

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

1 Oct 2018

Sapura Energy (SAPE MK) : BUY

Mkt. Cap: US\$616m | 3m Avg. Daily Val: US\$13.6m

Last Traded Price (27 Sep 2018): RM0.43

Price Target 12-mth: RM0.57 (34% upside) (Prev RM0.57)

Shariah Compliant: Yes

Analyst

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Long-term outlook remains strong

- 2QFY19 earnings below expectations, dragged by E&C segment; situation to normalise in 3QFY19
- YTD contract wins of RM5.3bn to help earnings turnaround in FY20
- High tenderbook points to a potential recovery; optimistic on further sizeable contract wins
- Reiterate BUY with TP of RM0.57

Forecasts and Valuation

FY Jan (RMm)	2018A	2019F	2020F	2021F
Revenue	5,895	6,229	8,655	10,635
EBITDA	1,779	1,295	1,896	2,285
Pre-tax Profit	(2,324)	(438)	315	699
Net Profit	(2,503)	(330)	241	533
Net Pft (Pre Ex.)	(300)	(330)	241	533
Net Pft Gth (Pre-ex) (%)	nm	(10.2)	nm	121.3
EPS (sen)	(42.1)	(5.5)	1.31	2.90
EPS Pre Ex. (sen)	(5.0)	(5.5)	1.31	2.90
EPS Gth Pre Ex (%)	nm	(10)	nm	121
Diluted EPS (sen)	(42.1)	(5.5)	1.30	2.88
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	159	152	72.5	75.4
PE (X)	nm	nm	32.4	14.6
PE Pre Ex. (X)	nm	nm	32.4	14.6
P/Cash Flow (X)	2.8	13.1	10.3	7.6
EV/EBITDA (X)	9.7	13.6	9.8	7.8
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.3	0.3	0.6	0.6
Net Debt/Equity (X)	1.6	1.7	0.8	0.7
ROAE (%)	(22.2)	(3.6)	2.1	3.9

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

2QFY19 results

Sapura Energy (SAPE) reported revenue of RM1.2bn (-24% y-o-y, +19% q-o-q) and a headline loss of RM126m (2QFY18: RM29m, 1QFY19: -RM136m) in 2QFY19. Excluding one-off items including a forex gain of RM37m, 2QFY19 core loss come in at RM163m (2QFY18: -RM2m, 1QFY19: -RM147m). This is below our and consensus expectations. The core loss in 2QFY19 has widened y-o-y and q-o-q. This was due to lower contribution from the engineering and construction (E&C) segment.

E&C Segment

The E&C segment registered revenue of RM780m (-38% y-o-y, +17% q-o-q) and a core pre-tax loss of RM21m (2QFY18: RM127m, 1QFY19: RM34m). The lower contribution from the E&C segment is due to the completion of existing jobs. However, we believe the E&C segment's contribution will grow steadily in the subsequent quarters, supported by execution and recognition of YTD contract wins of RM5.3bn and the remaining orderbook for the E&C segment.

Joint venture (JV) and associate contributions came in at RM94m (+21% y-o-y, 13% q-o-q) in 2QFY19. The lower q-o-q JV contribution was due to lower utilisation of Sapura Esmeralda (94.2%), Sapura Jade (97%), Sapura Topazio (98.5%) and Sapura Diamante (98.6%), all of which have fallen from their historical utilisation of above 99.5%. We expect improvements in the next quarter as Sapura 3000 is to be commissioned for Pan Malaysia works and also jobs in Vietnam.



Strong orderbook thanks to high contract wins

SAPE's YTD contract wins stand at RM5.3bn. This exceeds our annual replenishment assumption of RM5bn. However, we are maintaining our forecast at the moment as we believe any earnings upside from the additional contract wins will be modest due to: 1) nature of some contracts on an on-call basis, 2) lower margins, and 3) the loss-making drilling segment.

Current orderbook of RM16.9bn is the highest over last four years, even after taking into account the removal of the Berantai project. We note that current tenderbook is at USD7.4bn (RM30.6bn), which has increased by 45% from FY18's USD5.1bn (RM21.1bn). SAPE is also looking at additional job prospects of USD10.2bn (RM42.2bn). Given its sizeable tenderbook, we believe there could be upside risks to our earnings estimates. We are positive on signals that capex has bottomed out and contract flows are improving.

Drilling segment

The drilling segment registered revenue of RM254m (-9% y-o-y, +38% q-o-q) and a core pre-tax loss of RM58m (vs a pre-tax loss of RM85m in 2QFY18, -RM69m in 1QFY19). Utilisation will improve in the next quarter with Sapura Berani having received an extension and will start operations from July 2018. We understand that Sapura Esperanza will be idle after Sep 2018. Taking these developments into account, only seven out of 15 rigs are operating in FY19. We understand that the group requires seven rigs in charter to break even. While we expect this segment to breakeven in 2HFY19; we are forecasting full-year FY19 LBT of RM122m. This is owing to 1HFY19 LBT RM127m. Moving forward; we expect this segment to be profitable in FY20. The group is also looking for job prospects in Africa and Southeast Asia; namely Thailand and Malaysia.

Energy Segment

The energy segment raked in revenue of RM228m (+41% y-o-y, +8% q-o-q) and a PBT of RM28m (+24% y-o-y, +211% q-o-q). Revenue was higher due to higher total barrels lifted at 1.12mmboe (2QFY18: 0.8mmboe, 1QFY19: 1.1mmboe) and a higher average crude selling price of USD77/bbl (2QFY18: USD51/bbl, 1QFY19:USD70/bbl).

SAPE announced on 12 Sept 2018 that it had entered into a Heads of Agreement (HOA) for the proposed sale of a 50% stake in its energy business to Austria's OMV AG (OMV). The proposed transaction is based on an enterprise value of USD1.6bn (RM6.6bn). We understand that negotiations are ongoing and are in the final stage. If the sale is completed, we expect FY20 earnings to increase by 39% due to 35% decline in interest expenses from RM696m to RM514m, which will be partially offset by the drop in PBT contribution from the energy segment from RM116m to RM58m.

FY19 outlook

We believe its core loss will narrow towards 2HFY19 due to: 1) realisation of new E&C contract wins, 2) higher Brent crude oil price to support the energy segment, and 3) improvements in the utilisation in the drilling segment from the mobilisation of Sapura Alliance in May 2018 and Sapura Berani in July 2018.

Earnings revision

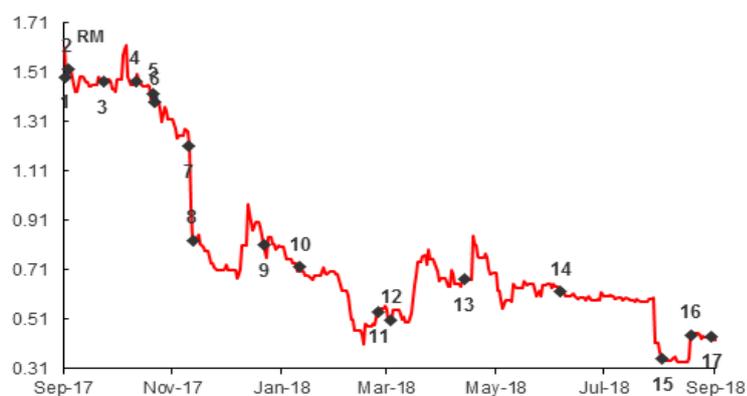
While its outlook has improved with higher YTD contract wins, we believe most of the earnings will be realised only from FY20 onwards. As such, we cut our earnings assumption for FY19 from RM296m to a loss of RM330m to account for lower margins for the E&C segment. Our PBT margins for the E&C segment in FY19 are revised to 2.2% from 5.5%. Our TP remains at RM0.57, as our valuation window is based on FY20.

Quarterly / Interim Income Statement (RMm)

FY Jan	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	1,656	1,055	1,260	(23.9)	19.4
Other Oper. (Exp)/Inc	(1,517)	(1,060)	(1,231)	(18.9)	16.2
Operating Profit	139	(4.9)	28.5	(79.4)	(688.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	77.3	108	93.8	21.4	(13.4)
Net Interest (Exp)/Inc	(213)	(222)	(239)	(12.1)	(7.5)
Exceptional Gain/(Loss)	30.8	10.7	37.0	20.2	245.0
Pre-tax Profit	33.8	(108)	(79.7)	nm	26.4
Tax	(4.4)	(28.4)	(46.3)	958.6	63.2
Minority Interest	(0.5)	0.81	(0.1)	77.5	(112.7)
Net Profit	28.9	(136)	(126)	nm	(7.1)
Net profit bef Except.	(1.9)	(146)	(163)	(8,569.5)	11.3
EBITDA	441	228	287	(35.0)	26.1
Margins (%)					
Opg Profit Margins	8.4	(0.5)	2.3		
Net Profit Margins	1.7	(12.9)	(10.0)		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Sep 17	1.49	1.65	HOLD
2:	29 Sep 17	1.52	1.65	HOLD
3:	19 Oct 17	1.47	1.65	HOLD
4:	06 Nov 17	1.47	1.65	HOLD
5:	16 Nov 17	1.42	1.65	HOLD
6:	17 Nov 17	1.39	1.65	HOLD
7:	06 Dec 17	1.21	1.35	HOLD
8:	08 Dec 17	0.83	1.35	BUY
9:	17 Jan 18	0.81	1.35	BUY
10:	06 Feb 18	0.72	1.35	BUY
11:	22 Mar 18	0.54	1.35	BUY
12:	29 Mar 18	0.51	1.05	BUY
13:	09 May 18	0.67	1.05	BUY
14:	02 Jul 18	0.62	1.30	BUY
15:	28 Aug 18	0.35	0.57	BUY
16:	13 Sep 18	0.45	0.57	BUY
17:	25 Sep 18	0.44	0.57	BUY

Source: AllianceDBS

Analyst: Inani ROZIDIN

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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