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SAAG set to play supportive role in second oil consortium

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SAAG Consolidated (M) Bhd, formerly known as Britac Bhd, is well-positioned to play a supportive role in the consortium envisaged to complement national oil firm Petroliam Nasional Bhd (Petronas) in the undertaking of oil exploration, production and refining.

Chief executive officer Ajeet Ahluwalia attributed SAAG's preparedness to the fact that it has been a long-term player in the oil and gas sector.

Speaking to Business Times via video conferencing from the US, Ahluwalia said SAAG has a niche which will ensure the existence of diverse skills and availability of varied state-of-the-art technologies within the consortium.

"We feel ready to take up the challenge posed by Prime Minister (Datuk Seri Dr Mahathir Mohamad) and will definitely do our utmost to position ourselves to contribute to the proposed consortium.

"While we are not currently in the position to contribute as a major player in the upstream activities such as exploration and production, we do see a niche market that meets our capability with our ongoing expansion and growth plans," he said.

Dr Mahathir, in tabling Budget 2004 on September 12, said the Government can allow another consortium to undertake the development of marginal oil and gas fields to gain the confidence of other countries.

He emphasised that in promoting Malaysian companies abroad, their quality and ability are of paramount importance.

Ahluwalia stressed that the second board company is no stranger to Petronas as it has experience working for the national oil company and meeting the latter's stringent guidelines.

"On our part, we look forward to extending our good working relationship with Petronas. In fact, our operating licence to carry out works for the company has been renewed until 2005," he added.

SAAG's subsidiary, SAAG Oil & Gas Sdn Bhd (SOG), currently holds a licence from Petronas to supply and service equipment used in Malaysia's oil and gas industry.

The licence also permits SOG to provide its services to any Petronas' production sharing contract partners consisting of Petronas Carigali Sdn Bhd, ExxonMobil Exploration and Production Malaysia Inc and Sarawak Shell Bhd/Sabah Shell Petroleum Co Ltd.

SOG now represents some 20 established manufacturers of oil and gas equipment and machinery. In addition, SAAG has expanded its trading operations overseas to Singapore (1989) and Brunei (1992).

SOG chairman Tan Sri Datuk Dr Mohd Yusof Hashim, in agreeing that there will be "a playing field for everyone", cautioned that it may be too

premature to imagine how the proposed consortium will take shape.

The requirement for the formation of the consortium is based on Malaysia's projected economic expansion of 4.5 per cent and the belief that most of Malaysia's upstream oil and gas activities need beefing up to cater to future increasing demand.

"But the bottom line is that to qualify as members of the consortium, a company needs to have a strong base in Malaysia and perhaps, some profitable overseas ventures," he said.

Meanwhile, commenting on the recent surge in prices of oil and gas counters, Ahluwalia noted that everything is "still very speculative" at this juncture, adding that it will take some time before the plans put forth at Budget 2004 can be realised.

Currently, SAAG is aggressively expanding its sources of revenue by eyeing opportunities in the oil and gas sector both in Malaysia and abroad.

In June this year, SOG signed a conditional share sale agreement to acquire an 80 per cent stake in its gas pipeline construction joint-venture partner Embah Engineering Sdn Bhd.

Embah is currently engaged in the design, construction, installation and commissioning of gas pipelines for Gas Malaysia Sdn Bhd. The acquisition is pending approval from the Foreign Investment Committee.

SAAG is also preparing Embah to be a turnkey player by positioning it to undertake the civil engineering side of pipe-laying by giving it the requisite track record.

Prior to that, SAAG had signed a 50-50 joint venture with Ecodrill (M) Sdn Bhd, a provider of workover services for oil and gas wells in the region, and a conditional sale and purchase agreement to acquire a 70 per cent stake in the latter by end-2003.

Ecodrill provides consultancy, project management, drilling/workover contract, manpower and technical training services to the oil and gas sector.

The company is the only Malaysian workover rig owner/operator performing conventional workover well maintenance services.

The strategic acquisition enables SAAG to venture into integrated maintenance and well abandonment services, leading to secondary and tertiary recovery of ageing fields.

In addition to Embah and Ecodrill, SAAG has also signed a conditional share subscription agreement with RR Greenhands Infrastructure (India) Ltd

and a sale and purchase agreement with three of RR's major shareholders which will enable SAAG to hold a 51 per cent stake in the company.

RR, which already has presence in the infrastructure development in India, will provide SAAG a quick entry into India. The company's listed status will also enable it to provide for future expansion plans to meet the enormous potential that India has to offer.

"The recent newly-found gas reserves in India are expected to offer over RM35 billion in revenue opportunities," Ahluwalia said.

"Moreover, the Indian Government has recently formulated various tax benefits for companies involved in executing infrastructure projects to build the country.

"These include a 10-year tax holiday on income derived from such projects," he added.

Ahluwalia expects the three new investments to mature as a major revenue contributor to SAAG over the next two years.

"For now, we want our new subsidiaries to grow to be self-sufficient and not look to their parent company for support although we are able to do so with our cash reserves which stood at RM33 million as at June 30 this year.

"We believe with our re-positioning and re-focusing exercise, our shareholders' loyalty will grow stronger by the day," he said.

SAAG is one of the smaller capital-based companies which is looking to tap the potential in an industry whose prospects look very promising in the near future.