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Alam Maritim banks on RM1bil order book

Company has enough jobs to keep busy for next two years

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ALAM Maritim Resources Bhd, which has seen more than half of its market capitalisation wiped out since the decline in crude oil prices, is counting on its RM1bil order book to keep the offshore support vessel (OSV) company busy in the next two years as margins come under pressure.

Similar to many oil and gas (O&G) companies that were hit by cheaper oil, Alam Maritim's market capitalisation now stands at RM619.4mil from RM1.47bil in middle of July last year.

Not overly worried on that aspect, its group managing director and chief executive officer Azmi Ahmad tells *StarBizWeek* that the sharp fall in the share price is basically driven by the drop in the oil price.

"The depressed oil price essentially will result in fewer activities in exploration and production (E&P). I believe almost all oil and gas counters got hit due to negative outlook on the industry.

"Nevertheless, our current order book stands at approximately RM1bil which will last for at least the next two years.

"And our RM1.5bil tender book is still quite healthy which reflects steady demand for services to support the existing E&P activities undertaken by the oil majors," he says.

At 66.5 sen, Alam Maritim counter does not necessarily mean it's cheap from its last year's price of RM1.60. As the outlook changed, so has earnings estimates.

At its current price-to earnings (PE) ratio of 9.31 times and expected to be at 10.4 times for the current financial year, Alam Maritim is well within the industry median of 10.16 .

Azmi: 'Our current orderbook stands at approximately RM1bil which will last for at least the next two years.'

Its peers are also in the same boat. Barakah Offshore Petroleum Bhd and UZMA Bhd share "underperform" calls by Kenanga Research which estimates total return to be less than 3%.

Nevertheless, Alam Maritim has an advantage in winning jobs from national oil company Petroliam Nasional Bhd (Petronas).

"Since the majority of our vessels are contracted and deployed to support the production phase, we believe that we should be able to sustain our business operations and financial performance going forward despite the softening charter rates.

"On acquisition front, we are already at the final stage of securing a newly-built diving support vessel (DSV) as part of our fleet renewal programme to support the existing subsea contract, awarded by an independent oil and gas E&P company," says Azmi.

AmResearch analyst Wong Joe Vuei also assumes a marginally higher OSV utilisation rate of 73% this year against 71% in 2014, as a lower number of vessels (around five to seven vessels) will be dry-docked compared with 10 vessels previously.

"We understand that about 70% of its fleet is currently contracted (of which half of these are on long-term contracts of more than one year), while the rest are dry-docked," says Wong in a recent note to clients.

Wong also expects a pick-up in earnings momentum in the offshore installation and construction (OIC) division in the second half of this year, upon the execution of the RM248mil transport and installation contract secured with Malaysia Marine and Heavy Engineering Holdings Bhd and Technip.

"Alam intends to pursue smaller contracts with higher success rates.

"To-date, the group has secured a RM30mil contract, where the margin was more than 50% due to early completion," says Wong.

But, Alam does not deny the fact that margins are slimmer now as daily charter rates (DCR) have also come down in line with the oil price.

"We have seen the softening of daily charter rates (DCR) for OSV sector with reduction of between 5% to 10% as compared with the rates secured during the pre-oil slump period," says Azmi.

Wong concurs on the weaker charter rates ahead given that Petronas has begun negotiating for lower charter rates amid its focus on optimising its cost structure which includes cutting capex between 10% and 15% in the next two years and reducing opex by 30%.

Alam Maritim earlier this month bagged an umbrella contract for the provision of spot charter for marine vessels by Petronas Carigali for its operations in Malaysia.

The umbrella contract is for a two-year period starting from January 2015, with an option for a one-year extension.

Alam was awarded seven of the eight packages.

"However, our earnings are unchanged for now as the contract value is not fixed and will depend on the actual number of days the vessels are on hire based on a call-out basis," says Wong.

Azmi explains the umbrella contract will allow Petronas Carigali to source for offshore support vessels (OSV) from shortlisted or appointed contractors only, and to allow for direct negotiation with them without having to go through the normal tendering process.

"The advantage is that the DCR is fixed and preference given to Malaysian flag vessels," he says.

AmResearch estimates Alam Maritim's earnings before interest, tax, depreciation and amortisation (Ebitda) to marginally rise this year to RM81.8mil from RM79mil in 2014.