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# TH Heavy likely to bag RM1.5b FPSO job

BY JOSE BARROCK

**T**H Heavy Engineering Bhd is close to securing a RM1.5 billion charter for its floating production, storage and off-loading (FPSO) vessel, *Deep Producer 1*, sources familiar with the matter tell *The Edge*.

It is understood that the contract TH Heavy is negotiating with Nippon Oil is for seven years with an option to extend for three years. The FPSO is likely to be deployed to the Layang oilfield off the coast of Miri in Sarawak.

“The contract should be signed by the end of this month. TH Heavy is basically the only bidder as it is the only company that is able to meet Nippon Oil’s specifications. So, it’s more or less a done deal,” an industry source says.

It is worth noting that TH Heavy has done steel renewal on the FPSO, adding 7,000 tonnes of new steel to the vessel that will enable it to operate without dry-docking for 15 years.

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## Fabrication the company's other core business

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Nippon Oil operates a few oil and gas fields off the coast of Miri, called SKSK333 and SK 10, and also has a few pipelines connecting the fields to Bintulu.

When contacted, TH Heavy's officials declined to comment on the matter.

### A boon for TH Heavy

While details of TH Heavy's contract are few, CIMB Investment Bank Bhd's oil and gas analyst Norziana Mohd Inon says Bumi Armada Bhd's blended average earnings before interest and taxes (Ebit) were pretty high at about 30%. "So, it would be good for TH Heavy if the deal panned out."

*Deep Producer 1* has been bleeding RM2 million a month, eating into the profits of the company, the main revenue-generating asset of which is its fabrication yard in Pulau Indah, off Port Klang.

In its nine months ended Sept 30, TH Heavy posted a net profit of RM19.12 million compared with RM17.8 million in the previous corresponding period. Revenue rose to RM198.92 million from RM116.7 million previously while earnings per share came in at 3.99 sen versus 2.32 sen.

In its results release, TH Heavy said the company recognised a gain of RM20.1 million in 3QFY2013 from its disposal of a 30% stake in THHE Fabricators Sdn Bhd. This means the company's earnings would have been lower if not for the sale.

To recap, TH Heavy had acquired *Deep Producer 1* (formerly a 68,000dwt tanker called *MV Laurita*) in July 2011 for US\$82.5 million. While the price

tag was about 40% of the US\$200 million the previous owners had spent on building the vessel, the purchase was made without a locked-in charter, for which the company was heavily criticised.

There have also been a few hiccups for TH Heavy. For instance, it was expected to bag the North Malay Basin FPSO contract but was beaten to it by EOC Ltd, a company linked to Singapore-listed Ezra Holdings Ltd.

While its FPSO has been idle, TH Heavy has sought other sources of revenue. Its other core business is fabrication, which it carries out at its 58-acre yard in Pulau Indah. The company has also tied up with McDermott International Inc, an international engineering, procurement, construction and installation company that operates a 300-acre fabrication yard in Batam, Indonesia.

The tie-up came about in late 2012. TH Heavy inked an agreement with McDermott under which it acquired a 30% stake in Berlian McDermott Sdn Bhd while McDermott took up a 30% stake in TH Heavy Engineering Fabricators. Both deals were valued at an identical US\$24.5 million.

Berlian McDermott is licensed to conduct transport and installation works for the oil and gas sector and controls a pipelaying barge called *DB 30*.

TH Heavy Engineering Fabricators, meanwhile, is a licensed Petroleum Nasional Bhd (Petronas) fabricator.

TH Heavy's order book stood at about RM300 million in mid-2013, but it may have increased substan-

tially from a number of jobs secured. Just last week, the company won a contract from Petronas Carigali Sdn

TH HEAVY ENGINEERING

Bhd for the procurement, construction and commissioning of KNPG-B Topside PH II in the Kinabalu non-associated gas development project in Labuan, Sabah. The contract value, however, has not been disclosed.

While these businesses have yet to kick in and boost the company's finances, TH Heavy generated considerable interest last year. In May, business tycoon Tan Sri Quek Leng Chan surfaced as a substantial shareholder in the company with a 9.1% stake after he received a private placement of 92.8 million shares. His entry cost was about 45 sen.

Subsequently, TH Heavy's share price, which had been languishing at about 45 sen apiece, doubled, giving Quek substantial gains in just a short time. The stock closed at 90 sen last Friday.

While Quek's entry has generated considerable excitement, the question is, how long will he stay invested in TH Heavy? Note that he had surfaced in Kencana Petroleum Bhd (now known as SapuraKencana Petroleum Bhd) in mid-March 2008, but ceased to be a substantial shareholder in August 2009.

According to news reports, TH Heavy's officials have said Quek has agreed to remain a shareholder for three years.

Other than Quek, Lembaga Tabung Haji is the only other substantial shareholder in TH Heavy with a 32% stake. E

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**TH Heavy carries out fabrication work at its 58-acre yard in Pulau Indah, off Port Klang**