Analysts upbeat on oil and gas

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PETALING JAYA: The outlook for oil and gas companies remains bright as they enjoy further growth on the back of new and extended contracts, continued high oil prices and capacity expansion, local research houses said.

Avenue Securities said so far this year, investors had been rewarded with relatively strong capital gains in oil and gas shares. It said in a report the share prices of oil and gas companies had "run hard" over the last six months and yet the companies' valuations remained undemanding in view of their robust earnings outlook.

The research house said companies such as Wah Seong Corp Bhd, Petra Perdana Bhd and Petronas Gas Bhd had been reporting encouraging year-on-year earnings growth and were expected to enjoy further growth attributed to bigger contracts and contributions from new acquisitions.

On Wah Seong, Avenue said what was exciting for the company over the next 12 months were its plans to unlock the value of its businesses either by hiving off its non-oil and gas businesses, or listing its oil and gas division overseas. It also expects the company to be involved in more mergers and acquisitions in the second half of its financial year ending Dec 31, 2006 or the next year.

The research outfit described Petronas Gas' future earnings as "steady" and "predictable" while for Petra Perdana, it expected the company to perform better in its second quarter ending June 30, with the monsoon season over.

In its first quarter ended March 31, Petra Perdana had to scale down its offshore activities due to the monsoon.

Avenue's other top stock picks include SapuraCrest Petroleum Bhd, Dialog Group Bhd, KNM Group Bhd and Tanjung Offshore Bhd.

AmResearch Sdn Bhd is also upbeat on KNM on the back of the company's stronger-than-expected performance from its recently acquired unit, Australia's Hudson Products Pacific Pty Ltd, its expected cost savings from synergistic benefits from the company's new acquisitions, increased chances of securing new contracts with an enlarged plant network, and a potentially bigger order book.

The research house, which has a "buy" call on the stock, said KNM was trading at a steep 32% discount to the 19.3 times average price earnings ratio of its listed international peers.

"KNM should trade closer to its competitors as its historical operating performance beats its peers despite it being a smaller establishment," AmResearch said.

Avenue said over the past few years, the external environment had been "rather prosperous", but added that rising interest rates and higher current account deficits in a number of developing countries could slow down economic growth.

"This will eventually lead to slower private investment and reduce demand for oil and gas-related products and services," it said.