Scomi

# MEDIA COVERAGE

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| **MEDIA : Financial Daily** | **TITLE : Scomi Energy transformed into profit-making entity** |
| **COMPANY : Scomi Energy Services Bhd** | **DATE : 23 September 2015** |

# Scomi Energy transformed into profit-making entity

**Scomi Energy Services Bhd (Sept 22, 27 sen)**

**Not rated with a fair value of 27 sen:** Scomi Energy Services Bhd (Scomies) has been transformed into a profit-making entity after undergoing a restructuring exercise in 2012. Its share price climbed to a high of RM1.17 in April last year, riding on an oil and gas (O&G) sector boom. But following a plunge in oil prices, the share price has dwindled more than 75% from its peak and recorded a year-to-date loss of 53%, reflecting poor investment sentiment towards the drilling subsegment. At the current valuation, we believe it is worth a second look, given that its fundamentals remain intact.

Scomies mainly supplies chemical products to shorten drilling durations and rejuvenate wells, offering products and services to 23 countries in Asia, the Middle East, Africa and Europe.

As of the first quarter of financial year 2016 (1QFY16), Scomies' overseas contribution increased to 83% of its total revenue from 77% recorded in FY14. Going forward, we believe its well-diversified multiple-country strategy allows contributions from active markets, such as Indonesia, India and the Middle East, to offset the weaker markets, including Malaysia.

Scomies aims to expand into new types of products, such as production and completion chemicals.

We are guided that the Indonesian market alone is potentially worth US$750 million (RM3.22 billion), in which Scomies provides a combination of six solutions to customers. We believe it stands a good chance to secure more contracts via relationships with existing clients.

As of 1QFY16, Scomies' outstanding order book stood at RM3.9 billion. We came to understand that the bidding market remains active in spite of potential project delays.

Scomies bagged contracts worth US$140 million in 1QFY16. It should be able to secure at least US$60 million from pending bids to meet our US$200 million contract replenishment assumption for FY16.

Petroliam Nasional Bhd has recently approved the revised field development plan (FDP) for the Ophir Oil Field. The revised FDP allows Scomies to operate the field at a break-even level of US$55 per barrel and will be developed via three production wells, a well head platform and a leased floating production storage and offloading vessel.

The management expects to hit the first oil in July 2016 (2QFY17).

To recap, Scomies (30% interest) together with Octanex Pte Ltd (50%) and Vestigo Petroleum Sdn Bhd (20%) secured a small field with a seven-year risk service contract to develop a marginal oilfield located off peninsular Malaysia in June last year. We have yet to factor in earnings contributions from the Ophir project in our projections.

While Scomies is not entirely immune to the O&G capital expenditure slowdown, its asset-light model helps to weather the challenging environment. Gradual repayment of bonds also reduced its gross gearing (total-debt-to-assets) from 31.4% in FY13 to 22% in 1QFY16. By freeing up its debt capacity, Scomies is poised to seek more growth opportunities, especially when asset prices are relatively cheaper.

We value the stock based on eight times FY16 price-earnings ratio (PER), in line with FBMSC's valuation of 7.6 times, similar to its oilfield services peer Uzma (PER of eight times).

Further rerating could arise should the Ophir project start to contribute positively to the company, earliest by July 2016. — *Kenanga Research, Sept 22*

**Scomi Energy Services Bhd**

| FYE MAR (RM MIL) | 2015A | 2016E | 2017E |
|---|---|---|---|
| Revenue | 1,560.2 | 1,345.0 | 1,476.3 |
| Ebit | 141.3 | 130.2 | 136.6 |
| Net profit (NP) | 77.1 | 72.9 | 79.3 |
| EPS (sen) | 3.3 | 3.1 | 3.4 |
| BV/Share (RM) | 0.3 | 0.3 | 0.4 |
| PER | 8.2 | 8.7 | 8.0 |
| P/BV (x) | 0.8 | 0.8 | 0.8 |
| Gross gearing (x) | 0.2 | 0.3 | 0.2 |

Source: Kenanga Research

| Scomi | MEDIA COVERAGE |
|---|---|
| **MEDIA : The Star (Online)** | **TITLE : Scomi Energy Services is back on Kenanga Research's radar** |
| **COMPANY : Scomi Energy Services Bhd** | **DATE : 23 September 2015** |

**Scomi Energy Services is back on Kenanga Research's radar**

KUALA LUMPUR: Kenanga Research has its eye again on Scomi Energy Services Bhd now that the company is profitable.

Formerly known as Scomi Marine Bhd, its share price rose to a high of RM1.17 in April after it underwent a restructuring exercise.

However, following the plunge in oil prices, the share price dwindled more than 75% from its peak and recorded year-to-date loss of 53%, reflecting the poor investment sentiment towards the drilling sub-segment in oil and gas industry.

Kenanga believes at current valuations, Scomi Energy Services is worth a second look based on its intact fundamentals.

The company mainly supplies chemical products to shorten the drilling duration and rejuvenate wells, offers products and services to 23 countries across different regions, including Asia, Middle East, Africa and Europe.

At the first quarter for the period ending March 31, 2016, the company's overseas contribution increased to 83% of its total revenue from 77% recorded in 2014. Going forward, Kenanga believe the well-diversified multiple countries strategy allows contribution from active markets such as Indonesia, India and Middle East to offset weaker markets, including Malaysia.

It also aims to expand into new types of products such as production chemicals and completion chemicals for existing clients. Kenanga believes Scomi Energy Services stands a good chance to secure more contracts leveraging on its relationship with existing clients.

The company's outstanding orderbook as at the first quarter stood at RM3.9bil to be recognised over the next three to four years. Kenanga understands that the bidding market remains active in spite of potential project delays.

The company has bagged contracts worth US$140mil in the first quarter, and should be able to secure at least US$60mil from the pending bids of up to meet Kenanga's US$200mil contract replenishment assumption for 2016.

Petronas recently approved the revised field development plan (FDP) for the Ophir Oil Field, which allows Scomi Energy Service to operate the field at a breakeven level of US$55/barrel and will be developed via three production wells, a well head platform and leased Floating Production Storage and Offloading vessel.

The management is expecting to hit the first oil in July 2016 if everything goes well. Kenanga has yet to factor in earnings contribution from Ophir in its projections.

Although the company is not entirely immune to the oil and gas capex slowdown, its asset-light model helps to weather the challenging environment compared to other peers in the industry.

Kenanga has no rating on the company with a fair value of 27 sen per share. It added that further re-rating could arise should the Ophir project start to contribute positively to the company.

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**Scomi Energy transformed into profit-making entity**

Scomi Energy Services Bhd
(Sept 22, 27 sen)

Not rated with a fair value of 27 sen: Scomi Energy Services Bhd (Scomies) ( Valuation: 1.10, Fundamental: 1.00) has been transformed into a profit-making entity after undergoing a restructuring exercise in 2012. Its share price climbed to a high of RM1.17 in April last year, riding on an oil and gas (O&G) sector boom. But following a plunge in oil prices, the share price has dwindled more than 75% from its peak and recorded a year-to-date loss of 53%, reflecting poor investment sentiment towards the drilling subsegment. At the current valuation, we believe it is worth a second look, given that its fundamentals remain intact.

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