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Deleum aiming for a bigger bite

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AS the oil and gas (O&G) sector in Malaysia continues to see a sustained boom in investments, players are fast positioning themselves for major wins.

One such company is Deleum Bhd, which is involved in the provision of specialised products and services to the O&G industry.

"Make or break, it will be within these three years," group managing director Nan Yusri Nan Rahimy says, referring to 2012-2015, which he says, "is going to be the most exciting years for O&G companies in the country."

"I hope we all have the stamina to stretch our capability and compete effectively," he tells *StarBizWeek*.

As it is, Deleum has already consolidated its resources to capitalise on the growing opportunities in the domestic O&G sector. It is also looking at acquiring new entities that could complement its core business areas to expand further.

"We are in the stage of finalising some M&A (merger and acquisition) deals," Nan Yusri reveals.

While he refuses to divulge further details about Deleum's M&A plans, he says the market can expect "to hear something soon".

Nan Yusri had said last month that Deleum would put to good use its strong net cash position for, among other things, M&A exercises. The intention was to have units that could complement its core businesses, including power and machinery, oilfield services and maintenance, repair and overhaul.

Driving growth

Deleum had cash amounting to about RM81mil as at March 31, 2012, against short-term borrowings of around RM17mil and long-term borrowings of about RM8.5mil. It boasted a strong cashflow, with net cash generated from operating activities totalling about RM22.75mil as at March 31. The company had reportedly set aside RM20mil to RM25mil as capital expenditure (capex) for its business expansion this year.

Since taking the helm of Deleum in March

Oil and gas company sees more projects in the pipeline



Nan Yusri: "Make or break, it will be within these three years."

last year, Nan Yusri has been focusing his energy and mind on charting a different growth path for the organisation.

Besides having submitted bids for up to RM1bil worth of new jobs since the third quarter of last year, and embarking on an aggressive M&A trail to grow its business, 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".

According to Nan Yusri, 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.

Thanks to Petroliaam Nasional Bhd's

(Petronas) massive capex programme and the Government's commitment to create an oil field services hub in the country, the stage is set for a boom time in the O&G sector, and many players are set to benefit.

To recap, under the Economic Transformation Programme, Petronas has committed to a five-year RM300bil capex plan to boost domestic O&G production. The plan, which took effect from 2011, emphasises enhanced oil recovery, and marginal and deep water developments.

According to Alliance Research, Deleum is poised to be a beneficiary of heightened O&G exploration and production (E&P) activities in Malaysia, given the company's track record in providing a wide range of specialised supporting products and services for the industry.

"There is certainly going to be a lot of activities; the key is positioning ourselves to tap into those huge opportunities," Nan Yusri reckons.

Evolving landscape

As Nan Yusri sees it, the whole structure of the O&G industry is already changing, with local players increasingly being pushed to consolidate.

"Yes, there are many contracts coming out, but the types of contracts and they way they are structured are changing in the sense that there's going to be a lot more onus on the service providers and equipment suppliers as well as contractors to take on more risks," he explains.

"Contracts that are coming out are no longer the smallish ones that are worth around RM5mil or RM10mil; but they are in the hundreds of millions, or even billions, of ringgit now," he adds.

"We need to ensure our existence by strategising so that we can too get a bite on the 'cake'," Nan Yusri says.

Deleum currently boasts an order book worth RM650mil. These jobs are expected to keep the company busy until 2018.

Deleum posted a net profit of RM29.03mil on revenue of RM396.3mil for its financial year (FY) ended Dec 31, 2011, compared with

a net profit of RM23.24mil on revenue of RM399.05mil for FY2010.

For the first quarter (1Q) to March 31, 2012, the company has already raked in a higher net profit of RM10.02 mil, compared with a net profit of RM5.71mil in the previous corresponding period. This was despite the fact that revenue was lower at RM82.78mil, compared with RM128.44mil a year earlier.

Dividend play

Deleum is indisputably one of the strongest dividend plays among the O&G counters in Malaysia. For FY2011, it declared a total payout of 14 sen per share, up from 11.5 sen per share for FY2010.

For 1QFY2012, it has also declared an interim dividend of nine sen per share.

"We are committed to keeping our dividend policy of around 50% of our profits," Nan Yusri says.

It is understood that several institutional investors have expressed interest in holding blocks of shares in Deleum because of the company's attractive dividend policy and sound fundamentals. It is interesting to note that among all the listed O&G players in Malaysia, Deleum not only boasts one of the highest dividend payout rates last year, but it has also consistently stood out in terms of earnings per share (EPS).

The main contention among investors, however, is that Deleum is a relatively illiquid counter. According to data from Bloomberg, Deleum's free float shares presently is only around 18.4%.

Nan Yusri says the management is working towards addressing that issue.

"We are looking at more corporate exercises that could boost liquidity and enhance our appeal to investors," he says, pointing to the recent bonus issue of one for every two shares held as a case in point.

Deleum was quoted on Thursday's close at RM1.60, down one sen. The counter is currently trading at around 7.6 times FY2012 price-earnings (PE) and 1.1 times FY2012 price-to-book-value (P/BV), compared industry average of around 16 times FY2012 PE and 1.8 times FY2012 P/BV.