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## Deleum reaching out for more

It's focused on growing business in sustainable manner

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Oil and gas service provider Deleum Bhd has been one of the most consistent oil and gas stocks on the local stock exchange and has gained some 11% in its share price year-to-date. Given its increasingly positive outlook and healthy order book, the company still finds itself playing second fiddle to other big boys in the industry.

Group managing director Nan Yusri Nan Rahimy acknowledges the company has been operating under investors radar but hopes to reach out more going forward and put in place some initiatives to this extend.

"We will continue to remain focused and grow our business in a sustainable manner. We have been profitable in the past 10 years. Our mission is to provide sustainable growth and enhance our stakeholders value," he tells *StarBizWeek*.

Nan Yusri explains that Deleum looks at enhancing value in totality not just share price but also dividend yield, sustainable business as well as comfort in terms of corporate governance.

He took office in March 2011 and had his team sit for months in to come up with the company's corporate statement which encompasses its mission to provide sustainable growth and its vision to be a market leader in its operating segment domestically and to establish regional presence by 2015.

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sea segment."

He says the company was working towards building a sustainable income stream whereby it would have a larger recurring revenue.

"We are working on building our recurring income. Services is where sustainability is," Nan Yusri says, adding that its contract are usually long term as to build a sustainable business.

Additionally, he says the company hope to take on more MRO jobs but getting more MRO jobs was "not as simple as that" and that not too prepared to squeeze its margin for some jobs.

"We have to work within a comfortable margin," he says.

remained scarce. "Resources is very scarce in Malaysia and we have resorted to pinch from each other. This is not healthy. We ended up having to pay more for resources and margin get squeeze. It is very stressful for organisation."

He explains that people are joining the industry but not for the relevant skills.

Thus Deleum has invested about RM2mil in a training well facility following its attainment of OPIFO-CMS. The facility serves as a training platform providing simulated work environment.

Nan Yusri says the training well facility would also be made available for external parties for training

### Deleum Bhd

Revenue (RM mil)



Dividend (Sen)



Net profit (RM mil)



(RM)



Source: Bursa Malaysia & Deleum Bhd financial year end Dec 31

specialty chemicals and renewable energy.

"We are currently conducting our due diligence on NSERC. We have not finalised the acquisition," Nan Yusri says.

He explains that Deleum was not a newcomer in power generation business. "We are still generating power but it will be using different feedstocks."

In fact, it has a stake in IPP Cambodia Utilities Pte Ltd, which

in a fast pace industry where the company needs cash to mobilise contracts secured such as equipment procurement as bank disbursement could take some time. "We may be running thin (without the cash) and could be choking on our operating expenditure."

Nevertheless, Nan Yusri says Deleum is committed to keeping its dividend policy of around 50% of its profits and has been paying consistent dividends.

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"It (corporate statement) is like a holy book to us. We live, eat, sleep by it," Nan Yusri says.

Armed with 30 years of experience, Deleum provides diverse range of specialised supporting products and services for the oil and gas industry. It also have offices and facility bases around the country. The company operates under three core businesses, namely power and machinery, oilfield service and maintenance, repair and overhaul (MRO). Currently, some 70% of its revenue derived from power and machinery. Nan Yusri says Deleum has also recently undergone a corporate rebranding exercise in conjunction with its 30th anniversary celebration. The rebranding exercise saw several key operating subsidiaries of the group that were formerly operating under the "Delcom" name being renamed "Deleum".

He says consolidating the company's business focus under a single corporate identity and brand name is one of the keys to position Deleum to meet future market challenges and demands.

For the financial year ended Dec 31, 2012 (FY12), Deleum's net profit jumped more than 53% to RM44.4mil from RM29mil in FY11. Its revenue rose to RM473.2mil in FY12 against RM396.3mil a year ago. Earnings per share also rose to 29.63 sen during the year.

Going forward, Nan Yusri says its growth driver would come from three fronts - organic, merger and acquisitions (M&As) and regional expansion.

Nan Yusri says basically its business is divided into surface and sub-sea. "Oilfield is fast approaching. There's a lot of potential on the sub-

sea side," he says. "The main revenue stream is from the surface side. It's a long term as to build a sustainable business."

Additionally, he says the company hope to take on more MRO jobs but getting more MRO jobs was "not as simple as that" and that not too prepared to squeeze its margin for some jobs.

"We have to work within a comfortable margin," he says.

Nan Yusri says it would continue to explore new solutions for the industry and penetrate and expand scope of application in production enhancement for the industry.

The oil and gas equipment supplier expects the healthy flow of upstream oil and gas projects in the country to continue this year. Petrolia Nasional Bhd's (Petronas) RM300bil five-year capital expenditure (capex) and the Government's commitment to create an oil field services hub in the country under the Economic Transformation Programme will also buoyed well for the sector and many players are set to benefit.

Nan Yusri says the industry was very robust with lots of activities by oil majors including Petronas to continue to boost their exploration and production (E&P) activities.

"The industry is very vibrant. There's a dip (in activities) in the first quarter but it is usually slow given the monsoon season in Kemaman and Kertih area. There's going to be a lot of activities," he adds.

In order to be more competitive, Deleum has work on getting numerous recognition to boost its chances of winning contracts. In January 2012, Deleum obtained its OPTO-Competence Management System Certification certificate (OPTO-CMS). It is the first wireline company in Asia to receive such recognition and certification. The CMS is a set of standards defining the competencies which apply to particular job roles.

Despite the robustness of industry, Nan Yusri says skilled resources

are in short supply. "We are facing a shortage of technicians and engineers in the industry but not for the relevant skills."

This Deleum has invested about RM2mil in a training well facility following its attainment of OPTO-CMS. The facility serves as a training platform providing simulated work environment.

Nan Yusri says the training well facility would also be made available for external parties for training or testing in future.

Deleum currently has an impressive orderbook worth RM1.2bil that would last the company through 2018.

"We are currently tendering RM1.2bil from all three business divisions. Its predominantly all local contracts," Nan Yusri says.

Besides having submitted massive bids for new jobs, Deleum is on the lookout for M&A opportunities and is also looking to expand its market to neighbouring countries such as Brunei and Indonesia, for a start.

The key areas of consideration would be to invest in acquiring new technology and also services to develop further its edge as a specialised service provider in the industry, he says.

"We are looking for opportunities to expand in areas that can add value to our business," Nan Yusri says, adding that it was also finalising some M&A without disclosing details.

In January, Deleum announce that it will be venturing into the renewable energy industry by subscribing for new shares by NSE Resources Corp (M) Bhd (NSERC). The latter will issue shares to Deleum, representing a 55% equity interest, for RM23.1mil.

The principal activity of NSERC is that of investment holding and the provision of management consultation services. NSERC has three subsidiaries, namely NSE Energy Sdn Bhd, NSE Polymer Sdn Bhd and Global Network Technology Sdn Bhd. The core businesses of these companies are in the provision of

specialty chemicals and renewable energy.

"We are currently conducting our due diligence on NSERC. We have not finalised the acquisition," Nan Yusri says.

He explains that Deleum was not a newcomer in power generation business. "We are still generating power but it will be using different feedstocks."

In fact, it has a stake in IEP Cambodia Utilities Pte Ltd, which supplies 35MW of electricity to the capital Phnom Penh.

Locally, Deleum was the engineering, procurement, construction and commissioning contractor for a 9.6MW co-generation power plant, which was commissioned in 2007, for Muda Paper Mills in Kajang.

On its regional expansion, Deleum's primary focus will be in Indonesia, Brunei and Saudi Arabia while its secondary focus will be on Vietnam, Thailand and Myanmar.

Nan Yusri says there was no fix strategy on how they would venture overseas. "We may set up our operating base, appoint an agency or form a joint venture. It depends on the business. We could kick off with a joint venture. Every country will have a different approach. There's no distinguish formula."

Meanwhile, Nan Yusri revealed that Deleum has allocated RM45mil as capex this year mainly for equipment and to enhance its facilities. "It depends on your business. We are not a capex intensive business," he says, when asked on its relatively small capex budget.

Deleum has not been widely covered by analysts but analysts who tracked the counter has a "buy" call on it. Analysts said Deleum's strong net cash position would easily enable its growth as acquisitions could be earnings accretive for Deleum. The company had net cash amounting to about RM61mil as at FY12.

"Shareholders may not be too happy that we're sitting on the cash pile. We are not doing nothing sitting on it ... we're investing it too," exclaims Nan Yusri.

He says the nature of its business

in a case where analysts worry the company needs cash to mobilise contracts secured such as equipment procurement as bank disbursement could take some time. "We may be running thin (without the cash) and could be choking on our operating expenditure."

Nevertheless, Nan Yusri says Deleum is committed to keeping its dividend policy of around 50% of its profits and has been paying consistent dividends.

The company is one of the strongest dividend plays among the oil and gas counters. For FY12, it declared a total payout of 15 sen per share, representing 50.5% dividend payout ratio. In FY11, it paid out 48% or 14 sen per share.

"We're not painting a rosy picture but the right picture. We're trading at a price-to-earnings of about seven times. Some analysts say we can afford to go up to 14 times."

Deleum shares close at RM2.15 yesterday. Year-to-date, the counter had risen by 13%. The price surge in its stock has reflected growing interest in defensive stocks that paid consistent dividends.

Additionally, he says the company has also embarked on a bonus issue exercise to improve its liquidity which investors find lacking. Its market capitalisation increased to RM268mil as at Feb 21 from RM143mil as at March 15, 2012 post corporate exercise.

"We are working on it. People do not trade our shares. They buy and keep as we are giving them a dividend yield of about 7%," Nan Yusri says.

He says 2012 had been a challenging year and Deleum was not ready to expand its wings. "We're not ready then. We are getting ourselves ready. We took in more people and look forward to expand."

He expects 2013 continues to be another challenging year. "We will look at overseas expansion. We will maintain our domestic focus. That's our bread and butter. We are targeting a good 2014/2015 to take the company to the next level."