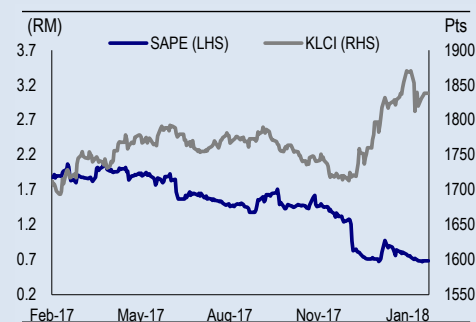


Sapura Energy (HOLD ↔, EPS ↓)
COMPANY INSIGHT
INDUSTRY: NEUTRAL
February 19, 2018
Price Target: RM0.67 (↓)
Share Price: RM0.68
Challenging near term prospect

- Highlights**
- **Weak 9MFY18 results:** To recap, Sapura Energy (SAPE) 9MFY18 bottom-line swung to losses due to weak Engineering and Construction (E&C) and low rig utilization in drilling division. The weak result was partially offset by stronger performance in Energy division due to higher average lifting oil prices and higher production volume.
 - **E&C:** The latest order book (including JV level order book) is c.RM16b and c.RM1.2b is expected to be recognized in 4QFY18. As a result, FY18E E&C revenue is forecasted to be c.RM4.5b, remain flattish yoy. Tender book currently stand at c.US\$9.5b with about US\$5b tenders at late-stage bidding. SAPE is expanding its footprint to Middle East and Africa to improve its contract bidding prospect.
 - **Drilling:** Rig utilisation rate was at all-time low of 33% in 3QFY18 and is expect to improve once SKD Alliance commences its new contract in April 18. Prospect for this division still remain challenging due to oversupply of rigs which we do not foresee will improve significantly in the near term.
 - **E&P:** SAPE completed the field development of the B15 gas field in Oct 2017 and gas production will begin from 4QFY18. Development of SK408 is on track with first gas for Gorek and Larak expected in 2020-2021. The potential monetising of the energy division is a major catalyst for SAPE in the near term.
- Forecasts**
- Cut FY18-20 earnings forecast from profits to losses after taking into account stronger ringgit exchange rate, lower order book replenishment and lower drilling rigs utilisation rates assumptions.
- Risks**
- Execution risk;
 - Prolonged low oil price;
 - Delay in contract award.
- Rating** **HOLD ↔, TP: RM0.67**
- Near term headwinds persists for the group with a gap still to be closed to maintain its revenue base. Weak rate outlook for tender rig division and margins for E&C segment has weighed on the company's near term earnings outlook. Nevertheless, the company is a direct beneficiary of current improving oil price as a major integrated oil field service provider and its crown jewel E&P segment.
- Valuation**
- Maintain **HOLD** call with a lower TP of **RM0.67**. Our valuation methodology is now switched to P/NTA from PBV due to possibility of impairment for SAPE drilling assets. Our assumption of 1.0x P/NTA multiple is pegged to FY19F NTA.

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KLCI	1,838.3
Expected share price return	-2.2%
Expected dividend return	0.0%
Expected total return	-2.2%

Share price

Information

Bloomberg Ticker	SAPE MK
Bursa Code	5218
Issued Shares (m)	5,992
Market cap (RMm)	4,105
3-mth avg volume ('000)	92,598
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	-18.5	-50.7	-63.4
Relative %	-19.0	-53.9	-66.0

Major shareholders (%)

Sapura Holdings	15.9
Kumpulan Wang Persaraan	7.2
EPF	7.0
Skim Amanah Saham Bumiputera	6.6

Summary Earnings Table

FYE Jan (RM m)	2017A	2018E	2019F	2020F
Turnover	7,651	6,748	5,878	8,527
EBITDA	2,735	1,337	1,476	1,580
Pre-tax Profit	668	-360	-176	-27
Rpt. net profit	489	-274	-134	-20
Norm. net profit	401	-274	-134	-20
Rpt. EPS (sen)	8.2	-4.6	-2.2	-0.3
Norm. EPS (sen)	6.7	-4.6	-2.2	-0.3
P/E (x)	10.2	NM	NM	NM
Book Value (RM)	2.2	2.2	2.2	2.2
P/B (x)	0.3	0.3	0.3	0.3
Net Dvd Yield (%)	0.0	0.0	0.0	0.0
Net Gearing (%)	88.8	91.9	90.1	82.5
ROE (%)	3.07	-2.11	-1.04	-0.15
ROA (%)	1.33	-0.93	-0.46	-0.07

HLIB

Financial Projections for Sapura Energy**Income statement**

FYE 31 Jan (RMm)	2016A	2017A	2018E	2019F	2020F
Revenue	10,184	7,651	6,748	5,878	8,527
Operating cost	-7,802	-4,916	-5,410	-4,403	-6,947
EBITDA	2,382	2,735	1,337	1,476	1,580
Depreciation	-725	-1,003	-1,091	-1,091	-1,091
EBIT	1,657	943	246	385	489
Net Interest	-760	-776	-912	-867	-822
Associates	190	501	306	306	307
Exceptionals	0	-87	0	0	0
Pretax profit	1,087	668	-360	-176	-27
Taxation	-79	-179	86	42	6
Minorities	0	0	0	0	0
Discontinued	0	0	0	0	0
Reported PATMI	1,009	489	-274	-134	-20
Core PATMI	1,009	401	-274	-134	-20
Basic shares (m)	5,992	5,992	5,992	5,992	5,992
Reported EPS (sen)	16.8	8.2	-4.6	-2.2	-0.3
Core EPS (sen)	16.8	6.7	-4.6	-2.2	-0.3

Balance sheet

FYE 31 Jan (RMm)	2016A	2017A	2018E	2019F	2020F
Fixed assets	15,046	15,140	14,406	14,033	13,626
Other assets	14,919	15,097	15,097	15,097	15,097
Working capital	1,020	-73	326	341	368
Receivables	3,972	3,269	2,560	2,681	2,896
Payables	-3,381	-3,800	-2,560	-2,680	-2,895
Inventory	429	458	325	340	368
Net cash	-12,827	-11,616	-11,911	-11,620	-10,907
Cash	4,628	3,520	5,365	4,655	4,369
LT debt	-17,455	-15,136	-17,276	-16,276	-15,276
Shareholders' funds	12,995	13,076	12,957	12,890	13,224
Share capital	5,992	5,992	5,992	5,992	5,992
Reserves	7,002	7,084	6,965	6,898	7,232
Minorities	8	4	4	4	4
Other liabilities	-2,051	-1,895	-1,895	-1,895	-1,895

Assumption metrics

FYE 31 Jan (RMm)	2016A	2017A	2018E	2019F	2020F
Revenue					
E&C	0	0	3,512	3,287	3,626
Drilling	0	0	1,703	1,991	1,834
Energy	0	0	1,350	1,596	1,964
Others	0	0	183	-995	1,103
EBIT					
E&C	0	0	292	271	302
Drilling	0	0	25	-100	238
Energy	0	0	127	292	378
Others	1,657	943			

Cashflow

FYE 31 Jan (RMm)	2016A	2017A	2018E	2019F	2020F
EBITDA	2,382	2,735	1,337	1,476	1,580
Net Interest	-760	-776	-912	-867	-822
W.Cap changes	-27	1,093	-398	-15	-27
Taxation	-79	-179	30	17	-83
Others	325	-324	464	380	767
Opex cashflow	1,841	2,549	520	990	1,414
Capex & acquisitions	-2,000	-700	-700	-700	-700
Free cashflow	-159	1,849	-180	290	714
Other inv cashflow	238	-40	0	0	0
Net borrowings	3,501	-1,808	1,628	-1,000	-1,000
Share issuance	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other fin cashflow	-209	0	0	0	0
Net cashflow	3,372	1	1,449	-710	-286
Forex Translation	0	0	0	0	0
Beginning Cash	1,257	4,628	4,630	6,078	5,369
Ending Cash	4,628	3,520	5,365	4,655	4,369

Valuation ratios

FYE 31 Jan	2016A	2017A	2018E	2019F	2020F
Reported EPS (sen)	16.8	8.2	-4.6	-2.2	-0.3
Core EPS (sen)	16.8	6.7	-4.6	-2.2	-0.3
PER (x)	4.0	8.3	-14.9	-30.4	-199.8
FD PER (x)	4.0	10.2	-14.9	-30.4	-199.8
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Net DY (%)	0.0	0.0	0.0	0.0	0.0
BV/ share (RM)	2.2	2.2	2.2	2.2	2.2
P/BPS (x)	0.3	0.3	0.3	0.3	0.3
FCF/ share (sen)	-2.6	30.9	-3.0	4.8	11.9
Market Cap (RMm)	4,075	4,075	4,075	4,075	4,075
Net cash	-12,827	-11,616	-11,911	-11,620	-10,907
Enterprise value	16,901	15,691	15,985	15,695	14,981
EV/ EBITDA (x)	7.1	5.7	12.0	10.6	9.5
ROE (%)	7.8	3.1	-2.1	-1.0	-0.2

Other ratios

FYE 31 Jan	2016A	2017A	2018E	2019F	2020F
Growth (%)					
Sales Growth		-24.9	-11.8	-12.9	45.0
EBITDA Growth		14.8	-51.1	10.4	7.0
EBIT Growth		-43.1	-73.9	56.3	27.0
PBT Growth		-38.6	-153.9	-51.0	-84.8
Core PATMI Growth		-60.2	-168.1	-51.0	-84.8
Margins (%)					
EBITDA Margin	23.4	35.8	19.8	25.1	18.5
EBIT Margin	16.3	12.3	3.7	6.6	5.7
PBT Margin	9.9	6.4	-4.1	-2.3	-0.2
Core PATMI Margin	9.9	5.2	-4.1	-2.3	-0.2
Net Debt/Equity (%)	98.7	88.8	91.9	90.1	82.5
ROA (%)	3.4	1.3	-0.9	-0.5	-0.1

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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NOT RATED	No research coverage, and report is intended purely for informational purposes.

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