Asia

Overweight *(no change)*

Highlighted Companies

Medco Energi Internasional
ADD, TP Rp1,300, Rp915 close

MEDC has the highest E&P exposure among Indonesian O&G companies which should support its profits and cashflows. The market is undervaluing MEDC's non-oil and gas assets, in our view.

Samsung Heavy Industries
ADD, TP W8,500, W7,200 close

SHI should meet its annual order target of US$9.5bn in FY23F due to LNGC orders from Qatar, containership orders from Evergreen, and the Coral Sul FLNG order. SHI is our top Korean shipbuilding pick.

Yinson Holdings Bhd
ADD, TP RM3.50, RM2.59 close

Yinson will likely show strong earnings growth in the next five years as new FPSO projects are executed and begin their long-term charter periods. Yinson is also pursuing renewable energy projects.

Summary Valuation Metrics

P/E (x)	Dec-23F	Dec-24F	Dec-25F
Medco Energi Internasional	5.13	5.59	6.41
Samsung Heavy Industries	95.59	24.93	17.07
Yinson Holdings Bhd	7.32	6.85	7.88
P/BV (x)	**Dec-23F**	**Dec-24F**	**Dec-25F**
Medco Energi Internasional	0.93	0.85	0.80
Samsung Heavy Industries	1.73	1.62	1.48
Yinson Holdings Bhd	1.03	0.96	0.88
Dividend Yield	**Dec-23F**	**Dec-24F**	**Dec-25F**
Medco Energi Internasional	8.77%	8.05%	7.80%
Samsung Heavy Industries	0.00%	0.00%	0.00%
Yinson Holdings Bhd	0.72%	0.72%	0.72%

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Oil & Gas - Overall

Key takeaways from Regional Energy Day

- We hosted 17 corporates and more than 100 investors at our maiden Regional Energy Day conference on 4-5 Jul last week.
- With oil prices remaining above US$60/bbl and offshore services seeing strong demand and limited supply, we retain our O&G Overweight rating.
- Our top pick in Malaysia is FPSO player Yinson, and our top pick in South Korea is Samsung HI for its robust LNGC and containership order outlook.

Upstream and shipbuilding companies widely represented

The 17 corporates that participated in our Regional Energy Day conference last week comprised companies in the upstream E&P space (Hibiscus, Medco Energi, RH Petrogas); upstream services (Uzma, Wasco), upstream drilling (Velesto), upstream FPSO equipment and services (Dyna-Mac, Yinson); the OSV sector (ASL Marine, Coastal Contracts, Icon Offshore, Kim Heng, Marco Polo Marine, Wintermar); shipbuilding (HHI and SHI); and companies like Dialog, which are involved in all three segments.

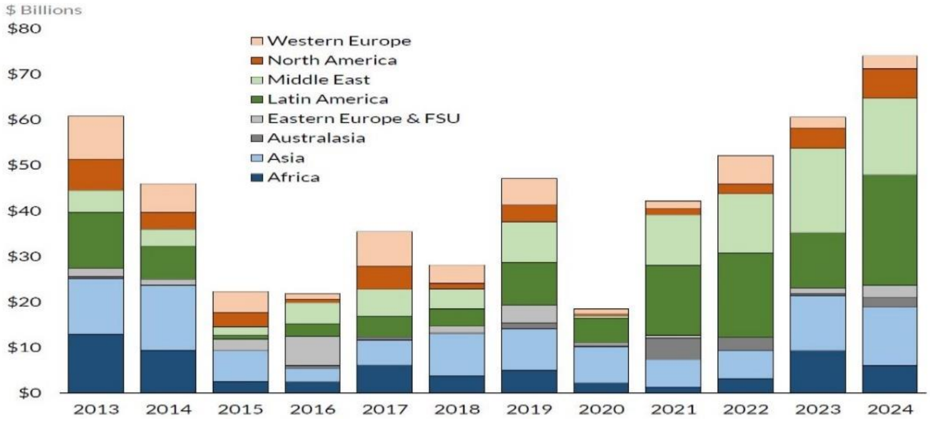
Offshore services sectors very robust, but there are downside risks

Our two expert speakers presented facts that suggest contrasting views on oil prices. Westwood Global Energy is bullish that 2H23F oil demand could exceed supply, but CME is concerned about a potential recession some 1-2 years down the road due to the inverted US yield curve. CME noted that crude oil prices peaked in Jun 2022 and has since declined due to a weak global demand, strong US production, and resilient Russian oil exports. On the other hand, OPEC+ production cuts are putting a floor on oil prices, which remain well above the US$60/bbl level below which E&P companies may cut back on their offshore spending. The current supportive oil price is likely to keep pushing up the demand for offshore service vessels, while the construction of offshore windfarms is also boosting demand for those same vessels, according to Westwood. And because vessel supply will likely remain constrained (due to lack of newbuilding orders), utilisation of offshore vessels may continue to rise as more offshore E&P projects are executed, according to Westwood. The evidence of this can be seen in strong FPSO project IRRs and rising offshore drilling and OSV DCRs. However, there are some downside risks to this bullish outlook for offshore services: 1) Westwood thinks that as supply chain costs increase, upstream E&P companies may defer projects; and 2) CME is unclear if Saudi Aramco will always backstop oil prices by cutting production as it has lost market share to US and Russian producers.

Samsung HI and Yinson: our top picks in South Korea and Malaysia

Samsung HI is our top Korean shipbuilder pick because we expect it to secure more LNGC and containership orders, as well as a FLNG order. Yinson is our top Malaysia O&G pick as we expect it to deliver strong earnings growth from the execution of new FPSO projects and new FPSO charters. Other Add calls include Dialog, Hyundai HI, Velesto, and Wasco.

Figure 1: Westwood believes offshore EPC capex should rise in 2023-2024F (US$)



SOURCE: WESTWOOD GLOBAL ENERGY

Figure 2: Sector comparison

	Bloomberg		Price	Target Price	Market	P/E (x)			3-year EPS	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)			Dividend Yield	
Company	Ticker	Recom.	(lcl curr)	(lcl curr)	(US$ m)	CY22	CY23F	CY24F	CAGR (%)	CY22	CY23F	CY22	CY23F	CY24F	CY22	CY23F	CY24F	CY22	CY23F
ASL Marine Holdings Ltd	ASL SP	NR	0.05	na	25	na	na	na	na	na	na	na	na	na	na	na	na	0.0%	na
Coastal Contracts Bhd	COCO MK	NR	2.17	na	248	6.2	5.3	8.9	41.7%	0.76	0.66	16.7%	13.0%	7.0%	5.4	7.4	7.7	0.0%	na
Dialog Group Bhd	DLG MK	Add	2.20	2.73	2,660	24.9	22.9	20.9	na	2.16	2.02	9.3%	9.2%	9.4%	23.2	22.5	20.4	1.6%	1.8%
Dyna-Mac Holdings Ltd	DMHL SP	NR	0.42	na	323	na	23.3	18.3	84.3%	9.98	na	35.9%	na	na	na	16.0	12.3	0.7%	1.2%
Hyundai Heavy Industries	329180 KS	Add	137,900	160,000	9,380	na	49.3	15.6	na	1.85	1.78	-6.3%	3.7%	10.8%	NA	21.6	9.4	0.0%	0.0%
Hibiscus Petroleum Bhd	HIBI MK	NR	0.88	na	377	2.9	3.8	4.2	8.9%	0.72	0.62	25.8%	15.4%	13.2%	1.4	1.3	1.4	2.3%	2.0%
Icon Offshore Bhd	ICON MK	NR	0.08	na	43	1.2	7.5	6.8	9.1%	0.56	na	45.7%	6.3%	7.0%	1.4	3.9	3.8	0.0%	na
Kim Heng Ltd	KHOM SP	NR	0.10	na	51	na	na	na	na	1.20	na	13.8%	na	na	na	na	na	0.0%	na
Marco Polo Marine Ltd	MPM SP	NR	0.06	na	161	9.1	16.6	7.3	-11.8%	1.47	1.36	15.4%	11.0%	10.8%	10.9	6.2	5.5	0.0%	na
Medco Energi Internasional	MEDC IJ	Add	915.0	1,300	1,519	2.9	5.1	5.6	na	0.98	0.93	39.3%	18.5%	15.9%	2.7	2.9	3.1	14.0%	8.8%
RH PetroGas Ltd	RHP SP	NR	0.19	na	116	na	5.7	7.8	-11.6%	2.97	4.00	69.5%	53.1%	37.5%	na	2.6	3.6	0.0%	na
Samsung Heavy Industries	010140 KS	Add	7,200	8,500	4,855	na	95.6	24.9	na	1.76	1.73	-16.1%	1.8%	6.7%	NA	22.4	12.7	0.0%	0.0%
Uzma Bhd	UZMA MK	NR	0.68	na	56	42.2	7.4	7.0	na	0.45	0.41	3.9%	6.6%	6.6%	na	na	na	0.0%	na
Velesto Energy Berhad	VEB MK	Add	0.24	0.25	414	na	23.3	9.5	na	0.85	0.82	-4.4%	3.6%	8.2%	22.4	7.5	4.7	0.0%	0.0%
Wasco Bhd	WSC MK	Add	0.91	1.40	151	11.4	8.4	6.8	4.08%	1.21	1.06	10.6%	13.4%	14.5%	4.1	3.7	2.7	0.0%	0.0%
Wintermar Offshore Marine Tbk	WINS IJ	NR	348.0	na	100	93.7	na	na	na	0.78	na	0.9%	na	na	9.7	na	na	na	na
Yinson Holdings Bhd	YNS MK	Add	2.59	3.50	1,613	13.9	8.4	7.9	na	1.31	1.03	10.2%	13.7%	12.6%	8.9	7.1	7.5	0.7%	0.7%
Average (All simple)						**20.1**	**19.8**	**11.1**	**17.8%**	**1.7**	**1.3**	**16.1%**	**12.3%**	**11.7%**	**8.6**	**9.2**	**7.0**	**1.1%**	**1.7%**

DATA AS AT 10 JUL 2023

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus' forecasts

Regional Energy Day, 4-5 Jul 2023

Abbreviation key

2P reserves: proven plus probable oil and gas reserves
2C reserves: best estimate of contingent oil and gas resources
AHT: Anchor Handling Tug
AHTS: Anchor Handling Tug Supply
BHP: Break Horse Power
Boepd: barrels of oil equivalent per day
DCR: Daily charter rate, expressed in US$/day
E&P: Exploration and production
EPC: Engineering, procurement, and construction
EPCC: Engineering, procurement, construction, and commissioning
EPCIC: Engineering, procurement, construction, installation and commissioning
FLNG: Floating liquefied natural gas vessel
FPU: Floating production unit
FPSO: Floating, production, storage and offloading vessel
FSO: Floating, storage and offloading vessel
FSRU: Floating, storage and regasification unit
JU: Jack-up drilling rig
LNGC: Liquefied natural gas carriers
Mbpd: Million barrels per day
OPEC: Organization of Petroleum Exporting Countries
OPEC+: OPEC and its allies, most notably Russia
OSV: Offshore support vessel
PSV: Platform supply vessel
SOV: Service operation vessel
WTIV: Wind turbine installation vessel

Other companies mentioned in this report (apart from those already mentioned in Fig 2)

Figure 3: Other companies mentioned in this report

No	Companies mentioned	Bloomberg code	Share price	CGS-CIMB Research Recom.	CGS-CIMB Research Target price
1	Equinor	EQNR NO	NOK306.45	Not rated	N.A.
2	Eni S.p.A.	ENI IM	€13.21	Not rated	N.A.
3	Evergreen Marine	2603 TT	NT$104.50	Not rated	N.A.
4	Modec	6269 JP	JPY1,527	Not rated	N.A.
5	Qatar Gas	Not listed	N.A.	N.A.	N.A.
6	Saudi Aramco	ARAMCO AB	SAR32	Not rated	N.A.
7	SBM Offshore	SBMO NA	€12.86	Not rated	N.A.
8	Shell	SHELL NA	€27.39	Not rated	N.A.
9	ST Engineering Marine	Not listed	N.A.	N.A.	N.A.
10	TotalEnergies	TTE FP	€51.59	Not rated	N.A.

NOTE: SHARE PRICE AS AT 10 JUL 2023
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Key highlights from expert speaker sessions

Offshore services sector outlook, Westwood Global Energy

Presentation by: Mr Thom Payne, Director & Head of Offshore Energy Services, Westwood Global Energy

Moderated by: Mr Raymond Yap, Malaysia Oil & Gas Research, CGS-CIMB

Westwood has a positive view on **crude oil prices**, expecting demand for oil liquids to potentially rise sharply in 2H23F, while supply could remain flattish due to efforts by OPEC+ to cut production. In Westwood's analysis, US$60/bbl to US$80/bbl is a typical range for oil prices when OPEC+ intervenes to support the market, such as during 2017 and 2019, in 2021, as well as from Nov 2022 onwards. The Kingdom of Saudi Arabia's (KSA) fiscal breakeven oil price is US$70-75/bbl, hence oil prices at US$75-80/bbl are very acceptable to the KSA and is in the 'Goldilocks' zone.

Offshore E&P capex plunged in 2020, picked up annually in 2021 and 2022, with Westwood expecting continuing annual growth in 2023F and 2024F, with 2024F offshore E&P capex potentially exceeding the previous peak in 2013. The increase in offshore E&P capex is being driven by the emergence of mega-basin deepwater developments in Latin America (Brazil, Guyana, Suriname), and shallow-water developments in the Middle East (Saudi Arabia, Qatar, UAE). Southeast Asian E&P developments lag behind the Latin American and Middle Eastern mega-basin developments in terms of size and spending, but are still significant enough to churn out a lot of work for offshore O&G contractors.

Westwood expects more **high-impact exploration wells** (defined as targeting to discover 100m bbl of resources or more) to be drilled in 2023F compared with last year. European oil majors (Shell, Eni, TotalEnergies, Equinor) are switching their focus back to O&G exploration from renewables this year in view of the need to take advantage of the stronger cashflows from high oil prices.

Currently, there are 259 **FPSOs** installed globally, with 45 being constructed right now, and 113 possible FPSO awards up to 2027; the largest-capacity FPSOs are being deployed in Latin America, and smaller units in West Africa and Asia Pacific. The significant number of FPSO orders by E&P majors in 2022-2025 has granted independent FPSO contractors (such as Modec, SBM Offshore, Yinson, etc.) strong pricing power, and also suggest that the offshore hook-up and commissioning industry will be very busy in the forthcoming years when the FPSOs are being installed offshore. Meanwhile, the shorter-term 5-10-year leasing market for FPSOs is also doing well, as utilisation for this FPSO segment rose to c.90% in 2Q23, from c.85% in 2Q22 and 81% in 2Q21; this leaves very little spare capacity for smaller developments in SE Asia and North Sea regions.

Offshore rig markets (JU, semi-submersibles, and drillships) have benefitted from the strong E&P spending and the rationalisation of supply over the past decade, and the premium assets are currently 'sold out'. Committed utilisation as of May 2023, defined as the rigs that are currently working and those that have been committed to jobs that will commence in the next six months, already reached 96% for drillships, 93% for JUs, and 86% for semi-submersibles. While there are legacy rig orders still sitting in the offshore yards, so far, operators have generally been reluctant to invest additional cash to complete them. Rig day charter rates have performed very well in 2023 compared with the period between 2016 and 2022, due to the rapid growth in demand. In particular, the Middle East has driven significant growth in demand for shallow-water JU rigs in 2022 and 2023, due to mega-tenders for offshore production developments, leading Middle Eastern drilling contractors to secure as much JU drilling capacity as possible from around the globe to satisfy Saudi Aramco's demand. Saudi Aramco is now willing to lock-in JU drilling rigs for as long as 5-10 years.

The **OSV** sector is benefitting from all the additional offshore activities and the large amount of scrapping and lay-ups since the post-2014 downturn. Westwood is projecting effective OSV utilisation (excluding laid-up vessels that are unlikely to return) to reach 76% in 2023F (vs. 72% in 2022), and then rising to 83% in 2024F and 86% in 2025F, which is effectively a 'sold out' market. Regionally, OSV utilisation is the highest in the Middle East, Brazil and North Sea. However, Indonesia and Malaysia anchor handling tug and supply vessels of 4,000 to 8,000 BHP are lagging behind at just 65-75% utilisation, as national oil companies in SE Asia have not ramped up their offshore spending as aggressively as in the Middle East. Shortages are emerging for premium assets that are less than 15 years old. Tightness in the OSV market is now forcing E&P players to loosen their self-imposed criteria of employing only OSVs that are 15 years old or younger.

There is little interest among the offshore supply chain contractors to order new assets and hence additional **newbuilding supply** could be limited. The reasons for this reluctance include learning from the bitter lessons of the post-2014 downturn, the prohibitively high shipyard cost of newbuildings right now (JUs may cost US$250m-300m to build vs. peak pricing of around US$200m-250m pre-2014), and because of fears of peak oil demand emerging in the next 10-15 years which may not give sufficient runway to utilise the assets over their 25-30-year technical useful lives. While there are some new JU orders in recent months, these are rare and they were only ordered because they are tied to long-term Saudi Aramco contracts.

In terms of **offshore wind**, 62 GW of generation capacity was installed in 1Q23, 44-47 GW is under construction today, 234 GW is in the advanced planning stage, and 348 GW is to be installed by 2030. Developers are facing problems developing their projects in an economic and profitable manner, and face delays in getting their projects approved. This could threaten the planned offshore windfarm projects. Another threat is the limited incremental availability of OSVs, SOVs, WTIVs, cable lay and heavy lift vessels that will be needed to support the growth of installed offshore windfarm capacity. Technical issues plaguing the European suppliers of windfarm equipment components, such as that faced by Siemens and Vestas could open the door to Chinese wind turbine equipment suppliers to increase their penetration into the European markets.

The **offshore energy services** sector will require significant **newbuildings** to support the future ambition of E&P companies in terms of additional oil production capacity, and the ambition of renewable energy companies in terms of additional offshore wind power generation capacity. However, a convergence of factors is creating a highly-challenging market environment for the addition of new offshore vessel capacity. For instance, there is:

1. Limited shipbuilding capacity (as some offshore yards have closed down);
2. Cautious newbuilding payment structures in favour of the yards (where yards demand upfront payment for procurement costs, vs. pre-2014 structure where 80% of the cost of the vessel is to be paid upon delivery);
3. Competing vessel markets (advanced shipyards in China and South Korea are focused on containerships and LNGC orders);
4. Design issues (whether the vessel is to be powered by diesel or low-carbon fuels);
5. High cost of capital today; and the short duration of most vessel charter contracts (except for the Middle East contracts) therefore affecting shipowners' ability to secure bank funding;
6. Investors' ESG focus that make it very hard to get external financing; and
7. Strong cost inflation which has driven up the cost of newbuildings.

Cost inflation, for both capex and opex, could be a big issue going forward. For the upstream E&P companies, their supply chain costs are rising and in recent months, they have deferred or even cancelled some development projects. On the other hand, the supply chain (rigs, OSV, FPSO suppliers, etc.) has much stronger pricing power once utilisation of their fleets exceed 85%, and are also facing their own sticky opex cost pressures; hence these suppliers are very eager to raise their own asking prices. At the moment, both the offshore wind and the offshore O&G sectors are firing at the same time, tightening availability of offshore services around the globe. If E&P and offshore wind companies defer their projects due to cost inflation, this could dampen Westwood's projections of rising demand for offshore services in the next few years.

Oil market dynamics, CME Group

First presentation by: Mr Erik Norland, Executive Director and Senior Economist

Moderated by: Mr Raymond Yap, Malaysia Oil & Gas Research, CGS-CIMB

OPEC+ has decreased production by the equivalent of 3.6% of global demand (with three output cuts effective Nov 2022, May 2023 and Jul 2023, with the latter cuts extended to end-Aug 2023), but oil prices have still been in decline since peaking in Jun 2022, and the futures curves for West Texas Intermediate (WTI) crude oil and various oil products remain largely in backwardation.

There are two possible reasons for this:

1. **Automobiles are becoming more fuel efficient.** According to data released by the US Environmental Protection Agency, cars manufactured in 2022 can drive 36.5% further than cars produced in 2004, which implies a 1.6% p.a. improvement in fuel efficiency. The Covid-19 pandemic also caused Americans to drive 2.6% less today than they were driving in 2019, due to the lingering effects of online shopping and work-from-home.
2. Chinese demand for road transportation fuels continues to remain weak, and did not rebound sharply even with the lifting of Covid-19 lockdowns and restrictions; demand for fuel was particularly weak in May and Jun 2023. China currently imports about 10.6 mbpd of oil liquids, hence, **weakness in China's domestic oil demand** has a large impact on global oil prices. China's economic growth is being dragged down by lower construction activities (due to real estate overbuilding in past decades), high national debt levels (higher than the US and Europe on a debt-to-GDP ratio), a shrinking population, and weak Chinese export growth as global interest rate hikes have curbed consumption spending. Despite stronger Indian GDP growth, India cannot make up for the slack in China because the Chinese economy is five times bigger than India's.

Mr Norland has a bearish medium-term outlook for oil prices as the inverted yield curve in the US (where 3-month Treasury Bill rates are higher than 10-year Treasury Bond rates) is typically indicative of a **potential US recession** 1-2 years' after the last US Federal Funds Rate hike, even though current US economic growth remains robust. Conversely, oil product stocks are very low even though crude oil stocks are at about the average for the past five years; this could be temporarily bullish for oil prices in the near term.

Second presentation by: Mr Nicholas Dupuis, Executive Director, Energy and Environmental Products, Asia Pacific

Moderated by: Mr Raymond Yap, Malaysia Oil & Gas Research, CGS-CIMB

Mr Dupuis noted that WTI crude oil futures prices as well as Henry Hub natural gas prices are now below the levels at which they traded in Jan 2022, which was prior to the Russian invasion of Ukraine. Apart from the factors pointed out by Mr Norland, Mr Dupuis highlighted that **Russian exports** of crude oil and refined products so far in 2023 actually exceeded average exports in 2022, with Russian oil exports popular with Indian importers due to their discounted pricing. Despite a reduction in Russian oil production, domestic Russian oil consumption has declined, therefore freeing up more barrels for export.

Another factor is the **rising production of US crude oil**. The US only produced 5 mbpd of crude in 2006-2007, but the shale boom drove production up to 9.7 mbpd in late-2014, before correcting to 8.5 mbpd in late-2016 due to the oil price crash at that time. Since then, US crude production recovered to peak at 13 mbpd in late-2019, before correcting sharply to 10 mbpd in mid-2020 due to the Covid-19 lockdowns, but has since recovered to 12.4 mbpd in Apr 2023. Mr Dupuis expects US crude oil to continue rising because it remains profitable to produce and because OPEC+ production cuts are essentially putting a floor on crude oil prices and incentivising US producers to continue pumping crude. About 4 mbpd of this US crude oil is being exported currently, exceeding the peak of 3.6 mbpd in late-2019.

Key highlights from corporate presentations

ASL Marine (ASL SP, Not rated)

Corporate representatives:

- Mr Yow Seng Leong, Head, Corporate Affairs

Moderated by: Ms Lim Siew Khee, Singapore Head of Research, CGS-CIMB

ASL Marine (ASL) owns and operates two shipyards, one each in Singapore and Batam (Indonesia), with a combined land area of over 770,000 sq m.

Revenue breakdown as of 9MFY23: 49% from ship repair and conversion, 28% from ship chartering, and 23% from shipbuilding. Net losses narrowed by 69% yoy to S$7m in 9MFY23, due to higher revenue (+36% yoy), helped by impairment writeback of PSVs previously categorised as inventory, subsequently transferred to fixed assets after having secured long-term charters.

According to management, **the average charter rates for ASL's PSVs are currently in the range of US$5k-8k/day.**

Among the Singapore-listed offshore and marine players, ASL has **one of the largest fleets (more than 200 vessels as of FY6/22),** comprising mainly tugs, barges, AHTS and PSV.

Currently, the average utilisation of its chartering fleet is about 40%. While some of its peers have pivoted from oil and gas to the offshore wind segment, ASL's key focus is supporting infrastructure projects, including land reclamation and dredging, port and bridge construction, the company said.

In the near-term, ASL plans to enhance its dry dock capabilities in the Batam yard in a bid to grow its shipbreaking business, as well as expand its ability to take on larger vessels. Capex for the above is estimated at S$15m-20m, with civil works to be carried out from 2024, according to the company.

As at end-9MFY23, ASL's net gearing stood at 3.96x, which includes c.S$110m of bonds due in 2025-2026. In the medium term, ASL said it plans to refinance the bonds, helped by the improving financials of the company, as well as new sources of income from the enhanced yard.

Coastal Contracts (COCO MK, Not rated)

Corporate representatives:

- Mr San Yang Ng, Director

Moderated by: Ms Cezzane See, Singapore Sales, CGS-CIMB

COCO was listed on Bursa Malaysia in 2003. It started off as an OSV builder but it has since diversified its business to include:

- vessel chartering (it currently has a fleet of five OSVs);
- jack-up gas compression unit/liftboat ownership; and most recently
- EPCIC work for onshore gas projects (Perdiz and Papan) in Mexico.

The company posted losses in FY6/18 to FY20 due to one-off costs of inventories written down and impairment loss on receivables recognised for previous OSV building programmes. However, it managed to **turn around in FY21**, after winning two EPCIC onshore gas projects in Mexico and a liftboat charter in the Middle East, which led to its FY22 and 9MFY23 core net profits rising substantially.

The company currently sits on an **orderbook of >RM5bn** all thanks to the Papan onshore gas conditioning plant works (c.RM2.9bn contract value). It is also bidding for the expansion works of the Perdiz Onshore Gas Conditioning Plant which it hopes will help its orderbook grow.

COCO is looking to increase the contribution of its **recurring income streams and long-term contracts**, and to diversify its income to production- and renewable energy-related works as it deems such projects sustainable. Hence, it intends to divest its five OSVs in the near term, although those are available for charter until such time. COCO mentioned that businesses that suit its growth strategies include FPSO, FPU, FSO, FSRU, and other O&G-related projects.

Dialog Group Bhd (DLG MK, Add, TP: RM2.73)

Corporate representatives:

- Mr Leung Chun Hsien, Head, Corporate Finance
- Ms Ngau Sue Ching, Head, Corporate Services
- Ms Mabel Tan Bee Suan, Investor Relations

Moderated by: Mr Raymond Yap, Malaysia Oil & Gas Research, CGS-CIMB

Dialog's pretax profits are primarily made up of its **midstream business** which make up some 50-60% of the total; these comprise its tank terminals operations. About 20-25% of Dialog's pretax profits come from its upstream businesses via two marginal producing oilfields offshore Sarawak, Malaysia, and one producing onshore oilfield in Thailand (one other oilfield offshore Malaysia is currently being investigated for potential development). The final 20-25% of Dialog's pretax profits come from its downstream businesses, mainly the EPCC and plant maintenance businesses, but also the sales of specialist products and services.

Its midstream business has been strong as the utilisation of its independent tank terminals at Pengerang and Langsat have remained above 90% since late-2022, while spot tank storage rates remain above S$6/cbm/month. The peak was almost 100% utilisation during the Apr-Jun 2020 quarter, with rates at S$7. Dialog expects the independent tank terminal utilisation to remain high in the next two quarters given the surplus of oil production over demand. High utilisation is also being supported by regional distribution requirements given the closure of Australia's domestic refineries (hence more storage of clean products is required in the Straits region to supply Down Under); this is a structural change that could more permanently increase the utilisation of Dialog's independent tank terminals.

Future tank terminal developments include:

- The 24,000 cbm renewable fuel tanks at Langsat that are not dedicated to a single customer; these tanks are also open to independent traders to use and should start earning revenues from Jan 2025; while
- Discussions with various customers are ongoing, with new refineries at Pengerang likely to use Dialog's Pengerang Deepwater Terminal facilities.

On the **upstream** side, Thailand continues to see stable production, and the cashflows from the Thai onshore field will fund the capex requirements in Thailand; no external financing is needed. The ongoing drilling campaign in Malaysia is completing soon and Dialog is already seeing higher production levels in Malaysia from the drilling work done so far. For the Baram Small Field Asset (SFA) production sharing contract offshore Malaysia that Dialog is studying over the next 1-2 years for potential development, Dialog said it may have to raise debt funding after the pre-development due diligence is completed. An alternative is to raise funding via its sukuk bond programme.

Dialog has a RM3bn sukuk programme and issued 7-year RM500m perpetual bond in Nov 2020 at 4.15% p.a. and 10-year RM500m senior bond in Jan 2022 at 4.53% p.a. Another RM2bn in sukuk can be issued in the future to fund both upstream and midstream capex in the future.

Dialog believes that the squeeze in profit margins for the **downstream** sector since the pandemic began should be mitigated in the next 6-12 months:

- Legacy loss-making EPCC work should be completed by end-Dec 2023F or end-Mar 2024F, after which, Dialog will no longer incur these losses, as new EPCC contracts will be priced upwards.
- The umbrella plant maintenance contract with Petronas will end in Jul 2024F, and Dialog will negotiating higher manpower rates for the new contract. Meanwhile, the mega turnaround for the Pengerang refinery is likely to happen in 1-2 years' time; Dialog will likely be technically qualified for the job under the umbrella plant maintenance contract, but will still have to bid for individual jobs.

Dyna-Mac Holdings (DMHL SP, Not rated)

Corporate representatives:

- Mr Ah Cheng Lim, Executive Chairman & CEO
- Mr Jerald Lee, VP, Finance
- Mr Ting Yang Ang, VP, Corporate Development
- Ms Judy Han, Corporate Communication
- Ms Elaine Tan, Assistant Manager, Business Development

Moderated by: Ms Lim Siew Khee, Singapore Head of Research, CGS-CIMB

Dyna-Mac owns yard facilities in Singapore with a total area of approximately 140,400 sq m. Its niche focus is the fabrication of FPSO offshore modules, turrets and structure, onshore modules and structures, modules for carbon capture storage (CCS), green fuel production, and specialised exotic piping.

As of May 2023, its order book stood at a record S$608.1m after its latest contract wins of S$270m that comprised fabrication of FPSO topside modules and on-board vessels. Contracts are on a milestone basis and most of the projects are cashflow positive or neutral, the company said.

Unlike an EPC company, Dyna-Mac said that it does not take on lump-sum risks or performance guarantees. Contracts are generally split into materials (cost-plus basis), procurement (fixed margin), and labour (based on agreed rates and scope of work).

Dyna-Mac has about 500-600 internal staff and 4,000-5,000 subcontractor staff, most of whom are currently fully deployed, the company said. During the period of Mar-Jul 2022, the company successfully completed the load-out of 15 modules with zero carryover work.

Management expects margins to improve over time, although it did not say if they would return to previous peaks, i.e. gross margins at 26-30% and net margins of c.15% in FY2010-11. As of 1Q23, Dyna-Mac's net margin stood at 4.4%.

Dyna-Mac said it plans to expand its footprint (capacity) via new yard space, as well as working with other yards, including ST Engineering Marine and Kim Heng. Management believes that space is not a constraint, but manpower and project managers are the resources that may not be easily increased.

Market outlook for FPSO fabrication is strong, spurred by tight global yard capacity with good track records, according to the company. Demand is also driven by E&P investments by oil companies in the Middle East, Brazil, SE Asia, and Australia, on the back of higher oil prices.

In the longer-term, Dyna-Mac said it plans to expand into new sources of business to address the lumpy nature of its current business model. These include building recurring income from maintenance and services, and carbon capture and storage (CCS) solutions. Wind and solar may not be a key focus, it added.

Hibiscus Petroleum (HIBI MK, Not rated)

Corporate representatives:

- Dr Kenneth Pereira, Managing Director
- Mr Yip Chee Yong, Chief Financial Officer
- Mr Deepak Thakur, VP, Economics & Business Planning
- Ms Lily Ling, VP, Corporate Development
- Mr Andrew Fernandes, Assistant Manager, Corporate Development

Moderated by: Ms Dharmini Thuraisingam, Malaysia Oil & Gas Research, CGS-CIMB

Hibiscus has set several targets to reach by 2026, namely to:

1. Increase its production levels from 21-22k boepd currently to 35-50k boepd;
2. Raise the proportion of gas production from c.33% currently to 50%; and
3. Increase 2P reserves from 68.8 mmboe to 100 mmboe.

The company expects to increase output levels from the current 21-22k boepd to 25-26k boepd via production enhancements at its existing fields:

- Peninsula Hibiscus: By undertaking the H4 development (water injection) project, the company hopes to reduce the natural decline at the fields and add to production. That said, the PSC license for Peninsula Hibiscus will expire in 2027; as such, Hibiscus will pause any further development for these fields until the extension of the licence is confirmed. According to the company, production enhancement projects have been earmarked, but execution is subject to the licence being extended.
- North Sabah: Hibiscus will drill a total of 11 wells in 2024, to arrest the natural decline in production, and targets to see some gains in production from c.4k bpd currently to 6-7k bpd.
- Anasuria cluster: The company is waiting for one last approval for the Teal West project. Once obtained, it expects the field's production to show a notable pick up from late-2024F onwards.

The company expects the balance 10k-25k boepd gap from the 2026 target to be satisfied via:

- The development of the sizeable Marigold asset in the UK. That said, the process has been slow as there have been delays due to the evolving climate change rules that are being implemented in the UK.
- Potential near field explorations within current license boundaries.
- Potential acquisition of new fields; with a few interesting opportunities in the market currently.
- Explore new licence opportunities in Malaysia, Vietnam and UK, but focusing on locations close to where the group is currently present. The company said that this is to minimise capex requirements by leveraging on existing nearby infrastructure, which in turn would also enable a quicker time to market for production commencement (Teal West is a good example as it is located just 4-5km away from the Anasuria FPSO).

Currently, the license extension for Peninsula Hibiscus is at the technical discussion stage, with completion targeted by 3Q/4QCY23. Thereafter, commercial discussions are expected to commence, it said. The company expects to be in a better position to provide more details on the timeline for the PSC extension early next year.

Hibiscus does not expect the Energy Profits Levy (EPL) that has been implemented in the UK to contribute to any delays in the development timeline for the Marigold asset. In fact, the company said that starting the Marigold project sooner would work out to be better as incurring more costs now allows the asset owners to offset more taxes in the UK. Additionally, beginning development now means that the asset will reach production in 2028 (when the EPL is scheduled to be withdrawn), it said.

In terms of M&As, Hibiscus has always been conservative when making bids for new assets, it said. With oil prices currently at US$75/bbl, the company will conservatively bid at lower prices. Pricing for M&As is also influenced by the price at which banks are willing to fund these transactions, which tends to be around US$50-55/bbl, according to the company. While some sellers may only look for the highest bidder in the market, there are larger players who want to exit assets for strategic reasons, and often also take into consideration other qualitative factors (such as reputation, ability to run the asset, staff retention, etc.). Management said the latter is where Hibiscus has a strong track record i.e. having successfully carried out several takeovers from large companies in the past, without resulting in significant employee attrition.

Hyundai Heavy Industries (329180 KS, Add, TP W160,000)

Corporate representatives:

- Mr KiJong Sung, Investor Relations
- Mr KiBum Park, Senior Manager
- Mr DongJin Kim, Manager

Moderated by: Mr Yongmin KIM, South Korea Research, CGS-CIMB

Hyundai Heavy Industries (HHI) said its in-house engine division could be a key differentiation factor among Korean shipbuilders for upcoming eco-friendly propulsion technologies.

The company is developing ammonia propulsion engines via cooperation with engine licensors and is itself developing small-and-mid-sized power generation engines.

For the 4-stroke engine, HHI is a licensor, which means the company is producing in-house developed engines which have relatively higher operating profit margin.

Icon Offshore (ICON MK, Not rated)

Corporate representatives:

- Mr Yu-Jin Lee, CFO
- Mr AdyHafis Abdul Razab, GM, Finance

Moderated by: Ms Dharmini Thuraisingam, Malaysia Oil & Gas Research, CGS-CIMB

Icon Offshore operates an active fleet of 18 vessels – 13 AHTS, two PSV, and three accommodation work boats (AWB). The average age of its active fleet is c.10 years old.

OSV demand has picked up strongly over the past few quarters. All the group's available vessels (excluding vessels scheduled for dry-docking in the near future) are currently fully chartered out, and management expects this to sustain for at least the next one year.

Icon Offshore's order backlog currently stood at RM536m as at May 2023, of which 94% are long-term contracts. Its existing orderbook is skewed more towards the Brunei market, as these long-term contracts were secured when the charter rates were higher than the prevailing rates in Malaysia. However, charter rates that are now being offered in Malaysia are higher than that in Brunei, driven by rising domestic demand.

Charter rates for its vessels have risen by c.30% over the past year, with room to increase further. On the cost side, its expenses have increased by 10-20% over the past 12-18 months, driven by inflationary pressures. In addition, as the vessels get older, they tend to incur more costs related to maintenance and spare parts.

Its tenderbook currently amounts to RM1.8bn, with management targeting to convert 60-70% of this into locked-in contracts as soon as practicable. Its entire orderbook consists of domestic Malaysian jobs.

According to Icon Offshore, Petronas continues to prioritise domestic-flagged vessels over foreign-flagged ones. However, if supply continues to tighten, there might be pressure to allow foreign-flagged vessels into the market to cope with the demand.

Petronas' Project Safina has been put on hold given the challenge to secure financing (Project Safina was originally launched by Petronas in 2021 for local yards to build 16 new OSVs for onward long-term charter by Petronas). In its place, Petronas has called for a new long-term tender for vessels with contract tenures of 6 years + 6 years, which Petronas expects to commence at the end of 2024F. Icon Offshore expects the rates for these to be higher than the rates secured in the current Integrated Logistics Control Tower (ILCT) contracts.

On M&A opportunities, the company said it is looking at asset light operations with integrated well services being an area of interest. The company said that any acquisition it pursues will need to be synergistic to the overall group.

Kim Heng (KHOM SP, Not rated)

Corporate representatives:

- Mr Thomas Tan, Executive Chairman & CEO
- Mr Nick Lim, CFO

Moderated by: Ms Lim Siew Khee, Singapore Head of Research, CGS-CIMB

Kim Heng operates two shipyards in Singapore with a combined waterfront of 205 metres.

Revenue breakdown as of FY22: 36% from the chartering of vessels, 33% from oilfield services, 19% from marine construction, and 12% from renewable energy.

Kim Heng owns and operates 49 vessels, comprising AHT, AHTS, tugs, barges and fast craft. It also owns and operates 21 pieces of heavy equipment, including crawler cranes, lorry cranes, and mobile cranes, to support its marine offshore services and windfarm facilities installations.

Under-investment in E&P activities in the past few years has resulted in strong demand for AHT/AHTS in the range of 5,150 to 12,100 bhp, supporting both O&G and renewable energy projects, the company said.

Current vessel utilisation stands at about 85%, an improvement from c.75% in 2022, the company said. Average charter rates have also improved to about US$1.00-1.40/bhp for short-term work (less than 9 months) and US$1.00-1.20/bhp for longer-term work. Management noted that current rates are still below its previous peak (pre-2015) of US$2.40/bhp, although the trend has been improving.

Kim Heng believes the worst is over for the offshore support service segment but noted that financing can still be difficult and would come from asset recycling of older vessels.

Marco Polo Marine (MPM SP, Not rated)

Corporate representative: Mr Sean Lee, CEO

Moderated by: Ms Cezzane See, Singapore Sales, CGS-CIMB

MPM is a regional integrated marine logistics company with core businesses in ship chartering and shipyard businesses. Its marine fleet includes 12 OSVs, two MWVs, and 21 tug and barges. Its ship repair business is in Batam, where its shipyard occupies more than 34 hectares of land area as well as a waterfront of approximately 650 metres.

The company turned profitable in FY9/21 with a core net profit of c.S$2m on enhanced revenue and gross profit margin from both its chartering and shipbuilding or shiprepair divisions. In its recent 1HFY23 results announcement, Marco Polo reported revenue growth of 102% yoy as:

- 1HFY23 ship chartering average rates and utilisation (66% vs. 1HFY22: 58%) increased;
- 1HFY23 EBITDA rose 167% to S$15.5m, and adjusted net profit to owners jumped more than 4x to S$8.5m in 1HFY2023; and

- The shipyard division experienced strong momentum in both ship repair and ship building activities.

As at 31 Mar 2023, the group has net cash of S$50.2m.

MPM's diversification into offshore wind is bearing fruit, and MPM has been actively diversifying its activities beyond the oil and gas industry since FY20. By end-FY22, it guided that approximately 40% of the group's offshore fleet was supporting offshore windfarm projects in the Asia Pacific region. In Sep 2022, MPM announced it will build and operate a Commissioning Service Operation Vessel (CSOV). It expects the CSOV to be completed by end 1QCY24 and the company guided that it is in talks with potential joint venture partners for this CSOV.

MPM expects its earnings to continue to grow in 2023F, driven by 1) higher utilisation and charter rates for its OSVs; 2) the construction and charter-hire of its CSOV; and 3) more shipbuilding projects in Indonesia for its shipyard business.

Medco Energi Internasional (MEDC IJ, Add, TP: Rp1,300)

Corporate representatives:

- Mr Anthony Robert Mathias, CFO
- Mr Ridho Wahyudi, Manager, Manager for Capital Market

Moderated by: Mr Bob Setiadi, Indonesia Oil & Gas Research, CGS-CIMB

According to MEDC, its strategy of being an aggregator of mature producing assets has allowed the company to increase its oil and gas production lifting from 87,000 boepd in 2018 to 163,000 boepd in 2022. MEDC will continue to look for mature assets in Asia-Pacific region, especially those from international oil companies (IOC) exiting the region.

MEDC expects the gas sales agreement (GSA) for its Corridor Block to be signed in 3Q23F. MEDC believes that Indonesia domestic demand for gas is still high and it expects to secure higher average selling price (ASP) in the new agreement. MEDC is currently in negotiations for new GSAs for the Natuna and Senoro blocks.

According to management, MEDC is on track to meet all its operational guidance for FY23. Its O&G production in 5M23 exceeded its 160,000 boepd guidance for FY23 (1Q23: 165,000 boepd; CGS-CIMB forecast for 2023F: 159,000 boepd). MEDC expects to maintain its cash cost at under US$7/boe for FY23F (vs. CGS-CIMB forecast for FY23F: US$5.8/boe). It expects to book additional gas reserve in a Tanzanian LNG project (MEDC owns a 20% participating interest), pending the signing of the agreement with the Tanzanian government.

MEDC aims to fully repay the US$850m Corridor Block loan by mid-2024. It expects to maintain its gross debt afterwards and would focus on finding a suitable acquisition target. MEDC sold part its Thai O&G assets in 1Q23 and is close to selling part of its Vietnam O&G assets.

On its power business, MEDC plans to build a 56 MW solar plant in Bali and is also conducting a feasibility study on the development of a wind power plant in Sumbawa. However, MEDC does not plan to make any inorganic acquisition on renewables.

RH Petrogas (RHP SP, Not rated)

Corporate representatives:

- Mr Francis Chang, Group CEO & Executive Director
- Mr GY Then, VP Finance

Moderated by: Ms Cezzane See, Singapore Sales, CGS-CIMB

RH Petrogas (RHP) is an independent upstream oil and gas company with 95.8 mmboe worth of 2P + 2C reserves (53% oil and 47% gas) from two production sharing contracts in Indonesia. In FY21-22, it had production of 4,820 boepd.

The company turned a corner and swung to profitability in FY21, as crude oil prices averaged around the US$70/bbl mark. In FY21, its balance sheet also became stronger when its major shareholder recapitalised its shareholder loans.

In FY22, its net profit spiked to c.US$20m as crude oil prices averaged more than US$90/bbl. As at end-FY22, it was in a net cash position of c.US$60m.

RHP currently has committed to drill seven exploration wells (five oil plays and two high-impact deep gas plays). It plans to drill three exploration wells and one development well in 2023F; its 2023F exploration drilling programme include one high-impact deep gas prospect with unrisked recoverable reserves of 1.8 trillion cu ft.

RHP mentioned in early-2023 that it had signed MOUs for the utilisation of gas from the group's Kepala Burung and Salawati PSCs to meet the energy needs of the IGNITE Ecopark – a proposed integrated Class 1 nickel processing park to be constructed within the Sorong Special Economic Zone (in the locale of its Arar sub-block, within the Kepala Burung PSC acreage). RHP mentioned that if its high impact deep gas prospect is successful, it will have enough capacity to supply the energy needs of this park.

Samsung Heavy Industries (010140 KS, Add, TP W8,500)

Corporate representative: Mr Yong Ko, Senior Manager, IR

Moderated by: Mr Yongmin KIM, South Korea Research, CGS-CIMB

Samsung Heavy Industries (SHI) expects decent containership demand for the next 2-3 years, mainly driven by more stringent environmental regulations on seaborne containership liners.

The company is focused on securing more FLNG orders in its offshore division; it has a robust track record, having delivered three out of the only four FLNG units ever delivered globally.

Currently, SHI's internal operating profit margin target for its FLNG division is 10%; the division's last three orders have been operationally profitable.

SHI expects to meet its annual order target of US$9.5bn in FY23F after factoring in upcoming orders, including: 1) Qatar Gas' LNGC fleet in 2H23F, 2) Evergreen Marine's containership fleet in 3Q23F, and 3) the Coral FLNG unit in 4Q23F.

Currently, the earliest slots for delivery are as follows: 2025F for tankers, 2H26F for containerships, and 2028F for LNGCs, it said.

SHI expects its crude tanker orders to rise from 2024F. This is because the ratio of the shipping industry's crude tanker order backlog vs. the outstanding fleet of crude tanker vessels is currently at historically-low levels, which is the result of a long drought of newbuilding orders. This increases the probability of a rebound in crude tanker newbuilding orders, in our view.

Uzma (UZMA MK, Not rated)

Corporate representatives:

- Mr Kamarul Redzuan Muhamad, Group CEO
- Mr Dennis Saw, CEO's Office

Moderated by: Ms Dharmini Thuraisingam, Malaysia Oil & Gas Research, CGS-CIMB

Activity levels within the upstream O&G market have picked up strongly from 2022 onwards, not only in Malaysia but regionally as well – especially in Thailand and Indonesia. The company is currently bidding for jobs across the group's key service offerings in both markets. Vietnam and Myanmar have also seen increased activity from last year – the company said it is looking to tap into these growing opportunities.

Over the past 12 months alone, Uzma has secured new jobs amounting to more than RM1bn. Overall group order backlog stood at over RM2.8bn as at Jun 2023, with its O&G backlog having crossed the RM2bn mark, with the balance c.RM800m comprising orders related to the Large Scale Solar (LSS) project (PPA and EPCC works). The group's tenderbook currently stands at c.RM3.2bn (with c.95% relating to O&G tenders), it said.

Financial close for the group's existing LSS project was secured two weeks ago, with site clearing in progress and the commissioning of the asset expected to be in Jul 2024, Uzma said. As panel prices have been on a downtrend, Uzma expects that this will result in some cost savings. The company has also submitted bids for 30 MW under the Corporate Green Power Programme (CGPP), and is looking to participate in mini hydro tenders moving forward, to expand its renewable energy exposure beyond just solar.

The contract for the group's water injection module has been extended for another five years (vs. the initial tenure of six years). The asset has been performing well, with uptime at 100% for most of the year. Bids for the second such contract are currently ongoing and in the advanced stages of technical clarifications. It expects the outcome for the bid to be announced by the end of Aug 2023.

Uzma's costs have been on the rise, stemming mainly from manpower-related expenses. It said some of its clients have been receptive to price revisions in response to the increase in cost pressures, and there is still room to raise unit prices for some of its other projects.

Its three-year Dulang Electrical Submersible Pump (ESP) contract is progressing well, on track and within budget; it expects installation in Aug 2023F. Should the ESP be able to satisfactorily raise this client's production levels in the first six months of operations, there is potential for more ESP installations domestically, Uzma said.

With regards to Uzma's LNG import licence, the company is currently operating on a smaller scale, delivering about 200-250 truckloads of LNG to a client using the virtual pipeline route. Once project economics improve, the company is looking to ultimately scale up operations by importing LNG to serve the larger industries using piped gas.

Velesto Energy (VEB MK, Add, TP: RM0.25)

Corporate representatives:

- Mr Megat Zariman Abdul Rahim, President
- Ms Sazlyna Sapiee, CFO
- Mr Eric Chua, Head, Strategic Marketing
- Ms Dian Idayu Mohamed Ali, Executive, Strategic Marketing & IR

Moderated by: Mr Raymond Yap, Malaysia Oil & Gas Research, CGS-CIMB

Strong offshore capex, especially in the Middle East, is driving a strong rebound in JU rig utilisation globally. Marketed JU utilisation peaked at 94% in 2013, troughed in 2016-2017 at 70-71%, and as at Jun 2023, stood at 93%, effectively matching the 2013 peak. The marketed utilisation for JUs in SE Asia is at or almost at 100%, as many SE Asian rigs have been attracted to the booming market in the Middle East offering long contracts. SE Asian E&P companies have no choice but to pay higher DCRs to attract rigs from outside the region to come into SE Asia to fulfil their work programmes; this is more expensive for the E&P companies compared to utilising rigs positioned in the region, and gives regional JU players the opportunity to increase their asking DCRs.

Demand for JUs continue to be robust, and Velesto highlighted that it is currently bidding for work programmes that are being planned by upstream E&P players for 2025-2026 start. This is a big positive for Velesto since upstream E&P players are effectively planning ahead to secure JU rig capacity 2-3 years ahead, which is something that we have not seen frequently since 2014.

Between Jan and Jun 2023, JU rig DCRs in SE Asia ex-Malaysia rose to a high of US$152k/day very recently (courtesy of a single fixture in Thailand), which matched the previous high in 2014 (the lowest DCR in the past six months was US$68k/day). The highest JU DCRs in Malaysia in recent months was US$131k/day, with the lowest at US$90k/day. For ongoing bids for work in 2025-2026, Velesto is asking for DCRs towards the higher end of the range in SE Asia.

Velesto's average DCR in 1Q23 was only US$86k/day, as the recently-negotiated higher DCRs under its Petronas umbrella contract (which we estimate at slightly over US$100k/day) only took effect in late-Feb 2023. With the umbrella contract to last until Feb 2024, Velesto will not likely see its average DCRs exceed US$100k/day for FY23F. However, Velesto's average DCRs will likely rise higher in FY24F, since a couple of work programmes are currently under negotiation, and may rise even more in FY25-26F if the global JU market supply-demand situation continues to be robust, Velesto said.

About 33% of Velesto's bids for work in 2025-2026 are for work in Thailand, due to higher DCRs as well as longer contracts. Velesto is also bidding for work in West Africa, where the rates are also very good, and contracts are of longer duration that make it worthwhile for the client to consider paying for the high mobilisation and demobilisation costs. Velesto is notifying Petronas that it is bidding for work outside Malaysia, so as to put some pressure on Petronas to match international rates.

Velesto's daily opex increased substantially in 4Q22 and 1Q23, as crew wages were adjusted higher in 2H22, and because of broad cost inflation in the industry. The good news is that Velesto believes that cost inflation has stabilised since 1Q23, and Velesto's crew are more willing to continue working with the company as its contracts are now more numerous and of longer duration, hence providing more certainty of employment for the crew. However, Velesto revealed that Middle East rig operators are still offering wages that are 50% higher than Velesto's revised wages; this situation may put upward pressure on Velesto's crew wages in the future. Meanwhile, Velesto is continuing to adjust its wages upwards, but it does not expect the impact to be significant.

Wasco (WSC MK, Add, TP: RM1.40)

Corporate representative: Ms Ariesza Noor, Chief Strategy Officer

Moderated by: Ms Dharmini Thuraisingam, Malaysia Oil & Gas Research, CGS-CIMB

Wasco's orderbook stood at RM3.5bn as at end-1Q23, with the bulk (c.70%) comprising projects related to gas or renewable energy. In addition, its orderbook is also less concentrated now in terms of the number of sizeable jobs in the backlog vs. the last time it hit similar highs in 1Q17. Back then, the Nordstream II project alone accounted for RM3.3bn of its c.RM3.7bn order backlog.

The group tenderbook currently stands at RM5bn, evenly split between its pipe-coating and engineering segments. In terms of projects related to renewable energy or energy transition, the skew has increased from 10% in 2021 to about 30% now. The types of jobs that fall into this category include carbon capture storage (CCS) pipelines, solar farm substation projects, and data centre projects requiring e-houses and substations, which could also serve to diversify the group's customer base.

Wasco expects to participate more actively in the global energy transition agenda moving forward, focusing on CCS prospects (i.e. piping coating for carbon transportation), energy storage, hydrogen, and renewable energy projects.

The company has already started to build a track record of securing these types of jobs:

- In Australia, it provided feed work and manpower services for the First Green Hydrogen project in New South Wales (in 2022).
- It is in the midst of fabricating wind turbine blades (at its Batam facility) for a wind farm project in Scotland.
- Successfully fabricated e-houses and substation requirements for a solar farm in Taiwan in 2022.
- In 2022, Wasco executed engineering and fabrication works for a new energy efficient plant in Scotland.

Wasco's conversion rates (from tenderbook to orderbook) have improved significantly from two years ago due to: 1) an acceleration of investments, and 2) less competition.

Multiple competitors within the pipe coating segment did not survive the oil price rout over the past 5-6 years (given the lack of projects and depressed markets). As such, Wasco is now the only remaining pipe coating player in several of its operating markets.

- In Malaysia, almost all pipe coating requirements will be done by Wasco as it is the only player in the country, coupled with the preference for domestic companies.
- In UK, post-Brexit, most pipe coating requirements, in particular CCS-related pipeline projects, will likely go directly to Wasco's plant as the company is the only player left in the country (after the group acquired the plant of the last coater in 2020).
- In Qatar, Wasco owns the only pipe coating facility in the country – that said, the market is also open to international players.

Many of Wasco's contracts have short validity periods and/or include price adjustment mechanisms, which somewhat limits the impact of rising inflationary pressures on group margins. That said, the mechanism is such that both its cost savings and cost increases are passed on to customers, leaving Wasco in a net neutral position.

The company expects more projects to come out from Qatar, given the country's ambition to be the largest LNG exporter globally. As of now, the company expects another five potential jobs to come on stream, following the two that were secured over the past 18 months.

Wintermar (WINS IJ, Not rated)

Corporate representatives:

- Ms Pek Swan Layanto, Head of Corporate Planning & IR
- Mr Erwin Nugraha, Corporate Planning Manager

Moderated by: Mr Bob Setiadi, Indonesia Oil & Gas Research, CGS-CIMB

WINS is an OSV company that was established in 1970. As at Jul 2023, it had an active fleet of 42 OSVs – 11 high-tier, 30 mid-tier, and one low-tier vessels. It guides that it has a diversified OSV fleet providing all essential services throughout the project cycle of the O&G industry. Currently it operates in 11 countries across Asia, the Middle East and Africa.

WINS stated that its 1Q23 EBITDA was negatively impacted by the time gap between the conclusion of earlier contracts and the commencement of new contracts. It mentioned that it has been very selective in bidding for contract tenders in 1H23 as it believes it can secure long-term contracts at higher prices in 2H23F.

WINS's utilisation rate as at Apr 2023 stood at 64% (2022: 73%), affected by repairs and maintenance during contract transitions. WINS mentioned that around 60% of its long-term contracts carrying low rates will expire in 1H23.

WINS believes the tight supply of OSV vessels currently has been due to:

- High scrapping rate of OSV in 2009-2021; and
- Orderbook for new AHTS and PSV currently account for just 2-3% of the total number of vessels globally at the moment.

In Apr 2023, the average charter rate for high-tier vessels was US$9.6k/day (2022: US$8.1k/day, 2013: US$22.4k/day), while mid-tier vessels' was at US$3.3k/day (2022: US$3.4k/day, 2013: US$5.8k/day). Currently, the blended average charter rates still stand 40-50% lower than their 2013 peaks.

WINS has been improving its fleet by transitioning to high-tier vessels (2013: seven units, Jul 2023: 11 units). The company is keen on maintaining the number of its mid-to-high tier vessels going forward (2013: 36 units, Jul 2023: 30 units) as these vessels have more sticky customers. Meanwhile it had reduced its number of low-tier vessels significantly (2013: 28 units, Jul 2023: one unit).

WINS thinks a new cycle in drilling activity has commenced, leading to pick up in demand and charter rates of OSVs, hence it is open to acquiring more vessels.

The company has added nine vessels since 2021 – three PSVs, five AHTS, and one ADS-T (Azimuth Stern Drive – Tug).

Yinson Holdings (YNS MK, Add, TP: RM3.50)

Corporate representatives:

- Mr JJ Chai, Group Chief Strategy Officer
- Mr TJ Liaw, Chief of Staff

Moderated by: Mr Raymond Yap, Malaysia Oil & Gas Research, CGS-CIMB

Yinson emphasised the durability and the defensiveness of its FPSO business, which accounts for virtually all of its revenues and profits. Its ongoing FPSO charter contracts are not sensitive to oil price fluctuations, as Yinson is entitled to receive termination payments should the charterers decide to prematurely end the charter contracts. Yinson is also contractually protected on its ongoing FPSO construction contracts, wherein Yinson is entitled to receive full payment for all the capex sums spent from the E&P company up to the time the E&P company decide to take back control of the project. Nevertheless, Yinson acknowledged that new FPSO contract awards will definitely be slowed down if crude oil prices fall below US$60/bbl; this recently happened in the aftermath of the oil price collapse at the start of the Covid-19 pandemic in 2020.

The FPSO market conditions are currently very strong, with many independent FPSO contractors such as Yinson busy with ongoing FPSO construction projects, with many to-be-awarded FPSO projects in the pipeline. As a result of the strength of the bargaining power of the independent FPSO contractors, Yinson said its FPSO Agogo project which was awarded in Feb 2023 is on track for an equity IRR of more than 20%, which stands against our estimate of Yinson's cost of equity of not more than 10%. The 20% equity IRR estimate for the FPSO Agogo is based on a capex of US$1.7bn-1.8bn which incorporates a contingency capex sum of US$300m-400m; Yinson's equity IRR will be even higher if the contingency capex is not fully or partially spent.

Yinson recently reported several positive developments for its FPSO business.

1. The **FSO Bien Dong**'s bareboat charter contract was extended on 6 Jun 2023 for five years from 4 Jun 2023 to 3 Jun 2028; another five option years remain unexercised for now.
2. The **FPSO Lam Son**'s bareboat charter contract was extended for 12 months firm, with another automatic six months extension, up to a maximum of 31 Dec 2024.
3. **FPSO Anna Nery** received provisional acceptance from Petrobras on 15 Nov 2022, and was entitled to receive 90% of its BBC charter rate from 3 Jan 2023 onwards (being 50 days after provisional acceptance). FPSO Anna Nery received final acceptance from Petrobras on 7 May 2023, after which it is entitled to receive 100% of its BBC charter rate.
4. FPSOs currently under construction are on schedule, and as at 30 Apr 2023:
    - **FPSO Maria Quiteria**'s percentage of completion reached 61%;
    - **FPSO Atlanta**'s percentage of completion reached 46%; and
    - **FPSO Agogo**'s percentage of completion reached 16%.

On the renewable energy side, Yinson currently operates the 177 MWp Bhadla solar power plant in India, and the 288 MWp Nokh solar power plant in India will likely be connected to the Indian power grid in 3Q24, upon which the revenues will start to flow. Yinson's 486MWp onshore wind project in Brazil has finally progressed to construction stage, and it will need 12-18 months to secure off-takers and financing. After that, Yinson will need another 12-18 months to construct the wind farm and connect it to the grid; the general rule-of-thumb is capex of US$1.5bn per MWp. Meanwhile, Yinson is working with its partners to advance solar and wind projects in Chile, Italy and New Zealand, among others.

On the green technologies division, Yinson has been working on multiple initiatives to electrify transport. Yinson's 'MarineEV' initiative is working to launch electrified harbour craft in Singapore in a few months' time via electric passenger vessels and electric cargo vessel with swappable batteries. The 'RydeEV' initiative intends to introduce electric motorbikes in SE Asia via battery swapping. Yinson also has electric autonomous bus initiatives under 'Moovita' in Singapore and 'emoovit' in Malaysia. 'ChargeEV' is the leading electric vehicle charge operator in Malaysia (according to The Edge) with plans for significant expansion. Finally, 'DriveEV' is also leasing out EVs in Malaysia in cooperation with vehicle distributors. Yinson has invested c.US$60m so far in all of the above green technologies ventures.

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023 632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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