

Sime up for part of Petronas job

| BY LEELA BARROCK |

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Sime Darby Bhd is in line to win a multi-million ringgit marine vessels contract from Petroliam Nasional Bhd (Petronas), sources say.

The total value of the Petronas contract is believed to be RM750 million and will be awarded by the end of this month, sources add. The contract would be apportioned according to the various types of marine vessels, with Sime expected to get a large portion of it. The contract is expected to commence by the second half of next year.

It is believed that the job will involve the charter of marine vessels,

CONTINUES ON PAGE 78

Strong growth expected from shipbuilding

FROM PAGE 1

which will include tugboats and anchor-handling tugs and supply (AHTS) vessels, the likes of which are built and chartered out by Sime Darby Bhd's associate Jaya Holdings Ltd.

Jaya Holdings is a Singapore-listed shipbuilder and charterer in which Sime currently has a 29.9% stake. Sime has a call option to acquire a further 15% stake in the company in the third quarter of 2006 at a mere S\$1.20 a share. Jaya closed last Friday at S\$1.32.

Even without the Petronas contract though, Jaya Holdings makes an interesting proposition for Sime, thanks to stellar results for its year ended June 30, 2005, and strong growth prospects. Group net income increased 86% to S\$86 million, 23% above consensus earnings, although there was an exceptional gain of S\$12.4 million. Removing the exceptional gain, results were still 5% above expectations, analysts say.

The offshore shipping division was the key earnings driver in the fourth quarter of FY2005, with income growth at 97% due largely to strong profits from the chartering business as well as disposal gains.

Looking forward into FY2006, the shipbuilding segment is expected to come back with a strong showing, as there was a 36% decline in earnings in this division due to accounting policies. (Profits on outsourced vessels can only be recognised upon completion.)

According to industry players, globally there are about 500 tugboats which are 20 years old and more. The optimum life cycle of

a tugboat is up to 20 years, after which it should be heading for the dock.

Going by these figures, Jaya should have an order book that stays full for the next few years, even without taking into consideration new orders to increase existing fleet size.

Jaya's business model too is a boon in the current environment, where demand exceeds supply. According to analysts, its shipbuilding capacity is being used without contracts in place.

"The company believes that margins are better this way, probably true in the current environment where costs are rising and demand is heavy," notes an analyst.

Jaya is estimated to keep about half its production for its own fleet, which is used for its chartering business.

It is estimated that some 30% of revenues are from the group's offshore shipping activities and 60% from shipbuilding. Currently, its offshore fleet includes 34 directly owned vessels, 13 which are owned by associates and eight AHTS. Jaya's fleet is considered relatively young.

Jaya operates in Singapore and China but is expected to expand operations to Malaysia.

Thanks to its sheer bulk, for Sime the implications of a larger stake in a high-growth and high-margin business may not be as phenomenal as it could be. Be that as it may, any increased contribution from Jaya will go some way towards entrenching the oil and gas sector as one of the Malaysian conglomerate's core sectors //

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