

CITY OF OPPORTUNITY

McDermott rides O&G recovery boom from Greater KL base

Rumours of the oil and gas (O&G) industry's imminent demise are, despite the great swings in the Brent crude oil price in the past 12 months, exaggerated.

That is certainly the case for O&G service providers like McDermott International Inc, whose Kuala Lumpur-based Asia-Pacific operations are thriving, according to Ian Prescott, the US O&G giant's senior vice-president for Asia-Pacific (APAC).

"Our pipeline is at the highest it has ever been," says Prescott. "So far we have won more than US\$6.5 billion worth of jobs in the first quarter of 2019 alone."

The job wins include two Malaysian contracts, one in partnership with Sarawak Shell Bhd and the other with Sapura Exploration and Production. McDermott will provide transport and installation of offshore structures, pipelines and pre-commissioning work for the Pan Malaysia field development off Sarawak.

That the year is going so well for a multinational O&G firm like McDermott in Asia-Pacific may surprise industry outsiders. After all, the Brent crude oil price has not exactly been stable in the past 12 months — in October it broke past US\$80 per barrel for the first time since 2014 but then slumped back to just above US\$50. Despite that, upstream players are becoming more active in Southeast Asia, with more capital expenditure and drilling plans for 2019, which means more contracts for support services.

Of course, upstream is not the only segment bustling with activity. And that means the entire industry is in uncharted waters, says Prescott. "It is unprecedented that both the upstream and downstream segments are both active right now." Historically, they run counter-cyclically to each other depending on the prevailing crude oil price trend, he adds.

That is good news for McDermott APAC, which provides engineering, procurement and construction (EPC) expertise to both segments of the industry. Prescott expects McDermott APAC to sustain the current pace of job wins barring a seismic shift in the landscape. "I like to think of McDermott APAC as the best kept engineering secret in the region. We have 4 Centres of Engineering Excellence in the region. Our Centre of Excellence in Kuala Lumpur has over 700 employees who are experts in their field. This means we can offer clients the expertise with our technology patents and a true turn-key EPC experience."

'EASY TO DO BUSINESS'

The company's excellent start to the year is supported by its base of operations in Kuala Lumpur, which has been its regional headquarters since 2016. Its regional base was previously in Singapore, though McDermott's operations in the region stretch back almost a century.

Since it relocated to Kuala Lumpur, McDermott APAC's head office headcount has more than doubled to about 700, mostly Malaysians. The outside Malaysian presence in its workforce is also true for McDermott's 119ha fabrication yard in Batam, the firm's biggest globally, which has been up and running since 1970. It has three fabrication yards in APAC, with others located in China and Thailand.

It is an outstanding success story for InvestKL, the agency tasked with attracting global multinational companies to set up



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regional bases in Greater Kuala Lumpur. InvestKL acts as the reference point and facilitator for MNCs such as McDermott to adjust to the local landscape and hit the ground running.

"The organisation made the decision three years ago to relocate the engineering centre from Singapore to Kuala Lumpur. Kuala Lumpur is an easy place to do business," Prescott reflects, adding that InvestKL's facilitation and assistance throughout the process has helped tremendously.

"KL has a very well-educated workforce and a large O&G workforce. We opened the office here three years ago with 90 people and now we have over 700, most of whom are Malaysian," he adds.

That strong talent supply is thanks to a particularly well-developed O&G industry with an established track record, driven by Petroliaam Nasional Bhd.

Adding to Greater Kuala Lumpur's allure is its central location in the region, which Prescott says has helped McDermott manage its regional presence across key markets in Australia as well as India.

"We have a large base in India, we are the largest offshore O&G player there and our offices in Chennai and Delhi are very easy to reach from Kuala Lumpur."

With the combination of an excellent talent supply chain and geographical proximity to major clients and key markets from Kuala Lumpur, it is no surprise that the city houses one of the four McDermott Centres of Excellence.

"It is easy to do business in Malaysia and it is easy to do business from Malaysia," says Prescott. "And if McDermott gets a project anywhere in the world, the Centre of Excellence is right here."

MORE GROWTH AHEAD

And McDermott APAC is only beginning, he adds. The firm has already run out of available office space for its short-term expansion needs. "This (current operations) is not the ceiling, we have more plans to invest in Kuala Lumpur and grow even bigger."

The local talent pool is fast becoming

a key supporting ingredient in McDermott APAC's push into digitisation and innovation. One successful example is its Gemini^{XP} platform, a single "source of truth" for design, procurement, fabrication and construction.

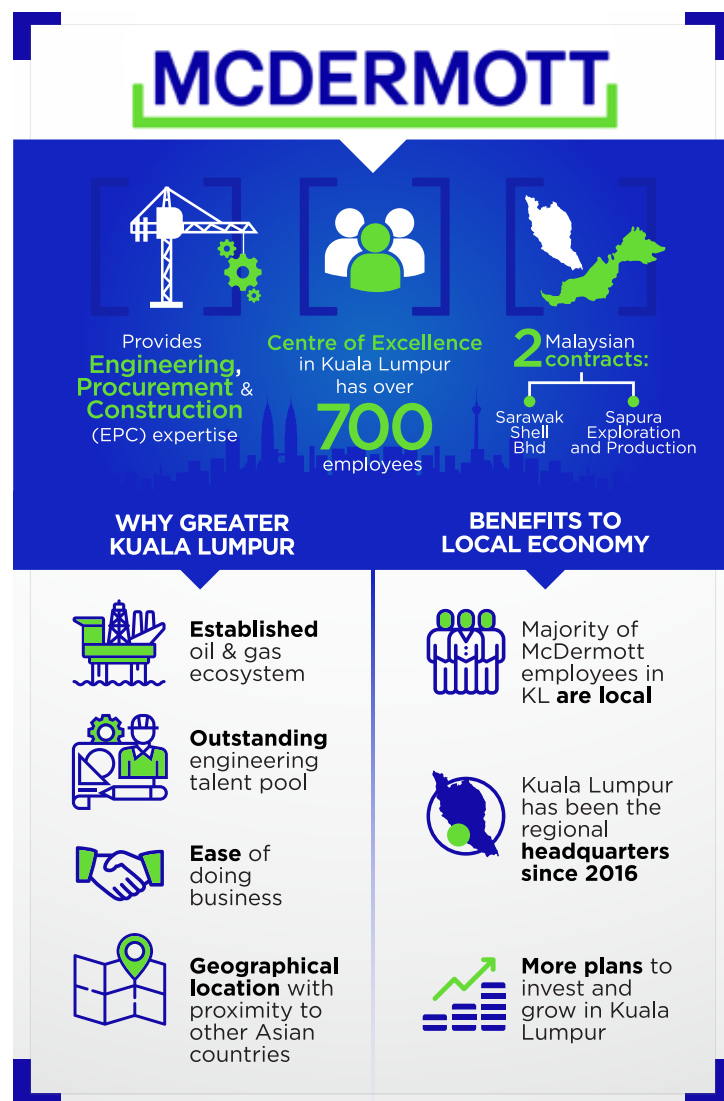
Listed on the New York Stock Exchange, McDermott International comprises five core business segments that include McDermott APAC. The others are North, Central and South America; Europe, Africa, Russia and the Caspian; Middle East and North Africa; and Technology.

It is worth noting that in May 2018, McDermott International completed a combination with Chicago Bridge and Iron Co NV (CB&I), which resulted in a new McDermott, a premier, fully integrated provider of technology, engineering and construction solutions for the energy industry.

For McDermott APAC, the completion of the combination offers its operations in the region additional offerings that are becoming a key competitive advantage.

According to McDermott International's latest annual report, Asia-Pacific is its second largest segment outside of the US by revenue contribution in 2018, contributing US\$411 million. Prescott expects that to rise to US\$700 million to US\$1 billion in 2019 if the current pace is sustained.

"It was a good strategy to combine, and in the region it most definitely allows us to provide much broader services for our clients," says Prescott. "McDermott APAC is well positioned to support the global growth of McDermott International and we are seeing a lot of global activity, we are seeing many clients invest."



Why Malaysia is the place to be for O&G MNCs

Oil and gas (O&G) is on the rise again, and not just for multinational corporations (MNCs) like McDermott International Inc. The entire local sector is poised to shine this year as the new government commits to drive further growth and activity in the sector after some troubled years since the crude oil price slump started in late 2014.

In a February statement, Deputy International Trade and Industry Minister Dr Ong Kian Ming said the current crude oil price of US\$60 to US\$70 per barrel is sufficient to revive some of the exploration and production (E&P) activities that may have been deferred or stopped due to the low oil price of below US\$40 per barrel. He said the oil and gas industry will rebound and activity will increase. The ministry is always open to discussions with companies on production sharing contracts (PSCs) to improve economic production this year.

For InvestKL — the federal agency tasked with attracting large global MNCs to set up regional services hubs in Greater Kuala Lumpur — the national priority placed on O&G is a validation of its stringent MNC selection criteria, which zoomed in on global O&G player McDermott several years ago.

Asia remains the centre of gravity for global growth. And Malaysia is the obvious choice for O&G players in the region, given that it saw the largest



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natural gas discoveries in 2010 to 2012, according to a recent report by Russian O&G MNC, PJSC Lukoil, titled Global Trends in Oil & Gas Markets to 2025.

Since relocating to Greater Kuala Lumpur, McDermott has grown from strength to strength with the support of the KL ecosystem, which includes easy access to highly skilled O&G talent and

accommodative government policies.

"From Kuala Lumpur, MNCs can take advantage of one of the strongest O&G ecosystems in the region. We have a strong pool of industry-ready and multilingual talent and excellent connectivity across the region. MNCs can form smart industry partnerships with local SME service providers and vendors," says InvestKL CEO Datuk Zainal Amanshah.

In addition to the well-developed O&G landscape, expertise and talent pool, the country is a cost-efficient destination when it comes to doing business. Malaysia ranked 15th in terms of ease of doing business by the World Bank's Doing Business 2019 report.

Meanwhile, Kuala Lumpur is known as a vibrant and liveable city, offering high quality living for expats and locals alike, placing 10th in the rankings for quality of life in Asia by Mercer in 2019. As such, companies like McDermott, which have already made the move to Kuala Lumpur, are now reaping the rewards.

The brightening outlook for the Malaysian O&G sector, as well as regionally, bodes well for other O&G MNCs thinking of following in McDermott's footsteps.

"MNCs that tap Kuala Lumpur's strong proposition to establish a regional hub will obtain a strategic competitive advantage in Asean," says Zainal.