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Oil & gas laggards may garner interest

Second-liners could be lifted by bullish sentiment in sector

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KUALA LUMPUR: Interest in the oil and gas (O&G) sector may spill over to the sector's laggards which have yet to catch up with the rally in the broader industry and which observers say could somehow benefit when investments flow accelerates in the sector.

"The smaller capitalised second-liner O&G stocks could be lifted by the bullish sentiment in the broader O&G sector because they have yet to catch up with the rally. Some of these players offer niche services and expertise which are of use to the bigger boys in the industry," an O&G analyst noted.

Indeed, some analysts said stocks such Pantech Group Holdings Bhd and Daya Materials Bhd could be alternative proxies to the thriving O&G industry. Pantech manufactures pipes, valves, fitting and flanges, while Daya Materials provides downstream chemicals and specialised lifting and material handling services to the domestic O&G industry.

The analysts added that there is potential upside in these stocks because they have in the past year underperformed the wider industry peers.

For instance, Pantech's share price fell 15.5% from a year ago while Daya Materials' had minimal gains of 2% over the past year, according to *Bloomberg* data that took into account the bonus issues in Pantech and Daya Materials.

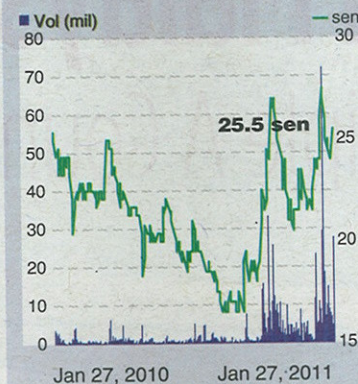
These compared with O&G players which are directly involved in the industry such as Kencana Petroleum Bhd whose share price had racked up a one-year gain of 65.2% and Dialog Group Bhd's at 117%.

Pantech recently reported that its third quarter (3Q) net profit for the period ended Nov 30 had almost halved to RM6.19 million from RM11.75 million a year ago. Meanwhile, revenue also fell to RM75.43 million from RM92.22 million previously. Its 3Q earnings per share declined to RM1.38 from RM2.62 a year ago.

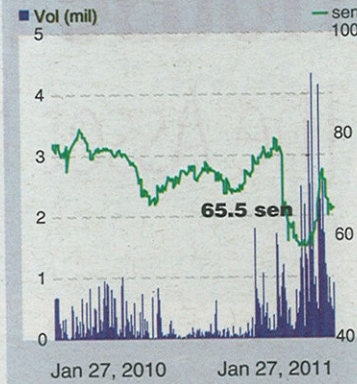
However, TA Research was more sanguine on Pantech's prospects moving forward. It rated the stock a "buy" with a target price of 92 sen which would imply a 40% upside on anticipation that it could ride on the boom in the O&G sector.

OSK Research also said in a re-

Daya Materials Bhd



Pantech Group Holdings Bhd



cent report that Pantech's weaker earnings had been priced in. It placed a trading buy call on the stock with a target price of 79 sen as it expects a better FY12 ending Feb 28, given the potential benefits to be derived by the company from increased spending in the O&G sector.

At its closing price of 65.6 sen yesterday, Pantech had a market value of RM296 million, which is less than 10 times its annualised FY11 net profit of RM31.9 million based on 9MFY11 earnings of RM23.9 million. Its net asset per share stood at

56 sen as at Nov 30, 2010.

Daya Materials yesterday announced a joint venture between its wholly owned subsidiary Daya Clarimax Sdn Bhd and Ncho Sdn Bhd to undertake the business of cleaning, repair and maintenance of tankers. Daya Clarimax holds a 60% equity stake in the JV while Ncho holds the balance 40%.

In a statement, Daya Materials said the proposed JV is expected to result in future joint investments in the tanker services business by Daya Clarimax and Ncho in the region.

"The proposed JV is expected to contribute positively to the future profitability and cash flow of Daya Materials as well as the stability of its future income stream," it added.

Hong Leong Investment Bank had a few months ago issued a non-rated report stating that Daya Materials' long term strengths lay in its customers which include a wide range of multinational companies.

Hong Leong had also noted in the report that the average daily trading volume for Daya Materials "is comparable" with some of its bigger peers in the industry. According to *Bloomberg* data, the stock had attracted an average daily trading volume of 15.5 million shares since the beginning of the year.

Daya Materials recently reported that its net profit for the 3Q ended Sept 30 had advanced slightly to RM4.38 million from RM4.15 million previously on an increase in revenue to RM45.04 million from RM42.62 million a year ago.

For the nine months ended Sept 30, net profit amounted to RM11.13 million while net assets per share stood at 15.41 sen.

Daya Materials closed at 25.5 sen yesterday, giving it a market value of RM284.1 million.