

## Oil and Gas Sector

(Neutral)

## “Apathetic Period of Lower Oil Prices”

Oil and gas players including 8 stocks under our coverage ended CY2Q15/6M15 reporting season with mixed performance as 6 stocks missed our initial forecast mainly impacted by weaker contribution from the OSV and drilling segment as well as lack of new contract wins decimated by lower oil prices. The near term outlook of oil prices remain lethargic due to several factors including economic slowdown in China, OPEC decision to maintain production level and upcoming US rate hike. 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/YTD

RM million	Year Ended	CY2Q14	CY1Q15	CY2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
AMRB	Dec	82	74	80	8%	-3%	161	153	-5%
Bumi Armada	Dec	590	572	459	-20%	-22%	1,059	1,031	-3%
Dayang	Dec	222	190	174	-8%	-21%	399	364	-9%
Dialog*	Jun	644*	670*	577*	-14%	-10%	2,552*	2,358*	-8%
MMHE	Dec	981	719	582	-19%	-41%	1,652	1,302	-21%
PetDag	Dec	8,368	6,101	6,493	6%	-22%	16,662	12,594	-24%
UMW-OG	Dec	239	312	183	-41%	-23%	434	496	14%
WSC	Dec	652	523	461	-12%	-29%	1,135	984	-13%

\*Dialog: 4Q15 vs 4Q14 vs 3Q15

Source: Company, M&amp;A Securities

Table 2: Net profit Quarterly/YTD

RM million	Year Ended	CY2Q14	CY1Q15	CY2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
AMRB	Dec	21	9	10	18%	-53%	36	19	-49%
Bumi Armada	Dec	98	72	(292)	NM	NM	163	(219)	NM
Dayang	Dec	55	34	35	3%	-35%	89	70	-22%
Dialog*	Jun	52	82	64	-22%	22%	216	275	27%
MMHE	Dec	40	36	18	-50%	-55%	74	54	-27%
PetDag	Dec	186	206	273	33%	47%	341	479	41%
UMW-OG	Dec	60	32	4	-86%	-93%	114	37	-68%
WSC	Dec	40	26	11	-57%	-72%	61	38	-38%

\*Dialog: 4Q15 vs 4Q14 vs 3Q15

Source: Company, M&amp;A Securities

## 6M15 Results round-up

The 6M15 analysis on 8 stocks under our coverage showed 75% of the results came in below our expectations including the like of AMRB, Bumi Armada, Dayang, MMHE, UMW-OG and WSC while 25% of the results were above our projections covering Dialog and PetDag. In sum, the stocks with high exposure in OSV and drilling activities had underperformed in 6M15 earnings after registering a decline in y-o-y growth including AMRB (-49%) and UMW-OG (-68%). Nevertheless, Dialog and PetDag managed to post stronger y-o-y growth in 6M15 net profit of 27% and 41% respectively.

Briefly, below are the summary of each player performance in 6M15:

- 1) **AMRB underperforms by OSV division.** 6M15 earnings were below ours and consensus estimates respectively, attributing 32% and 38% of both parties full year net profit forecast, mainly crumpled by weaker contribution from the OSV division (-44% y-o-y) due to lower average utilisation rate in 6M15 as several vessels undertook dry-docking for maintenance activities. Overall, PBT margin in 6M15 stood at 13%, slightly lower against 6M14 margin of 25%.
- 2) **Bumi Armada sailing with breakable OSV.** Bumi Armada achieved disappointment in bottomline performance as its 6M15 core earnings failed to meet ours and consensus projection, only accounting 42% of both estimates net profit forecast, as a results of EBIT losses of RM22 million recorded by the OSV segment due to lower utilisation rate of its Class A and Class B vessels. Nonetheless, FPSO segment continued to deliver a positive momentum in 6M15, posting higher EBIT growth of 34% y-o-y thanks to steady conversion activity from Eni 1506 FPSO project, initial revenue recognition from Armada LNG Mediterrana, tanker operations and operation and steady maintenance (O&M) activity from Armada Claire.
- 3) **Dayang on lower associates' earnings.** Dayang posted a weak 6M15 earnings (-22% y-o-y) injured by lower contribution from its associates, Perdana Petroleum, which recorded a loss of RM1.2 million due to challenging OSV business in the current period, and hence pushing 6M15 earnings to be below ours and consensus estimates respectively, accounting 37% and 38% of both divide forecast. Nevertheless, Dayang's EBIT margin has slightly improved in 6M15 at 26% against 6M14 margin of 25% thanks to higher margin of work done from offshore topside maintenance services.
- 4) **Dialog shining year.** Dialog's FY15 PBT surged by 34% y-o-y as a result of higher contribution from Malaysian operation segment lifted by the completion of engineering and construction activities for Pengerang Deepwater Terminal Phase 1 and the commencement of work for phase 2 developments. Dialog's FY15 net profit of RM275 million (+27% y-o-y) have beaten ours and consensus projection respectively, accounting 111% and 108% of both estimates. Note that PBT margin for FY15 was at 16%, higher against FY14 margins of 11%.
- 5) **MMHE earnings drag by lower offshore margin.** MMHE's 6M15 earnings were below ours and consensus estimates respectively, accounting 36% and 41% of both sides earnings projections impacted by lower contribution from the offshore division (-79% y-o-y) due to higher completion of some existing projects. Nonetheless, MMHE's marine division posted a stronger earnings contribution to the bottomline (+108% y-o-y) driven by higher value for vessels repaired from rigs, floating storage unit (FSU) and general cargo categories. Of note, 6M15 EBIT margin was slightly higher at 4%, against 6M14 margin of 3%.
- 6) **PetDag adopts better cost control initiatives.** Overall, 6M15 earnings were above ours and consensus projections, accounting 64% and 60% of both parties full year net profit forecast respectively. This was underpinned by better cost control initiative taken by the management to uplift earnings growth in 6M15. PetDag registered a strong EBIT growth 38% y-

o-y in 6M15 as retail and commercial segment posted a lower operating expenditure by RM58 million and RM50 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 6M15 stood at 5%, higher against 6M14 margin of 3%.

- 7) **UMW-OG enters into a bleeding period.** UMW-OG faced two major issues 6M15 that led to the drop in drilling segment's PBT contribution (-64% y-o-y) including discount on charter rate to the existing client in line with the sharp drop 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 6M15 (-68% y-o-y) which came in below ours and consensus estimates respectively, only attributing only 16% and 20% of both divide forecast.
- 8) **WSC turns gloomier in 6M15.** WSC's 6M15 earnings came in below ours and consensus projections, accounting 33% and 35% of both divide net profit forecast respectively no thanks to weaker earnings contribution all business segments. The group's oil and gas segment registered lower EBIT contribution (-62% y-o-y) due to the decline in activities amid weak crude oil prices. Similarly, renewable energy and industrial trading services segment also recorded lower EBIT contribution which dropped by 19% y-o-y and 60% y-o-y respectively impacted by tighter margin in process equipment, turbine and boiler sectors as well as delay in new project execution for pipe manufacturing business.

#### 2015 Outlook assessment:

- 1) **AMRB (cease coverage).** OSV segment is facing tough period due to the softening in oil prices since June 2014. Moving forward, we expect weaker charter rate will continue to dampen earnings growth for marine players including AMRB in tandem with the rate renegotiations with Petronas which are still on-going. Note that Petronas also has turned its focus on optimising the cost structure including reducing capex by 15%-20% and cutting opex by 20%-30% respectively. Given the protracted challenges ahead, we officially ceased our coverage on AMRB. Re-initiating coverage on the stock is a probability until we see a clear sign of recovery in global oil prices.
- 2) **Bumi Armada.** Bumi Armada's long-term outlook remains solid backed by its strong orderbook of approximately RM39.1 billion comprising RM25.8 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). Furthermore, FY15 will be a year of consolidation for Bumi Armada to focus on the existing FPSO conversions (Kraken, Madura and Angola) which will be completed in 2016 and 2017 as well as managing costs in line with the weakening in oil prices.
- 3) **Dayang.** The group's sizeable order book stood at approximately RM3.8 billion as at June 2015 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. Recall that Dayang has secured a new contract worth RM250 million in June 2015 awarded by Petronas Carigali for the provision of

facilities improvement project (FIP) for Petronas Carigali - Package A: Sarawak Operations (SKO) and Sabah Operations (SBO) Offshore. The group outstanding tender book stood at approximately RM400 million as at June 2015. Meanwhile, Dayang has received the acceptance for the 338.04 million shares, representing a 45.16% equity stake in Perdana as at the closing of the offer on 14 August 2015. Therefore, Dayang's total stake in Perdana rose to 709.57 million shares, or equivalent to 94.8% interest in the company. We are positive on the takeover exercise which would further strengthen Dayang's business expansion drive especially on the hook-up and commissioning (HUCC) services 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). Furthermore, it would be a strong selling point for Dayang in bidding for new tenders.

- 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 200 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 RM1.0 billion as at June 2015 (March 2015: RM1.2 billion) which could last the group only until 2017. Recently, the group has secured multiple of fabrication contracts, marine repair and conversion works worth RM324 million in June 2015 and currently bidding for more than RM7.0 billion worth of new projects internationally and locally. The management already gave the signal that the 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) **PetDag.** PetDag has planned to allocate RM500 million of capex for FY15 to spur the growth in retail segment, targeting to add between 20-30 new petrol stations in FY15 versus 42-45 new stations for the past two years. 13 new stations have commenced operation in 6M15. We are positive on this aggressive expansion plan amid the group aims to become a market leader in Malaysia's petroleum retailer in the next two to four years by taking over the retail leadership from Shell which currently has about 36% market shares. PetDag's market share now stands at approximately 31%-32%. Meanwhile, PetDag cash pile jumped to RM1.9 billion as at 6M15 (FY14: RM1.8 billion) with the abolishment of the petrol subsidy scheme and hence we expect the group to be able to sustain the dividend payments of more than 50% of its earnings for FY15.
- 7) **UMW-OG.** UMW-OG has taken delivery of its new jack-up drilling rig, NAGA 8 in September 2015 and being prepared to be mobilised for a potential client in South-East Asia. NAGA 8 is a premium

jack-up rig equipped with capability to operate in water depths of up to 400ft and drilling to a depth of 30,000ft subsea. Overall, UMW-OG's near term outlook remain challenging as the weakening in oil prices will continue to put pressure on the charter rate coupled with the lack of drilling plans by major oil and gas companies which may dampen the group's earnings visibility in 2015.

- 8) **WSC.** The group's current orderbook declined slightly to RM1.1 billion as at June 2015 (March 2015: RM1.2 billion) comprising: i) RM500 million (47%) for oil and gas segment, ii) RM313 million (30%) for renewable energy segment and 3) RM239 million (23%) for industrial trading and services segment. WSC recently secured a sub-contract from Penta-Ocean Construction Co., Ltd worth RM189 million for the supply and delivery of coated steel pipe piles for the Pengerang Deepwater Petroleum Terminal Project (PDPT) in Johor which is expected to be completed by the 3Q2016. WSC is tendering about RM4.3 billion worth of projects with estimated 72% (RM3.1 billion) belonging to the oil and gas division.

### Earnings Revision

We had done some housekeeping exercise and came out with new earnings forecast for several stocks under our coverage. We assumed lower FY15 earnings for 2 stocks namely Dayang (-14% y-o-y) on weaker-than-expected work orders for HUC jobs in line with the softening in oil prices and WSC (-17% y-o-y) as we expect the delay in major contract awards. Nonetheless, we projected higher FY15 earnings forecast for PetDag (+40% y-o-y) driven by stronger sales volume assumption for retail and commercial segment and MMHE (+5% y-o-y) fuelled by higher work progress from SK316 jobs and higher value of vessels repair work. Moreover, Dialog's FY16 earnings are forecasted to grow by 15% y-o-y underpinned by continuous development of Pengerang Deepwater Terminal and steady contribution from its upstream activities.

We made adjustment to UMW-OG earnings by cutting FY15 earnings forecast by 45% due to the lower charter rate assumptions in line with the weakness in oil prices coupled with lower operating days for NAGA 7 impacted by contract termination with FOC. Meanwhile, we maintained Bumi Armada FY15 earnings (+88% y-o-y) on the back of higher contribution from FPSO's conversion activities from Eni 1506 FPSO project and also backed by strong firm orderbook of RM25.8 billion.

### Conclusion and Recommendations

We foresee 2015 to be a challenging year for oil and gas players as global oil prices are 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 for energy resources and iii) the strengthening of USD on the upcoming adjustment of 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 protracted weakness in global crude oil price and Petronas



decision to cut its 2015 capex by 15%-20% which may inevitably dampen sentiment on local oil and gas player. We expect several players including **UMW-OG, HOLD (TP: RM0.90)**, **WSC, HOLD (TP: RM1.15)** and **MMHE, HOLD (TP: RM1.20)** to face uncertain position in their orderbook replenishment. Notwithstanding that, we continue to like **SapuraKencana, BUY (TP: RM2.95)** 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	1.74	19	20	13.2	12.3	1.1	1.0	10	1	2.95	Buy
Wah Seong	Dec	1.22	14	15	9.5	8.8	0.9	0.9	13	4	1.15	Hold
Bumi Armada	Dec	0.81	7	10	15.3	11.1	1.0	0.9	4	1	1.06	Buy
Dialog Group	Jun	1.54	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
Alam Maritim	Dec	0.46	5	6	9.3	7.9	0.5	0.5	7	NA	0.56	Hold
MMHE	Dec	0.92	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	21.42	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.63	21	24	9.7	8.7	1.8	1.4	22	3	1.80	Buy
UMW-OG	Dec	1.03	9	11	16.2	12.4	0.9	0.8	7	1	0.90	Hold
Perisai	Dec	0.33	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.53	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.17	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	1.04	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.14	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	1.83	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.49	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	2		

Source: Bloomberg, M&amp;A Securities

Table 4: EBIT Margin Quarterly/YTD

RM million	CY2Q14	CY1Q15	CY2Q15	q-o-q (+/- ppts)	y-o-y (+/- ppts)	6M14	6M15	y-o-y (+/- ppts)
AMRB	22%	15%	16%	0.5	(6)	17%	15%	(2)
Bumi Armada	22%	25%	-55%	(80)	(77)	21%	-11%	(32)
Dayang	28%	23%	29%	6	1	25%	26%	1
MMHE	2%	5%	3%	(2)	1	3%	4%	1
PetDag	3%	5%	6%	1	3	3%	5%	2
UMW-OG	26%	15%	7%	(8)	(19)	27%	12%	(15)
Wah Seong	13%	5%	3%	(2)	(10)	11%	5%	(6)

Source: Company, M&amp;A Securities

Table 5: PBT Margin Quarterly/YTD

RM million	CY2Q14	CY1Q15	CY2Q15	q-o-q (+/- ppts)	y-o-y (+/- ppts)	6M14	6M15	y-o-y (+/- ppts)
AMRB	30%	13%	12%	(1)	(18)	25%	13%	(12)
Bumi Armada	22%	18%	-60%	(78)	(81)	20%	-16%	(37)
Dayang	30%	24%	26%	2	(4)	28%	25%	(2)
Dialog*	10%	16%	16%	(1)	5	11%	16%	5
MMHE	3%	5%	3%	(2)	0	4%	4%	0
PetDag	3%	5%	6%	1	3	3%	5%	2
UMW-OG	28%	14%	4%	(9)	(23)	29%	10%	(18)
Wah Seong	12%	4%	4%	(1)	(8)	9%	4%	(5)

\*Dialog: 4Q15 vs 4Q14 vs 3Q15

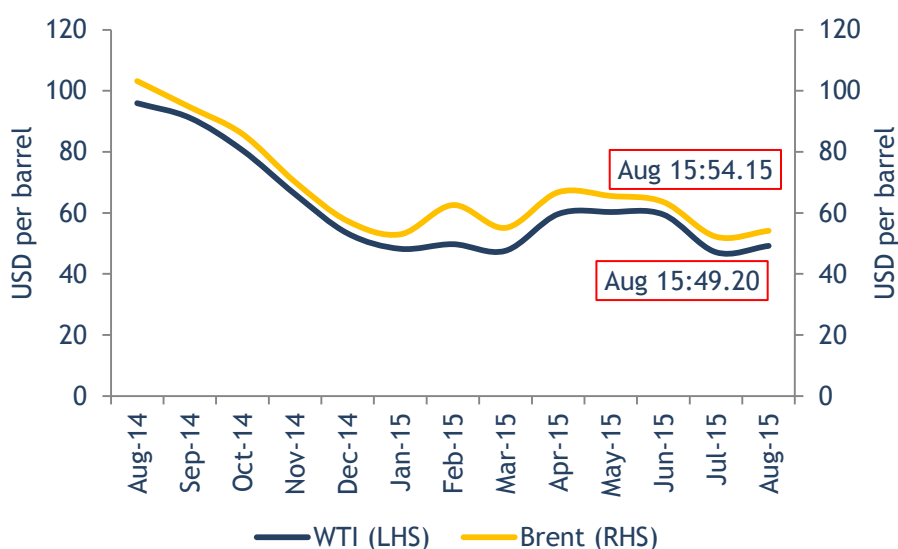
Source: Company, M&amp;A Securities

Table 6: Net Profit Margin Quarterly/YTD

RM million	CY2Q14	CY1Q15	CY2Q15	q-o-q (+/- ppts)	y-o-y (+/- ppts)	6M14	6M15	y-o-y (+/- ppts)
AMRB	26%	12%	13%	1	(13)	23%	12%	(10)
Bumi Armada	17%	13%	-64%	(76)	(80)	15%	-21%	(37)
Dayang	25%	18%	20%	2	(4)	22%	19%	(3)
Dialog*	8%	12%	11%	(1)	3	8%	12%	3
MMHE	4%	5%	3%	(2)	(1)	5%	4%	0
PetDag	2%	3%	4%	1	2	2%	4%	2
UMW-OG	25%	10%	2%	(8)	(23)	26%	7%	(19)
Wah Seong	6%	5%	2%	(3)	(4)	5%	4%	(2)

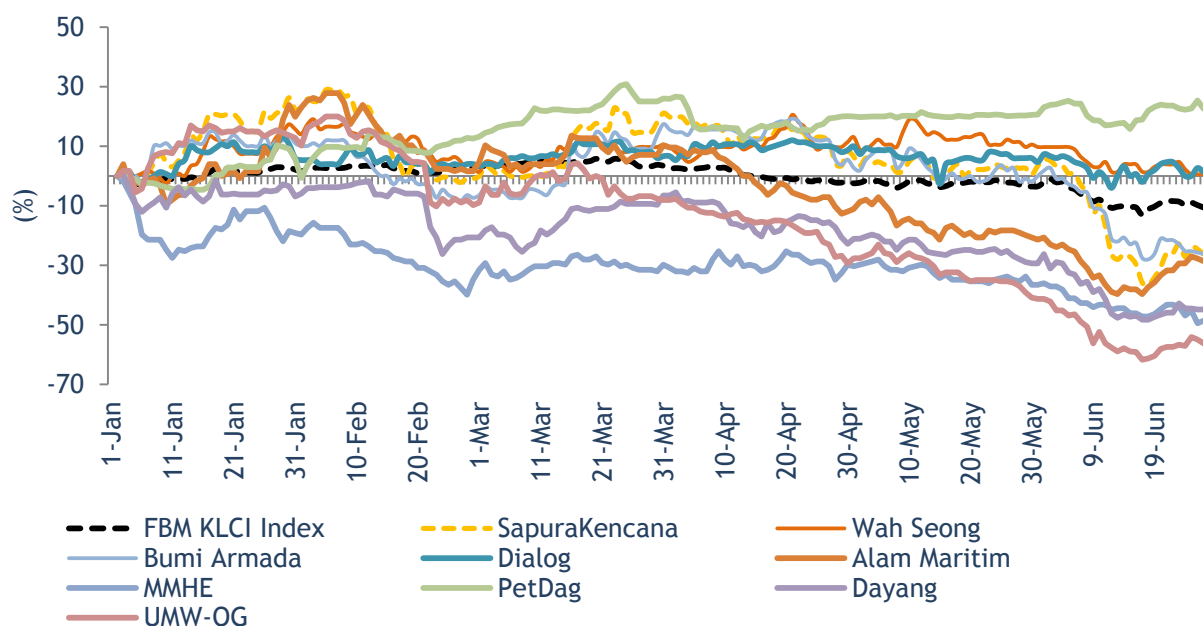
\*Dialog: 4Q15 vs 4Q14 vs 3Q15

Source: Company, M&amp;A Securities

WTI vs. Brent Crude Oil Price  
(August 2014-August 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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