November 22, 2017 4:20 pm JST

Singapore oil services firms regain some appeal

Crude prices still below profit threshold for new deep-water projects

Employees of Keppel FELS, Keppel's rig-building unit, stand amongst jackup rigs at their shipyard in Singapore. © Reuters

SINGAPORE (Nikkei Markets) -- Singapore's battered offshore oil and gas services industry appears to be turning the corner as crude prices rebound and orders return, prompting some investors to test the waters by investing in companies that are likely winners.

The growing optimism follows encouraging third-quarter results from rig-builders Keppel Corp. and Sembcorp Marine, which managed to eke out small profits as orders grew. Although many smaller players continued to report losses, these were narrower than in previous quarters.

Oil prices have rallied to two-and-a-half year highs with Brent crude crossing the $60-per-barrel level in late October. DBS Group Research says Brent could rise further to as high as $65 a barrel in 2018, underpinned by continued inventory drawdowns and the strong likelihood that oil-producing

countries will extend production cuts when they meet in Vienna next week.

"On a macro basis, conditions are clearly a lot brighter than one year ago," said Azure Capital chief executive Terence Wong. He warned, however, that margins remain thin and predicted there would be more cases of debt restructuring involving companies in the oil and gas services industries.

Wong recently participated in a 60-million Singapore dollars ($45 million) equity fund raising by Marco Polo Marine, which issued over 2 billion new shares valued at 2.8 Singapore cents apiece. The loss-making shipyard and ship chartering company also got some bond holders to agree to a debt-for-equity swap.

"There should be a recovery in the stock price but a return to peak earnings is very far out," Wong said of Marco Polo, which has a relatively young fleet and was one of the first to restructure its debts.

Shares of Marco Polo, which are currently suspended, last traded at 5.9 Singapore cents apiece. The shares were worth around 40 Singapore cents each at the start of 2014 when oil prices were around $100 a barrel.

Singapore is a major player in the global offshore and marine industry with home-grown companies such as Keppel Corp. and Sembcorp Marine holding some 70% of the market share for jack-up oil rigs and other vessels used in production and exploration.

Companies in the sector cut staff and restructured loans in the last three years as the sharp fall in oil prices crimped demand for their services. Keppel Corp., for example, cut over 10,000 jobs and closed several of its shipyards, including three in Singapore.

Now that oil has doubled from its recent lows, DBS Group Research said investors could bet on the sector's recovery by buying the stocks of the stronger Singapore players such as Sembcorp Marine and PACC Offshore.

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The research arm of DBS Group Holdings also recommended shares of Chinese energy giants CNOOC, PetroChina and China Petroleum & Chemical (Sinopec).

"Already, we are seeing signs of recovery along the value chain - more active tenders, rebound in asset utilization such as jack-up rigs and offshore support vessels, and higher enquiries for production-related platforms," DBS Group Research said in a recent report.

Sembcorp Marine reported a net profit of $$2.7 million for the third quarter ended September after incurring a S$21.8 million loss in the same period a year ago. The company is the world's second-largest oil rig builder after Singapore rival Keppel Corp., a conglomerate whose property arm currently generates the bulk of its earnings.

On November 10, Sembcorp Marine signed a letter of intent to build a floating production storage and offloading platform for Norway's Statoil in a deal that could be worth $490 million.

PACC Offshore remained in the red although net losses for the period narrowed to $9.8 million from $12.9 million in the year-ago period. The offshore marine services provider chartered more vessels during the quarter but said demand for all categories of offshore vessels remained weak.

As PACC Offshore expects capital expenditure for exploration and production to remain subdued in the next few quarters, the company will reassess the carrying value of its fleet and goodwill and further impairments can be expected, it warned in its third-quarter earnings statement.

Yaw Yan Chong, director of Thomson Reuters Oil Research, told Nikkei Markets demand for new oil rigs and support vessels would continue to be weak unless oil prices rise further to $70 to $80 a barrel, which is the breakeven for many new deep-water projects.

Currently, companies extract oil only from existing deep-sea wells because the fixed costs are already sunk and they are able to cover operating costs.

Yaw said crude prices would be capped in the near term by increasingly cost-efficient U.S. shale oil producers, whose current output already surpasses pre-2014 levels. Information provider S&P Global Platts Analytics said Brent crude could fall to around $55 a barrel in the first half of 2018 as projects sanctioned before 2014 come onto the market.

--Kevin Lim