High energy results from oil companies

Between the Lines

By C.S. TAN

MANY of the oil service companies did not disappoint in the recent results season. Several, in fact, exceeded the expectations of analysts.

The financial results they reported for the January-to-March quarter offer a convincing statement that Malaysia has developed thriving oil service companies.

Interestingly, most of the more successful oil service companies raise the bulk of their revenue from overseas, rather than in Malaysia.

Some of them, of course, honed their skills in this country before striking out to serve the oil majors in their operations in other countries.

It is apt that the domestic oil service sector is on the move as it fits into the category of support services for the country's resource-based industry.

KNM Group Bhd is one of the most closely watched oil service companies. The reason for that is it has been one of the best performing oil stocks – its share price steadily climbed from its initial public offering price of 49 sen, adjusted for stock splits, to RM5.95 last Friday.

With about 99% of its process equipment products sold overseas, it produced a strong set of results for its first quarter (Q1) this year.

Coastal Contracts Bhd, in contrast to KNM, experienced a sharp drop in its share price from more than 60 sen two years ago to 42 sen last Friday. This price decline could partly be due to selling by two funds - Prudential Unit Trusts and Allianz group of Germany, both of which ceased to be substantial shareholders in April.

The earnings of Coastal, a builder of support vessels for the oil and gas (O&G) industry, is uneven from quarter to quarter, based on the number of vessels it delivers.

Striking oil financially

(RM mil)

Company	Net profit in latest quarter	Net profit in same quarter '05	% increase
KNM	20.8	8.9	133.7
UMW	37.1 *	18.2 *	103.8
Wah Seong	29.9 **	16.4 **	82.3
Genting	20.8 *	11.6 *	79.3
Coastal	6.9	4.2	64.3
Dialog	13.0	8.2	58.5
Tanjung Offshore	3.1	2.1	47.6
Petra	11.2	7.6	47.4

* *Operating profit of oil and gas division*
** *Pre-tax profit of oil and gas division*

Source: Bursa Malaysia

Business, however, has never been so good for the company as well as the industry. Coastal reportedly has a full order book for 44 vessels and it is looking for a new yard to expand its capacity.

UMW Holdings Bhd and **Genting Bhd** are two large corporates that have successfully diversified into the O&G sector. UMW's O&G division appears to be more profitable than all the other oil service companies.

Genting is so large, its O&G division is generally not noticed. Even so, that division earned more than the group's property development and paper manufacturing divisions in its Q1.

The group operates oil fields in Indonesia and China. In addition, it will start receiving monthly deferred payments from 2008 under a contract with BP Global Investments Ltd, when LNG production commences from a well in West Papua.

Smaller strikes

Hexagon Holdings Bhd, on the second board, closed its financial year ended March 31 with a 59% rise in net profit to RM12.1mil.

A diversified engineering group, Hexagon gave guidance to its successful expansion into China, India and Indonesia. This will be among the select group of second board companies that should be able to graduate to the main board.

Padini Holdings Bhd's exports of ladies' shoes continued to expand, but with lower profit margins from exports, there was a small year-on-year drop in its third quarter earnings.

The process diagnostic scanning services conducted by Dialog Group

Even so, it has done well so far, with nine-month earnings up 49% to RM24.6mil, although the company faces its seasonally weakest quarter in the current Q4.

The jury is still out as to whether Padini could grow on the same path as its much larger Asian peers of fashion products - Giordano and Esprit of Hong Kong.

Landmarks Bhd's hotels in Langkawi received more tourists and charged higher room rates, putting the tragedy of the tsunami behind it.

Hence, the operating profit of its hotel division increased 31% to RM16.3mil in its Q1.

Its Datai hotel reported an improved room occupancy of 87% from 78% in the same quarter last year, even though it raised average room rates to RM1,457 from RM1,326 a year ago.

The Andaman hotel also increased its average room occupancy, to 70% from 57% before, on a higher room rate of RM689 from RM645 in the previous Q1.

Keck Seng (M) Bhd also reported a rise in earnings from its hotels, which are in Canada and Hawaii. The group's overall earnings, however, fell due to a loss in its palm oil refining operations and the effect of a weak US dollar.

Besides hotels, its large portfolio of quoted shares continued to appreciate. The portfolio, with a book value of RM146.8mil, showed a market value of RM405.9mil at the end of Q1.

This is a larger asset than the net worth of many other listed companies, and it rose in value by about 20% from a year ago. The bulk of the stocks in that portfolio - about 90% - were invested overseas.