

21 September 2012 | Sector Update

Oil & Gas Sector

The Sabah O&G Play

Maintain POSITIVE

WTI Crude: USD92.87pb

Malaysia is currently ranked the world's 14th largest in natural gas and 23rd largest in crude oil reserves. The state of Sabah alone holds 14% of Malaysia's gas reserves (approx. 12.7tcf) and 30% of its crude oil reserves (approx. 1.5 billion barrels). Hence, Sabah is ripe with opportunities for exploration and production (E&P) activities which will in turn produce knock-on effects which will spur the oil and gas services industry. PETRONAS has repeatedly harped on the fact that deepwater exploration is the way forward for Malaysia's future as an oil producing nation. Sabah has nine major deepwater blocks which are still not fully explored. Of these, only Kikeh and Gumusut-Kakap fields have actually produced with the latter hit its first oil earlier this month.

We continue to reiterate our **POSITIVE** stance on the oil and gas sector based on (i) renewed confidence that proposed projects which were announced way back will be awarded, (ii) major fields will hit first oil/gas soon, (iii) the slurry of HUC and EPC jobs will continue, and (iv) PETRONAS will continue to play its role in facilitating E&P activities further, deeper and harder. Our top BUYs are **Dialog (BUY @ RM2.80)**, **SapuraKencana (BUY @ RM2.74)** and **Wah Seong (BUY @ RM2.13)**.

Sabah Oil & Gas Terminal (SOGT)

Sabah Oil and Gas Terminal (SOGT) is an integral piece of the Sabah-Sarawak Integrated Oil and Gas Project championed by Petronas Carigali. The terminal will process oil and gas produced from the region's offshore fields namely, Gumusut -Kakap, Kinabalu Deep and East, Keabangan Cluster fields and Malikai.

Upon completion in end-2013, operations are expected to commence in 2014. The terminal is designed to handle 300,000 barrels of oil per day and 1.25 billion cubic feet (bcf) of gas per day. Sabah's capacity will be equivalent to about 40% of Malaysia's crude oil production. The 300MW Kimanis power plant is also taking shape and is expected to be completed by 2013. This power plant, led by **Petronas Gas Bhd (BUY @ RM2.84)** and Yayasan Sabah will address the need for electricity in SOGT.

Figure 1: SOGT – Aerial view



Source: Institute of Development Studies, Sabah

Figure 2: Partially completed tank at SOGT



Source: MIDFR

Figure 3: Superstructures taking shape



Source: MIDFR

Figure 4: 300MW Kimanis power plant



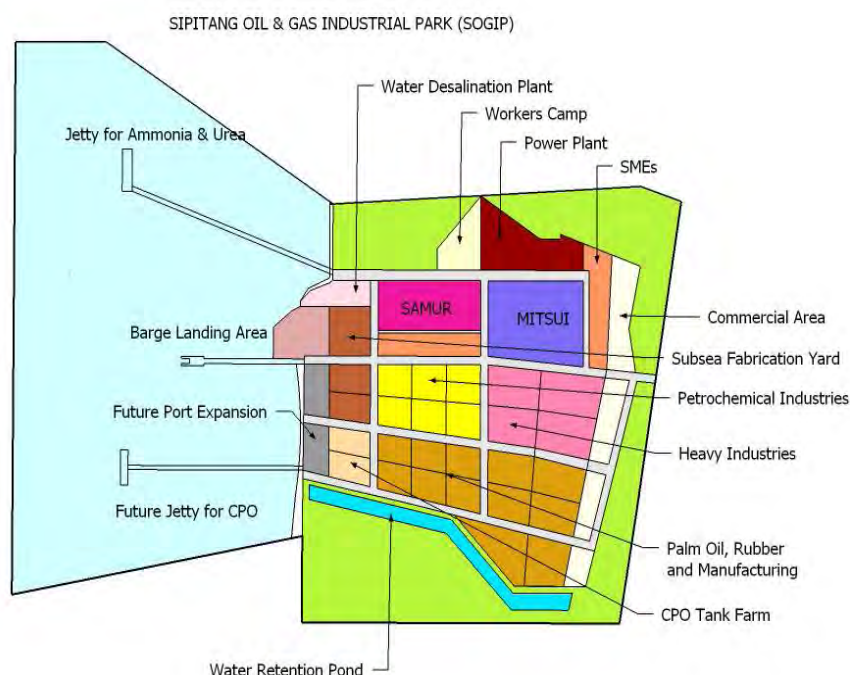
Source: MIDFR

We believe that the onset of the SOGT will definitely be an important catalyst to the oil and gas industry in Sabah. E&P activities will be boosted as the SOGT will be able to cater to the increase in oil and gas production. In addition, the spill over effect from this facility will generate wealth for the local population as, (i) property demand and value rise, (ii) improvement in general standard of living, and (iii) invigoration of oil and gas sub-industries.

Examples of supporting projects which will complement the surge in Sabah's oil and gas industry are, Kimanis Port, fabrication yards, workshops and hardware stores, training centers, Sapangar container port, deepwater jetties for crude and LNG, mini LPG plant, solar glass plant and supply bases.

Sipitang Oil and Gas Industrial Park (SOGIP)

Figure 5: SOGIP proposed layout



Source: Picture courtesy of Sipitang Oil & Gas Development Corporation Sdn Bhd and Institute for Development Studies, Sabah

SOGIP was conceived with the idea of integrating both petrochemical and palm oil derivative industries together, along with jetties for global exports. Upon completion and full development of this 1,600ha site, it is expected to contribute about RM10.6b or about 36.6% of the current GDP of Sabah. SOGIP is intended to ride on opportunities offered by the presence of oil and gas supplies in the vicinity. It will then transform these opportunities into industrial developments and create jobs for local Sabahans. SOGIP will tap its gas supply from the RM1.6b Sabah-Sarawak Gas Pipeline (SSGP) which is able to handle up to 2.5mb of crude oil and 1.25bcf of natural gas per day from Kimanis to Bintulu (500km X 36").

We understand that to date, about RM10b worth of projects have displayed keen interest with setting up shop in SOGIP – which we believe is mightily encouraging given the fact that this is a greenfield venture. Projects which are feasible include the Sabah Ammonia and Urea (SAMUR) project, solar glass plant (Taiwanese), ship repair and fabrication yards, LNG & petroleum deepwater jetty, LNG & LPG bottling plant, warehouses & commercial centers and other downstream petrochemical plants.

SOGIP is split into three development phases. Phase 1 is the 1.25MMTPA urea production named the Sabah Ammonia and Urea project which will sit on 620acres of land, Phase 2 is the 1.0MT per year ammonia production plant led by Mitsui which will sit on 690acres of land, and Phase 3 will then be commercialization of supporting industries within the industrial park occupying 2450acres of land.

Sabah Ammonia and Urea project (SAMUR)

PETRONAS Chemicals Fertiliser Sabah Sdn Bhd has been tasked to build Malaysia's 1st mega urea fertilizer plant in Sipitang, Sabah with a capacity of 1.25MMTPA. The estimated cost is roughly USD1.5b. SAMUR's key target markets will be Malaysia, Thailand, Philippines and Australia. With SAMUR, PETRONAS is set to be the largest urea exporter in South East Asia. The project is scheduled to obtain Initial Acceptance (IA) in 4Q14/1Q15 which is around 39 months after the award of the contract. As of March 2012, RM1.55b has been invested into the development of the project.

Lahad Datu Regasification Terminal (RGT) & 300MW Power Plant

Petronas Gas Berhad and Warisan Sdn Bhd will lead construction and development of the RM1.2b Lahad Datu RGT. PetGas has commissioned Texas-based Fluor Corp to provide front-end engineering and design services for the plant. The terminal will be located at the Palm Oil Industrial Cluster (POIC), Lahad Datu Phase 3. The terminal will comprise of a jetty, berth facilities, land based storage and re-gas terminal facilities and is designed to receive and vaporize imported LNG with a send out capacity of 1MTPA. It has a planned consumption of 0.46MTPA of LNG (60mmscfd of natural gas). First gas is targeted by May 2015 and power by November 2015.

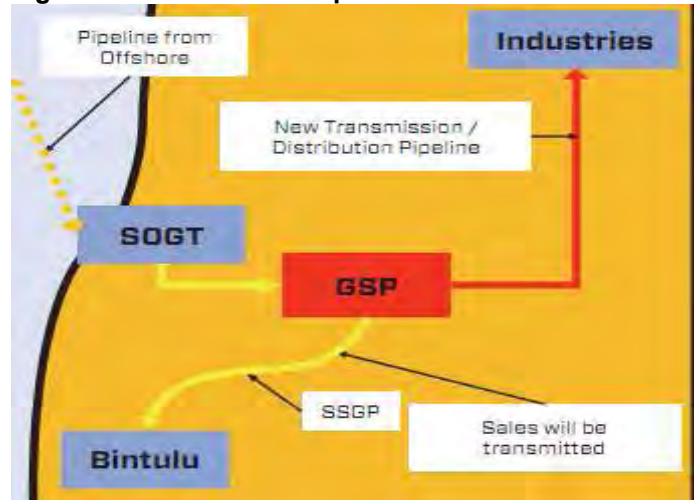
As for the RM1b 300MW Lahad Datu Power Plant, it is designed to address electricity needs in Seguntor, Sandakan and Lahad Datu. For this project, **Tenaga Nasional Bhd (BUY @ RM7.82)**, Petronas Gas Berhad and Warisan Harta Sdn Bhd will take the lead. The power plant will be located next to Lahad Datu RGT in POIC. It will utilise the 60mmscfd of natural gas vaporize from LNG at Lahad Datu RGT and extra electricity produced will be fed into Sabah Electricity Sdn Bhd's grid.

Figure 6: Lahad Datu RGT



Source: Sabah Economic Development & Investment Authority

Figure 7: Kimanis Gas Separation Plant



Source: Sabah Economic Development & Investment Authority

Developments in Sabah to Look Out For

Think tank agencies, along with PETRONAS are working overtime to produce ideas and proposals to further develop and spur the local oil & gas industry. In addition, we believe that the urgency to increase our local oil production could not be greater today. As such, we are anticipating E&P activities to pick up which, will in turn see a slew of support services contracts awarded to keep pace with the aggressive exploration works.

From the Sabah side, there are three major projects which we can look out for in due time. The first being the deepwater Malikai field which will need a tension leg platform rig. We believe that potential beneficiary for the RM1b EPCIC and fabrication job will be **Malaysia Marine and Heavy Engineering (NEUTRAL @ RM5.08)** via the MMHE-Technip JV. The second is Petronas Carigali's shallow water Samarang field which will require central process platform fabrication works and wellhead worth around RM1b. Potential beneficiaries for this job are MMHE and **SapuraKencana (BUY @ RM2.74)**. The third is the St. Joseph Enhance Oil Recovery field which will require EPC and maintenance works. This approximately RM0.5-0.6b job will benefit vessel chartering firms as well as EPC firms such as **Bumi Armada (NEUTRAL @ RM3.64)**, SapuraKencana and MMHE.

Other future developments in Sabah, which we could possibly expect to be announced in the near future is the proposed development of 200MW SOGIP Power Plant and the Kimanis Gas Separation Plant (GSP). The aims of these projects are to battle power disruptions in the region and to further enhance the value of gas produced in SOGT. This will boost investor confidence to further invest in the region and to set up shop there. Other peripheral segments of the value chain which could benefit include the increase in supply bases, warehouses, ports and jetties.


To conclude, we are **POSITIVE** on the oil and gas industry as a whole. With the above-mentioned initiatives running on high gear, the urgency for an increase in E&P activities is great. We believe that the slew of good news has helped sustained the momentum of the industry which is vital for the future of our nation. Moving forward, we expect the industry newsflow to continue to buoy share prices of the oil & gas related stocks. 

Figure 8: Stocks under coverage

Company	Last Price (RM)	TP (RM)	Upside (%)	Call	EPS (sen)		PER (x)		ROA	ROE
					FY12F	FY13F	FY12F	FY13F	(%)	(%)
Dialog	2.34	2.80	19.7	BUY	7.6	9	36.8	31.1	14.1	24.6
KNM	0.68	0.56	-17.6	SELL	10.5	6.6	5.3	8.5	na	na
SapuraKencana	2.35	2.74	16.6	BUY	11.6	12.8	23.6	21.4	5.8	61.1
Petronas Chemicals	6.46	6.10	-5.6	NEUTRAL	43.7	47.7	14.0	12.8	12.3	16.9
MMHE	4.84	5.06	4.5	NEUTRAL	19	22.5	26.6	22.5	6.8	14.5
Petronas Gas	19.12	17.72	-7.3	NEUTRAL	79.5	84.4	22.3	21.0	12.8	15.8
Wah Seong	1.77	2.13	20.3	BUY	11.9	16.9	17.9	12.6	4.8	10.1
Bumi Armada	3.73	3.64	-2.4	NEUTRAL	14.5	17.3	25.1	21.0	5.2	10.2
Gas Malaysia	2.63	2.84	8.0	BUY	10.9	12.8	26.1	22.2	15.5	22.7

Source: MIDFR

DAILY PRICE CHART

WTI crude oil price (CL1)



Brent crude oil price (CO1)



Syed Muhammed Kifni
Aaron Tan Wei Min
aaron.tan@midf.com.my
03-2772 1650

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.