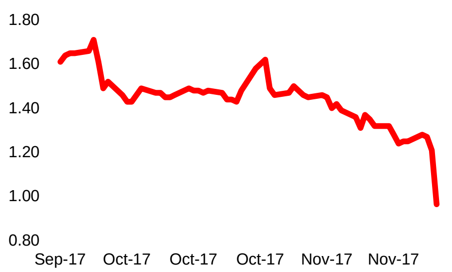
SAPURA ENERGY *Outperform*

DESCRIPTION

A leading oil and gas operator, offering integrated services

12-Month Target Price	RM1.69
Current Price	RM0.965
Expected Return	+75.1%
Market	Main
Sector	Oil & Gas
Bursa Code	5218
Bloomberg Ticker	SAPE MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.965-2.10
3-Month Average Vol ('000)	12,591.8

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-17.7	-17.7	-33.5
Relative Returns	-34.5	-35.8	-44.3

KEY STOCK DATA

Market Capitalisation (RM m)	5,782.4
No. of Shares (m)	5,992.2

MAJOR SHAREHOLDERS

	%
Sapura Holdings Berhad	15.9
Employees Provident Fund	11.5
Kumpulan Wang Persaraan	6.5

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Prevailing Through Tough Times

Sapura Energy's (SAPE) 9MFY18 numbers continue to reflect the realities of a tough operating environment for the oil and gas industry despite the recent pickup in crude oil prices. Lower contributions from both the drilling and exploration & production (E&P) divisions continued to have a telling effect on financial performance, with the Group reporting a revenue of RM4.71bn which slumped 19.1% YoY and a normalized net loss (after minorities) of RM172mn, the latter a reversal from the previous corresponding period's net gain of RM343mn. Missing our and consensus full-year earnings estimates, we are lowering FY18 forecasts again to a loss of RM53.6m, while FY19 and FY20 numbers are reduced by 44.5% and 31.4% respectively. There are risks of potential impairments in the coming quarter due to certain idling assets. Our ***Outperform*** view on SAPE is maintained however as we continue to like its long-term prospects supported by its ability to offer integrated services. Our TP is a lower RM1.69 (previously RM1.95) based on our blended SOP valuation, as we take a more conservative stance on earnings multiples in light of the current operating environment.

§ **Engineering & Construction (E&C).** The Group's mainstay reported a lowered 3QFY18 revenue of RM822.3m (-47.5% YoY, -34.8% QoO) in line with lower activities during the quarter despite being busy in South East Asia, India, Turkey and Brazil. A normalized pretax profit of RM16.8m was recorded, down 94% YoY. Recent contract wins, coupled with its remaining order book point to more encouraging times ahead however.

§ **Brazil.** All 6 pipelay support vessels (PLSVs) remain in full operation, operating at an average utilization of >97.0%, and perhaps reporting the most robust numbers amongst all business segments.

Figure 1: PLSVs on Contract to Petrobras

Vessel Readiness	2014	2015	2016	2017	2018	2019	2020
Sapura Diamante	*28-Jun-14*				5+5 yrs		
Sapura Topazio	*30-Sep-14*					5+5 yrs	
Sapura Onix		*4-Sep-15*					5+5 yrs
Sapura Jade			*14-Feb-16*				8+8 yrs
Sapura Esmeralda			*6-Apr-16*				8+8 yrs
Sapura Rubi			*14-Aug-16*				8+8 yrs

Source: Company, PublicInvest Research estimates

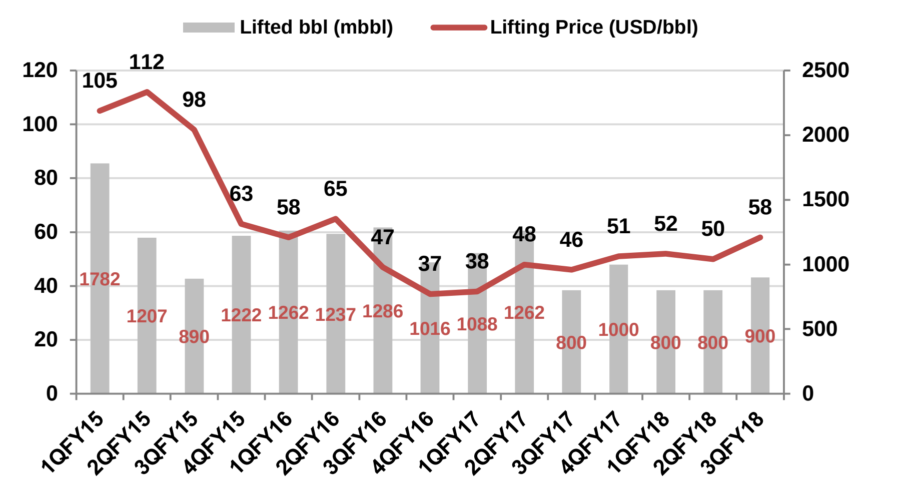
§ **Drilling.** In 3QFY18, only 5 rigs were in operation. Though operating at close to 100% utilization and contributing healthily at the EBITDA level, this was understandably insufficient to negate the effects of 10 rigs currently stacked. While there is expectation for the count to increase (to between 6 and 8) in the coming financial year based on preliminary enquiries, we continue to remain cautious on the division's prospects and see it being a drag in the near term. We maintain our conservative estimates which accounts for lower daily charter rates (DCR) which have dropped by c.30%, coupled with an average utilisation of c.35%. For 3QFY18, revenue fell 45.4% YoY to RM251.2m, with a corresponding normalized pretax loss of RM93m.

§ **Energy.** The Group lifted 0.9mboe in 3QFY18 at c.USD58/bbl, higher YoY on both quantity and average lifting price (3QFY17: 800,000 boe at USD45/bbl). This is reflected in group Exploration and Production (E&P) normalized pretax profits jumping 4-fold to RM9m on the back of a 5.7% increase in revenue to RM207.7m. Going forward, production is expected to be enhanced again with the scheduled in-fill well drilling programme. SAPEs EBITDA breakeven is estimated at between c.USD30 and 35/bbl thus would continue to see its energy division making positive contributions to the Group's performances going forward, given current oil prices which we anticipate to hold up above USD50/bbl over the medium term.

§ **In-fill drilling programme.** Going into FY19, 11 wells are expected to be drilled comprising of i) 7 in-fill wells, ii) 3 exploration wells on SK408 and iii) 1 development well on SK310 B15. FY19 will thus see the enhanced benefits from the in-fill drilling programme from FY18.

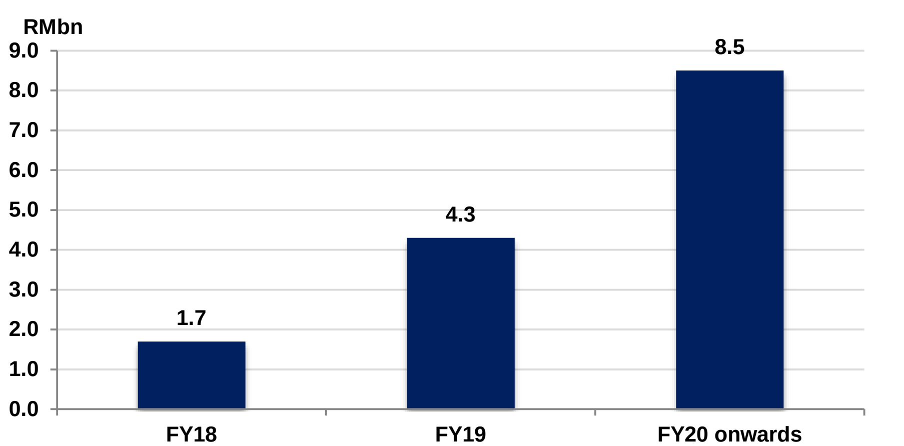
§ **Other development updates.** SK310 B15 will see 1st gas in 4QFY18, and more significant contributions FY19 onwards. The estimated gas is 100mscfd with a 5.5-year profile. SAPE is also progressing with monetization of SK408 (Gorek and Larak), while planning for 2+1 exploration commitment wells to be drilled in 4QFY18. For SB331/332, the initiation of seismic acquisition is in FY18/FY19.

Figure 2: Production Profile as at 3QFY18



Source: Company

Figure 3: Orderbook By Year – Current Orderbook at RM15.1bn



Source: Company

- **Stable cash holdings remain.** As at end-3QFY18, SAPE's cash holding stands at RM1.9bn, with net-debt-to-equity ratio a slightly higher 1.26x sequentially (2QFY18: RM2.23bn and 1.18x respectively). In essence, the Group currently makes sufficient money from its operations to service debt repayments in addition to paying taxes, though it is of no great comfort to shareholders as there isn't much left for dividend payments. With no immediate lumpy loan repayments needed over the next year or so, and with capital expenditure plans budgeted for, the Group should be able to navigate through the currently-challenging environment without much worry. On the back of expected operational improvements in subsequent financial years, and by extension cash flows, we see its financial position as healthy with no particular need for cash calls.

- **Maintain Outperform.** We believe SAPE is a strong operational and reputable player, enhanced by its contract wins to-date and its operations remaining on track. In this challenging period, the Group has put itself on a stronger financial footing which includes right-sizing the organization for better efficiencies, which we believe would continue to help weather them through these current conditions. Our ***Outperform*** view on SAPE is maintained as we continue to like its long-term prospects supported by its ability to offer integrated services. Our TP is a lower RM1.69 (previously RM1.95) based on our blended SOP valuation, as we take a more conservative stance in light of the current operating environment.

KEY FORECAST TABLE

FYE Jan (RMm)	2016A	2017A	2018F	2019F	2020F	3-year CAGR
Revenue	10,184.0	7,651.3	6,793.3	9,359.6	11,178.9	13.5%
Operating Profit	2,058.9	2,735.4	1,160.1	1,598.3	1,909.0	-11.3%
Pre-tax Profit	1,489.1	667.9	-107.3	356.5	677.2	0.5%
PATAMI	-791.6	208.3	-53.6	260.9	495.7	33.5%
Core PATAMI	1,410.2	423.4	-53.6	260.9	495.7	5.4%
EPS (Sen)	-13.3	7.1	-0.9	4.4	8.3	5.4%
P/E (x)	-	13.6	-	22.1	11.6	13.5%
DPS (Sen)	1.4	0.0	0.0	0.0	0.0	
Div Yield (%)	1.4%	0.0%	0.0%	0.0%	0.0%	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

FYE Jan (RMm)	3Q18	3Q17	2Q18	QoQ chg (%)	YoY chg (%)	YTD 18	YTD 17	YoY chg (%)	Comments
Revenue	**1,280.0**	**2,221.7**	**1,656.2**	**-22.7%**	**-42.4%**	**4,705.8**	**5,838.5**	**-19.4%**	**Lower revenue from drilling and E&P segments.**
Operating profit	275.0	532.8	410.5	-33.0%	-48.4%	1,107.8	2,251.9	-50.8%	
EBITDA	**275.0**	**532.8**	**410.5**	**-33.0%**	**-48.4%**	**1,145.1**	**2,178.1**	**-47.4%**	
Finance costs	-227.5	-190.9	-216.6	5.0%	19.1%	-648.3	-578.8	12.0%	
Pre-tax profit	**-209.7**	**199.3**	**33.8**	**>100%**	**-205.3%**	**-71.6**	**510.5**	**>100%**	**Lower revenue from drilling segment, and the financial impact arising from the cessation of Berantai RSC YoY.**
Tax	-65.5	-41.8	-4.4	>100%	56.6%	-146.8	-131.4	11.7%	
Net profit	-275.2	157.4	29.4	>100%	-274.8%	-218.4	379.1	>100%	
Minorities	0.8	0.6	-0.5	>100%	26.4%	0.5	1.6	-69.3%	
PATAMI	-274.4	158.1	28.9	>100%	-273.6%	-217.9	380.6	>100%	
Core Net profit	**-274.4**	**158.1**	**-1.9**	**>100%**	**-273.6%**	**-291.7**	**344.6**	**>100%**	
EPS (sen)	-4.6	2.7	0.5	>100%	-273.7%	-3.7	6.4	-157.3%	
EBITDA Margin	21.5%	24.0%	24.8%	-13.3%	-10.4%	24.3%	37.3%	-34.8%	
Pre-tax Margin	-16.4%	9.0%	2.0%	>100%	-282.7%	-1.5%	8.7%	>100%	
Net Margin	-21.5%	7.1%	1.8%	>100%	-403.5%	-4.6%	6.5%	>100%	
Core Net Margin	-21.4%	7.1%	-0.1%	>100%	-401.3%	-6.2%	5.9%	>100%	
		Segmental Revenue							
E&C	822.3	1,566.5	1,261.1	-34.8%	-47.5%	3,285.6	3,387.5	-3.0%	Slower activities in the current quarter.
Drilling	251.2	460.4	278.6	-9.8%	-45.4%	915.2	1,621.4	-43.6%	Lower revenue from certain rigs which were off contract
E&P	207.7	196.5	162.0	28.2%	5.7%	564.0	846.9	-33.4%	More barrels of oil lifted in the current quarter, with higher average realised oil price achieved.
EBIT/(loss)									
E&C	-29.3	274.1	126.7	-123.2%	-110.7%	278.8	472.8	-41.0%	RM46m disposal loss on Sapura Acergy
Drilling	-93.1	34.0	-85.0	9.6%	-374.2%	-157.4	235.9	-166.7%	In line with lower revenue.
E&P	8.7	1.8	22.4	-61.3%	385.1%	55.6	55.8	-0.3%	More barrels of oil lifted YoY, with higher average realised oil price achieved and lower operating expenditure incurred.

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Jan (RMm)	2016A	2017A	2018F	2019F	2020F
Revenue	10,184.0	7,651.3	6,793.3	9,359.6	11,178.9
Operating Profit	2,058.9	2,735.4	1,160.1	1,598.3	1,909.0
Other Income	480.2	360.8	320.3	441.3	527.1
Administration Expenses	-671.8	-504.7	-448.1	-617.4	-737.4
Pre-tax Profit	1,489.1	667.9	-107.3	356.5	677.2
Income Tax	-78.8	-179.1	53.6	-95.6	-181.6
Effective Tax Rate (%)	0.1	0.3	0.5	0.3	0.3
Minorities	-0.1	2.2	0.0	0.0	0.0
PATAMI	-791.6	208.3	-53.6	260.9	495.7
Growth					
Revenue	2%	-25%	-11%	38%	19%
Gross Profit	-10%	-46%	9%	38%	19%
PATAMI	-155%	-126%	-126%	-587%	90%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Jan (RMm)	2016A	2017A	2018F	2019F	2020F
Property, plant and equipment	14,905.7	15,140.0	14,320.3	13,492.5	12,656.7
Inventories	572.2	458.5	176.8	333.7	683.3
Trade receivables	4,114.1	3,269.1	1,228.4	1,692.4	2,021.4
Cash and bank balances	1,947.5	3,519.5	2,091.5	3,676.0	4,337.0
Total Assets	**36,492.0**	**37,483.9**	**33,735.0**	**35,238.0**	**36,593.2**
ST Borrowings	2,091.1	3,511.1	2,004.8	1,889.0	1,771.9
LT Borrowings	16,238.0	15,136.0	12,888.3	12,143.3	11,391.0
Trade payables	4,371.7	3,837.6	3,239.8	4,463.7	5,331.4
Minority Interests	6.1	4.2	4.2	4.2	4.2
Total Liabilities	**24,279.0**	**24,403.6**	**19,969.4**	**20,473.4**	**20,525.5**
Total Equity	12,213.0	13,080.3	13,765.7	14,764.6	16,067.7
Total Equity and Liabilities	**36,492.0**	**37,483.9**	**33,735.0**	**35,238.0**	**36,593.2**

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Jan	2016A	2017A	2018F	2019F	2020F
Book Value Per Share	2.0	2.2	2.3	2.5	2.7
NTA Per Share	2.0	2.2	2.3	2.5	2.7
EPS (Sen)	-13.3	7.1	-0.9	4.4	8.3
DPS (Sen)	1.4	0.0	0.0	0.0	0.0
Payout Ratio (%)	-0.1	0.0	0.0	0.0	0.0
ROA (%)	-2.2	0.6	-0.2	0.7	1.4
ROE (%)	-6.5	1.6	-0.4	1.8	3.1

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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