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Deleum to expand power unit

To buy IPP stakes, grow power-plant construction order book in Asia

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KUALA LUMPUR: Deleum Bhd's power division is a growth story. The firm plans to acquire stakes in more independent power producers (IPPs) and grow its power-plant construction order book across Asia to expand the company's earnings base.

This comes on top of its bread-and-butter oil and gas unit which supplies and services equipment like gas turbines and wellheads, capitalising on soaring prices of crude oil that is prompting more oil and gas production.

Deleum group managing director Chandran Aloysius Rajadurai said the company was targeting emerging regional power markets like Cambodia and Indonesia. It intends to invest in smaller power plants with estimated output of 50 megawatts (MW), and secure more engineering, procurement, construction and commissioning (EPCC) contracts.

"Our team is more suited to handling smaller projects. We are pursuing with certain people, and seeing whether we can bring to fruit one or two of these projects," Chandran told *The Edge Financial Daily* in a recent interview.

Deleum, listed on Bursa Malaysia's Main Board in June last year, is not new to the power-generation business. In 1995, the firm acquired a stake in IPP Cambodia Utilities Pte Ltd, which supplies 35MW of electricity to the capital Phnom Penh.

In Malaysia, Deleum was the EPCC contractor for a 9.6MW co-generation power plant, which was commissioned in 2007, for Muda Paper Mills in Kajang. Chandran did not specify the expected level of earnings from Deleum's power division, going forward.

The IPP stakes generate recurrent income to safeguard earnings against business volatility.

Analysts see Deleum's ablility to clinch more projects and expand its new businesses as crucial for its sustainability.

"We note that construction of new platforms, maintenance works and increased drilling activities will drive Deleum's earnings. We see Deleum as one of the leading contenders for the supply of turbines and related parts for the Sabah-Sarawak Onshore Gas Transmission pipelines.

"Although the risk of losing its franchises is low, we are not ruling out Deleum seeking opportunities in acquiring recurring income-generating assets to expand its business. Deleum has the ability to gear up, as it currently sits on a cash pile of

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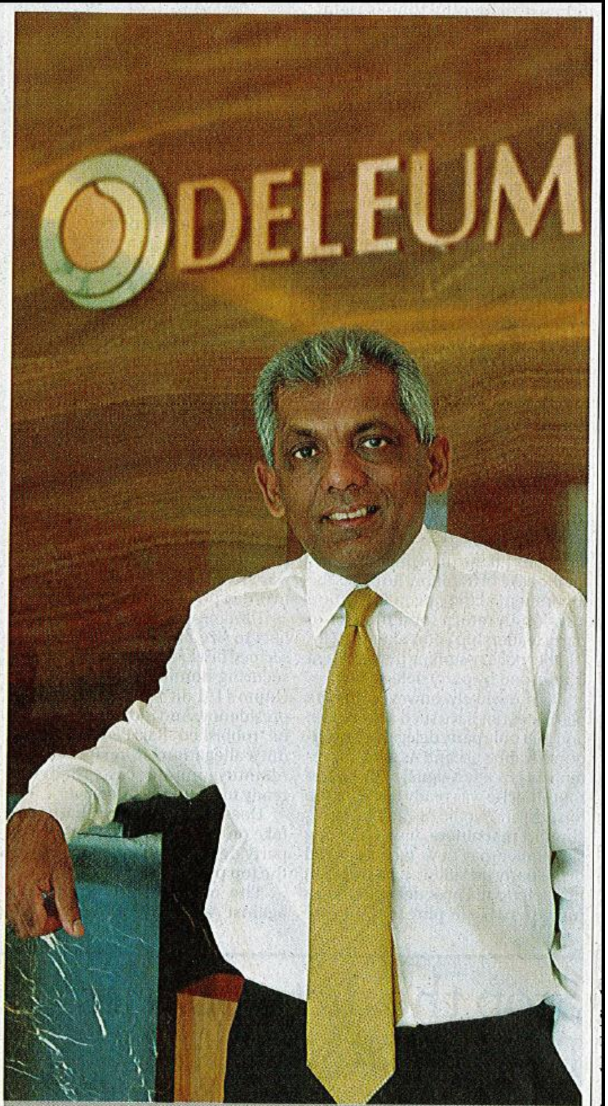

Chandran says the company is targeting emerging regional power markets like Cambodia and Indonesia. Photo by Lee Lay Kin

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Deleum O&G unit bidding for RM300m jobs to boost order book

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RM38 million as at March 2007, which translates into cash of 48 sen per share," Aseambankers said in a recent note.

For now, Deleum's oil and gas unit already has some RM1 billion worth of jobs in hand, and it is bidding for about RM300 million worth of contracts to boost its order book, Chandran said at the company's maiden annual general meeting last month.

The company imports oil and gas industry equipment from manufacturers like Solar Turbines Inc and provides maintenance services.

However, a foray into manufacturing of oil and gas equipment is already on the cards. Chandran said Deleum planned to collaborate with its foreign equipment makers to set up production facilities in Malaysia. "We are evaluating several fronts on that," he said.

Deleum told Bursa Malaysia in September 2007 it planned to acquire a 51% stake in Penaga Dresser Sdn Bhd (PDSB) for RM7.25 million. PDSB, 49%-owned by engineering products entity Dresser Italia, supplies valves and flow regulators for the oil and gas industry.

"The partnership with Dresser Italia will also open up opportunities for the group to venture into local manufacturing activities in the future," Deleum said.

For the first quarter ended March 31, 2008, Deleum's net profit rose 3.5% to RM5.88 million from RM5.68 million a year earlier, although revenue fell 30.2% to RM83.6 million from RM119.84 million.The lower revenue was mainly due to lower billings for specialised equipment and services, the company said.