DELEUM

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Deleum consolidates resources for O&G jobs

BY **Max Koh**

Among the oil and gas stocks listed on Bursa Malaysia, Deleum Bhd might not immediately strike a chord with investors. The group was listed in 2007 and has a relatively small market capitalisation of RM158 million compared with its peers.

However, Deleum has a proven track record in the O&G business with more than 25 years of experience in providing oilfield services to clients such as Petronas, ExxonMobil, Shell, and Talisman.

The group has seen its operating profit grow from RM26.83 million in FY2007 to RM38.7 million in FY2009. While it saw a dip in its earnings last year due to gratuity payments to directors and increased payroll costs, it is confident of growing its profits this year.

This is because Deleum is consolidating all its resources to capitalise on increased exploration and production (E&P) activities locally.

It is also looking at acquisitions to expand earnings growth. Last year, it acquired a new subsidiary, Rotary Technical Services Sdn Bhd, for RM10.7 million.

"Our mission is to ensure we have enough resources and consolidate our position to capitalise on jobs in the domestic market. This is in anticipation of new contracts coming out for 2011 and 2012," group managing director Nan Yusry Nan Rahimy tells *The Edge*.

CHU JUCK SING/THE EDGE

The group now has RM1 billion worth of local contracts under its belt, which is expected to keep it busy until 2015. It is also tendering for another RM200 million worth of projects in the services sector.

As part of the Economic Transformation Programme (ETP), Petronas is expected to increase exploration and production activities locally.

"We are excited about the domestic market.

Petronas has had a change at the helm and is increasing its focus on developing the local market. That is why last year, we decided to focus on the home front and not put our initiatives outside," says Nan Yusry.

He says the recent risk-service contract (RSC) awarded by Petronas has sent good vibrations throughout the industry and he is "excited" about the expected increase in E&P activities next year.

"We should be able to bag more jobs as activities pick up in the small marginal fields and enhanced oil recovery areas," he says.

Incorporated in 2005, Deleum has move than 25 years of experience in the O&G industry. It obtained its first licence from Petronas in 1982, via wholly owned subsidiary Delcom Services Sdn Bhd, to supply gas turbines and other services for oilfield purposes.

Nan Yusry: Our mission is to have enough resources in anticipation of new contracts in 2011 and 2012

Today, the group has two core businesses — power and machinery, and oilfield services.

Its power and machinery business includes the supply of gas turbines, subsea production systems, and umbilical lines to rigs. Deleum is involved in the commission of turbines and does technical and maintenance works throughout their lifespan. This business involves little capital expenditure as the turbines are provided by Solar Turbines Inc.

Its oilfield services arm is involved in the supply of wireline equipment, production and drilling equipment, and wellhead maintenance services. Deleum provides planned wellhead and equipment maintenance services to operators in East Malaysia.

It is also involved in the bulking services business via an associate company, and has a minority stake in an independent power producer (IPP) in Cambodia.

"Deleum is blessed as its earnings base is well spread with equal contributions from its various businesses," says Nan Yusry, who recently replaced Chandran Aloysius Rajadurai as group managing director.

However, observers have noted that it has very slim margins compared with its peers.

"This is because Deleum started as a trading company that offer services to operators. Nevertheless, we are looking at increasing the margins as we expand our oilfield services business which commands better margins," Nan Yusry says.

For FY2010 ended Dec 31, the sale of oilfield equipment contributed 47% or RM188.34 million to the group's total revenue, while oilfield services accounted for 50%. Marketing fees made up the remaining revenue contribution.

For the same period, Deleum's net profit fell 12% to RM23.24 million on the back of RM399 million revenue. The lower net profit

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Deleum to grow via acquisitions

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was due to gratuity payments to directors upon their retirement, increased payroll costs and expenses incurred by new subsidiary Rotary Technical.

Nan Yusry, however, expects Deleum to perform better this year.

"The first step is to sustain the current operations and retain our human capital. As we know, the industry has seen the migration of talents to the Middle East. We hope to retain them in the light of new jobs coming up in this region," he says.

He adds that Deleum will be focused on improving its resources as well as acquiring companies that offer synergistic values.

Growing via acquisition

Deleum went into acquisition mod e last year when it paid RM10.7 million for Ro tary Technical, which is involved in servicing, repairing, modifying and upgrading machinery and equipment for the general industry.

Rotary Technical recorded a ne t profit of RM1 million on the back of RM11 million in revenue for FY2010. "It contributed about RM500,000 to the group last year as the acquisition was only completed in July," says Nan Yusry.

"We hope to extend its services to the O&G sector, and have submitted an application to Petronas. After that, we should see higher contributions," he adds.

Deleum has plans to add other companies to its stable and has identified some potential companies with synergistic values.

Any acquisitions would be finan ced by internal funds and borrowings.

As at March 31, 2011, Deleum had RM8.33 million in cash versus borrowings of RM19.6 million. Based on shareholders' funds of RM170.1 million, it has a low net gearing of 0.07 times.

The company is planning to set aside RM20 million in capital expenditure for this year, to be spent on enhancing its facilities, acquiring specialised equipment, and improving IT security.

Deleum closed at RM1.58 last Thursday, which is 7% below its book value of RM1.70 per share.

For FY2010, Deleum declared a total dividend payout of 11.5 sen, which amounted to RM11.5 million, or half of the group's total net profit for the year.

Alliance Research has a "buy" call on Deleum with a target price of RM2.07 based on an estimated EPS of 28 sen for FY2011.

"We believe the award of Berantai marginal oil field contracts in early February 2011 to a consortium are expected to indirectly benefit O&G service providers like Deleum. We believe Deleum is poised to be a beneficiary considering its track record," says the research house.