

# Sapura Energy Berhad

## Unexpected Deep Losses

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9M18 results was a huge miss dragged by unexpected losses of RM260.3m incurred in 3Q18 on weaker drilling and E&C segments. Uncertain timing of contract award remains a concern to SAPNRG even though tender enquiries were active. Following substantial earnings downgrade to losses in FY18-19, we downgrade the stock to UP with a revised TP of RM0.82 pegged to lower FY19E PBV of 0.4x on higher impairment, cash flow and earnings risks.

**Below expectations.** 9M18 core net losses of RM217.9m missed expectations against our/consensus profit forecasts of RM86.2m/RM85.9m largely due to lower-than-expected contribution from E&C and drilling segment. No dividend was declared, as expected.

**Unexpected losses in 3Q18...** Sequentially, SAPNRG slipped into losses of RM260.3m from profit of RM36.9m in 2Q18 after stripping off: (i) unrealised forex gain of RM32m, and (ii) share of loss of RM46.1m on disposal of Sapura 3000 by SapuraAcergy. In tandem with a 23% fall in revenue, the poorer performance was largely marred by: (i) lower profit booked in by E&C segment (-87% QoQ), widening losses with lower rig utilisation (5 rigs working in 3Q18 vs. 6 rigs in 2Q18), and (iii) higher tax expense (+14x QoQ).

**...dragging 9M17 into the red.** On YoY basis, SAPNRG also slipped from core earnings of RM158.1m in line with top-line decline of 42%. The disappointing results is mainly attributable to loss-making drilling segment (5 rigs vs. 10 rigs in 3Q17) and weaker E&C segment (-94% YoY) as a result of lower work orders and billings. However, it was cushioned by better performance from energy segment (+3.9x YoY). Energy segment's earnings improvement was largely helped by higher average lifting oil prices at USD58/bbl vs. USD45/bbl in 3Q17 and higher production of 0.9mmboe vs 0.8mmboe in 3Q17. Cumulatively, SAPNRG also tanked into the red with losses of RM217.9m from RM343.4m in 9M17 no thanks to weaker drilling segment and E&C segments (-31% YoY) nullifying better contribution from energy division (+5.1x YoY).

**Job market landscape remains competitive.** We are guided that although the job bidding market remains competitive (tender book of USD9.5b), it has improved over the past few months. However, the timing of contract awards is still uncertain pending approvals from oil majors. Its latest order-book position remained flattish at RM15.1b in 3Q18 backed by YTD win of RM2.8b. The company expects RM1.7b to be recognised in 4Q18 and RM4.3b to be recognised in FY19, where RM0.5b-2.1b is attributable to its JCE.

**Projecting losses of RM350.0m-RM385.7m** in FY18-19E from profit estimates RM86.2m-RM141.2m previously after factoring: (i) widening losses from drilling segment as a result of higher-than-expected fixed cost, and (ii) lower earnings from E&C segment.

**Downgrade to UNDERPERFORM call.** Following substantial earnings cut, we downgrade the stock to UNDERPERFORM with lower TP of RM0.82 (from RM1.55 previously) pegged to lower PBV of 0.4x from 0.7x. This is despite the share price falling 40% YTD as we see further downside risk on: (i) increasing impairment risk for its drilling assets, and (ii) weakening operational cash flows (-RM200m in 3Q18) heightening financial risk (net gearing of 1.26x as of 3Q18) amidst uncertain timing of contract award. Such valuation trades below -1.5S.D. to its 5-year mean pegged to the trough valuation of heavy asset upstream services players without immediate liquidation risk.

Upside risks to our call; (i) unexpected sharp surge in oil prices and (ii) stronger-than-expected contract wins.

## UNDERPERFORM ↓

Price : RM0.965  
Target Price : RM0.820 ↓

### Share Price Performance



KLCI	1,719.05
YTD KLCI chg	4.7%
YTD stock price chg	-40.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SAPE MK Equity
Market Cap (RM m)	5,782.4
Issued shares	5,992.2
52-week range (H)	2.10
52-week range (L)	0.97
3-mth avg daily vol:	14,495,620
Free Float	66%
Beta	2.8

### Major Shareholders

Sapura Holdings Sdn Bhd	15.9%
Employees Provident Fund	11.5%
Skim Amanah Saham Bumiputera	6.8%

### Summary Earnings Table

FY Jan (RM m)	2017A	2018E	2019E
Turnover	7651.3	6166.4	5606.0
EBIT	1010.9	270.9	108.4
PBT	385.2	-188.8	-321.3
<b>Net Profit (NP)</b>	<b>208.3</b>	<b>-350.0</b>	<b>-385.7</b>
<b>Core Net Profit</b>	<b>242.0</b>	<b>-350.0</b>	<b>-385.7</b>
Consensus (NP)		85.9	211.0
Earnings Revision (%)		N.M.	N.M.
Core EPS (sen)	4.0	-5.8	-6.4
Core EPS growth (%)	-66.1	-244.6	10.2
NDPS (sen)	1.0	1.0	0.0
BV/Share (RM)	2.2	2.1	2.0
Core PER	23.9	-16.5	-15.0
Price/BV (x)	0.4	0.5	0.5
Gearing (x)	1.2	1.2	1.2
Dividend Yield (%)	1.0	1.0	0.0

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Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Jan (RM m)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	1,280.0	1,656.2	-22.7	2,221.7	-42.4	4,705.8	5,838.5	-19.4
EBIT	275.0	410.5	-33.0	532.8	-48.4	1,107.8	2,251.9	-50.8
Interest expense	-227.5	-216.6	5.0	-190.9	19.1	-648.3	-578.8	12.0
JV & Associates	27.7	77.3	-64.2	91.0	-69.6	219.6	309.4	-29.0
Pretax profit	-209.7	33.8	-721.3	199.3	-205.3	-71.6	510.5	-114.0
Taxation	-65.5	-4.4	1,398.3	-41.8	56.6	-146.8	-131.4	11.7
Minority interest	0.8	-0.5	-278.3	0.6	26.4	0.5	1.6	-69.3
<b>Net profit</b>	<b>-274.4</b>	<b>28.9</b>	<b>-1,048.6</b>	<b>158.1</b>	<b>-273.6</b>	<b>-217.9</b>	<b>380.6</b>	<b>-157.3</b>
<b>Core Net Profit</b>	<b>-260.3</b>	<b>36.9</b>	<b>-804.9</b>	<b>158.1</b>	<b>-264.7</b>	<b>-217.9</b>	<b>343.4</b>	<b>-163.5</b>
						0.0		
EPS (sen)	-4.3	0.6		2.6		-3.6	5.7	-163.5
DPS (sen)	0.0	1.0		0.0		0.0	0.0	
NTA/share (RM)	2.0	2.1		2.1		2.0	2.1	
Net gearing	1.3	1.2		1.2		1.3	1.2	
EBIT margin (%)	21.5	24.8		24.0		23.5	38.6	
Pretax margin (%)	-16.4	2.0		9.0		-1.5	8.7	
Net margin (%)	-20.3	2.2		7.1		-4.6	5.9	
Effective tax rate (%)	31.2	-13.0		-21.0		205.2	-25.7	

Source: Company

Segment Breakdown								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Jan (RM m)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
<b>Revenue</b>								
E&C	822.3	1,261.1	-34.8	1,566.5	-47.5	3,285.6	3,387.5	-3.0
Drilling	251.2	278.6	-9.8	460.4	-45.4	915.2	1,621.4	-43.6
Energy	207.7	162.0	28.2	196.5	5.7	563.9	846.9	-33.4
Corporate expenses and eliminations	-1.2	-45.5	-97.3	-1.6	-25.0	-58.9	-17.3	240.1
<b>Total</b>	<b>1,280.0</b>	<b>1,656.2</b>	<b>-22.7</b>	<b>2,221.7</b>	<b>-42.4</b>	<b>4,705.8</b>	<b>5,838.5</b>	<b>-19.4</b>
<b>PBT*</b>								
E&C	16.8	126.7	-86.8	274.1	-93.9	324.9	472.8	-31.3
Drilling	-93.1	-85.0	9.6	34.0	-374.2	-157.4	235.9	-166.7
Energy	8.7	22.4	-61.3	1.8	385.1	55.6	9.2	506.9
Corporate expenses and eliminations	-95.9	-30.3	216.9	-110.6	-13.3	-248.6	-253.9	-2.1
<b>Total</b>	<b>-163.6</b>	<b>33.8</b>	<b>-584.7</b>	<b>199.3</b>	<b>-182.1</b>	<b>-25.5</b>	<b>463.9</b>	<b>-105.5</b>
<b>Margin</b>								
E&C	2.0	10.0		17.5		9.9	14.0	
Drilling	-37.1	-30.5		7.4		-17.2	14.5	
Energy	4.2	13.8		0.9		9.9	1.1	

Source: Kenanga Research

\*Excluding impairment on O &amp; G properties

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Malaysian Oil & Gas Sector Comparisons												
Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY16	CY17	CY18				CY17	CY18		
ALAM	0.140	129.4	-1.5	-3.3	-4.3	0.0	-17.3	0.2	-54.5	-22.5	0.070	UP
ARMADA	0.750	4,399.7	-43.5	14.0	10.9	1.3	-16.9	0.8	-410.7	28.2	0.900	OP
COASTAL	1.280	675.1	7.8	11.8	15.9	1.3	2.8	0.4	-33.8	-25.6	1.450	MP
DAYANG	0.605	583.7	-166.4	-42.3	9.8	0.0	9.2	0.5	-293.4	-533.2	0.730	OP
DIALOG	2.450	13,813.9	43.0	37.1	34.3	1.1	15.3	4.4	15.8	8.3	2.550	OP
GASMSIA	2.760	3,543.8	20.4	20.8	20.3	3.6	17.5	3.5	-1.9	2.8	3.180	OP
MHB	0.880	1,408.0	-1,005.7	-454.2	64.6	0.0	-5.1	0.6	-121.4	803.2	0.650	UP
PANTECH	0.620	460.8	14.8	10.4	9.2	3.7	8.3	0.9	42.5	12.6	0.750	OP
PCHEM	7.400	59,200.0	18.7	14.9	14.6	3.4	15.8	2.2	24.8	2.2	8.100	OP
PETDAG	24.500	24,339.6	24.3	23.0	22.1	3.0	27.5	4.6	5.6	4.2	25.200	OP
PETGAS	16.100	31,857.6	18.3	18.3	16.9	3.8	14.7	2.7	0.1	8.6	22.000	OP
SAPNRG	0.965	5,782.4	20.6	-19.2	-15.1	1.0	-3.1	0.4	-206.9	27.3	0.820	UP
SERBADK	3.100	4,138.5	17.0	13.9	12.7	2.0	30.4	5.2	22.0	9.8	3.650	OP
UZMA	1.410	451.2	15.7	12.8	11.2	0.0	8.2	1.1	23.0	14.2	1.650	MP
WASEONG	1.170	904.2	-13.4	11.6	8.5	2.6	-15.3	1.2	216.1	35.7	1.400	OP
YINSON	3.840	4,178.7	18.3	14.1	14.1	0.4	11.1	1.7	29.8	0.3	4.050	OP
<b>Simple Average</b>			<b>11.5</b>	<b>12.9</b>	<b>15.4</b>							
<b>Weighted Average</b>			<b>18.9</b>	<b>17.3</b>	<b>17.3</b>							

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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