Cash-rich GSS Energy moves towards oil production

It is in the process of submitting budget to Pertamina; once approved, it will look for contractors to develop oil field

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IN SPITE of the bloodbath in the oil exploration and the offshore and marine sectors, precision engineering firm GSS Energy is moving ahead with its plans to produce oil in Indonesia – armed with an enormous cash hoard to buffer against the volatility in oil prices.

The company, which in November was awarded a contract by Indonesian state-owned energy giant PT Pertamina, expects first oil to come by the first half of next year.

The Pertamina contract was "a very big milestone" for the company, said GSS Energy chief executive Sydney Yeung in an interview with *The Business Times*. The firm's shares spiked to as high as 10.4 Singapore cents after it announced the award in October; they have since fallen to close at 8.1 Singapore cents on Dec 9.

The award was given to PT Sarana GSS Trembul – a 49:51 joint venture between GSS and a commercial vehicle by the Central Java provincial government, PT Sarana Pembangunan Jawa Tengah – to produce oil and gas from the Trembul operation area within Blora Regency in Central Java for 15 years. The area contains 24.3 million barrels of contingent resources up to a depth of 800 metres, according to an independent report.

The contract has several merits that make it attractive to GSS Energy, Mr Yeung told BT.

For one, it will have a cost of production, or lifting costs, in the low teens. "Even with oil prices at US$40 (a barrel) plus, we can make sure that we will stay above water," he said.

It also allows the firm to recover all its costs first, before the profits are split with Pertamina. Furthermore, Pertamina guarantees offtake, without any requirement for a minimum production. "Whatever we produce, Pertamina will buy at market price," Mr Yeung said.

The partnership with the local government through the JV is also important as one of the biggest challenges in onshore oil and gas production is dealing with social issues, said Mr Yeung. "Just in case there is any local social issues, they will be in the best position to help us resolve (that)."

GSS Energy is in the process of submitting its budget to Pertamina. Once approved, the firm will start looking for contractors to develop the field.

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The company has committed to spend US$7.8 million within three years, which will come from its cash reserves of about S$14 million, according to Mr Yeung.

These are contributed by the group's profitable precision engineering business, which helped the firm to post a net profit of S$8.4 million for the first nine months of this year, on revenue of S$55.3 million.

But the actual amount drawn from the cash reserves will be lower as the company reaches oil production stage and recovers some of its costs, which will then be pumped back into the business, Mr Yeung said.

"The fact that we don't have any debt to service, that in itself will allow us to be very comfortable and confident to stick to our business model," he added. "The problem sometimes when you have debts to service is that when your revenue streams don't come on time, you have problems."

Given that most shareholders are also happy the company is playing it safe in the current volatile oil and gas environment, GSS doesn't plan to take on any debt. But if drilling results are successful and shareholders want the firm to be more aggressive, bank financing could become an option in order to accelerate the drilling programme, he said.

The contract with Pertamina isn't the firm's first foray into the oil and gas sector. GSS Energy, in its previous incarnation as Giken Sakata, acquired a 53.7 per cent stake in Cepu Sakti Energy (CSE) – which pumped from old wells left over from the first two world wars – in September 2014 for up to S$48 million.

CSE had signed contracts for five oilfields in Indonesia under the old wells programme. But its plans hit a hitch when a partner for one of its fields, village cooperative KUD, had its contract with Pertamina cancelled due to the latter's non-compliance with certain contract terms. This resulted in a breakdown in the cooperation agreement between KUD and CSE.

GSS Energy then took a S$33 million writedown on its investment in CSE, before subsequently selling it in May this year for S$1. It, however, secured CSE's rights to the old wells in the Trembul area for 1,000 rupiah (S$0.11).

The Trembul region is part of its plans to develop the oil and gas business by exploiting onshore fields that Mr Yeung considers low-hanging fruits. "In spite of the volatility in the oil price in the last two years, we want to make sure that the macro environment should not completely dictate our strategy. One of the best ways is to find assets and projects that we can control on the cost side," he said.

GSS Energy plans to first drill up to 800m in Trembul, for which there is geological data dating from the early 1900s when the Dutch undertook oil exploration in the region. After that, the firm wants to go up to a depth of 2,200m – a move which will also raise its reserves figure.

Once it has proven itself on the current field, GSS Energy hopes to acquire working interests in adjacent oilfields to increase its acreage.

The long-term plan, said Mr Yeung, is to build up the oil and gas business to stand on its own feet, and then separate that from the precision engineering business.