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Date: 26 Oct 2009
Media: The Business Times
Section: Company News
Page: 6

Market insight: *Mr Ong (right, with Mr Ting) says that the niche downhole drilling products market is believed to be worth about US$10m to US$15m a year*

EMS Energy in drilling products market

It owns a 60% stake in Oilfield Services and Supplies

By **VINCENT WEE**

LITTLE known Catalist-listed oil and gas services provider EMS Energy's acquisition of a 60 per cent stake in Oilfield Services and Supplies (OSS) last September may turn out to be one of its best moves yet.

OSS has a 60 per cent market share of the highly niche downhole drilling products market that is supplied out of Singapore. This market is believed to be worth about US$10 million to US$15 million a year, said managing director Peter Ong.

OSS's position is further strengthened by its contracts with the four top directional drilling services companies, Schlumberger, Halliburton, Baker Hughes and Weatherford/Precision Drilling. Mr Ong spent 17 years working for Baker Hughes before setting up OSS. He also has a working relationship with all the major contractors.

The company has performed well so far, seeing $12.5 million in revenue and $7.3 million in gross profit in FY08. In the first half of this year, it pulled in revenue of $8.5 million and gross profit of $3.8 million. OSS contributed $3.1 million to EMS's revenue in its maiden contribution in FY08.

With the recent opening of its new 40,000 sq ft plant in Tuas, floor space and production capacity have been doubled and OSS is set to meet any uptick in demand as oil and gas exploration and production activities rebound. OSS's facilities are American Petroleum Institute (API) approved, enabling it to meet the exacting standards of major multinational drillers. In addition to its main Singapore plant, which supplies to South-east Asia, the Middle East and Africa regions, OSS also has satellite workshops in Thailand, India and China. These are all in the major oil producing regions of these countries in order to be close to customers and provide quick turnaround time when new parts and suppliers are needed.

Future expansion could be in Angola and Libya to serve the West Africa fields. Mr Ong said that OSS goes into areas where labour costs are low and there is not much competition from other players. "If there are already many machine shops such as in Malaysia, there is really no point for us to go there," he said. In other places such as Vietnam, OSS hopes to leverage on EMS's contacts to expand further.

Amid the current downturn, OSS has also expanded into the equipment rental business where margins are higher. The rental business currently makes up about 15 to 18 per cent of OSS's annual revenue and Mr Ong wants to ramp this business up further in future, from the $3 million

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worth of equipment assets it now owns. "We are really in favour of going into rentals because ultimately the asset still belongs to us," he said.

This is also a strategy that executive chairman and CEO Ting Teck Jin wants to pursue as it moves up the value chain from being just a fabricator to taking on more complex engineering work. EMS delivered its first workover rig in May and may expand to ownership and rental of rigs in future. "Some companies may not be able to invest right now but they can rent," said Mr Ting.

The rental and repair side of the business provides a more stable revenue stream in addition to the big newbuild orders that EMS has. He hopes revenue will be evenly split between the two divisions in future.