

Oil, gas companies to benefit from new discoveries, high prices



OIL and gas companies in Malaysia stand to benefit from the continued bright prospects for the sector as new discoveries and high oil prices lead to more jobs and contracts for their services, analysts say.

Avenue Securities Sdn Bhd said in a research note that consolidation in the industry over the last 18 months has also started to contribute to the bottom line of these companies.

"So far in 2006, investors have been rewarded with relatively strong capital gains. Share prices have run hard over the last six months, but the good news is valuations remain undemanding in view of the robust earnings outlook," the research house said.

Besides the continued high oil prices, further award of contracts and capacity expansion should sustain the outperformances of oil and gas-related stocks over the next 12 months, it said.

Avenue Securities said most oil and gas-related stocks have delivered impressive total returns year-to-date in 2006, with KNM taking the lead (total returns of 59 per cent), followed by Petra Perdana (43 per cent), SapuraCrest (41 per cent) and Wah Seong (10 per cent).

It said the strong outperformance was mainly driven by positive news with regards to strategic alliances and ac-



quisitions in the case of KNM and Wah Seong; expectations of internal restructuring (Petra Perdana and Wah Seong); as well as the award of new contracts (SapuraCrest, Scomi Group, Sumatec, Tanjung Offshore and Kejuruteraan Samudra).

Avenue Securities expects these companies to report a stronger set of results in financial year 2006 year-on-year on the back of bigger contracts and contributions from new acquisitions.

On stock picks, Avenue Securities said upstream players such as SapuraCrest, Petra Perdana and Scomi stand to benefit from the lucrative oil and gas industry in Malaysia.

It said the development in the upstream segment should also benefit the downstream services and manufacturing companies like Wah Seong, KNM and Ramunia as well as supporting operators such as Dialog, Tanjung Offshore and Kejuruteraan Samudra Timur.

Avenue's top picks for the sectors are KNM, Petra Perdana and Wah Seong.