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SPECIAL EDITION

# e-NEWSLETTER

# OGFF oil & gas financial forum 2015



# About OGFF & Objective of OGFF

Malaysia Petroleum Resources Corporation (MPRC) was established to see through the strategies to grow Malaysia's Oil & Gas Services and Equipment (OGSE) sector and to position the country as the regional hub. Its role is to promote, catalyse and globalise the country's OGSE capabilities in the upstream, midstream and downstream segments.

The Oil & Gas Financial Forum (OGFF) brings together some of the most influential members of the financial and oil & gas business community to discuss new ideas, developments and trends in the OGSE sector.

Other than achieving the objectives below, OGSE players have the chance to meet and network with key

representatives from BNM as well as other government agencies involved in the promotion and development of the OGSE sector i.e. MIDA, SME Bank and others. This has brought a significant impact to the industry players especially in terms of ensuring that they are equipped with the latest knowledge on the right financing strategies to deal with the current market situation.

“ The Oil & Gas Financial Forum (OGFF) brings together some of the most influential members of the financial and oil & gas business community to discuss new ideas, developments and trends in the OGSE sector ”

## THE FORUM AIMS TO:

- Provide a platform for OGSE industry players and Financial Institutions to exchange knowledge and ideas
- Promote collaboration between OGSE and the financial services sector
- Explore new and other innovative funding mechanisms, given the nature of Oil & Gas (O&G) projects
- Create awareness on industry challenges and the various financing solutions in the OGSE sector
- Improve access to financial markets and borrowing environment for OGSE companies
- Create more visibility on the various financing options to OGSE players



# OGFF 2015 at a Glance



**Theme: Investing Through The Cycles:  
Opportunities in Uncertainties**

**Date:** 15 June 2015

**Venue:** Sasana Kijang, Bank Negara

No. of  
representatives from  
**OGSE Companies**

117

**Total Attendees**

230

No. of  
representatives from  
**Financial Institutions**

93



# KEY TAKEAWAYS FROM OGFF 2015



- Malaysia's economy remain steady in spite of the drop in oil prices – diversified economy, steady growth path, high private investment, stable employment rate, contained price pressures, current account balance remains in surplus and strong bond market and prudent banking capital ratio – strong fundamentals to weather the challenges
- Oil & Gas is a cyclical industry. At the moment, oil prices have stabilised and OGSE companies should focus on value creation i.e. technological development and their competitive edge to re-think their strategies to better prepare themselves for the next upswing in the future
- Financing is still available for O&G companies who have the right ingredients to grow. Nevertheless, financial institutions need to re-evaluate their package/strategies and look into greater risks taking in view of the more challenging operating environment faced by OGSE companies
- Banks are urging OGSE companies to constantly engage them to discuss their business/financial strategies considering the present situation of the market and industry. This in return would help the banks to manage their risks better in relation to the companies' financial track record, strong balance sheet, assets management etc.
- Consolidation and collaboration in the industry are underpinned by several factors i.e. market expansion, assets acquisition, growth of companies etc. Companies need to weigh these factors before deciding on the right approach

# Recap of the Event and Panel Sessions

This year's OGFF convened with a keynote address from Yang Berhormat Senator Dato' Sri Idris Jala, Chief Executive Officer of PEMANDU and Chairman of MPRC. In his address, he highlighted the cyclical nature of the O&G industry recollecting on the history and ups and downs of the industry. Echoing with the theme of the forum 'Investing through the Cycles: Opportunities in Uncertainties', he also stressed the importance of being resilient to the OGSE companies and the need for the right financing support i.e. innovative financing from the financial institutions during these uncertain times.

OGFF 2015 focused on looking at the various investing and financing opportunities as well as strategies vis-à-

vis the current backdrop of the drop in oil prices, and at the same time as a continuation from OGFF 2013, where we discussed the challenges in financing the OGSE sector. The topics covered in the forum expounded on key issues such as the current landscape of Malaysia's economy and Oil & Gas Industry, traditional and new financing strategies for the Oil & Gas players as well as looking at financing growth in tough times. At the end of the forum, Datuk Shahrol Halmi, CEO of MPRC delivered his closing remarks to conclude this year's OGFF.

YB Senator Dato' Sri Idris Jala (right) and Datuk Shahrol Halmi



## SESSION 1

# Introduction & Presentation of MPRC 100

The session began with Ir. Dr. Shahreen speaking to the participants on MPRC; its mandate, roles and achievements to-date. He also spoke on MPRC's strategies and mission to make Malaysia the OGSE hub in the Asia Pacific region.

### TOWARDS BECOMING THE OGSE HUB IN THE REGION

- Identifying challenges and developing strategies for Malaysia to become a hub – Benchmarking Malaysia against advanced international players/countries e.g. Norway, UK
- Increasing Malaysia's presence in the international arena – recognition of Kuala Lumpur as World Energy City, participation in International events e.g. OTC Houston, OTC Asia, etc.
- Growing technologically capable local companies with the right talent supply to cater not just for the local but international market

Next, participants were presented with MPRC's latest product i.e. the MPRC 100 – a document that ranks OGSE companies based on their revenue in 2013.

The presentation conducted by Syed Azlan Syed Ibrahim covered key areas of the publication which includes elaboration on Methodology and Sampling, MPRC 100 rankings, Malaysia's OGSE sector in review, top performers among MPRC 100 companies as well as the performance of MPRC 100 as compared to the Medium and Small Non-MPRC 100 companies.

Being the first of its kind, it is hoped that the publication will serve as a point of reference and at the same time increase transparency within the industry and amongst its other stakeholders i.e. regulators, potential investors, financial institutions. Essentially, the aspiration is for the publication to generate more interest, analysis and discussions probing into the OGSE sector.

### KEY FINDINGS OF MPRC 100

- Malaysia's OGSE industry revenue was valued at RM82.7 billion in 2013. This represented a growth of 6.6% from RM77.6 billion in the preceding year
- MPRC 100 companies account for 71.6 per cent of the total industry revenue in 2013
- On average, MPRC 100 experienced strong growth in 2013, with revenue rising at a three-year compounded annual rate of 21.5 per cent and three-year pre-tax profit margin averaging at 5.2%

- In 2013, MPRC 100 companies' Fixed Assets increased to RM55.0 billion from RM39.3 billion in 2012 – an increase of RM15.7 billion
- The 21 top performers amongst the MPRC 100 companies comprised not only of Multinational Companies but also a significant number of home-grown players



## SESSION 2

# Malaysia's Oil & Gas Economic Landscape 2015

In this session, the forum had the honour to have the Director from Bank Negara's Economics Team, Fraziali Ismail together with Rick Ramli from The Boston Consulting Group (BCG). Together, they both looked at the current landscape surrounding Malaysia's economy and the Oil & Gas Industry in the country. Despite having faced with several global economic conditions,

Malaysia is still coping well as supported by several factors i.e. steady growth path, high investments from the private sector, stable employment rate, contained price pressure, a current account balance that remains surplus as well as a strong bond market and a prudent banking capital ratio.

### CURRENT SCENARIO AND OUTLOOK OF MALAYSIA'S ECONOMY AND THE O&G INDUSTRY

- Malaysia as an open-economy is affected due to uncertainties in the global economy, commodity prices and domestic policy adjustments
- Malaysia's heavy dependency on the O&G sector is a misconception as pointed out by the panellists as the country has a diversified economy; unlike several other oil producing economies like Russia and Mexico
- Unlike previous cycles, where oil price recovered within a relatively shorter timeframe, the cycle this time is different as the shift in demand and supply is driven by changes in consumption patterns and technological development. Therefore, oil prices are not expected to return to \$100 per barrel levels in the foreseeable future
- Operators are redefining their strategies, taking a value-based approach instead of incremental volume and need to target fundamental cost reduction. PETRONAS has also recently embarked on similar initiatives such as CORAL 2.0. Cost-reduction has to be tackled at an industry-wide level as there is a limit to squeezing margins out of the supply chain

- In order to position themselves for high growth, OGSE players need to invest in long-term capabilities and focus on their comparative advantages that will remain in play in a lower break-even cost environment
- BCG's forecast on Long Term Oil price based on three scenarios:
  - **Scenario 1:** \$80 - \$90 per barrel assuming no cost reduction;
  - **Scenario 2:** \$65 - \$75 per barrel assuming moderate cost reduction; and
  - **Scenario 3:** \$50 - \$60 assuming aggressive cost reduction in order to meet projected demand in 2020

“ OGSE players need to invest in long-term capabilities and focus on their competitive advantages that will remain in play in a lower break-even cost environment ”

Fraziali Ismail (left) and Rick Ramli



## SESSION 2

# Malaysia's Oil & Gas Economic Landscape 2015 (Cont')

In his presentation, Rick Ramli also highlighted the factors which will shape the oil price evolution in 2015 moving forward. Below is an excerpt from his presentation on the matter.

## 20 variables will shape oil price evolution in 2015 and beyond

Both shorter-term and longer term causes and effects

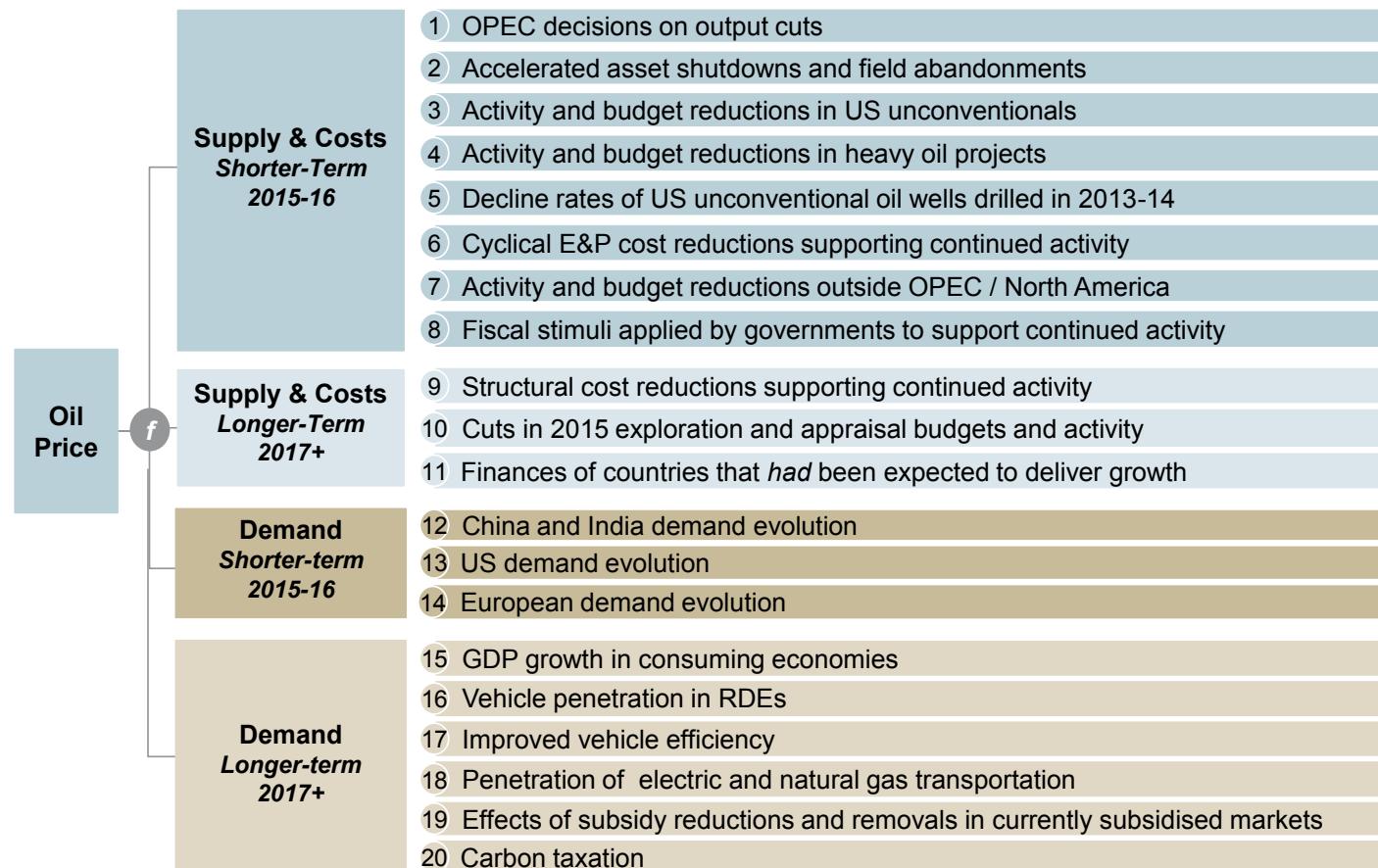


Image courtesy of  
The Boston Consulting Group

## SESSION 3

# Innovative Financing Strategies and Collaborative Solutions

The forum paused for lunch before the event continued with Session 3. Moderated by Karambir Anand from Ernst & Young (E&Y), the session kicked-off with a presentation from his colleague, Alvin Tan, from E&Y. The panellists for this session also included some industry captains from both the O&G and Financial sector namely Rohaizad Darus, President of UMW Oil & Gas Corporation Berhad and Ir. Azman Ahmad, the Group Director for Oil & Gas / Energy, Boustead and Daniel Mallo, from Societe General, Asia Pacific.

### FINANCING ISSUES, CHALLENGES AND INNOVATIVE STRATEGIES FOR O&G PLAYERS

- Working capital requirements for oilfield services players i.e. inventory, cash, payables, and sales have increased since 2007-levels, considering the larger, more complex and riskier projects being undertaken
- Typically, businesses will encounter major financial issues during various stages of its growth. There needs to be a long-term relationship between the companies and their bankers to understand each other's challenges to find win-win solutions for the companies to reach its full potential
- According to Daniel Mallo, financing is still available for upstream and services companies, potentially from banks that understand the industry better, at a higher pricing and with more restrictive covenants
- Cost of financing might appear expensive compared to a year ago, but it might still be a good idea to lock in the current rates given the possibility of interest rate hike in the U.S. later this year

- In Rohaizad's presentation, he highlighted some of the financing challenges faced by UMW which include – the O&G being viewed as a "high-risk industry", expectations for the increase in interest rates and the weak MYR
- Possible mitigation strategies as highlighted by the panellists include:
  - Engaging financiers with business updates more frequently, including site visits to build understanding and confidence in the company, seeking financing from multiple sources, including foreign banks to diversify its sources of funding
  - Negotiating contracts in USD versus MYR to naturally hedge the company's USD borrowings
  - Interest rate swaps to convert floating interest rate terms to fixed interest rates at the current pricing
  - Off-balance sheet financing structures to preserve existing leverage and gearing ratios

- One of the questions from the floor to the industry captains was on the likelihood of M&A and consolidation in the industry and the responses from the panellists were:
  - M&A and consolidation are less likely to happen in the drilling segment, given many players are focusing on their own survival. Key rationale has to be access to new markets and the acquired assets preferably come along with contracts to justify a stronger business case. Otherwise, it will not be practical as the domestic market might already be facing overcapacity
  - Looking at the case of Tier-2 fabricators; companies have already been posturing at one another, but it depends on strategic fit and 'would-it-be-better' if an M&A is undertaken. There has to be synergies to provide upside-potential. Other than M&A, there are other types of collaboration. For example, the possibility of forming an umbrella consortium with smaller players to bid for jobs regionally



(From left) Alvin Tan, Rohaizad Darus, Ir. Azman Ahmad, Daniel Mallo, Karambir Anand (Moderator)

## SESSION 3

# Innovative Financing Strategies and Solutions (Cont')

As pointed out by Daniel Mallo, having a thorough understanding of the life cycle of the O&G companies is crucial to the banks and financial services players as it helps them to better strategize their range of products and offerings to best cater for the O&G industry. This is explained in the excerpt below from his presentation.

### OVERVIEW – LIFE CYCLE OF UPSTREAM COMPANIES

A range of well established products and services matching the lifecycle of oil and gas companies, from their inception and first project developments, through to mature investment grade corporations.

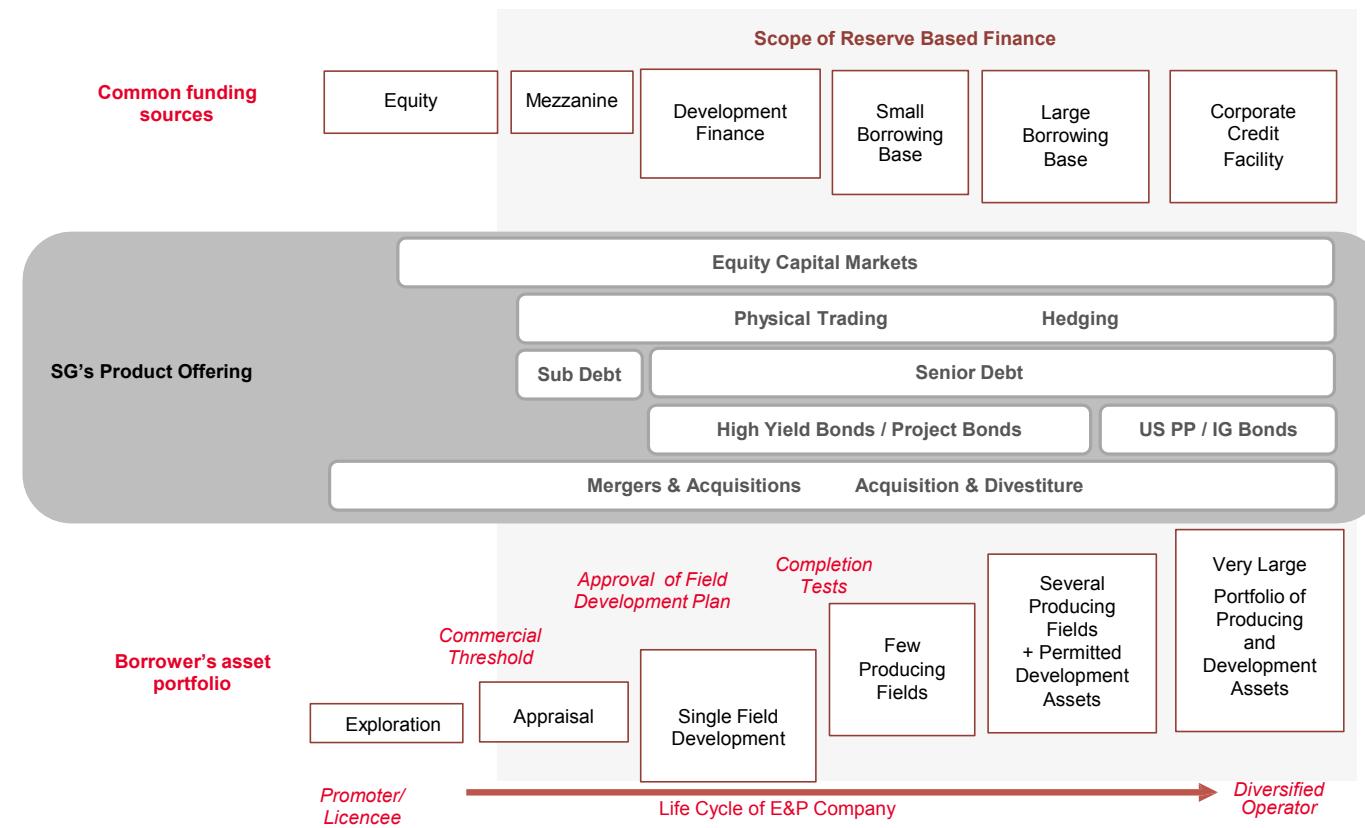


Image courtesy  
of Societe Generale

## SESSION 4

# Financing Growth in Tough Times

Despite being the last session of the day, this session had one of the most important notions to be discussed. Featuring notable speakers from several local and international banks such as Datuk Adissadikin Ali (Alkhair International Islamic Bank), Wendy Ting (RHB), and Asbullah Adnan (SME Bank), the panellists also comprised of two representatives from the industry and growth companies namely Sharifah Zaida Nurlisha (Malaysia Oil & Gas Services Council, MOGSC) and Ir. Azhar Zainal Abidin (ProEight Sdn. Bhd.).

(L to R) Datuk Adissadikin Ali, Ir. Azhar Zainal Abidin, Sharifah Zaida Nurlisha, Asbullah Adnan, and Wendy Ting

### STRATEGIC APPROACHES AND ACCESS TO FUNDS IN THE CURRENT ECONOMIC CONDITION

- Despite the challenges to obtain financing during the R&D stage, companies need to prepare themselves with other alternatives such as raising equity and self-funding. This is crucial as the elements of technology and innovation can be a game changer in creating value
- The risk and return profiles for various segments of the supply chain can vary significantly
- Banks are being ‘cautiously optimistic’ of the O&G industry. Wendy believes financiers can see value if you take a long-term view. RHB has consistently maintained its “Overweight” call on the O&G industry
- Commercial banks have a wide range of financial products. Banks can facilitate by understanding the industry and their clients better, to provide the right financing solutions to the right customer. However, companies need to have realistic expectations when raising funds, especially in terms of balancing their debt-equity ratios. One option for smaller companies is to tie-up with established players with a stronger balance sheet
- MOGSC feels more dialogue is necessary to build common understanding and collaborations between growing companies and financial institutions. As such, MPRC could play a role in connecting the industry with financial institutions
- Ir. Azman asked lenders to consider extending tenure of loans based on the operational performance of companies. According to Wendy, it could be difficult within the current BNM regulatory guidelines that require provisioning in the event where loans are restructured and repaid on time
- Ir. Dr. Shahreen proposed an active desk linking Operators’ Procurement, OGSE companies and financial institutions to provide financing based on contracts awarded. Datuk Adissadikin said payments could be assigned directly for loan repayment, mitigating performance risk that usually plagues contract-financing. Sharifah opined the programme will face the same problem of awarding criteria and most companies might not benefit from it. In this view, Wendy commented that it is important to have an industry practitioner in the team and concurs that MPRC could take the lead



# Moving Ahead

As observed from the issues and concerns highlighted during the forum, some initial quick wins that can be proposed and pursued are:

- Dialogue session between the industry players / OGSE companies and financial institutions to make both parties better understand the current needs of the industry and the expectations that come with it
- Constant engagement between industry players and other government agencies facilitated by MPRC to strengthen relationship for further business opportunities and access to grants and incentives
- Business clinic session / 1 to 1 consultation session participated by relevant government, banking institutions – for OGSE companies to better understand the criteria and requirements needed to finance their business

“ ...there is indeed a dire need for continuous and pro-active engagement with all the stakeholders of the industry; to better understand the challenges and prospects of each other, given the right platform ”

In summary, from this year's OGFF we can see that there is indeed a dire need for continuous and pro-active engagement with all the stakeholders of the industry; to better understand the challenges and prospects of each other, given the right platform. In this spirit, MPRC will continue to take the lead to grow and develop the OGSE sector and pursue its goal in increasing the content and economic contribution from the OGSE sector and to achieve the vision of making Malaysia the hub for OGSE activities in Asia Pacific.

Till we meet again in the next OGFF!

**Tell us  
what you think!**

We'd love to hear from you!  
Drop us your feedback  
or suggestions at  
[ogff@mprc.gov.my](mailto:ogff@mprc.gov.my)

# Event Photos

- 1 YB Senator Dato' Sri Idris Jala delivering his keynote address
- 2 (From left) Eric Chua (MPRC), Dato' Mohd Sallehuddin bin Othman (Bank of Tokyo-Mitsubishi UFJ (Malaysia), Ahmad Farid Arif (Berkat OSH Services Sdn Bhd)
- 3 "Here's my card": Participants mingling and exchanging contacts
- 4 Participants getting a deeper insight on the O&G landscape in Malaysia





5 A great turnout at OGFF 2015

6 OGFF @ Sasana Kijang Auditorium, Bank Negara

7 Participants networking and exchanging stories with one another

8 (From left) Ir. Dr. Shahreen, Datuk Adissadikin Ali, Ir. Azhar Zainal Abidin, Ir. Azman Ahmad, Datuk Shahrol Halmi, Rohaizad Darus, Wendy Ting and Asbullah Adnan

9 Participants getting a deeper insight on the O&G landscape in Malaysia

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