

O&G to be WZ Satu's long-term growth strategy

Group aims to have more than half of its revenue for FY16 to come from the sector

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KUALA LUMPUR: WZ Satu Bhd is looking to diversify into the oil and gas (O&G) sector to pave the way for its long-term growth.

The group aims to have more than half of its revenue for the financial year ending Aug 31, 2016 (FY16) to come from its O&G business, chief executive officer Tengku Uzir Tengku Ubaidillah told *The Edge Financial Daily* in an interview.

"To us, the O&G industry is recession-proof. As long as people need it, there will be demand for it. We'll be starting with the mid-stream and downstream businesses," he said.

The group plans to make another O&G asset acquisition next year, he added, but did not elaborate further.

In July, WZ Satu proposed to acquire Misi Setia Oil & Gas Sdn Bhd for RM27 million. Misi Setia is mainly involved in the design, procurement, fabrication, and installation and commissioning of skid packages, as well as onshore O&G pipeline transmission systems and plant terminal projects.

The acquisition comes with an average profit guarantee of RM44 million per annum from 2015 to 2017. Misi Setia, which has two fabrication yards — one in Kajang, Selangor, and another in Bintulu, Sarawak — has an order book that stands at RM130 million, with a tender book of RM330 million.

The company is also expected to get a slice of Petrolina Nasional Bhd's refinery and petrochemical integrated development (Rapid) project in Pengerang, Johor, due to its engineering, procurement, construction and commissioning experience.

WZ Satu, formerly known as Weng Zheng Resources Bhd or WZ Steel Bhd, has been specialising in the manufacturing and trading of precision cold drawn steel bars,



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used mainly in the office, computer and automotive segments.

But in August last year, Uzir began acquiring a stake in the group, eventually ending up as the largest shareholder with 52.7 million shares or a 27.7% stake, as at Aug 22, 2014.

Uzir said he is interested to transform the group and diversify out of the steel business.

"Last year, I noticed that the company was undervalued, based on the share price and its intrinsic value. I think one of the reasons it was so is because of the legacy of its steel business, which is not extremely interesting to investors," he said.

"I saw this as an opportunity to invest further in the company. I decided to meet the controlling shareholder at the time, Tan Ching Kee and offer him an opportunity to unlock the value

of the company," he said.

Tan, the group's managing director, remains one of WZ Satu's major shareholders (22.5% direct, 1.8% indirect) after paring down his controlling stake. The other is executive director Datuk William Tan Chee Keong (6.1% direct, 0.04% indirect).

The stock surged 208% from 72 sen on May 8 to close at RM2.22 last Friday, bringing its market capitalisation to RM421.8 million.

For the fourth quarter ended April 30 (4QFY14), the group doubled its net profit to RM646,000 from RM318,000 while revenue increased to RM23.9 million from RM22.1 million in the previous corresponding period.

In a note to clients last month, HLIB Research said it expects WZ Satu's net profit to grow at a compound annual growth rate of 67%

from FY14 to FY16.

"Going forward, we see the upside risks to our forecasts from the potential acquisition of a new O&G business, upside to bauxite reserves, potential rationalising of [the] steel business and reinvestment into [the] O&G business with a higher return on investment, and stronger-than-expected growth from civil engineering," it said.

On July 1, the group announced some fundraising proposals, including a private placement to bumiputera investors to raise some RM62 million cash for its O&G venture.

"Financially we were quite tight due to our inventory and our steel trading business [so] one of the first things I did was a private placement to raise cash," said Uzir.

Once all proposals have been subscribed to, Uzir hopes to have raised RM132.95 million by mid-October.

On the group's steel business, Uzir said the group would be looking at privatising the marketing and trading segments, but had already set up a steel manufacturing plant in Indonesia.

"The market is sizeable over there and we intend to relocate our lines to Indonesia. The relocation is an ongoing process. Operations at the plant have already started and we should be fully operational by the third quarter next year," he said.

WZ Satu also has a 49% stake in SE Satu Sdn Bhd, which has an exclusive contract to mine, extract and produce bauxite ore from eight hills in Kuantan, Pahang, for three years.

The mined ore is then shipped to China for refining and sale. Uzir said the mining venture generated about half of the group's profit for FY14.

SE Satu's appointment as the exclusive mining contractor was by Kreatif Selaras Mining Sdn Bhd, a 60% subsidiary of Tanak Makmur Bhd, in which Uzir owns 10.8% equity interest.

Bloomberg data showed Uzir is the chairman of Kumpulan Unik Bhp Sdn Bhd and Kota SAS Sdn Bhd. He is on the board of Kurnia Setia Sdn Bhd, which was acquired by Tanah Makmur in 2010.

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