

Positive second-half for O&G sector with promise of big deals

ECM Libra, which has an 'overweight' on the industry, says some RM600m worth of contracts were awarded to listed players last month and expects more to flow in this year

THE second-half of this year is expected to see an increase in the job flow frequency as more fields and enhanced oil recovery projects come onstream, says ECM Libra Investment Research.

After a lull in contract flow over the second-quarter of financial year 2010, some RM600 million worth of jobs were awarded to listed players in July, the report said.

It noted that international gas related jobs were snagged by KNM Group Bhd, amounting to RM289 million, and also Kencana Petroleum Bhd continuing to bag fabrication jobs for shallow water East Piatu Field (RM201 million).

Besides that, it added both Dayang Enterprise Holdings Bhd and Kencana received hook-up

INVESTMENT MERITS				
Company	Call	Target Price (RM)	Upside (%)	Valuation basis
Dayang Enterprise	Buy	2.50	20.8	15x PE
Wah Seong	Buy	3.40	3.0	20x PE
Petronas Gas	Hold	10.30	10.0	20x PE
KNM Group	Hold	0.55	15.3	10x PE
SapuraCrest	Buy	2.64	7.7	14x PE
Petra Perdana	Hold	1.20	20.8	10x PE

Source: ECM Libra

and commissioning work also for shallow water fields while Wah Seong Corp Bhd continued to get smallish jobs; one worth RM48 million for pipe coating for a Thai development.

On crude oil, the report released yesterday said that crude oil futures recovered over July and rose some 9.4% m-o-m.

Concurrent with the increase, it said the US dollar weakened hence acting as a driver to prices besides positive sentiments on US economic data.

"We again continue to be steadfast that oil prices will continue to see volatility in the near term as demand numbers are still choppy in the US as well as Europe. At home, it was a good

month for locally-listed players after a sell-down seen over June. Wah Seong saw the biggest gains of 10.3% while, Dayang gained 6.2%. Within our radar, only KNM closed flat," it said.

ECM Libra, which has an "overweight" on the O&G sector, says it continues to see positive news flow in the industry but senses some frustration as jobs are still slow coming.

"It's still a waiting game for now and in the meanwhile we recommend entry into SapuraCrest, Wah Seong and Dayang," it added.

Commenting on specific counters, the research outfit has a "Buy" call on Dayang, WahSeong, and SapuraCrest Petroleum. It

has a "Hold" on Petronas Gas, KNM and Petra Perdana.

Dayang's investment merit, said ECM Libra, is that it has a healthy balance sheet, solid orderbook hence good earnings visibility, adding that growth is expected to kick in 2HFY10 from new jobs.

On Wah Seong, the report said the company has a healthy balance sheet with RM463 million of cash and is looking for acquisition targets.

Petronas Gas, a "dividend play" which is "good for capital preservation", will also benefit from economic recovery.

On KNM, it said it has concerns on its orderbook quality and that it is technically loss-making if not for tax incentives.

For SapuraCrest, the report said the company has a healthy balance sheet and rising dividends.

Its installation of pipeline and facilities segment sees increasing profitability while marine segment earnings recover.

On Petra Perdana, ECM Libra said the company is facing a breakeven situation with operating lease commitments coupled with low vessel utilisation.

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