GIKEN SAKATA: To Boost Earnings With Oil & Gas Drilling

Written by Sim Kih
Wednesday, 05 November 2014 06:30

"We got into *Old Wells* because we wanted to acquire something that was profitable from day one, but we are not limiting ourselves to *Old Wells*," said Giken Sakata Group CEO Sydney Yeung.

Photos by Sim Kih

FY2014 WAS a milestone year for precision components contract manufacturer Giken Sakata. Its net profit was 4.7 times what it was a year ago. It has also acquired a profitable onshore oil & gas drilling contractor.

The Group posted net profit attributable to shareholders of S$2.1 million for its financial year ended 31 August 2014, compared to S$445,000 a year ago, wholly from precision engineering for components contract manufacturing.

"We expect to continue to do well in precision engineering," said Group CEO Sydney Yeung at its results briefing on Friday.

Mr Yeung became Giken's Group CEO on 16 September this year.

He became its largest shareholder with a 16% stake upon the completion of its acquisition of Cepu Sakti Energy ("CSE").

The Group's revenue fell by 45.6% year-on-year to S$69.0 million due to the discontinuation of a games machines project for a well-known player that decided to take the project in house.

"We do not have large billion dollar fields but we will have stable growth. We are not looking for oil. We already know what our recoverable reserves are," said CSE Managing Director Charles Madhavan.

This, however, helped lift gross margins by 9.5 percentage points to 17.0% as the discontinued project required relatively low value-add components.

"Our gross margins are very healthy compared to other components contract manufacturing players," said the CEO.

Onshore oil & gas business to contribute immediately

On 10 September 2014, the Group completed the acquisition of a 53.7% stake in CSE, an oil and gas services business with operations based in Indonesia.

The purchase consideration was settled by the issue of 80 million new Giken Sakata shares at 30 cents each.

CSE has access to more than 300 oil wells under its portfolio of operating licences in Indonesia.

It is producing 880 barrels of crude oil per day out of 15 oil wells located in two of CSE's five oil fields (as of September 2014).

The newly acquired company is expected to start contributing to the Group's earnings from 1QFY2015.

Below is a summary of questions raised at the Group's results briefing, and the replies provided by Mr Yeung, executive director / CFO Ng Say Tiong, Deputy CFO Valentin Schillo and CSE managing director Charles Madhavan.

Q: Why did you increase equity to repay debt in March when your gearing was low?

The debt was restructured 6 years ago with terms and conditions that would have made our investment in Cepu Sakti difficult. It was easier to just repay the debt.

When you come out of debt restructuring, banks are not keen to offer refinancing facilities. The precision engineering business requires a lot of working capital. The placement proceeds have

"Both business segments are stable. We are not a risk-loving company," said Group CFO Ng Say Tiong.

expanded our working capital and net profit has quadrupled.

Giken is now entirely debt free. Our recent good set of results will allow us to seek debt financing for our precision engineering business.

Q: What is the utilization rate of your precision engineering facilities?

Right now, it is about 65% to 70%. We intend to expand our production capacity for medical products. We are manufacturing parts for medical devices such as catheters and scopes for well-known European and Japanese brands.

We command a price premium for our engineering services because of our track record with Japanese and European customers.

We also manufacture components for grooming care products (such as hair dryers) and garment care products (irons) for a very well-known Dutch company.

Q: What are old wells?

There are two things we do with old wells. We either re-enter the old well or twin-drill near it.

When we first started, we tried to enter the old wells but we found that the Dutch deliberately tried to destroy these wells when they abandoned them during World War II.

They dropped things to block the wells, including even grenades to prevent the Japanese from getting the oil.

So, we decided to twin drill the fields about 10 meters away from the original opening.

With today's improved pumping technology, we are able to drill much deeper than the Dutch.

Valentin Schillo was appointed as Giken Sakata's Group Deputy CFO on 16 September 2014. He was formerly the Group's independent indirector and a member of its audit committee.

At our new oil fields, we found virgin pressure still present because the Dutch took very little oil (only about 2% to 3% of the oil well formation).

It was very good for us because there is high oil pressure at shallow depth. This means we get natural flow without pumping. We are thus able to extract oil without incurring diesel energy cost for the pump.