



DELEUM

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Media : Focus Malaysia Online
Day/Date : 2 – 8 August 2014
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Deleum eyes a bigger slice of oil recovery pie

Company expands AIS business to boost oilfield service segment

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DELEUM Bhd plans to expand its asset integrated solution (AIS) business under its oilfield service segment given the latter's rapid growth, as it taps enhanced oil-recovery services.

Group managing director Nan Yusri Nan Rahimy says the AIS business is an exciting area for the company as it boosts the oilfield service segment in addressing customer requirements ranging from specific services to designing and managing complex projects.

"We work as a consultant for sub-surface or reservoir studies, and assist oil and gas operators such as Petronas Carigali with research to identify problematic wells. Based on the studies, we will also propose a solution and offer technology we have to rejuvenate or enhance productivity in the oilfield," he tells **FocusM**.

"AIS has a niche area to serve. Despite having started the business only early this year, it is progressing more quickly than I thought," he adds.

However, Nan Yusri says it is difficult to determine the earnings contribution from the AIS segment as this business can make a profit only if customers subsequently request for other services such as slickline (the wire connecting wellbore tools to the surface, allowing them to be remotely operated), chemical solutions or wellhead maintenance.

According to him, the AIS work is expected to enhance oilfield services as a whole and he sees the segment growing rapidly.

Alliance Research analyst Arhneue Tan says: "Details of potential contract values and the exact work involved are sketchy at this juncture as the group has multiple solutions to offer and all well profiles are different; but we feel the venture could yield a sizeable contract value, especially if the group gets a multi-well contract."

"For now, we expect some contracts for AIS to materialise in financial year 2014, and believe these contracts will contribute positively to the group from FY15."

MIDF research analyst Aaron Tang Wei Min says there has been a demand for enhancing oil recovery as Malaysian oil and gas brownfields are ageing and their content lessening, which will affect production.

"An oil field has its own lifespan. After a few years of production, the pressure of the field may be too weak to maintain high productivity; thus we need machines or chemicals to facilitate production. Otherwise, the oil



by Gordon Low

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AIS business an exciting area for company as it boosts oilfield service segment



JONATHAN LOI/FocusM



Deleum's AIS business is progressing more quickly than expected, says Nan Yusri

as new gas turbines are needed," says Nan Yusri.

He is looking at Deleum's three core businesses – maintenance, repair and overhaul (MRO), oilfield services as well as power and machinery – to contribute evenly to group earnings. While the power and machinery business remains the main contributor, he envisages MRO and oilfield services catching up with faster growth rates.

"The MRO and oilfield services segments will grow more quickly than the power and machinery segment, as these two businesses have a lot of room to grow but [the] power and machinery [segment] is already quite mature," he adds.

Regarding the power and machinery segment, Nan Yusri says Deleum supplies most of the 1-15 megawatt-range gas turbines in Malaysia, and the company has a better chance than most of supplying to projects that require these gas turbines as it has the relevant agreement with Petronas.

Nan Yusri says based on recent trends, the company is likely to sell 15-18 gas turbines annually. With 300 units already sold, he says, the bigger pool of machines to be serviced will boost group earnings.

Just selling gas turbines, he says, will provide only one-off earnings for Deleum, but the company will obtain recurring income from long-term service contracts.

Aside from AIS, Deleum has an integrated chemical solutions research unit in the oilfield service segment, which has developed eight product types under the Deleum trademark.

Deleum has begun to commercialise these chemical solutions for local and overseas markets. However, the products have had difficulty penetrating the local market compared with the foreign market.

"Local companies are hesitant to use locally-made products. In contrast, overseas companies are excited to know this is a Malaysian product developed in collaboration with Petronas," he says.

Deleum's revenue grew slightly to

RM484.7 mil in FY13 from RM473.2 mil previously, but it has yet to equal or better its five-year high of RM514.3 mil achieved in FY09.

Net profit rose to RM49.56 mil in FY13 from RM44.45 mil the year before. Deleum's four-year compound annual growth rate is 13.19%, due to the company's focus on value-adding and higher-margin services.

Nan Yusri feels FY13 was a year of aggressive growth. The company will now refocus on its core business, so from FY14, he expects the company's topline and bottomline to grow significantly.

For the first quarter ended March 31, the company reported a 42.65% jump in net profit to RM9.75 mil from RM6.84 mil a year earlier, supported mainly by an 18.92% growth in revenue.

Alliance Research's Tan expects earnings to pick up swiftly from Q2 as work orders from new contracts gather pace. Deleum has a RM2 bil, 10-year umbrella contract for turbomachinery services and an estimated RM700 mil in long-term contracts for slickline services commencing in FY14.

Its shares hit a high of RM6 on June 11, a 38.5% jump from RM4.33 on Jan 2, prior to the ex-date of its bonus issue. The counter closed at RM2.37 on July 30.

Nan Yusri points out the "real crisis" in the oil and gas sector is a shortage of talent, a global phenomenon.

"We do not have a problem employing fresh graduates; but the shortage is at middle-management level. We will put more effort into developing internal talent, not only for fresh technical staff but also for experienced staff. I think it is the best way to develop the business together with our people," he adds.

Deleum hired 25% more workers in FY13 to increase its workforce to 730, Nan Yusri says, adding such aggressive hiring is to cater to stronger business growth.

"Our slickline business has doubled, while MRO and AIS also require more labour," he adds. **FocusM**