

Company Name : Sumatec Resources Berhad  
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# Sumatec's ticket to expansion

It sees huge potential in natural gas reserves at its oil field in Kazakhstan



by Gillet Lah

**THINGS** have been getting more interesting for Sumatec Resources Bhd lately. Early this month, the company was granted a US\$125 mil (RM491 mil) loan from Export-Import Bank of Malaysia

Bhd (EXIM Bank).

And last week, Sumatec fixed the issue price of its private placement shares at 14 sen each. The placement could involve up to 348.27 million shares and raise gross proceeds of RM48.8 mil.

These fund raising activities are deemed positive for Sumatec and its plans to expand its oil and gas (O&G) operations at the Rakushechnoye field in west Kazakhstan.

But despite this, there seems to be a lack of interest in the counter among the investment community. Sumatec was heavily traded after it fixed its private placement price but it has since returned to the pre-announcement level.

In the last two years, it was hardly covered by analysts because of a lack of progress in its corporate development and the plunge in oil prices. Its success in securing funding from EXIM Bank has come as a surprise to some because of the difficulty faced by oil and gas players.

However, there could be more interesting developments on the cards.

Industry sources say Sumatec is in discussions to increase its interest in the Rakushechnoye field from 50% to 100%. This will allow it to gain the full share of profits from the production and sale of oil from the field.

"The company's effective interest in the Rakushechnoye field is 50% while the balance belongs to the concession owner Markmore Energy, which is owned by businessman Tan Sri Halim Saad. Profits from the field are now shared equally between the two companies.

"Sumatec believes the timing is right. Its initial cost in the Rakushechnoye field was US\$95 mil for a 50% effective interest back in 2013.

"But with low oil prices now, Sumatec should be able to acquire the remaining 50% at a good discount and below the US\$95 mil it previously paid. It hopes to close the deal by year-end before oil prices start to rise," says a source.

Apart from being able to raise its stake at a good price, the source says the company's move is probably because of the upside potential it sees in the value of natural gas reserves in the field.

Sumatec managing director James Chan declined to comment on market talk when asked by **FocusM**. However, he agreed that the company sees a huge potential in gas reserves at the Rakushechnoye field.

With the US\$125 mil funding from EXIM Bank, Sumatec plans to commercialise the natural gas reserves in the field, says Chan. "We borrowed for one specific purpose... we want to monetise our gas reserves," he says.

Chan says financing from EXIM Bank

involved a two-year negotiation process. "There were certain terms that we did not agree on such as the drawdown sequence. They also needed to perform checks with third parties on our project," he says.

"At least we will have some sort of source of funds to expand. Otherwise, by the time oil prices go up and we start looking for funds, everyone will also be rushing. Interest rates will be higher and financing will be more difficult to obtain," he says.

Chan says the loan has an interest rate of about 7% per annum and is expected to increase Sumatec's gross gearing from 0.04 times to 0.86 times.

The Rakushechnoye field, Chan says, has proven and probable (2P) gas reserves of 96 million barrels of oil equivalent (mmboe), more than double its crude oil reserves of 43 million barrels. "We have a lot of gas. Twice as much as our oil reserves."

In three years, Chan says Sumatec plans to drill another 25-30 new wells, which will cost US\$3 mil each. The Rakushechnoye field has 47 wells.

To tap into the gas reserves, he says Sumatec will drill new wells to a depth of 3,500m, compared to 2,500m for existing ones.

Sumatec is also planning a 70km pipeline - costing US\$50 mil and two years to build - which will link to Kazakhstan's national gas pipeline. The gas will be sold to KazMunayGas, the national gas



Chan says Sumatec plans to commercialise the gas reserves at Rakushechnoye oil field

## SUMATEC RESOURCES BHD

### KEY BOARD MEMBERS AND MANAGEMENT

Abu Talib Othman (chairman)  
 Chan Yuk Pong (managing director)  
 Roschida Abdullah (chief financial officer)

### MAJOR SHAREHOLDERS

Halim Saad 24.25%  
 Tekad Mulia Sdn Bhd 2.08%

MARKET CAP (April 20) RM422.1m  
 SHARE PRICE (April 20) 12 sen  
 52-WEEK HIGH (April 20, 2015) 23 sen  
 52-WEEK LOW (Aug 24, 2015) 10 sen

FINANCIAL RESULTS (FY15 ended Dec 31)  
 REVENUE RM62.6m  
 NET PROFIT RM38.6m

company of Kazakhstan, at a floating rate, says Chan.

"Initially, we intend to produce 100 million cubic feet per day (mmscfd), but it will be over three years. Before the pipeline is completed, we will inject the gas into the wells to maintain or increase the pressure to extract the condensate.

"By the time the pipeline is completed, we will produce nearly 100 mmscfd. This will be too much gas to inject, so we will sell the surplus," Chan says.

Sumatec also plans to build a liquefied petroleum gas (LPG) plant and new central processing facilities as part of its gas development plan.

Chan says it is keen to solidify its presence in Kazakhstan through the acquisition of Borneo Energy Oil and Gas Ltd. The proposed acquisition, announced in 2014, will allow it access to explore and produce oil from the Karaturun Vostochny and Karaturun Morskoi fields located in west Kazakhstan.

The fields have combined 2P reserves of 68.8 million barrels of oil. It is producing 600-800 barrels of oil a day, says Chan.

Early last year, the proposed purchase price of Borneo Energy was revised from US\$350 mil to US\$290 mil following the drop in oil price. Sumatec recently extended the deadline for the purchase to August this year. "It is still alive, but we have asked for an extension. It is still viable," says Chan.

On the low oil price environment, Chan says Sumatec's operations at the Rakushechnoye field is still profitable.

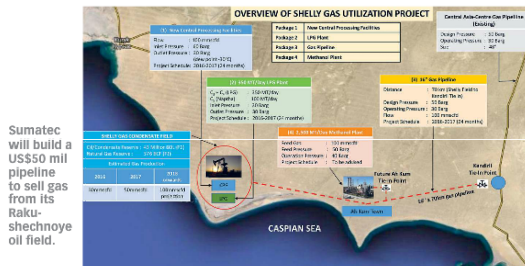
Its production cost at the field is US\$12-US\$13 per barrel. "If the oil price is between US\$50 and US\$60 per barrel, we are comfortable and can make a living," he says, adding that production is kept at 300-500 barrels a day.

Last year, lower oil prices led to Sumatec's net profit declining 21% to RM38.6 mil, while revenue fell 23% to RM62.6 mil. Chan says Sumatec's profits for last year were based on an average crude oil price of about US\$50 per barrel.

Chan expects oil prices to range between US\$40 and US\$45 per barrel this year. He believes oil prices will trade at between US\$50 and US\$60 per barrel next year. Sumatec's operations will hit the "panic button" if oil prices reach around US\$25 per barrel and remain at that level for one month, he says.

With the decline in oil prices, Chan says there are many distressed oil assets and he does not discount Sumatec acquiring some on-shore assets this year. "There could be some major investments but we cannot disclose them yet. [The assets] are very near Malaysia.

"This is the best time for acquisitions. A lot of people are selling off assets like oil fields, refineries and gas plants. So this is the time to pick them up," he says. [FocusM](#)



## Oil and gas field with history dating back to 1970s

**THE** Rakushechnoye oil and gas field, also known as Shelly field, is located in Western Kazakhstan, on the Mangyshlak Peninsula.

It is some 15km inland of the Caspian Sea and about 105km southeast of Aktau, a major regional centre. The onshore field covers an area of 354.45 sq km.

Discovered in 1973, the Rakushechnoye field started production in 1978. A seismic survey of the field and the drilling of 47 exploration and production wells were completed by 1987. However production at the field was halted in 1998.

In 2000, a 25-year oil and gas concession was awarded to CaspiOilGas LLP (COG). Following this, further well re-entry and research works were carried out from 2004, and the field returned to production in 2007.

In 2011, COG and Markmore Energy (Labuan) (MELL), which is COG's owner, awarded an investment production sharing contract to Sumatec to develop and extract hydrocarbons from the field.

Sumatec signed a joint investment agreement with MELL and COG in 2012 and officially took over field operations in late 2013 after meeting its payment obligations under it.

In January 2014, Sumatec produced its first oil from the field and commenced rig operations in April the same year.