

# GOING UPSTREAM

The Malaysian oil and gas industry continues to grow in 2005. Frost & Sullivan takes a snapshot at what happened in 2005 and the industry outlook for 2006. The report also looks at the 'hot' industries and companies to watch out for in the coming year.

By Subramanya Bettadapura

## **How has the current economic situation of Malaysia impacted some of the key industries such as oil & gas and related industries?**

The Malaysian economy grew by 7.1% in 2004. This is the highest recorded growth since 2000. The increase in oil prices and inflationary pressures caused the global economy to slow down in 2005. The Malaysian economy, being highly dependent on external trade, also experienced a slow down in its growth in 2005. In the first half of the year, the economy expanded 4.9%. The overall GDP for 2005 is estimated to be around 5.5%.

At the end of the first half of the year, Malaysia had a trade surplus of RM47.88 billion. Being a net oil exporting country, it benefits moderately from high oil prices. Crude oil forms around 5% of Malaysia's total exports. However, persistent high oil prices could decrease external demand, thus hurting Malaysia's growth prospects in the near future. Also, consistent high oil prices increase inflationary pressures that hurt domestic demand.

## **What are the major trends within this industry and a local perspective for 2005?**

Crude petroleum is the third largest export revenue earner for Malaysia in 2005, ranking behind the electrical and electronics products sector and the palm oil and palm oil-based products sector. Liquefied natural gas (LNG) is the fifth largest export revenue earner for Malaysia in 2005. Though the export volume of crude petroleum dropped slightly in 2005

compared to 2004, the export value increased because of higher prices.

The Malaysian oil and gas industry continues to grow in 2005. The surging oil prices have encouraged local companies to enter the oil and gas service industry. Malaysian law requires companies that service oil and gas industries to obtain a licence from national oil company Petroliaam Nasional Bhd (Petronas). During the first half of 2005, Petronas issued 84 licences and is expected to issue around 160 licences before the end of 2005.

The oil and gas industry suppliers in Malaysia are technologically matured and are now looking towards other markets for further growth. Energy generation is going to play an important part in the future of Malaysia's economy. The upstream oil and gas industry in Malaysia should see a lot of investments in the coming years.

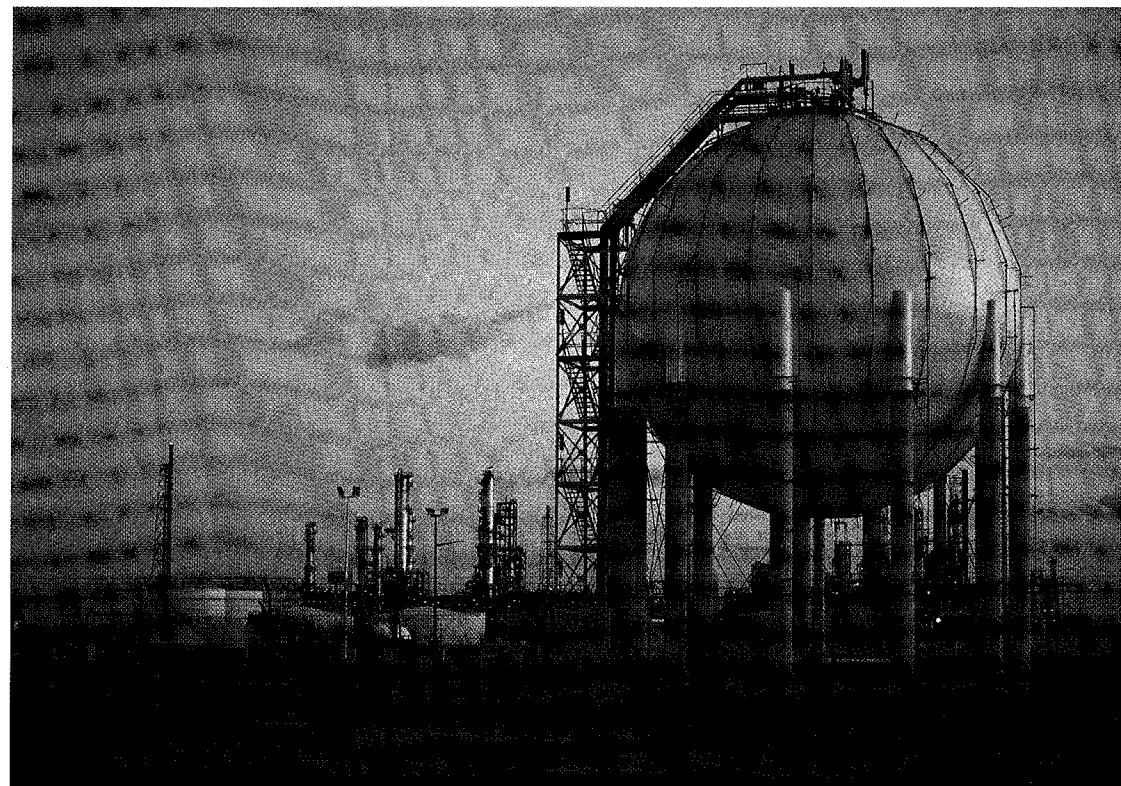
## **What's the take on the local situation in comparison to other Southeast Asian counterparts, and which similar industries/companies have prospered or suffered in this current year?**

Singapore's economy grew at 8.4% in 2004. Singapore achieved a sustainable

moderate GDP growth of around 4.1% in 2005 due to the global economic deceleration. Oil exports were robust in 2005 due to rising oil prices. In the first half of 2005, strong shipments to the Philippines and Thailand supported the growth. The revival of the global electronics industry and the continuing growth of biomedical manufacturing should help Singapore maintain a GDP growth of around 4.6% in 2006.

Indonesia's economy grew at around 5.5% in 2005. Increase in prices of

petroleum products in Indonesia in 2005 has increased inflationary tendencies. Indonesia faced gasoline shortages as the state-run company Pertamina did not maintain sufficient reserves. Fuel prices were hiked in October 2005 to reduce fuel subsidy costs and to balance the country's budget. Natural disasters like the tsunami and earthquakes reduced the GDP by about 0.1% to 0.5%. Local oil companies in Indonesia benefited from the high oil prices. High oil prices mean that higher revenues can be channelled towards



exploration and development activities. The Indonesian economy is expected to maintain a growth of 6% in 2006.

**Based on analysts' research and analyses, what are the trends expected in 2006? What are the possible new trends, directions and factors that the industry may be moving into in the coming year? Also, how would escalating oil prices adversely affect some of these industries?**

The oil and gas industry is poised to grow further in 2006 as regional demand for energy soars. Malaysian crude oil production dipped slightly in 2005 compared to 2004. Crude oil and gas output is expected to increase 4.2% and 7% respectively in 2006. Petronas has targeted domestic crude oil production to grow by 3% every year for the next five years.

Exploration and production spending is expected to grow at a compounded annual growth rate (CAGR) of 14% during this period. Malaysia is emerging as a focus area for many multinational oil companies for oil exploration and production. Deepwater exploration is expected to grow in 2006 driven by higher oil prices.

At the same time, soaring oil prices will increase demand for natural gas as industrial, business and residential consumers switch to natural gas to meet their energy needs. Gas Malaysia is increasing its capacity to cater to the increased demand.

**What are some of the 'hot' industries/related companies in 2006 that investors or aspiring businessman should focus on?**

In the oil and gas industry, exploration and production (E&P) is generating a lot of interest. E&P companies are investing in infrastructure and equipment for oil discovery and recovery activities. The oil and gas fields discovered during the last two to three years are likely to come on stream between 2006 and 2010.

Equipment and service providers to these industries stand to gain in 2006 and

# OIL & GAS UPDATE

By Lynda Ng

## MOGSC TO AID GROWTH OF OIL & GAS SERVICES

THE Malaysian Oil & Gas Services Council (MOGSC), the first outfit to represent services companies in both the upstream and downstream levels, is looking at carving out business opportunities for its 63 members.

The council, launched on Nov 28 in Kuala Lumpur, is seeking to identify business platforms, seek new opportunities and promote healthy partnerships in the domestic, regional and global markets.

'In achieving those objectives, we will work closely with all oil and gas majors, quasi-government bodies, business organisations related to oil and gas, and foreign or international organisations and representatives in the country,' said President Tengku Datuk Ibrahim Petra Tengku Indra Petra at the council's launch.

Council members, mustering a market capitalisation of more than RM4.5 billion on Bursa Malaysia, include corporations like Petra Resources Sdn Bhd, MMC Oil & Gas Engineering Sdn Bhd, UMW Corp Sdn Bhd, KNM Process Systems Sdn Bhd and Sime Engineering Sdn Bhd.

When launching the conference, Deputy Prime Minister Datuk Seri Najib Tun Razak, who was represented by the Second Finance Minister Tan Sri Nor Mohamed Yakcop, noted the importance of industry players reinventing their competitive edge to ensure success abroad.

'You will no longer be shielded or be entitled to special privileges. You will be treated like any other foreign contractors,' he said. Hence the need for companies to upgrade their capabilities, knowledge and skills to compete internationally.

## WORLD GAS CONFERENCE IN MALAYSIA

MALAYSIA will play host to the International Gas Union (IGU) presidency for the 2009-2012 triennium, giving Kuala Lumpur the privilege to host the 25th World Gas Conference in 2012 for the first time.

The Malaysian Gas Association (MGA) recently won the bid for the international event.

With the event in hand, MGA President Datuk Abdul Rahim Hashim assumes the post of IGU vice-president at its council meeting in Amsterdam, Netherlands, in June next year before taking over the presidency in Buenos Aires, Argentina in 2009. Abdul Rahim is also Petroliam Nasional Bhd (Petronas) vice-president of gas business.

The MGA, the Malaysian Charter member of IGU, includes in its roll call companies like Petronas, Shell, ExxonMobil, BP, Petronas Gas Bhd, Tenaga Nasional Bhd, Gas Malaysia Sdn Bhd, Malakoff Bhd, Delcom Services Sdn Bhd, Dialog Group Bhd and Malaysia LNG Sdn Bhd.

The triennial World Gas Conference is an important and prestigious event for the gas

industry. It is expected to attract some 5,000 top echelon industry leaders and specialists.

'Malaysia is also committed towards bringing more developing countries into the IGU fold through Petronas' extensive international operations and Association of Southeast Asian networks,' says Petronas in a statement on the successful bid.

## B&O FOCUSES ON OIL AND GAS

BELL & Order Bhd (B&O), now known as Scomi Engineering Bhd, will no longer be concentrating its interest in the field of construction.

Following a shareholders' meeting in November, the corporation is now all geared to shift its attention to the oil and gas industry.

The extraordinary general meeting approved all resolutions to allow for the shift.

This comes in the wake of the reverse takeover exercise where listed Scomi Group Bhd has proposed to sell its manufacturing business and its transportation engineering division to B&O for RM285 million. In return, B&O will offer 192.56 million shares to Scomi, which will end up holding 71% of B&O.

On top of that, shareholders have also agreed to change the company's name to Scomi Engineering.

## TANJUNG OFFSHORE BAGS RM85 MILLION JOB

OIL and gas provider Tanjung

Offshore Bhd will be supplying a mobile offshore production unit (Mopu) facility to Britain's Petrofac Ltd, which is involved in marginal oilfield drilling work off the coast of Terengganu.

The two-year contract worth RM85 million involves deploying the Mopu facility comprising a jack-up drilling rig converted into an oil and gas platform and supported by a floating, storage and offloading vessel.

Speaking to the media after the company's annual general meeting on Nov 9, Tanjung Offshore's Managing Director Omar Khalid said the company is the local outfit that provides the new service.

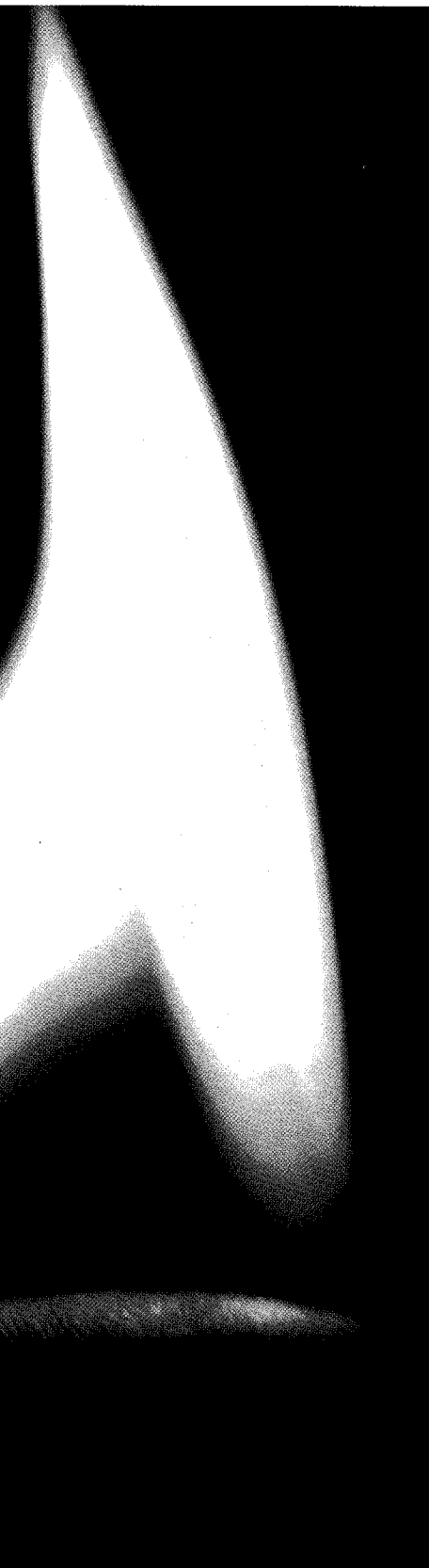
'We believe that it is a suitable business to pursue as global oil prices hit record levels.... We believe such projects would continue to increase,' he said.

With that project in hand, Tanjung Offshore is now eyeing a slice of the action in Myanmar, where it intends to provide marine vessels to capture a larger customer base.

## THAILAND OVERDEPENDENT ON NATURAL GAS

THAILAND needs to diversify its energy sources to reduce the country's dependence on natural gas, according to Prime Minister Thaksin Shinawatra.

With the expected price rise of natural gas prices together with oil prices, the premier noted that diversifying fuel sources used for



electricity generation is key to reduce economic risks in the future.

Natural gas, according to a *Bangkok Post* report, currently accounts for 77% of total electricity production, with coal representing 13%, hydropower 5% and bunker and diesel fuel the remainder 5%. Renewable energy sources, such as wind and solar power, play a negligible role in overall electricity generation.


The Thai daily, quoting sources, said that Thaksin told policymakers that long-term planning was needed to develop alternatives to natural gas over the next 15 years. New power plants, now being planned and slated to come online after 2010 for the national electricity grid, should also be developed to use other energy sources besides gas.

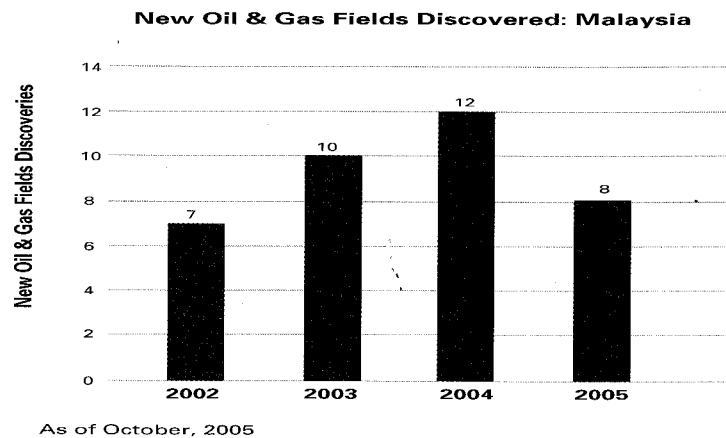
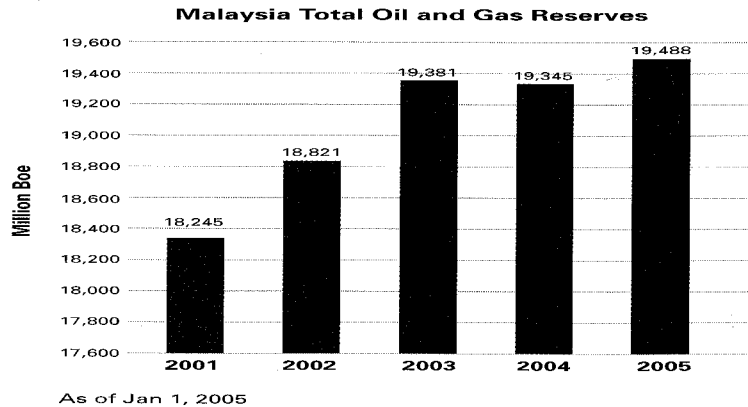
Authorities, the report added, say coal is likely to be the only acceptable alternative fuel source, given the strong public opposition to dams and nuclear power.

### PETRONAS 1H NET PROFIT RM16.87 BILLION

PETROLIAM Nasional Bhd (Petronas) saw another bumper crop when it recorded a 23% increase in its half-year net profit on the back of high global oil prices and lower production.

For the half-year ended Sept 30, the national oil and gas company posted a net profit of RM20.67 billion compared to RM16.87 billion the year before.

It also saw an increase in its revenue to RM80.82 billion from RM64.50 billion the year before. 



beyond. Deep water and ultra deep water oil fields are areas of development and provide opportunities. It is estimated 10% of offshore oil came from deep water fields in 2004. In 2015, this percentage is expected to be nearly 25%.

Declining productivity from shallow water fields can be compensated by deep water fields. Rejuvenating old oil fields is another activity that holds promise. More than 50% of oil fields in Malaysia are more than 15 years old. Retrofitting new technologies to existing facilities to increase production provides service and technology companies with opportunities.

**Is there much truth in some reports that 2006 would not be a good year economy-wise for the country? Where lies (if any) the silver lining in the cloud?**

The high price of crude oil in 2005 dampened the growth of economies around the world, especially in developing Asia. The United States is Malaysia's largest trading partner. Malaysia might be affected by the predicted US economic slowdown in 2006. At any rate, Malaysian economy should maintain its growth rate of 5.5% in 2006 given the expansion in all sectors.

The silver lining is that the high oil prices provide an opportunity for Malaysia's oil and gas industry to emerge stronger. The production sharing contracts had seen an upsurge in 2005. This trend is expected to grow, auguring well for the oil and gas and related industries. 

The writer is a Frost & Sullivan Asia Pacific industry analyst specialising in the oil and gas industry with the Power & Energy Group.