

## OIL AND GAS SECTOR

(Neutral)

## “Uninspiring Quarter”

Oil and gas players including 8 stocks under our coverage ended 1QCY15 reporting season with mixed performance as 4 stocks missed our initial forecast mainly impacted by weaker contribution from the OSV and drilling segment decimated by lower oil prices. The near term outlook of oil prices remain lethargic which may result in the delay of contract awards. Coupled with Petronas decision to cut capex by 15% would certainly dampen the sentiment on local oil and gas player throughout 2015. We maintain a NEUTRAL call on the sector.

Table 1: Revenue Quarterly

RM million	Year Ended	CY1Q14	CY4Q14	CY1Q15	q-o-q	y-o-y
AMRB	Dec	79	108	74	-32%	-7%
Bumi Armada	Dec	469	702	572	-18%	22%
Dayang	Dec	177	242	190	-21%	7%
Dialog*	Jun	638*	570*	670*	17%	5%
MMHE	Dec	671	508	719	42%	7%
PetDag	Dec	8,294	7,453	6,101	-18%	-26%
UMW-OG	Dec	196	328	312	-5%	60%
Wah Seong	Dec	483	712	523	-27%	8%

\*Dialog: 3Q15 vs 3Q14 vs 2Q14

Source: Company, M&amp;A Securities

Table 2: Net Profit Quarterly

RM mil	Year Ended	CY1Q14	CY4Q14	CY1Q15	q-o-q	y-o-y
AMRB	Dec	16	5	9	62%	-45%
Bumi Armada	Dec	65	(53)	72	NM	11%
Dayang	Dec	35	31	34	10%	-1%
Dialog*	Jun	50*	80*	82*	3%	65%
MMHE	Dec	35	17	36	118%	4%
PetDag	Dec	155	0.4	206	>100%	33%
UMW-OG	Dec	54	71	32	-55%	-40%
Wah Seong	Dec	21	35	26	-24%	28%

\*Dialog: 3Q15 vs 3Q14 vs 2Q14

Source: Company, M&amp;A Securities

## 1QCY15 Results round-up

The 1QCY15 analysis on 8 stocks under our coverage showed 50% of the results came in below our expectations including the like of AMRB, Bumi Armada, Dayang, UMW-OG while 38% were in line with our projections covering MMHE, Petdag, WSC and only Dialog has beaten our estimates. In sum, the stocks that posted stronger y-o-y growth in net profit including Bumi Armada (+11%), Dialog (+65%), MMHE (+4%), PetDag (+33%) and WSC (+28%). Nevertheless, the stocks with high exposure in OSV and

drilling activities had underperformed in CY1Q15 after registering a decline in y-o-y earnings growth including AMRB (-45%) and UMW-OG (-40%) respectively.

**Earnings revision.** During CY1Q15, we made revision to our earnings by cutting FY15 earnings forecast on 2 stocks namely Bumi Armada (-9%) and UMW-OG due to lower-than-expected CY1Q15 results hammered by lower utilization rate for OSV segment and discount on charter rate for offshore drilling segment. We had revised upwards Dialog's FY15 earnings forecast by 7% due to strong contribution from Malaysian operation segment on continuous progress of Pengerang Deepwater Terminal which was also aided by additional contribution from its upstream activities. Nonetheless, we kept unchanged our forecast on MMHE (made up 24% of our forecast), PetDag (accounting 30% of our forecast) and WSC (attributing 22% of our forecast) as their CY1Q15 results were in line with our projections. Furthermore, we also had done some housekeeping exercise and came out with new earnings forecast for 2 stocks namely Dayang (FY15 net profit growth: +5% y-o-y) and AMRB (FY15 net profit growth: -20% y-o-y)

Briefly, below are the summary of each player performance in CY1Q15:

- 1) **AMRB underperforms by OSV division.** CY1Q15 earnings were below ours and consensus estimates respectively, attributing 13% and 15% of both parties full year net profit forecast, mainly crumpled by weaker contribution from the OSV division (-35% y-o-y) due to lower average utilisation rate in CY1Q15 as several vessels undertook dry-docking for maintenance activities. Overall, PBT margin in CY1Q15 stood at 13%, slightly lower against CY1Q14 margin of 19%.
- 2) **Bumi Armada sailing with fragile OSV.** Bumi Armada achieved improvement in bottomline as its net profit registered a significant growth 11% y-o-y in CY1Q15 thanks to healthy contribution from FPSO and T&I segment. However, Bumi Armada's earnings failed to meet ours and consensus projection, only accounting 14% and 15% of both estimates respectively impacted by weaker-than-expected contribution from OSV segment (-98% y-o-y) due to lower utilization rate of its Class B vessels. Nonetheless, FPSO and T&I segment delivered a positive momentum in CY1Q15 thanks to strong contribution from FPSO conversion project coupled with on-going contribution from Armada Installer operations in Turkmenistan and Armada Hawk operation in India.
- 3) **Dayang on lower associates' earnings.** Dayang posted a flat CY1Q15 earnings (-1% y-o-y) injured by weaker contribution from its associates, Perdana Petroleum (-54% y-o-y) due to challenging OSV business in the current period, and hence pushing CY1Q15 earnings to be below ours and consensus estimates respectively, accounting 15% and 17% of both divide forecast. Contrariwise, the disappointing associates' contribution was offset by impressive contribution from offshore topside maintenance services segment (+28% y-o-y) on higher work orders from Baronia and Bardegg-2 contracts which have been awarded by Petronas Carigali in November 2014 worth RM280 million.
- 4) **Dialog shining quarter.** Dialog's 9M15 core PBT surged by 32% y-o-y as a result of higher contribution from Malaysian operation segment lifted by the increase in contribution from Dialog's upstream activities at offshore of Sarawak as well as the completion of Pengerang

Deepwater Terminals Phase 1A, Phase 1B and Phase 1C. After excluding RM23.4 million exceptional gains on disposal of the group's other investment and RM20.0 million write-off of non-recoverable cost in upstream activities, Dialog's 9M15 core earnings of RM208 million have beaten ours and consensus projection respectively, accounting 90% and 87% of both estimates. Note that PBT margin for 9M15 was at 16%, higher against 9M14 margins of 11%.

- 5) **MMHE earnings within our expectation.** MMHE's CY1Q15 earnings were in line with ours and consensus estimates respectively, accounting 24% and 26% of both earnings projections driven by higher contribution from Marine segment (+92% y-o-y) due to higher value for vessels repaired from rigs, Floating Storage Unit (FSU) and general cargo categories. However, MMHE's offshore segment posted a weaker earnings contribution to the bottomline (-94% y-o-y) impacted by higher additional cost to complete some of its existing projects. Of note, CY1Q15 EBIT margin was flat at 5%, matching CY1Q14 margin of 5%.
- 6) **Petronas Dagangan adopts better cost control initiatives.** Overall, CY1Q15 earnings were in line with projections, accounting 30% of ours and 29% of consensus full year estimate respectively. This was underpinned by better cost control initiative taken by the management to uplift the earnings growth in CY1Q15 after badly affected in CY4Q14. PetDag registered a strong EBIT growth 25% y-o-y in CY1Q15 as retail and commercial segment posted a lower operating expenditure by RM32 million and RM33 million respectively due to lower marketing and promotional expenses coupled with the variation in bonus payment which attributable to lower manpower expenses. Overall, PetDag's EBIT margin in CY1Q15 stood at 5%, slightly higher against CY1Q14 margin of 3%.
- 7) **UMW-OG enters into a challenging period.** UMW-OG faced two major issues CY1Q15 that lead to the drop in drilling segment's PBT contribution (-32% y-o-y) including the discount on charter rate by the existing client in line with the decline in oil price and additional operating expenses incurred by NAGA 7 due to the termination of contract with Frontier Oil Corp. (FOC). Thus, the group's achieved a lower net profit in CY1Q15 (-40% y-o-y) which came in below ours and consensus estimates respectively, only attributing only 8% and 10% of both divide forecast.
- 8) **Wah Seong lack of new contract wins.** Wah Seong's CY1Q15 earnings came in line with ours and consensus projections, accounting 22% and 23% of both divide net profit forecast respectively thanks to higher execution of pipe coating projects for Statoil's Polarled project in Norway worth RM627 million. Nonetheless, Wah Seong oil and gas segment registered a flat growth of -0.2% y-o-y in CY1Q15 impacted by lack of major contract wins during the period. Overall, the group's EBIT margin in CY1Q15 was slightly lower at 4% compared to CY1Q14 margin of 6%.

#### 2015 Outlook assessment:

- 1) **AMRB.** OSV segment is expected to face a challenging period in 2015 given the current volatility in crude oil prices. AMRB has secured an umbrella contract (no contract value disclosed) from Petronas Carigali Sdn. Bhd (PCSB) in March 2015 for the provision of spot charter for marine vessels for its operations in Malaysia. The contract is for a period of two years starting from

January 2015 with an extension option of one year. However, we anticipate a weaker charter rates ahead as Petronas has started negotiating for lower charter rates in tandem with its decision to cut capex by 15%-20%, and trimming opex by 20%-30%.

- 2) **Bumi Armada.** Bumi Armada's long-term outlook remains solid backed by its strong orderbook of approximately RM38.9 billion comprising RM25.6 billion of firmed contract and RM13.3 billion on optional extensions. The group has secured a new contract win from ElectroGas Malta Limited (EGM) worth approximately USD300 million (RM1.1 billion) in April 2015 for the conversion, supply and operations and maintenance of one floating storage unit (FSU) in Malta for the period of eighteen years and two months (18+2). Moving forward, Bumi Armada is bidding for three FPSO projects in Nigeria, Angola and Namibia which may involve capex of approximately between USD1 billion-USD1.5 billion for each jobs.
- 3) **Dayang.** The group's sizeable order book stood at approximately RM3.8 billion as at March 2015 (December 2014: RM4.0 billion) which is expected to last them until 2018. Note that majority of its orderbook is derived from three HUC job which have been secured in May 2013. We assume Dayang to grab potential contract wins of between RM240 million-RM320 million in 2015 from its RM800 million tenderbook, based on fair success rate of 30%-40%. Surprisingly, Dayang has triggered a 33% mandatory general offer (MGO) threshold on Perdana Petroleum after acquiring 5.74% stake in Perdana from Affin Hwang Management Bhd (AHM) which has pushed its shareholding up to 35.51%. We are positive on the takeover exercise which would further strengthen Dayang's business expansion especially on the hook-up and commissioning (HUCC) services by leveraging on Perdana's expertise as a marine player with fleet size of 17 vessels (8 Anchor Handling Tug & Supply (AHTS), 7 Work Barge and 2 Work Boat).
- 4) **Dialog.** Moving forward, we expect Pengerang Deepwater Terminal to be the growth driver for Dialog in the long-term. Note that Phase 1 is now in full operation with more than 160 vessels and including supertanker "VLCC" has used the terminal for trading activities. On phase 2 development, Dialog has inked a shareholders' agreement (SHA) with PRPC Utilities & Facilities Sdn Bhd and Vopak Terminal Pengerang BV in December 2014 to develop a project worth RM6.3 billion for handling, storing and distribution of crude oil and petrochemical feedstock from RAPID. Phase 2 project is estimated to be completed by 2018. Dialog also has formed a JV (25: 65: 10) with Petronas Gas and the state government of Johor to develop a regasification terminal (phase 3) worth approximately RM2.7 billion at Pengerang Deepwater Terminal. The RGT will comprise of i) regasification unit with 3.5 million MT/p.a. storage capacity and ii) two units of 200,000m<sup>3</sup> LNG storage tanks. The entire phase 3 project is expected to be completed by 2017.
- 5) **MMHE.** We remain cautious on MMHE's growth prospect due to depleting orderbook or at RM1.2 billion as at March 2015 (December 2014: RM1.6 billion). This could last the group only until 2016. Approximately more than 50% of the order book values are made up by SK316 EPCIC job which has been secured in 3Q13 and the project is scheduled to be loaded out by 2016. MMHE is currently bidding for more than RM7.0 billion worth of new projects internationally and locally. The management already gave the signal that outlook for 2015 remains challenging in tandem

with the downtrend in global oil price which resulted in tightening budget from major operator including Petronas and hence, dimming the group's ability to replenish its order book.

- 6) **Petronas Dagangan.** PetDag has maintained its plans to allocate RM500 million of capex for 2015 mainly to upgrade the existing stations as well as Kedai Mesra. The group aims to add between 20-30 new petrol stations in 2015 versus 42-45 new stations for the past two years. Note that the group has set up 45 new stations in FY14 where 25 stations are operational and 20 stations still waiting the approval from the authority, bringing total Petronas' stations to approximately 1,114 (2013: 1,069 stations).
- 7) **UMW-OG.** UMW-OG's orderbook currently stood at RM1.8 billion, expected to last them until 2018. The group is now bidding for 22 rig contracts worth approximately RM5.4 billion consisting 8 from Malaysia and 14 from overseas where 36% are comprise of long-term contracts and 64% on short-term contracts. The group prefers to secure a short-term contract rather than long-term contract underpinned by protracted softness in global oil prices which may dent daily charter rate by 6%-7% in 2015. Besides, UMW-OG is planning to penetrate the Middle East market in the future after building a strong reputation in Southeast Asia including Malaysia, Vietnam, Myanmar and the Philippines. The Middle East market, which holds 49% of global oil reserve, offers a solid opportunity for the group to strengthen its global business presence driven by OPEC decision to continue their production activities even if the oil prices settle at USD20 per barrel.
- 8) **Wah Seong.** We remain concern on its orderbook visibility as there is no new contract award since the beginning of 2015. The group's current orderbook stood at RM1.2 billion as at the end of March 2015 comprising: i) RM709 million (59%) for oil and gas segment, ii) RM293 million (24%) for renewable energy segment and 3) RM197 million (17%) for industrial trading and services segment. WSC is currently tendering about RM5.0 billion worth of projects with estimated 95% (RM4.8 billion) belonging to the oil and gas division. We assume WSC to grab at least RM1.5 billion worth of jobs based on a fair success rate factor of 30%. However, there is a possibility that the contract awards may be delayed in tandem with the weak crude oil price.

### Conclusion and Recommendations

We foresee 2015 to be a challenging year for oil and gas players as global oil prices unlikely to recover to USD100/barrel level in the near term due to several factors including; i) OPEC's decision to maintain output at 30 million barrels per day, ii) China's economic slowdown which may dampen the demand energy resources and iii) the strengthening of USD on the upcoming adjustment on US policy hike. Hence, U.S. Energy Information Administration (EIA) expects 2015 Brent crude oil price to average around USD61/barrel while WTI crude oil forecast to sustain around USD52/barrel.

**Neutral on Oil and gas.** We have a **Neutral** call on the sector due to the sluggish outlook on the sector in near term in line with the downtrend in global crude oil price and Petronas decision to cut its 2015 capex by 15% which may inevitably dampen sentiment on local oil and gas player. We expect several players including MMHE, HOLD (TP: RM1.33), Wah Seong, HOLD (TP: RM1.38), AMRB, SELL (TP: RM0.56) and Dayang, HOLD (TP: RM2.64) to face uncertain position in their orderbook



replenishment. Notwithstanding that, we continue to like SapuraKencana, BUY (TP: RM3.22) lifted by solid fundamentals to sustain their earnings momentum throughout 2015.

Table 3: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.65	20	21	13.7	12.7	1.2	1.1	13	1	3.22	Buy
Wah Seong	Dec	1.40	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.25	8	10	15.7	11.7	1.0	1.0	4	2	1.32	Hold
Dialog Group	Jun	1.67	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.59	7	7	9.5	9.4	0.7	0.7	9	NA	0.56	Sell
MMHE	Dec	1.28	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	19.80	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.50	24	28	10.8	9.3	2.4	2.1	22	3	2.64	Hold
UMW-OG	Dec	1.90	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.46	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.52	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.25	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.35	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.55	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.48	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.54	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 4: EBIT Margin

RM mil	Year Ended	1Q14	4Q14	1Q15	q-o-q (+/- ppts)	y-o-y (+/- ppts)
AMRB	Dec	13%	4%	15%	11	2
Bumi Armada	Dec	20%	0%	25%	25	5
Dayang	Dec	22%	14%	23%	9	1
MMHE	Dec	5%	8%	5%	-3	0
PetDag	Dec	3%	0%	5%	4	2
UMW-OG	Dec	28%	27%	15%	-12	-13
Wah Seong	Dec	8%	9%	5%	-3	-2

Source: Company, M&A Securities

Table 5: PBT Margin

RM mil	Year Ended	1Q14	4Q14	1Q15	q-o-q (+/- ppts)	y-o-y (+/- ppts)
AMRB	Dec	19%	7%	13%	7	-6
Bumi Armada	Dec	18%	-5%	18%	23	0
Dayang	Dec	25%	15%	24%	9	-1
Dialog*	Jun	10%	19%	16%	-2	6
MMHE	Dec	5%	8%	5%	-3	0
PetDag	Dec	3%	0%	5%	4	2
UMW-OG	Dec	30%	26%	14%	-13	-16
Wah Seong	Dec	6%	8%	4%	-4	-2

\*Dialog: 3Q15 vs 3Q14 vs 2Q14

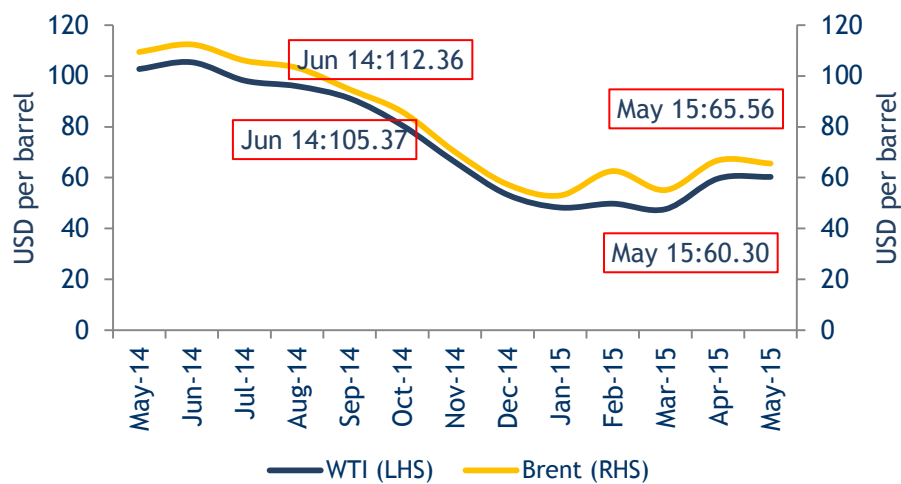
Source: Company, M&A Securities

Table 6: Net Profit Margin

RM mil	Year Ended	1Q14	4Q14	1Q15	q-o-q (+/- ppts)	y-o-y (+/- ppts)
AMRB	Dec	20%	5%	12%	7	-8
Bumi Armada	Dec	14%	-7%	13%	20	-1
Dayang	Dec	20%	13%	18%	5	-2
Dialog*	Jun	8%	14%	12%	-2	4
MMHE	Dec	5%	3%	5%	2	0
PetDag	Dec	2%	0%	3%	3	2
UMW-OG	Dec	27%	22%	10%	-11	-17
Wah Seong	Dec	4%	5%	5%	0	1

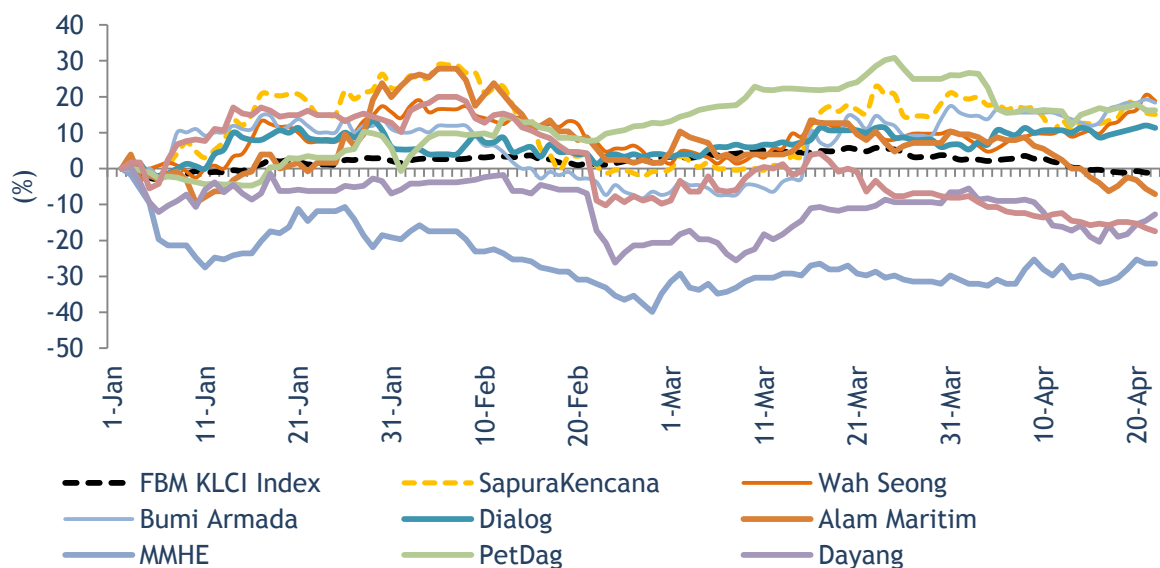
\*Dialog: 3Q15 vs 3Q14 vs 2Q14

Source: Company, M&amp;A Securities

WTI vs. Brent Crude Oil Price  
(May 2014-May 2015)

Source: Bloomberg

YTD Performance - Oil and Gas Players vs. FBMKLCI



Source: Bloomberg

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)