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TH Heavy Engineering given another year to deliver Layang FPSO

Project still at risk of further delays mainly due to a lack of access to financing, say sources

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APR 7, 2016 5:50 AM

Singapore

MALAYSIA'S pilgrim fund-sponsored TH Heavy Engineering (THHE) is understood to have been granted one more year to deliver the anchor production facility for JX Nippon-operated Layang field development, but uncertainty continues to plague the Malaysian entity's capability to meet the new deadline, with a much needed cash injection to restructure its finances looking set to be derailed.

THHE was awarded a US$372 million contract in May 2014 by JX Nippon for the delivery of a floating production, storage and offloading (FPSO) vessel towards the Layang oil and gas field development. Delivery of the vessel, which has already been rescheduled to mid-2016 from early 2016, according to an analyst report, is said to have been postponed with the consent of JX Nippon, by another 12 months.

Industry sources have attributed the challenges THHE faced in executing the Layang FPSO conversion to a lack of access to financing and in-house technical expertise. While THHE may seek to redress the technical hurdle by roping in external contractors, it appears the Malaysian contractor has hit a road block of late in raising the required financing. The Business Times understands Maybank - which has been roped in to extend a RM2 billion (S$688.4 million) lifeline to THHE - has not been able to pump in the promised cash without any third-party guarantee.

One of the solutions mooted was for THHE's anchor shareholder - the Muslim pilgrim fund, Lembaga Tabung Haji (LTH) - to provide the necessary guarantee, but LTH is not willing to step forward at this stage, informed sources said. The rationale for LTH doing so could not be confirmed with the parties involved, although close industry observers point to the possibility of the provision of a guarantee as contradicting corporate governance at the Muslim pilgrim fund.

LTH itself may not be in the best position to bankroll THHE any further, having been exposed by the Malaysian media, for running up liabilities. Reports said that LTH has only 98 sen in assets to back each ringgit of liability. With no fresh cash injection, THHE is unlikely to be able to subcontract work on the Layang FPSO conversion, which has been experiencing delays. The topsides module fabrication being undertaken at its Pulau Indah yard is known to be way behind schedule, while the hull conversion at Dubai Drydocks is said to have been suspended.

Malaysia's national oil company is understood to have stepped in to attempt to remedy the situation by reaching out to Petronas marine subsidiary, MISC to support THHE financially and technically in delivering the Layang FPSO.

Talks, however, have fallen through between MISC and THHE after the pair failed to agree on the transfer price of the FPSO when the former offered to buy over the vessel.

Sources said that a third Malaysian FPSO contractor, M3nergy, has come into the picture with an offer to buy over the Layang FPSO, although this cannot be confirmed with M3nergy as at press time. Backed by Sabah Development Bank, M3nergy looks set to expand its wings, having entered into an agreement to buy the FPSO Bertam from Sweden-based Lundin Petroleum for US$265 million, according to a January 2016 press release. The Layang FPSO is reportedly designed to handle up to 75 million cubic feet per day (cf/d) of gas and 8,000 barrels per day (b/d) of condensate from the Layang field.

JX Nippon had projected the combined output from Layang and the producing Helang field also in its 75 per cent-operated Block SK10 to reach 100 MMcf/d and 7,000 b/d once the FPSO comes onstream. Natural gas from Block SK10 will be supplied to the MLNG Tiga plant in Bintulu Sarawak, while crude and condensate will be shipped from the FPSO, according to JX Nippon.

The Japanese field operator did not respond to BT's request for comment as at press time. Petronas Carigali holds a 25 per cent interest in Block SK10.