

EMERGING VALUE AS AN ONSHORE OIL FIELD SPECIALIST



While SGX-listed Giken Sakata (S) Limited (“Giken” or “the Group”) has built a name for itself around the world as an integrated contract manufacturer for more than 30 years, the Group is now entering into another growth phase as an onshore oil field specialist with oil production capabilities, via its 53.68% stake in Cepu Sakti Energy Pte Ltd (“CSE”).

Led by newly-appointed Group CEO, Mr. Sydney Yeung, the Group has embarked on a strategic transformation to harness the business opportunities in upstream oil and gas business segment within Indonesia’s existing onshore oil wells of more than 10,000.

Essentially Zero Exploration Risk

Unlike the conventional oil production sharing contracts, Giken’s business model in the upstream oil and gas business segment is centred around the “Old Wells Programme” which is a Pertamina-sanctioned agreement between local village cooperatives (“KUDs”) and their selected operators (such as CSE). Pertamina is Indonesia’s state-owned oil and gas company and under this agreement, the oil from the “Old Well Programme” is sold at a fixed price to Pertamina.

With these oil fields having had prior production, this cuts geological risk to almost zero.

In addition, these oil fields have been producing using dated technology, hence the probability of the oil’s wells – which are drilled adjacent (or “twinned”) to existing ones – intersecting oil columns is close to 100%. CSE has so far experienced 100% success in drilling production wells.

Notably, CSE has been able to reach their first oil in the year of contract signing, with no data acquisition expenditure and drilling costs that are less than 20% of its peers, making this business a much more scalable model.

“In a research report issued by DMG & Partners Research Pte Ltd on 5 November 2014, a BUY call was recommended with a target price of SGD 0.65 per share.”



Long Term Value Propositions with Stakeholders

Combined with CSE’s extensive management experience and expertise in modern drilling methodology, gross production within its oil fields is growing rapidly and it has proved to be a win-win proposition for all parties involved in the “Old Wells Programme”.

With a cheaper source of oil from this scheme, there are strong incentives for Pertamina, the national oil company, to continue the extension of “Old Wells Programme” with the KUDs, which are currently locked in for 5-10 years with potential 5-year renewals. It is interesting to note that CSE has also locked in the KUDs for each of its potential extensions.

As a trailblazer in this “Old Wells Programme, the commitment and growing track record of CSE’s oil field operations has spread among the owners and concession holders of the oil wells and the Group will be well-positioned to expand its portfolio of oil fields.

Nonetheless, the Group remains focused on maximising its barrel production from its current five oil fields at minimal additional cost. At the same time, Mr. Yeung is setting his sights on other geographic areas of production, both within Indonesia and in other countries to further enhance the Group’s business growth in this niche segment.

