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Daya Materials will secure 2nd vessel if market improves

Firm looking at long-term O&G contracts in Africa and Mideast before commitment

by JOHN GILBERT

INTEGRATED oil and gas (O&G) services provider Daya Materials Bhd will exercise its purchase option for a second offshore subsea construction vessel if the company secures long-term O&G contracts in Africa and Middle East continents.

The vessel Siem Daya 2, which is currently under long-term charter from Norway-based Siem Offshore Rederi AS (SORA) deployed in the North Sea, was initially considered for acquisition for US$140 million (RM527.8 million) with an additional US$2.3 million for a 50 metric tonnes crane.

While Daya obtained shareholder's approval for the purchase of "Siem Daya 1" (SD1) for US$120 million yesterday, the board, however, held back its decision to purchase "Siem Daya 2 (SD2)", pending a more favourable upstream and downstream market conditions.

Group CEO Datuk Lim Thean Shiang said Daya has an option of up to 18 months to exercise the second vessel purchase, and it will depend on the market condition in the coming months.

"We have been receiving several high potential O&G contracts from African countries like Kenya and Ghana whereby these can be considered medium- to long-term contracts.

"However, the company would lose higher revenue generation opportunities if we decide to undertake these contracts offered at prices based on current market condition. We would not be able to fetch higher earnings if market conditions improve in tandem with global oil prices," he told reporters after the company EGM in Kuala Lumpur yesterday.

This acquisition is also in line with Daya's strategy to own operating assets in order to expand its range of subsea services and capabilities in offshore O&G operations.

SD1 vessel acquisition will be paid for via cash of US$90 million and the issuance of ringgit-denominated bonds equivalent to US$30 million in nominal value to SORA.

Daya has secured US$80 million in borrowings to fund most of the cash portion of the purchase while the balance will be paid via funds generated internally.

Lim said the price of SD1 initially was US$140 million and was renegotiated to US$120 million, taking advantage of the unfavourable market conditions with the O&G sector as well as a drop in crude oil prices.

He said by owning the vessel, it would help to reduce the company's operation costs between 20% to 30%, which would work out to about US$10 million per year.

"The company spends US$67,000 per day in charter fees, and the cost would drop to US$40,000 if we own the vessel, which translates to about US$9.9 million per year," he said.

While the vessel's depreciation, maintenance and operating costs per vessel would also work out to about US$4.8 million, or about RM17.6 million per year, the cost is absorbed within the US$40,000 figure.

SD1, which is currently chartered from SORA at US$19.1 million, which is about RM70 million per year, would cease upon completion of the vessel's acquisition.

Assuming all debts are settled within six years, the SD1 acquisition would improve Daya's earnings of US$44.5 million, equivalent to RM16.6 million per year for the next six years as a result on savings on operational costs of owning the vessel compared to chartering from SORA, Daya's circular to shareholders said.

Similarly, the price of SD2, which is currently fixed at USD$140 million, would also open an opportunity for Daya to renegotiate the price with SORA, if the current O&G market conditions remains the same or with minimum recovery.

However, the company also faces a risk factor in SD2 fetching a higher price tag if there are higher demand and shortage of vessels.

"There are plenty of opportunities in countries like Africa, and if we secure long-term contracts under favourable market conditions, we would consider purchasing SD2," Lim said.

Daya's current gross orderbook is at RM2.1 billion, consisting both upstream, downstream and technical services while its active tenderbook stands close to RM2 billion.

"We are successful in securing downstream contracts especially in countries like Indonesia and Myanmar and for upstream, we are looking at a number of tenders coming from the African region that has between three to four years contract periods," Lim said, further reiterating that Daya's new management has secured contracts the company lost under previous management.

To recap, Daya has signed a long-term charter contract with a major European client for SD1 and the company will continue to secure spot charters to mitigate the non-utilisation of the vessel.