Dayang's speculated takeover of Perdana to mark start of industry consolidation

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PETALING JAYA: The much speculated takeover of Perdana Petroleum Bhd by Dayang Enterprise Holdings Bhd will mark the beginning of consolidation in the oil and gas space, which has been shaken by the oil price crash since last June.

In the Dayang-Perdana case, although no formal announcement has been made yet, analysts opine that Dayang, which is flush with cash from a recent fund-raising exercise, is drawn to Perdana partly because of the latter's battered down share price, which has fallen by around 32% to RM1.33 since last June, giving it a price/earnings (PE) multiple of 10.5 times 2016 estimate earnings.

"The deal is likely to happen sooner than later," said a source.

Prior to the oil price crash, Perdana had traded at around RM1.95, giving it a PE of close to 20 times its earnings.

"The synergies between the two companies are in the area of brownfield services, which require workbarges and workboats," said CIMB Research analyst Norziana Mohd Inon in a recent report.

Perdana currently has five workbarges and a workboat deployed to Dayang on long-term charters.

Dayang has so far accumulated close to a 30% stake in Perdana. Dayang declined to comment on the matter when contacted.

Dayang provides mainly fabrication, topside maintenance, offshore hook-ups, and commissioning and topside maintenance services to the O&G industry, which complements Perdana's offshore support vessel (OSV) business.

"Should Dayang acquire Perdana, this would increase the former's margins moving forward. This is because Dayang is chartering workboats from Perdana," the analyst said.

Dayang has a market capitalisation of about RM2.2bil, while Perdana's stands at RM995.5mil.

Interestingly, Norziana said Perdana's second largest shareholder, Lembaga Tabung Haji, which holds a 8.3% stake in the company, was likely to exit Perdana as the company was dropped from the Securities Commission's list of syariah-compliant securities last November.

Dayang recently completed a private placement, raising gross proceeds of RM176mil that are earmarked for working capital and/or potential investment projects.

The question now is: If this deal takes place, will it spur more mergers and acquisitions (M&As) among local O&G players in the industry?

Another company that industry players feel could be a target for consolidation is Icon Offshore Bhd, which made the news last week after the Malaysian Anti-Corruption Commission (MACC) detained the company's two top executives last week to assist in investigations.

After the news report, Icon's share price traded to a new fresh low of 61 sen, but recovered slightly to 63 sen a share last Friday.

At the share price Icon was trading, its PE ratio stood at mere 5.84 times multiple of 2015 earnings.

Icon owns and operates 32 OSVs, which makes the company the largest pure-play OSV provider in Malaysia and one of the largest in South-East Asia by fleet size.

A banker said Icon had become an ideal target for consolidation because of the position of its major shareholder Ekuiti Nasional Bhd (Ekuinas), which has adopted a strategy of putting in professional managers to run the show.

"Ekuinas holds 42.3% of Icon and always looks at ways to add value. If they can find some party to add depth to the current management, the fund would be looking at it," the banker said.

Aside from lower share prices, some O&G players are also said to be facing debt woes.

Industry observers believe that companies with high net gearing and thinning order-books are more likely to be a takeover target or to some extent exiting their businesses.

According to one recent analyst report, the total outstanding debt of the 20 top listed O&G companies in Malaysia amounts to a staggering RM34bil.

The impact of lower oil prices, coupled with the cut in oil majors' capital expenditure, is said to have a lagging effect on service providers.

Many believe that the first-quarter results to come will begin to show the pressure on earnings, and also indicate possible cash-flow constraints that would make it difficult for the highly geared service providers to service their debt.

That, in turn, could put them in a position to be "rescued" by a bigger player.

It should be noted that Icon had earlier looked for potential acquisitions in the region, supported financially by its parent company Ekuinas.

But will the new development make Icon a takeover target, instead?

Reference:

http://www.thestar.com.my/business/business-news/2015/04/27/mergers-to-anchor-og-sector/