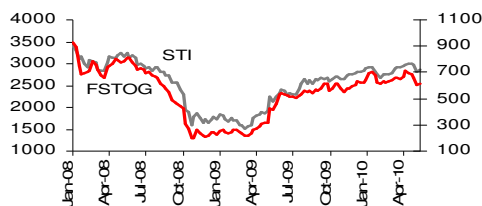


20 May 2010

Overweight

Oil & Gas sector

1Q10 results wrap



Results recap. Most of the stocks under our sector coverage reported 1Q10 results by mid May, and with the exception of KS Energy, Ezra and Swiber, the rest were in line with expectations. Unlike 3Q09 and 4Q09, 1Q10 did not see any significant upside surprises, as companies executed on contracts and higher margin assumptions for certain companies were already incorporated in our estimates. The rig builders posted strong earnings compared to relatively lack-luster ones by a few offshore services providers. Despite this, we upgraded Swiber to BUY with margin recovery, a stronger order book and better outlook for offshore field development. For KS Energy, we are more positive on its longer-term outlook following its business consolidation, but are less sanguine in the short term, as contracts for certain assets get renewed at possibly lower rates, together with expenses associated with the consolidation.

Surprises and non-events. There were a few noteworthy events, but none were actually surprising, save for one or two. Keppel and Sembcorp Marine continued to post high operating margins, with the latter likely having further margin improvements with resumption of profit recognition on a few projects. On the offshore services side, Swiber announced that it intends to seek a proposed listing of its subsea services business on the Catalist board of the SGX. Ezra surprised the street when it said its subsea vessels will come on-stream later with further upgrading works for potential clients. On the shipbuilding side, Yangzijiang's consortium made an offer for PPL Holdings, erupting in an ongoing tussle with Sembcorp Marine, while ASL Marine was buoyed by its ship repair operations, in line with expectations.

Maintain overweight. We are expecting more order flows going forward, especially in the offshore production segment. Till the market's worries about the Eurozone are assuaged, oil price volatility may persist in the short term, mainly due to USD appreciation against the EUR. However, the longer term outlook for the sector is supported by 1) China and India leading global oil demand growth and 2) the US continuing on its recovery path. As such, we maintain our **OVERWEIGHT** rating on the sector and keep our preference for Keppel Corp [**BUY**, FV: S\$11.22] and Sembcorp Marine [**BUY**, S\$4.75] as they are well-positioned to seize market share with their proprietary designs and established track records, amongst other factors.

Company	Share	Mkt	Rating	Fair	P/E	
	price	Cap		value	Hist	Cur
	S\$	S\$m		S\$		
SembCorp Marine	3.94	8,175	BUY	4.75	11.7	12.2
Keppel Corp	8.90	14,243	BUY	11.22	8.7	12.9
Swiber Hldgs	0.985	501	BUY	1.38	10.3	6.3
Ezra Hldgs	1.82	1,208	BUY	2.81	11.2	11.6
ASL Marine	0.845	255	BUY	1.09	3.6	6.6
Yangzijiang Shipbldg	1.27	4,640	HOLD	1.60	9.7	9.4
KS Energy	1.19	484	HOLD	1.21	10.3	16.1
Viking Offshore Marine	0.205	109	BUY	0.31	102.5	10.8

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SHAREHOLDING DECLARATION:

The analyst's immediate family owns shares in Keppel Corp.

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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