



AmInvestment Bank

Sector report  
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# OIL & GAS

*Patawali FPSO in pipeline with Limbayong re-tender*

**OVERWEIGHT**

(Maintained)

*Rationale for report: Sector update*

## Investment Highlights

- **Patawali FPSO in early-stage feasibility study.** *Upstream* reported that US-independent ConocoPhillips may be opening a bid for a floating production, storage and offloading (FPSO) vessel charter for its Patawali oil project on Block WL4-00 off Sarawak, Malaysia following a feasibility study despite market uncertainty in the wake of the coronavirus pandemic. Four local FPSO players – Bumi Armada, MISC, Yinson and MTC – are said to be interested in the FPSO project while Aker Solutions and TechnipFMC could be bidding for the engineering contract.
- **Mid-sized project.** Prior to the Covid-19 outbreak, ConocoPhillips had invited bids for a feasibility concept study for an FPSO to exploit its Patawali, Benum and Salam shallow-water oil discoveries on Block WL4-00. This preliminary enquiry suggested a floater with a production capacity of between 30,000 and 55,000 barrels per day of oil and 100 million cubic feet per day (mmcf) of gas together with a storage capacity of 300,000 to 600,000 barrels. Given the mid-sized capacity, we estimate that the FPSO capex could be around US\$500mil–US\$700mil.
- **Joins Limbayong re-tender.** This new prospective project joins the pipeline of fresh FPSO prospects in Malaysia with the rebidding exercise for the Limbayong FPSO charter to be deployed off Sabah. Petronas is looking to charter the Limbayong FPSO for a firm 12 years, with options for 3 + 3 + 2 years.

At least four leading international contractors or consortia have shown interest in the deepwater-capable FPSO, which could cost up to US\$700mil. This include domestic players such as MISC, Yinson, Sabah International Petroleum and Bumi Armada. However, Bumi Armada may be partnering with India's Shapoorji Pallonji Oil & Gas, similar to its 3 projects in India and 1 in Indonesia due to the group's financial constraints. *Upstream* indicated that Malaysia's MTC Group may also be a part of this consortia.

- **Drawing mainly local players.** The Limbayong project may only attract local operators as international floater specialists such as Modec and SBM Offshore are unlikely to be involved in the bid due to local content requirements - topside fabrication will have to be carried out within Malaysia. While Malaysia Marine & Heavy Engineering could be the preferred local contractor for carrying out the topsides fabrication, we expect Sapura Energy to be involved in the tender.

Recall that Petronas had re-tendered the Limbayong FPSO job after cancelling the previous bid earlier this year due to the Covid-19 pandemic which delayed project rollouts while focusing on cost reduction programmes. Under the new tender, Petronas requires an FPSO capable of handling an initial 60,000 barrels per day of liquids, including 40,000 bpd of oil, plus about 18 mmcf per day of associated gas. In future phased developments, the vessel is also expected to handle up to 70 mmcf of non-associated gas and a nameplate storage capacity of 600,000 barrels of oil.

- **Brighter FPSO niche.** This development reaffirms our view that the FPSO sector is one of the brighter spots in a sector still struggling with Covid-19 derailed oil demand while multiple FPSO projects are currently being evaluated in South America and West Africa. Brazil's Petrobras is currently looking at up to 14 FPSO projects while there are 5 in the North Sea, 4 in Australia, 3 in Guyana and 3 in West Africa. Given that the previous oil collapse and current pandemic have culled the number of global operators with adequate operational and financial capability, the remaining players are currently in a sweet spot.
- **Maintain OVERWEIGHT call with 6 BUY calls vs. only 2 SELLS and 1 HOLD.** With Brent crude spot prices stabilizing above US\$40/barrel, we believe that the down cycle has reached a bottom with the worst experienced in April this year when Brent spot prices fell to a low of US\$14/barrel while futures inverted to an abnormal negative price due to lack of storage capacity. We like FPSO operator **Yinson** as its earnings growth momentum from the maiden contributions of floating, production, storage and offloading vessels Helang, off Sarawak, Abigail-Joseph in Nigeria and Anna Nery in Brazil together with multiple charter opportunities in Brazil and Africa. We also have a **BUY** on **Bumi Armada** which has demonstrated improving core profitability over the past 2 quarters after largely resolving its problematic Armada Kraken's operations.

We also continue to have **BUY calls for Dialog Group** and **Serba Dinamik Holdings** due to their resilient non-cyclical tank terminal and maintenance-based operations. We recommend **Petronas Gas**, as the group's optimal capital structure strategy and resilient earnings base translates to highly compelling dividend yields.

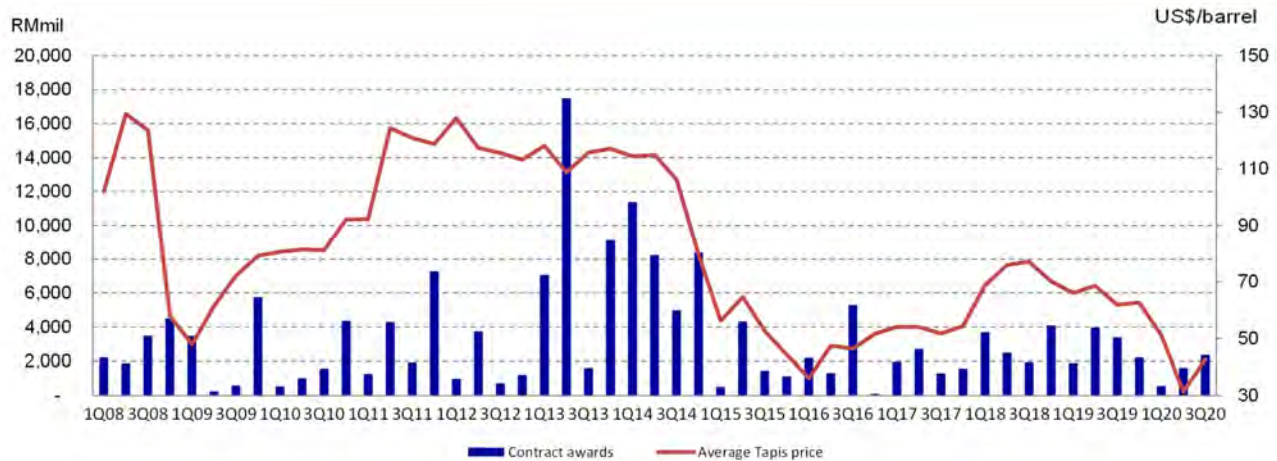
**EXHIBIT 1: VALUATION MATRIX**

Stocks	CALL	Price (RM)	FV (RM)	Up/down side (%)	Mkt Cap RMmil	FYE	EPS (sen)		EPS growth (%)		PE		BV (RM)	P/BV (x)	ROE (%)	NDPS FY20F	Div Yield (%)	Net gearing (%)
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F						
Bumi Armada	BUY	0.26	0.51	100.0	1,496	Dec	2.0	2.2	96.8	12.8	13.0	11.5	0.57	0.4	3.5	-	-	261.9
Dialog Group	BUY	3.81	4.85	27.3	21,482	June	10.7	11.7	12.3	9.9	35.7	32.5	0.73	5.2	15.3	3.1	0.8	16.2
MISC	HOLD	7.18	7.70	7.2	32,050	Dec	38.2	41.2	5.9	7.7	18.8	17.4	4.00	1.8	4.8	33.0	4.6	17.1
Petronas Chemicals Group	BUY	6.83	7.05	3.2	54,640	Dec	20.8	32.4	(40.8)	55.9	32.8	21.1	3.46	2.0	5.5	11.1	1.6	(33.3)
Petronas Gas	BUY	16.30	21.30	30.7	32,253	Dec	106.1	108.0	11.3	1.8	15.4	15.1	4.24	3.8	15.7	98.0	6.0	5.1
Sapura Energy *	SELL	0.12	0.05	(56.5)	1,833	Jan	(1.8)	(0.6)	(66.1)	(65.1)	(6.3)	(18.1)	0.58	0.2	(3.2)	-	-	112.7
Serba Dinamik	BUY	1.62	2.20	36.0	5,462	Dec	17.1	19.4	6.4	13.4	9.5	8.3	0.98	1.7	20.2	5.1	3.2	57.8
Yinson Holdings	BUY	4.93	7.20	46.0	5,397	Dec	19.2	39.7	(25.4)	107.1	25.7	12.4	3.2	1.5	6.2	6.0	1.2	6.2

\* assume 1 year forward for FYE

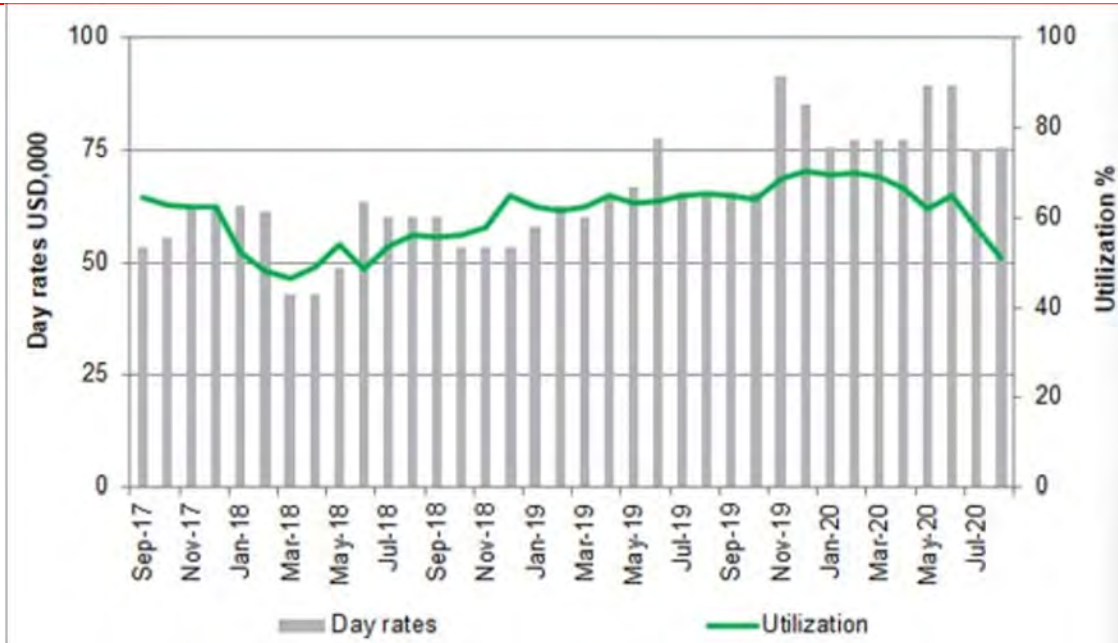
Source: AmInvestment Bank

**EXHIBIT 2: CONTRACT AWARDS TO MALYSIAN O&G PLAYERS**



Source: AmInvestment Bank & Bloomberg

**EXHIBIT 3: SOUTHEAST ASIA JACK-UP CHARTER RATES (361-400 FEET, INDEPENDENT CANTILEVERED)**



Source: IHS

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