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## THE IMPACT OF MERMAID MARITIME REORGANISING ITS SUBSEA BUSINESS

Vincent Chia, on September 29, 2014



Asean Equities Review had previously reported on Mermaid Maritime Public Co Limited winning subsea contracts worth up to US\$ 45million. This was right after Mermaid Maritime had reorganised its subsea businesses in August 2014. We had the opportunity to catch up with Management to understand their reorganisation efforts and how impactful these have been and would be.

Mermaid Maritime has grown its Subsea business through growing its own subsidiary as well as through acquiring other companies. Before the reorganisation, there were three brands. There was Subtech (West Africa and Middle East), Seascope Surveys (Singapore and Indonesia) and Mermaid Offshore Services (Thailand, Vietnam, China). After the reorganisation, there is only one brand, which is Mermaid Subsea Services.

As mentioned, this was the result of growth through acquisition. Seascope used to be Mermaid Maritime's largest subcontractor for subsea work. Seascope is strong in Singapore and Indonesia. The other acquisition was Subtech. Subtech is strong in West Africa and Middle East. Both acquisitions had done well post-acquisition and were left to grow independently. However this reorganisation provides a timely impetus to unify the various entities of Mermaid Maritime's Subsea business.

The unified brand has various benefits. There are clear revenue synergies through cross selling as well as the ability to offer services to customers across the various regions. There are also expected to be cost synergies through joint procurement. Also, there is more unity and sense of identify among the various regional entities.



The Subsea space is currently where the oil and gas industry is strongly focused on. The reorganisation into Mermaid Subsea Services is thus very timely and appropriate. We then understood further from Management on the reasons for the industry's focus on the Subsea space.

Oil price is currently stable but the costs of extracting oil are starting to increase. This is because costs are higher as the location of the oil moves from shallow water to deep water. In the face of these falling margins, current efforts are thus refocused back into shallow waters. Thus what is affected are exploration and installation efforts. However production efforts continue on. The buzzword is "enhanced recovery", which is to produce more oil from existing oil wells.

So looking at the oil production value chain, the spending currently is focus on production work. Spending on exploration and installation work has been reduced.

There is also a delay in decommissioning work as this is a cost. Thus, there is also more tie back work. This involves digging near an existing well and then linking this back to the existing infrastructure.

This refocus towards enhanced recovery and delay in decommissioning both mean that more inspection, repair and maintenance work has to be done. This is the part of the Subsea business where Mermaid Subsea Services is focused. It has a fleet of vessels and remotely operated vehicles as well as teams of divers and project crew. Besides inspection, repair and maintenance, Mermaid Subsea Services also offers installation services as well as cable and pipe laying services.

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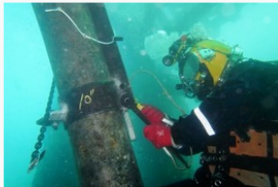
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There are many companies in the Subsea space globally. These range from global companies to specialist contractors. The space is thus fairly competitive. However, Mermaid Maritime has certain strategic advantages that allow it to compete against some of these global players and secure contracts in the Subsea space

Firstly, given how Mermaid Maritime has grown through acquisition in the Subsea space. This means that the operating entities in the regions that it operates in are regarded as local entities. Its operating assets are also spreadout across its entities rather than managed centrally. This is advantageous in regions where National Oil Companies operate. Currently National Oil Companies tend to be more active than the Oil Majors in oil and gas activity. This is because their oil and gas activity provide support to the country's economy through oil income and industry activity.

Secondly, Mermaid Maritime has through its own growth and acquisitions built a strong and international team. Their staff have mostly 20-30 years of experience in the oil and gas space. Operationally they have been strong. The reorganisation at this juncture also provides an opportunity to emphasize on costs and improving profit margins. This allows Mermaid Maritime to continue to provide its customers the same quality of work as global players but at a better price.

The reorganisation also now gives Mermaid Maritime a strong common branding. This boosts the team internally and looks more seamless across regions externally to customers. The combined entity also now boasts of being the largest diving company globally. This is both from the perspective of the value of the diving contracts and from the number of divers. This is the most powerful message that Mermaid Maritime can deliver to its customers from this reorganisation.

**GET TO THE POINT :** Reorganisations tend to be perceived negatively and as a means to fixing challenges within an organisation. However Mermaid Maritime's reorganisation here is all positive and is an important milestone in the successful execution of a growth strategy in the Subsea space. Mermaid Subsea Services now has a strong unified platform to grow even stronger.

(Pictures from Mermaid Maritime Public Co Limited)