02 October 2012 | Sector Update

Oil & Gas Sector

New Oil Terminal at Sipitang, Sabah

***Maintain* POSITIVE**

WTI Crude: USD92.48pb

Starbiz reported today that a new oil and gas storage and refining facility, dubbed the Sabah Oil Terminal is being planned in Sipitang Sabah, at an estimated cost of RM8.5b. We are optimistic that this is the kind of booster North Borneo needs with its large oil and gas reserves (Sabah holds 30% of Malaysia's oil reserves and 14% of Malaysia's gas reserve). We maintain our POSITIVE stance on the oil and gas sector noting that such initiatives create much value added knock-on effects, more so, with Budget 2013 which provides tax incentives for oil and gas players to set up shop here.

- **The news.** Our local daily reported that Tan Sri Halim Saad has set up an SPV (Armada Sdn Bhd) to undertake an RM8.5b oil terminal dubbed the Sabah Oil Terminal at the Sipitang Oil and Gas Industrial Park (SOGIP). The daily cited sources that the project will occupy an area of 1,000acres and that the project has received the go-ahead from our Government. The initiative is set to start in 2013.

- **To be undertaken in two phases.** This project will be undertaken in two phases. The first phase would cost an estimated RM4.7b; which would cover storage, supporting infrastructure facilities, housing and mixed development. The second phase would then cost and estimated RM3.8b; which would involve the development of a refinery and other supporting facilities. Assuming that the project kicks-off in 2013, the whole development is set to be ready come 2016/2017.

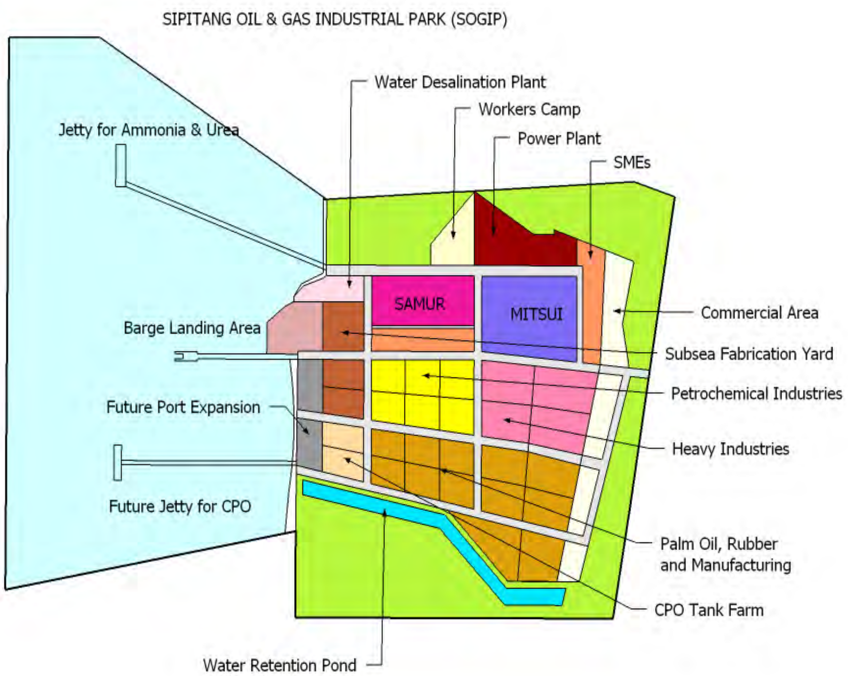
- **Capacity.** Phase 1 would cater for up to 1.5mm^3 of crude oil and 50,000bbl of crude oil for refinery.

- **Our take.** This is indeed exciting news as we have cited our confidence with the Sabah oil and gas industry in our sector report dated 21 September 2012. SOGIP currently has a planned acreage of around 3,953acres (1,600hectares) and this development would occupy roughly one-fourth of the industrial park. There are currently two initiatives being carried out in SOGIP – Petronas and Mitsui's USD1.5b Sabah Ammonia and Urea project (SAMUR) which has a capacity of 1.25MMPTA.

- **In-line with Budget 2013.** With the recent announcements of tax holidays for LNG trading companies and refiners, this news could not have emerged at a better time.

- **The park.** 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 at RM29b. SOGIP is intended to ride on opportunities offered by the presence of oil and gas supplies at the vicinity. It will then transform these opportunities into industrial developments and create jobs for local Sabahans. SOGIP will complement 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").

Figure 1: SOGIP proposed layout



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

- **The future and beyond**. Other future developments in Sabah, which we expect to be announced some time in the 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.

- **Maintain POSITIVE**. We maintain our POSITIVE stance on the oil and gas industry. With the inclusion of the above mentioned project, we believe that our local O&G industry is indeed in high gear. The urgency to heighten E&P activities remains vital. We believe that the slew of good news has helped sustain the momentum in the industry which is vital for the future of the country. Moving forward, we expect industry newsflow to continue to buoy share prices for the oil & gas related stocks.

Figure 2: Stocks under coverage

Company	Last Price (RM)	TP (RM)	Upside (%)	Call	EPS (sen)		PER (x)		ROA	ROE
					FY12F	FY13F	FY12F	FY13F	(%)	(%)
Dialog	2.35	2.80	19.1	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	2.37	2.74	15.6	BUY	11.6	12.8	23.6	21.4	5.8	61.1
Petronas Chemicals	6.43	6.10	-5.1	NEUTRAL	43.7	47.7	14.0	12.8	12.3	16.9
MMHE	4.80	5.06	5.4	NEUTRAL	19	22.5	26.6	22.5	6.8	14.5
Petronas Gas	19.40	17.72	-8.7	NEUTRAL	79.5	84.4	22.3	21.0	12.8	15.8
Wah Seong	1.74	2.13	22.3	BUY	11.9	16.9	17.9	12.6	4.8	10.1
Bumi Armada	3.74	3.64	-2.6	NEUTRAL	14.5	17.3	25.1	21.0	5.2	10.2
Gas Malaysia	2.62	2.84	8.4	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)

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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 *rise* 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 *fall* 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.