

Daya Materials' fast track into O&G upstream

BY ESTHER LEE

Last week, Daya Materials Bhd set a precedent for other Bursa Malaysia-listed companies when it announced the acquisition of a stake in a company with plans to list as an oil and gas special purpose acquisition company (SPAC).

Reach Energy Sdn Bhd, the SPAC in which Daya acquired a stake as an initial investor, plans to go into upstream O&G assets — in the exploration and production (E&P) segment — that are already in the development or production phase for its qualifying acquisitions.

It is hardly surprising that other O&G companies have not bought into SPACs as many may be cautious about investing in an entity whose only asset upon listing is a team of experts. However, analysts agree that Daya's investment in Reach Energy can be seen as a strategic step to boost its upstream O&G activities.

If Reach Energy gets Securities Commission Malaysia's approval and manages to acquire an asset within three years, then the calculated move will pay off. As an initial investor, Daya will have the advantage of being a sub-contractor for the extraction works carried out by Reach Energy.

It is worth noting that Reach Energy's managing director, Shahul Hamid Mohd Ismail, is also a director at two other Daya subsidiaries. However, if nothing happens, Daya will have to write off its initial investment amounting to RM8 million.

Last Monday, the mid-cap O&G company said it had entered into a subscription agreement with Reach Energy for the acquisition of 533,334

redeemable convertible preference shares of one sen each at an issue price of RM4.50 and 12.44 million ordinary shares of one sen each at an issue price of 45 sen. The shares come with an equal amount of free warrants.

"Daya Materials' investment in Reach Energy is relatively small in the overall IPO scheme being planned," says Shahul in an email reply to *The Edge*. The actual percentage Daya will own in Reach Energy will only be known after the prospectus is issued.

"We are aware that Daya Materials is moving into core areas of the O&G industry services for better returns to its shareholders. In this respect, investing also in upstream E&P companies like Reach Energy is seen as substantially rewarding for the long-term benefit of Daya Materials' shareholders," he adds.

Currently, there are three SPACs listed on the local stock exchange, namely Sona Petroleum Bhd, Hibiscus Petroleum Bhd and CLIQ Energy Bhd. Other SPACs whose listing is pending SC approval are Australaysia Resources and Minerals Bhd and TerraGali Resources Bhd.

"It is a smart move for Daya Materials to acquire a stake in Reach Energy because this is one of the few ways for it to get into the upstream segment as banks are not so keen on financing O&G assets because there is no guarantee of a return. This will also give Daya Materials another avenue of earnings for its O&G business as Reach Energy is planning to venture into the E&P segment," says an analyst with a bank-backed research house.

According to the analyst, Daya Materials has turned its focus on the O&G sector where margins are better than the 7% to 10% seen by the construction segment.



Daya Materials is said to be focusing on O&G as the margins are better than those in construction

The company recently established two upstream subsidiaries, Daya Petroleum Ventures Sdn Bhd and Daya Offshore Construction Sdn Bhd. The former develops marginal fields and provides core upstream oilfield services, while the latter carries out specialised subsea services.

Daya hasn't found much success thus far in the E&P segment. HwangDBS Research mentions in its report that Daya's bid for the Tembikai and Cenang marginal fields that was made together with Australian Hydra Energy came to a halt when Petroliam Nasional Bhd (Petronas) aborted the plan.

Daya says in its 2012 annual report that both companies were recently invited to jointly tender for new marginal fields in the latest round of Petronas' Risk Sharing Contract tenders.

Another analyst opines that Daya's move is a risk management method into the E&P segment because it provides the company with the benefit of securing contracts without having to directly invest in the assets. "If Reach Energy

is successful, it will be good for Daya — they get a captive client. If it is unsuccessful, Daya's operations will not be affected. I believe it is a risk management attempt," he adds.

Daya's order book stands at RM1.63 billion, of which RM524 million is from the O&G segment and RM1.1 billion is from its technical services segment, according to HwangDBS Research. The research house says Daya's operating margins have been stable over the last few years despite the volatile economic environment. For FY2012 ended Dec 31, the company's net profit increased 16% y-o-y to RM20.1 million.

The analyst with the bank-backed research house highlights that the immediate catalyst will be Daya's success at securing a long-term O&G contract from the chartering of its first lay barge vessel.

HwangDBS Research opines that the company's O&G segment has a robust outlook as it expands into the European market through its DP2 subsea construction vessel, *Siem Daya 1*, which is expected to arrive this month under a five-year charter arrangement with Oslo-listed Siem Offshore.

"We believe a long-term contract is in the pipeline, given its long-term commitment for the vessel. We understand that management could be looking at vessel acquisitions via partnerships if the opportunity arises, as subsea construction vessels could cost as much as US\$200 million (RM648.5 million)," says HwangDBS Research.

Last Thursday, the counter closed at a two-year high of 31 sen, up 24% from the previous day's trade. Analysts believe this was due to anticipation that it had managed to secure a contract for its *Siem Daya 1* vessel. ■