59	0.53	11.1%	11.8%	10.9%	7.5	6.9	0.0%	0.0%
Yangzijiang Shipbuilding	YZJSGD SP	OUTPERFORM	1.17	1.25	3,621	6.4	7.4	-5.6%	1.22	1.09	20.2%	15.5%	13.7%	6.2	6.7	3.9%	3.4%
Singapore average						11.7	9.9	20.2%	1.73	1.55	15.9%	16.7%	16.4%	9.7	8.4	3.1%	3.3%
PTT	PTT TB	UNDERPERFORM	317.0	363.0	29,149	7.7	7.0	3.3%	1.32	1.17	18.4%	17.7%	14.5%	5.1	3.7	2.8%	2.8%
PTT Exploration & Production	PTTEP TB	NEUTRAL	168.5	182.0	21,535	10.8	9.7	3.0%	1.82	1.63	18.0%	17.8%	15.7%	4.3	3.9	3.3%	3.7%
Thai Oil	TOP TB	NEUTRAL	62.75	68.00	4,121	11.6	11.1	10.5%	1.39	1.31	12.5%	12.1%	13.7%	7.2	6.3	3.9%	4.1%
Thailand average						9.0	8.1	3.9%	1.49	1.33	17.8%	17.3%	14.8%	4.9	3.9	3.1%	3.3%
Wintermar Offshore Marine	WINS IJ	NEUTRAL	630.0	620.0	209	9.4	7.5	20.0%	1.16	1.01	13.2%	14.4%	14.8%	6.2	5.8	0.0%	0.0%
Indonesia average						9.4	7.5	20.0%	1.16	1.01	13.2%	14.4%	14.8%	6.2	5.8	0.0%	0.0%
Average (all)						11.0	9.7	10.1%	1.73	1.56	16.7%	16.8%	15.1%	6.5	5.4	2.8%	3.0%

SOURCES: CIMB, COMPANY REPORTS

North Malay Basin: the race for fabrication jobs starts ▶

In Jun 12, Petronas signed three main contracts with Petronas Carigali and Hess for the development of the North Malay Basin, a gas development project off the coast of Terengganu. Approximately US\$5.2bn will be invested in phases that span five years. *Upstream* recently reported that the race for a turnkey contract to provide offshore facilities for the first phase has started.

Hess has prequalified three consortiums for a tender for the engineering, procurement, construction, installation and commissioning (EPCIC) contract tied to a CPP and wellhead structure at the Bergading field in the North Malay Basin. The tender is expected to close in May 2014.

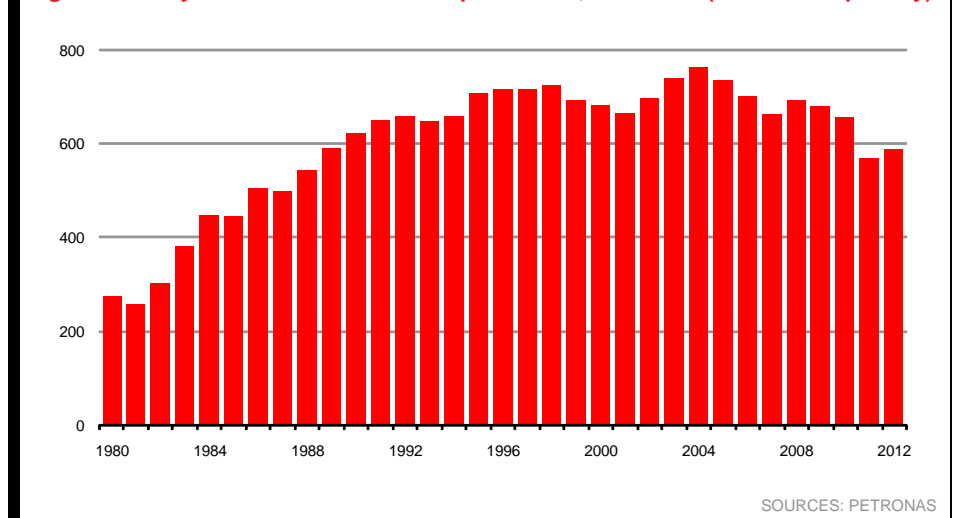
The winning consortium will be required to fabricate the wellhead platform locally to meet local-content requirements. The three consortiums - all with Malaysian participation - are: 1) Hyundai Heavy Industries with Sabah-based KKB and the Malaysian unit of Norway's Aker Solutions; 2) Samsung Heavy Industries with SapuraKencana and Ranhill Worley, the Malaysian unit of Australia's WorleyParsons; and 3) McDermott with TH Heavy Engineering. All local partners are yard owners. MMHE is not on the shortlist.

First gas is targeted for end-2016, suggesting that the offshore production structures will have to be loaded out from the selected yard around mid-2016 for offshore installation.

Hess is also due to call for a separate design competition soon for three more wellhead platforms to be installed at the Zetung, Anggerik and Kezumba fields. Unlike the Bergading tender, bids for these platforms are likely to come primarily from Malaysian yard players, according to *Upstream*.

Perisai and Wah Seong already have a presence in the North Malay Basin. In recent months, Perisai's FPSO vessel, Perisai Kamelia, has been at the Kamelia field. The vessel has been contracted to support early production activities under a 3+3 contract, which has a value of US\$272m for the primary charter, with the potential for another US\$271m in any full extension. Meanwhile, Wah Seong last month had secured a contract worth RM232m for the supply of pipe-coating services at the basin. Work is scheduled to start in 4Q13, with completion in 2Q14.

Figure 3: Malaysia's oil and condensate production, 1980-2012 ('000 barrels per day)



Budget 2014: oil & gas sector is a winner ▶

In his budget presentation, the Prime Minister said that projects to be undertaken by Petronas include: 1) a Sabah ammonia urea project (Samur) in Sipitang, Sabah; 2) an integrated oil & gas production development project at Sabah's Keabangan field; 3) a regasification plant project in Lahad Datu,

Sabah; and 4) a refinery and petrochemical integrated development (Rapid) in Pengerang, Johor.

Work is already ongoing at Samur and Keabangan. In Aug 2013, the media quoted Petronas Chemicals' President and CEO, Dr Abd Hapiz Abdullah, as saying that the development of the RM4.5bn Samur project was progressing "well ahead of schedule" and was 50% completed. The project is expected to be operational in Oct 2015. Meanwhile, MMHE has been contracted to build a platform for installation at Keabangan. On Rapid, Petronas's President and CEO, Tan Sri Shamsul Azhar Abbas, said earlier this month that he was pleased with the progress made on the project so far. Confirmation of the project by the Prime Minister during his budget presentation is positive and reinforces Tan Sri Shamsul's optimism.

In addition to the Petronas projects, the government will be dishing out RM3bn of soft loans under the Maritime Development Fund through Bank Pembangunan Malaysia. The fund will provide financing to encourage the development of the shipping industry, shipyard construction, oil & gas sector as well as maritime-related support. Smallish offshore support vessel (OSV) companies stand to benefit the most from the fund whose appearance is timely as charter and utilisation rates have been on uptrends in recent quarters after a glut that had depressed rates.

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good		N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2013		
1234 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	49.8%	7.2%
Neutral	34.2%	5.1%
Underperform/Sell/Trading Sell	16.0%	4.8%

Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.