

Daya defends RM450mil vessel buy

CEO says SD1 will lower costs and serve the company well in the long term

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PETALING JAYA: Daya Materials Bhd's planned purchase of subsea offshore vessel Siem Daya 1 (SD1) will lower the cost of operations and serve it well in the long haul.

Commenting on market concerns that it might be exposing itself in a big way amid the soft sector outlook, group chief executive officer Datuk Lim Thean Shiang said the US\$120mil (RM449mil) vessel purchase was supported by long-term contracts Daya has with global offshore contractors in the North Sea.

"In the offshore business, vessel cost is the single largest cost item. It would be commercially viable for us to buy the vessel used for those contracts as opposed to chartering from third parties, which would translate into higher margins," he told *StarBiz*.

Lim, who was appointed to the helm in March, said Daya was also getting the asset at a relatively attractive price, as it had negotiated a major reduction in the price of the vessel to US\$120mil from US\$140mil.

"So, the US\$20mil discount would translate into a lot of savings."

Daya is an oil and gas (O&G) player with interest in upstream and downstream. The company had initially proposed to buy two offshore vessels, SD1 and Siem Daya 2 (SD2), but is "taking a prudent move" by only buying

one for now.

Daya is chartering SD1 and SD2 from Norway-based Siem Offshore Inc for five years with options to purchase them. The vessels are deployed mostly in the North Sea, making it the first Malaysian company to participate in the sea area of northern Europe known for its harsh working conditions.

To fund the purchase of SD1, the company will issue up to US\$30mil in convertible bonds, as well as part-fi-

nance it with the proposed sale of Daya CMT Sdn Bhd.

On its gearing rising after the acquisition, Lim said it would be manageable as the current gearing is at 0.24 times, which is considered low going by O&G standards.

"We have a strategy to own operating

The US\$20mil discount would translate into a lot of savings.

-DATUK LIM THEAN SHIANG



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assets to expand our range of subsea services, and would consider buying big-ticket items like vessels if they can be supported with long-term contracts," he added.

The company has an order book of RM2bil. As to the impact of the fluctuating ringgit against the greenback, he said Daya was "naturally hedged", as it gets the bulk of its operating income in US dollars.

An ongoing exercise under Lim is the review of charter contracts the company had signed in the past when oil prices were trading on the higher side.

Lim said Daya had successfully renegotiated some of these charter terms, reducing daily time-charter rates a vessel from US\$67,000 to US\$55,000 when it is deployed, while when left idle to US\$45,000.

"With these efforts, we believe we can save about US\$10mil a vessel a year, which is a significant saving in an environment where costs matter."

For the first quarter ended March 31, Daya posted a net loss of RM260,000 compared with a net profit of RM949,000 in the same period previously. SD1 was fully utilised for this period, while SD2 was only at 39.6%.

The stock closed 4.55% up to 11.5 sen at the end of trading yesterday.