

Malaysian Oil & Gas Service Providers

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MALAYSIAN RATING CORPORATION BERHAD
Clarity and Integrity
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Presentation Outline



- **Macroeconomic environment**
 - Oil price outlook
 - Geo-political risk

- **Operating environment in Malaysia**
 - Malaysian reserves and production
 - The ETP impetus

- **MARC's oil & gas rating portfolio**
 - Portfolio performance
 - Rating directions

- **Concluding remarks**

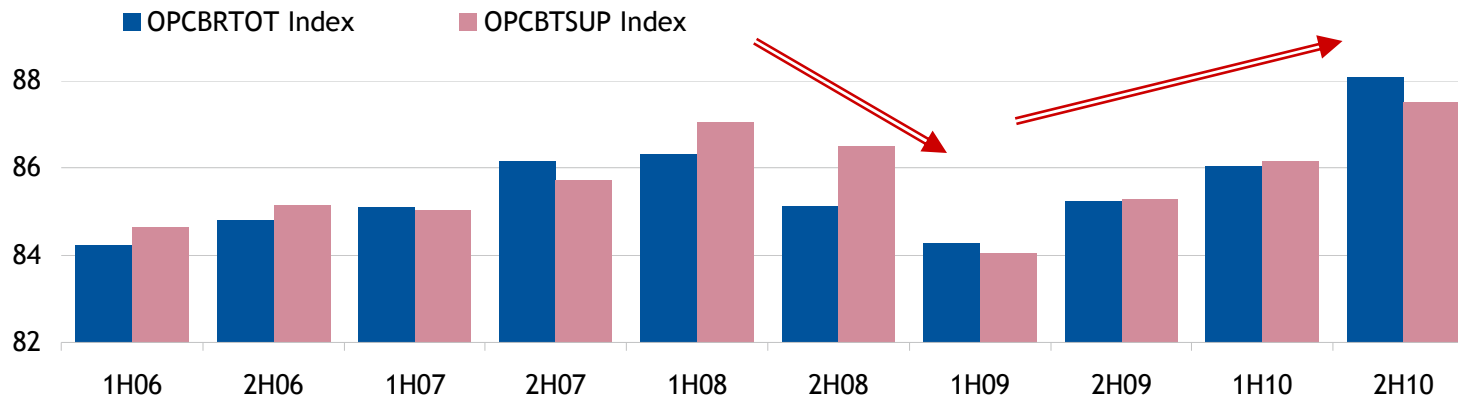
Macroeconomic Environment

Recovering Demand



Demand and Supply Dynamics

bbl/day



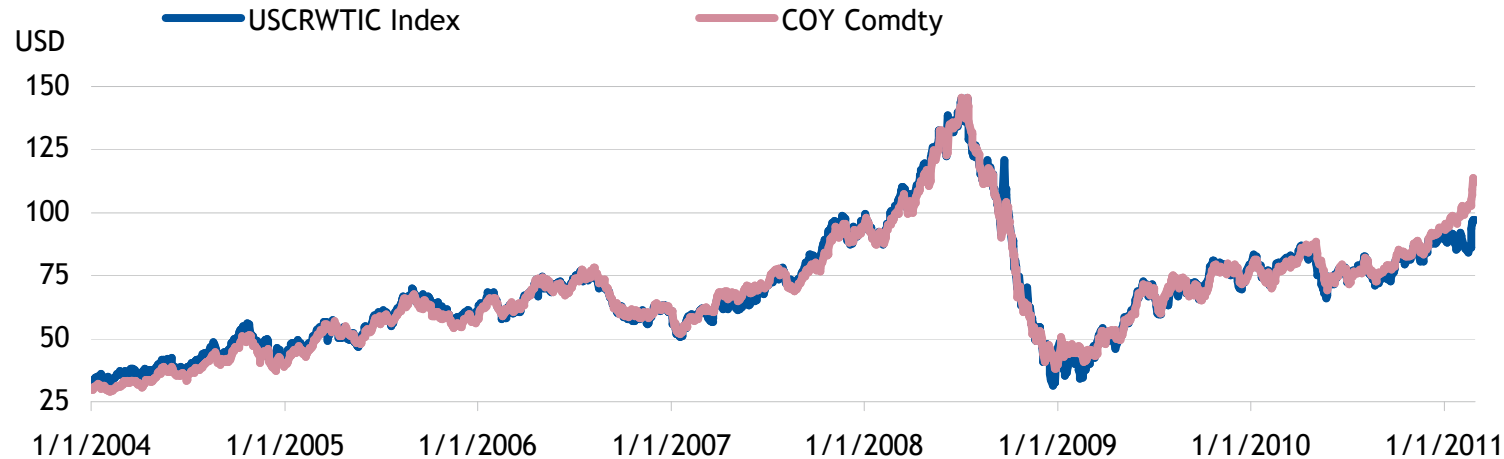
Source: Bloomberg

- Global GDP to grow by 4.4% in 2011 and 4.5% in 2012 (IMF).
- Oil demand to increase up to 90 mil bbl/day (IEA).
- Long-term demand may also be supported by a move away from nuclear sources of power, although it is still too pre-mature to tell.
- OPEC has increased production to meet higher demand.
- Downside risks: Double-dip recession in major markets.

Oil Prices Shooting Up



Global Oil Prices



Source: Bloomberg

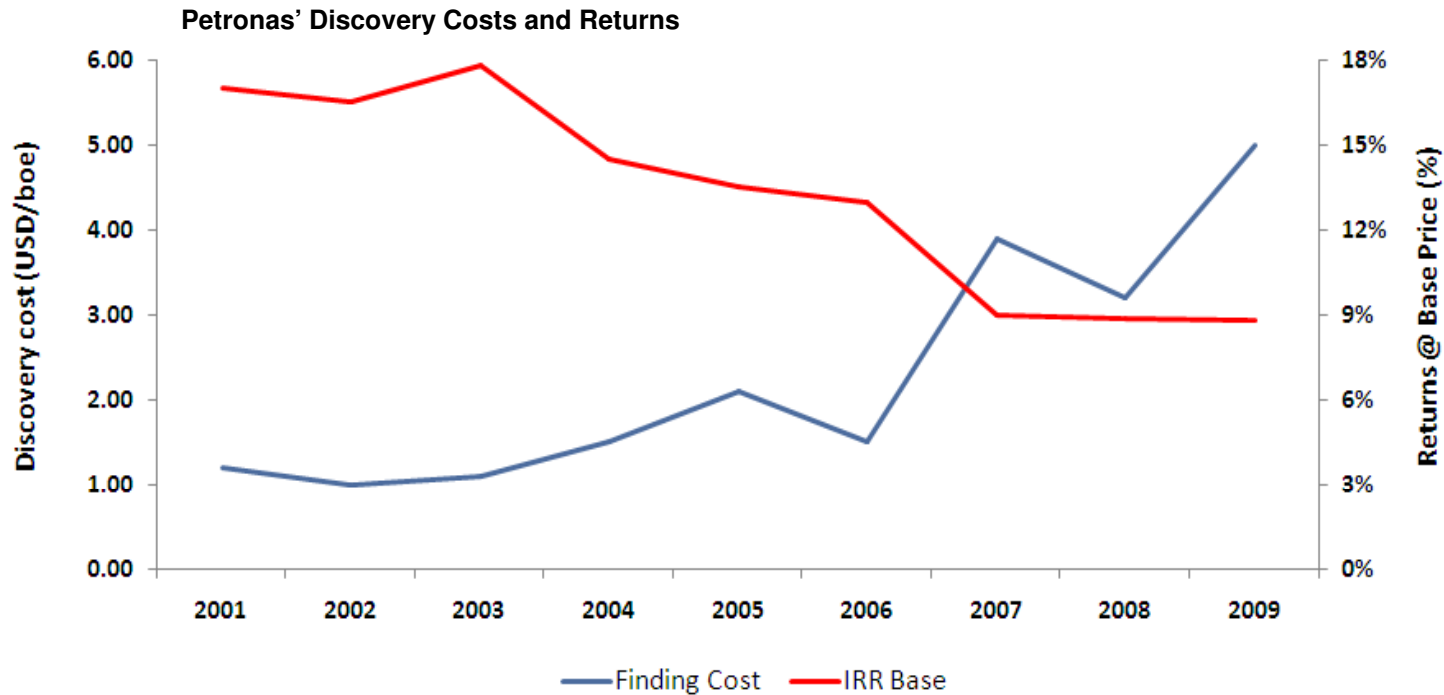
- Recovery in oil prices supported by:
 - Fairly strong growth in major emerging markets.
 - Recent spike is a result of geo-political uncertainties in the MENA region.
- However, current prices are above economic fundamentals.
- MARC's beginning of the year estimate for oil prices in 2011 was USD90-100/bbl. Will this hold?

Geo-Political Risks and Oil Prices



- **Oil unlikely to hit high of pre-crisis 2008**
 - A sustained increase in oil prices will impact inflation-fighting efforts in emerging markets and fiscal consolidation in the developed world.
 - Global governments and policy influencers are likely to take action.
 - OPEC has spare capacity to deploy.
 - Current inventories above five-year average.
 - At this point, a major supply disruption is fairly unlikely.
 - Top five oil producers in the MENA region are unlikely to be affected by 'regime-toppling' protests.
 - What happens if there is instability in Saudi Arabia?

Rising Capex and Falling Returns



- Oil demand is expected to increase to 99 mil bbl/day by 2035 (IEA).
- Oil majors will continue investing upstream to maintain production.
- Capex increased fourfold between 2000-2008; fell 15% in 2009.
- However, returns from exploration activities have been declining for Petronas.

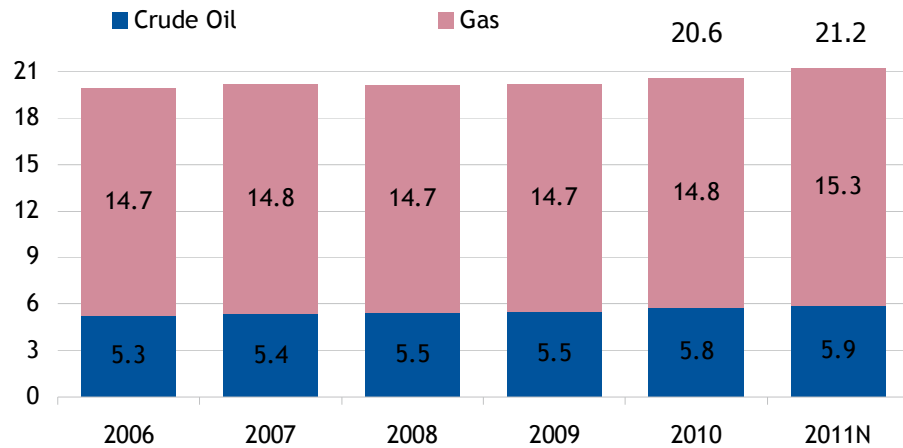
Operating Environment in Malaysia

Malaysian Reserves and Production



Malaysian Oil & Gas Reserves

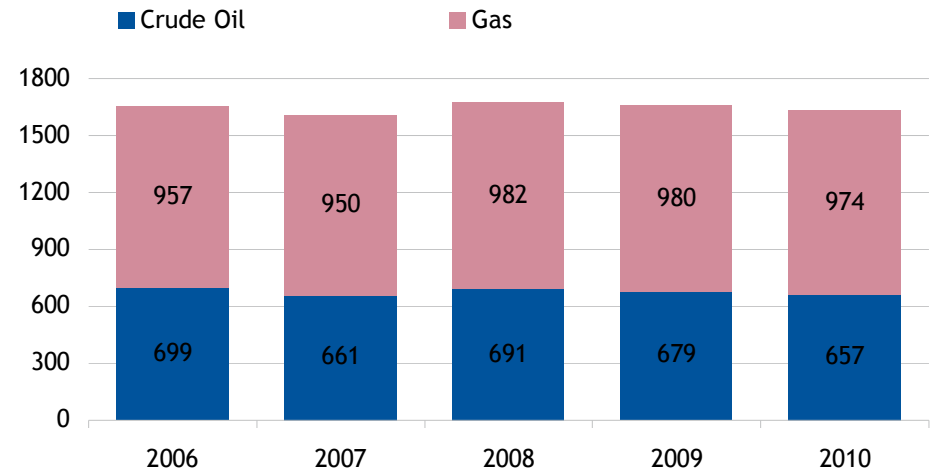
bbl/billions



Source: Petronas, MARC

Malaysian Oil & Gas Production

in '000 BOE per day



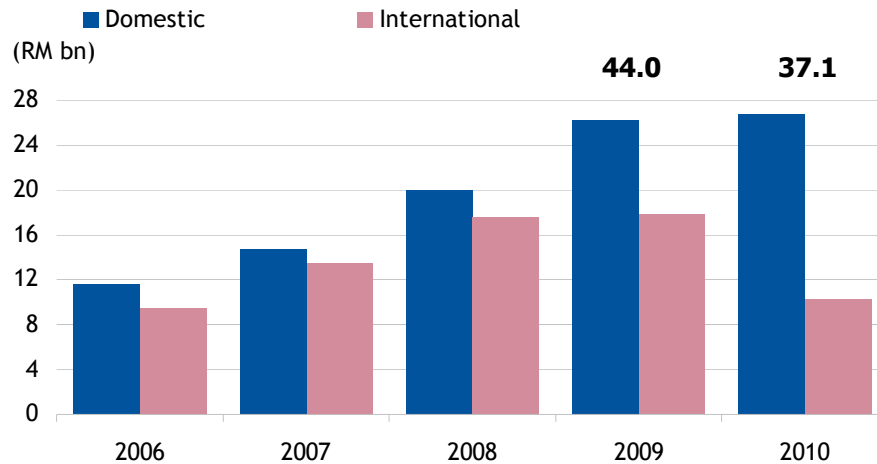
Source: Petronas, MARC

- Maintaining the reserve replacement ratio is a priority; currently at 1.1; Target 1.0.
- This should augur well for upstream players.
- Production has been marginally declining.

Petronas' Investment Remains Key



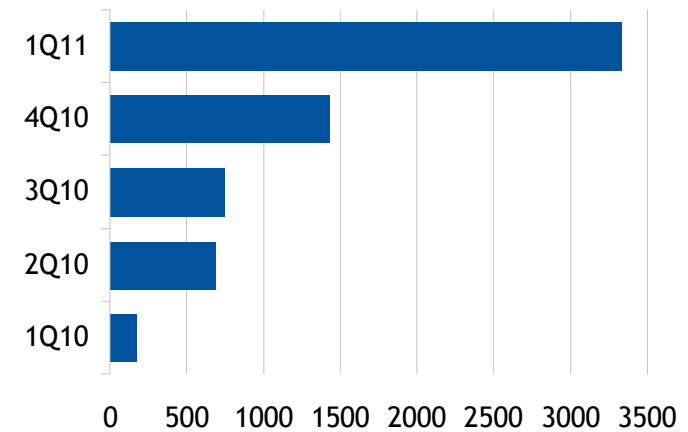
Petronas' Capital Expenditure



Source: Petronas

Industry Contract Awards

in RM bn



Source: MARC

- Petronas has to balance dividend payments to the government and reinvesting to augment future production capacity; recent signs point towards a renewed focus on reinvestment.
- Petronas is expected to maintain capex of RM50 billion/year over the next five years; inflation-adjusted capex may remain flat.

Deepwater Development Schedule



Field	PSCs (Operator in bold)	Water Depth (m)	Reserve (mmboe)	Preliminary Engineering	Installation, Hook- up & Commissioning	Indicative First Oil
Gumusut Kakap	Shell 33% Conoco 33% PCGB 20% Murphy 14%	1100	620	1Q2009	2Q2010	2H2011
Malikai	Shell 35% Conoco 35% PCGB 30%	480	108	3Q2009	2Q2011	1H2013
Kebabangan	Conoco 30% Shell 30% PCGB 40%	190-295	414	4Q2009	3Q2011	1H2013
Jangas	Murphy 80% PCGB 20% Shell 35% Conoco 35%	> 1000	81	1Q2010	4Q2011	2H2013
Ubah Crest	PCGB 30%	> 1000	215	3Q2010	2Q2012	1H2014
Pisangan	Shell 35% Conoco 35% PCGB 30%	> 1000	56	4Q2010	3Q2012	1H2014
Kamunsu	Shell 30% Conoco 30% PCGB 40%	> 1000	2701	3Q2011	2Q2013	1H2015

- Delays have occurred in 2009-2010. There could be delays in certain developments going forward.
- The financial impact on contractors relying on contract renewals can be substantial.
- First oil for Gumusut/Kakap and installation of Malikai/Kebabangan will be milestones in this year.

- **Identified key entry point projects include:**
 - positioning Malaysia as an Asian hub for oil field services.
 - projects that contribute to sustaining oil and gas production.
 - enhancing downstream activities.

- **Thus far, RM28 billion of projects announced.**

- **Government's policy support is a significant positive impetus for the sector.**

Oil & Gas ETP Projects Announced



Sponsor		Investment
TASBMS	(i) Tanjung Agas – Industrial Park	RM3.0 bil
EMEPMI	(i) Rejuvenate mature facilities (ii) Tapis - Enhanced oil recovery (iii) Telok - Offshore gasfield	RM10.0 bil
Shell	(i) Bintulu – Shell MDS wax plant (ii) Port Dickson – New diesel unit (iii) Gumusut – Offshore deepwater	RM5.1 bil
Dialog	Pengerang – Independent Petroleum Terminal	RM5.0 bil
Petronas	Berantai – Marginal oilfield risk service contracts	RM2.6 bil
PetGas	Malacca – Regasification plant	RM1.1 bil
RG Gas	Labuan – Integrated oil and gas hub	RM1.0 bil
	Total	RM27.8 bil

Source: Pemandu



MARC's Oil & Gas Rating Portfolio

Strengths

- Established track record
- Access to international expertise and JV partners

Weakness

- Excess capacity in certain sectors; OSV
- Slow order book replenishments
- Weak financials
 - High leverage
 - Low operating margins

Opportunities

- Renewed focus of Petronas on exploration and enhancing recovery techniques
- Government support
 - ETP impetus
 - Tax concessions

Threats

- Uncertainty with regard to the investment decision of oil majors
- Possible access for non-Malaysian operators, especially in projects involving new techniques
- Overseas expansion will not work well for all

Key Rating Themes



Key Themes Influencing Ratings

- Asset decisions and capabilities (contract execution)
- Cost structure and flexibility
- Gearing and financial flexibility
- Cash reserves and liquidity

MARC Rated Universe Industry Average	FY2009	FY2010	Change
Operating Profit Margin (%)	14.91	8.75	▼
Return on Equity (%)	17.21	9.41	▼
OPBIT Interest Coverage (x)	21.57	8.60	▼
Receivables Turnover (days)	123	120	-
Cash Conversion Cycle (days)	94	83	▲
Debt to Equity	0.88	0.81	▲

Significant Rating Actions in 2010



Issuer	Rating Action	Instrument	Current Rating	Previous Rating	Notes
Bayu Padu Sdn Bhd	Upgraded	(i) Istisna' Bonds (ii) MCP/MMTN	(i) AA- _{ID} (ii) MARC-1 _{ID} /AA- _{ID}	(i) AA- _{ID} (ii) MARC-1 _{ID} /AA- _{ID}	Increased order book Decreasing leverage
Handal Offshore Services Sdn Bhd	Upgraded * (*Since withdrawn)	(i) MTN	(i) A+	(i) A	Increased works Decreasing leverage
Petra Perdana Berhad	Downgraded	(i) Bonds (ii) MTN	(i) A- (ii) A-	(i) A+ (ii) A+	Insufficient contracts High leverage
Offshoreworks Capital Sdn Bhd	Downgraded	(i) Sukuk Musyarakah (ii) MCP/MMTN	(i) A+ _{IS} (ii) MARC-2 _{IS} /A+ _{IS}	(i) AA- _{IS} (ii) MARC-1 _{IS} /AA- _{IS}	Non-recoverable operating costs
Vastalux Capital Sdn Bhd	Defaulted	(i) Sukuk Musyarakah	(i) D _{IS}	(i) BB+ _{IS}	Non-recoverable operating costs

MARC's Rating Universe



Long-Term Rating	Number of Issuers Rated by MARC
AAA	1
AA -	5
A +	1
A -	1

Rating Outlook	Number of Issuers Rated by MARC
Stable	4
Negative	3
MARCWatch Negative	1

Concluding Remarks



- Overall weaker financial performance in 2010 for the rated portfolio of issuers.
- Negative rating pressure on several issuers.
- However, a recovery in industry prospects is on the horizon.
- Timing of capex and expansion and managing their current cost profiles will be critical for the service providers.
- Certain players will benefit more than others, especially those with new assets.
- Overall, industry prospects remain positive, but the rated portfolio may see some downward rating momentum in the next 12 months.

A grayscale image of a conference room. A large, light-colored conference table is surrounded by several black office chairs with wheels. The chairs are arranged in a circle around the table. The text 'Thank You' is superimposed in the center of the image in a large, bold, black font.

Thank You