

Malaysian Oil, Gas Service Firms Focus Overseas

Rigzone Staff 7/25/2013

URL: http://www.rigzone.com/news/oil_gas/a/127993/Malaysian_Oil_Gas_Service_Firms_Focus_Overseas



While Malaysia's oil and gas services firms venturing overseas in search of business opportunities is nothing new, these operations are finally making significant contributions to the revenue than before – especially for the larger firms. The success of the larger companies in the foreign ventures has encouraged Malaysia's small and medium sized oil and gas firms to adopt a similar approach in boosting revenue.

Strong Government Support

Oil and gas has historically played a significant role in Malaysia's economy. The sector has been dominated by national oil and gas company Petrolim Nasional Berhad (Petronas), which was established as a result of the 1974 Petroleum Development Act. It gave Petronas responsibility for all petroleum resources in the country, including exclusive ownership rights to all domestic oil and gas exploration and production projects.

Petronas' contribution to the government coffers underlies its importance to Malaysia. It provides about 40 percent of the state revenue via taxes and dividend, said a local credit research and advisory services provider RAM Holdings Bhd's Group Chief Economist Yeah Kim Leng, as quoted by local news agency Bernama July 11.

The company's dominance in Malaysia extends to both the upstream and downstream segments and led to the rise of the petroleum services industry, a development noted by the World Bank in its June 2013 edition of the Malaysia Economic Monitor.

"The vertical diversification of the oil and gas sector was driven almost single-handedly by Petronas. Diversification included building refineries, liquefied natural gas [LNG] liquefaction, petrochemical plants, fertilizer plants, shipping and retail trading," the World Bank commented. "The oil and gas sector resulted in the creation of local oil and gas services companies, such as SapuraKencana [Petroleum Bhd], Dialog [Group Bhd] and Bumi Armada [Bhd]."

The government has been supportive of Petronas' stewardship of Malaysia's oil and gas sector, which has fostered a strong ecosystem of services and manufacturing companies supporting the needs of the oil and gas value chain both domestically and regionally.

In 2011, Malaysia Petroleum Resources Corporation (MPRC) was established under the Prime Minister's Department to further strengthen the petroleum services sector. MPRC is tasked to "promote, catalyze and transform the oil and gas services sector to become stronger entities to support industry needs domestically as well as in international markets. MPRC wants to position Malaysia to be the number one oil and gas hub in the Asia Pacific region by 2017," according to its website.

Strong state support together with Petronas' role in the Malaysian petroleum sector established the foundation for local oil and gas services firms to expand. Local firms were awarded contracts by Petronas to support the latter's upstream and downstream activities in Malaysia. Over time, these companies picked up the requisite technical expertise, including those acquired through working with foreign partners in domestic and overseas projects that involved Petronas. A few of these firms gradually expanded their operations and ventured overseas, including SapuraKencana, Bumi Aramda and Dialog.

Recent Foreign Success

SapuraKencana is now Malaysia's largest integrated oil and gas services and solutions firm. The company, created in 2012 after SapuraCrest Petroleum Bhd and Kencana Petroleum Bhd merged, offers its services as an engineering, procurement, construction, installation and commissioning (EPCIC) contractor. It is active overseas as can be seen in its recent contract successes.

Its Brazilian subsidiary – which SapuraKencana owns with Seadrill Limited – clinched a \$2.7 billion contract from Petroleo Brasileiro (Petrobras) to build, charter and operate 3 deepwater flexible pipe laying support vessels (PLSV) for a firm period of 8 years last month. In November 2011, Petrobras won a \$1.4 billion contract for 3 PSLVs. The contracts indicate how far SapuraKencana has moved on since making its deepwater debut with the Sapura 3000 derrick lay barge for the installation of Murphy Oil Corporation-operated Kikeh spar project off Sabah in Malaysia's first deepwater development.

"The award builds greater confidence in SapuraKencana as a technically sound services provider, with solid expertise and capability to provide world class integrated oil and gas services solutions to a host of national oil companies and major international oil majors in Latin America, West Africa, Australia and other parts of the world," SapuraKencana President and Group CEO Shahril Shamsuddin said in a company release on Petrobras' latest contract.

To boost its offerings as a serious global service provider, SapuraKencana completed a \$2.9 billion acquisition of Seadrill's tender rig operations in April, making it the world's largest operator of tender rigs with just over half of the market share.

"We are pretty much a global company now ... our order book is around \$6 billion, over 50 percent is outside of Malaysia ... (we) see growth in India sub-continent, South America, east and west Africa," Shahril Shamsuddin said in an interview on Bloomberg Television.

Other Active Players

Bumi Armada is another Malaysian oil and gas service provider that has successfully grown its foreign operations. The company focuses on floating, production, storage and offloading (FPSO), offshore support vessels (OSV), transport and installation (T&I) and oil field services (OFS).

Its FPSO operations – its most important revenue generator – have expanded beyond Malaysia to include Nigeria, Vietnam and India. Another FPSO will operate at the Balnaves field in northwest Australia when ready in late 2013, while Bumi Armada's India's joint venture firm will lease an FPSO to Oil and Natural Gas Corporation Limited for the Cluster-7 field off India from late 2014. Bumi Armada continues to grow its FPSO business and it was pre-qualified to bid for projects from Petrobras and Eni S.p.A. for projects in Brazil and Angola, respectively.

Meanwhile, Bumi Armada's T&I division recently won a \$178.5 million contract from OOO LUKOIL-Nizhnevolskskneft for engineering, procurement, installation and pre-commissioning (EPIC) work at the Filanovsky and Korchagin fields in Russia's sector of the Caspian Sea. The firm – which won contracts from Dubai-based Momentum Engineering earlier – is currently bidding for similar projects from Dragon Oil and Petrobras as it hopes to tap new opportunities in Brazil, Congo, Gabon and Saudi Arabia.

Bumi Armada's push into foreign markets has cut its reliance on Malaysia. Its revenue from local operations fell to 17.7 percent in 2012 compared to 35.2 percent a year ago, CEO Hassan Basma said in the company's June 18 Annual General Meeting. Revenue from Asia ex-Malaysia rose 14.7 percent in the corresponding period, while Africa and Latin America's revenue rose marginally by 1.9 percent and 0.9 percent, respectively. Foreign markets appeared to have become an integral part of Bumi Armada's operations since over 80 percent of its revenue is generated there.

Compared to SapuraKencana and Bumi Armada, Dialog – created in 1984 as an integrated technical services provider to the upstream and downstream petroleum sectors – is shoring up its overseas presence more gradually. It has established a presence in Asia, Middle East, Australasia, United Kingdom and United States to tap foreign business opportunities.

This has yielded some results; Dialog's revenue from international operations grew 37 percent in the financial year (FY) that ended June 30, 2012. Overseas contribution could be further boosted in FY2013 as the Dialog Jubail Supply Base (DJSB) in the Eastern Province of Saudi Arabia commenced operations in June 2012 – too late to have any impact on its revenue in FY2012. The DJSB facility – which serves as an integrated offshore logistics hub for offshore oil and gas activities in the Arabian Gulf – won its first long-term contract in mid-2012 with Snamprogetti Saudi Arabian Co. Ltd. for the logistics services.

Smaller Firms Gets into the Act

Smaller companies like Daya Offshore Construction Sdn Bhd – a unit of Malaysia-listed Daya Materials Bhd – are also drawn by the luster of foreign markets. DOC, which offers subsea construction, installation survey as well as inspection, repair and maintenance services, is seeking to expand into markets in the North Sea, West Africa, the Gulf of Mexico and South America, DOC CEO Mark Midgley told Malaysian daily The Star in May.

"We have no preference in bidding for projects ... it can be anywhere," Samrizat, Commercial Manager of Daya Oil & Gas, which DOC is a unit of, told Rigzone in a phone interview.

Wasco Energy Ltd., the oil and gas division of Wah Seong Corp. Bhd., is another firm actively growing its foreign business, with offices in Asia, Australia, China, Europe, the Middle East and the United States. Wasco provides engineering, pipe coating, pipe manufacturing and exploration and production products and services for the energy industry. The company grabbed its first contract in Europe in February for Statoil's Polarled development project off Norway.

"The securing of the \$191.6 million (MYR 611.3 million) Statoil contract in Norway for pipe coating earlier this year was a breakthrough for the group into the European market. It reflects the acceptance of our Wasco brand," Wah Seong Managing Director and CEO Chan Cheu Leong told The Star last month.

Way to Go

For Malaysian oil and gas services companies, venturing overseas is no longer just an option, but it has become more of a necessity given the limitations of the domestic market as well as the competition amongst them, which effectively crimped profit margins.

Venturing abroad "is already happening, especially bigger companies like SapuraKencana and Bumi Aramda who are quite global (in reach)," said Arhne Tan, an analyst with Malaysia-based company Alliance Research. "Companies have to turn to overseas markets as [oil and gas services] jobs in Malaysia are generally quite sporadic."

While SapuraKencana, Bumi Armada and Dialog have already made headway in global markets, smaller Malaysian companies may face an uphill task reaching the heights of their larger peers. Still, they could explore ways of growing their foreign operations, including offering niche services required by overseas oil and gas companies or perhaps working in partnership with larger Malaysian companies abroad. They will have to decide on the best way forward.

brought to you by:
RIGZONE.com