



Company report

SAPURA ENERGY

(SAPE MK EQUITY, SAEN.KL)

08 Jan 2019

RM760mil new wins underpin improved prospects

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.285
Fair Value	RM0.55
52-week High/Low	RM1.05/RM0.28

Key Changes

Fair value	↔
EPS	↔

YE to Jan	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,895.0	4,751.6	5,977.0	8,070.9
Core net profit (RM mil)	(2,503.5)	(547.4)	78.3	327.0
FD Core EPS (sen)	(41.8)	(9.1)	1.3	5.5
FD Core EPS growth (%)	(609.9)	(78.1)	(114.3)	317.8
Consensus Net Profit (RM mil)	-	(404.2)	87.3	363.4
DPS (sen)	-	-	-	0.5
PE (x)	nm	nm	21.8	5.2
EV/EBITDA (x)	11.5	29.4	11.4	9.1
Div yield (%)	-	-	-	1.2
ROE (%)	(22.2)	(6.0)	0.9	3.6
Net Gearing (%)	155.5	170.7	167.6	158.6

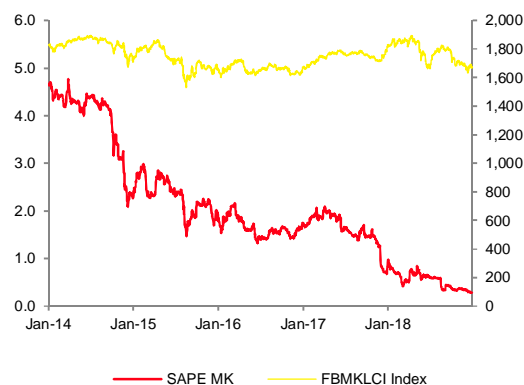
Stock and Financial Data

Shares Outstanding (million)	5,992.2
Market Cap (RM mil)	1,707.8
Book Value (RM/share)	1.58
P/BV (x)	0.2
ROE (%)	(22.2)
Net Gearing (%)	155.5

Major Shareholders	Sapura Holdings (16.8%) EPF (5.0%)
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Free Float	21.8
Avg Daily Value (RM mil)	21.9

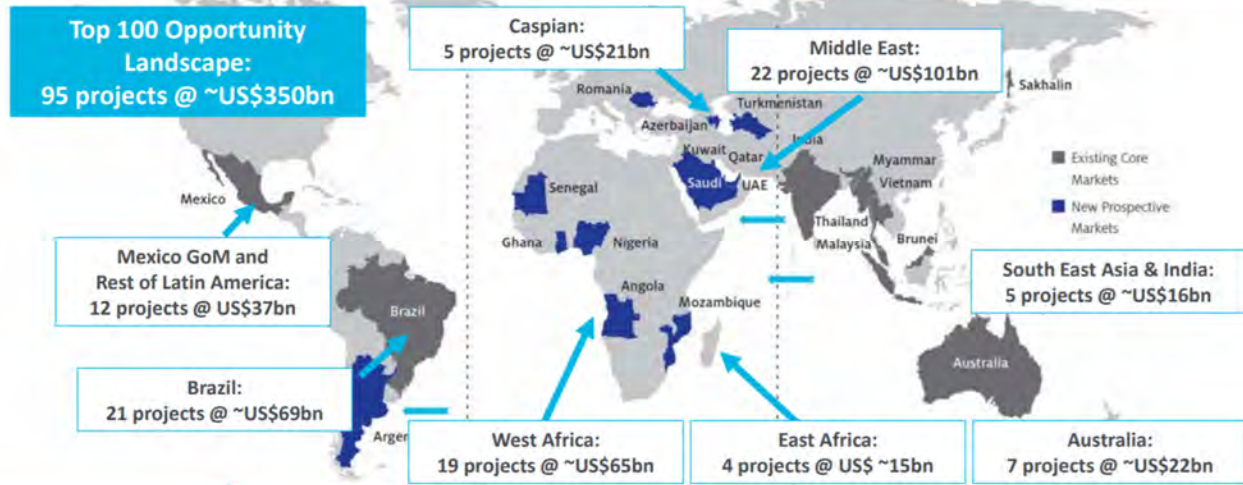
Price performance	3mth	6mth	12mth
Absolute (%)	(26.9)	(52.9)	(64.8)
Relative (%)	(22.7)	(53.3)	(61.9)



Investment Highlights

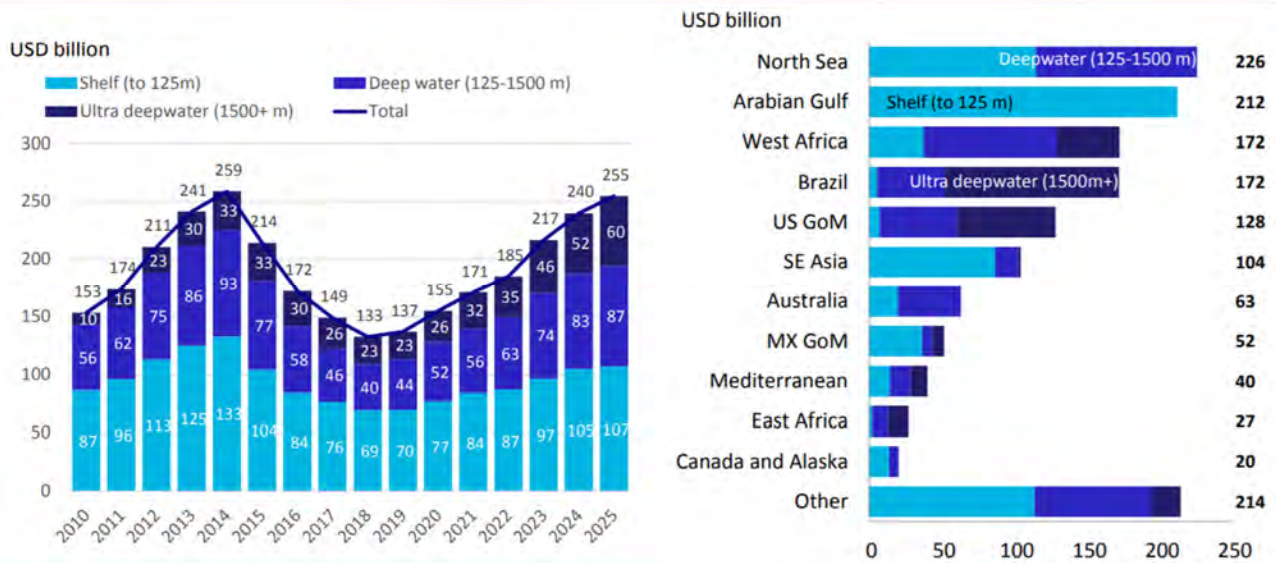
- We maintain our BUY call on Sapura Energy (Sapura) with an unchanged fair value of RM0.55/share, based on a 25% discount to our estimated diluted book value of RM0.72/share, assuming completion of the proposed rights issue of up to RM4bil.
- Sapura has secured 3 rig drilling charters and 2 offshore jobs worth RM760mil as follows:
 - 2-year charter for semi-submersible tender assisted drilling rig Sapura Jaya to work in Angola from Chevron Corp's Cabinda Gulf Oil Co Ltd which includes 2 possible extensions of 6 months;
 - Charter extension for semi-submersible tender assisted drilling rig Sapura Esperanza Drilling to drill 3 wells off Sarawak for Shell;
 - Charter extension for semi-tender assisted drilling rig Sapura Berani to drill 2 more wells at the Sumandak facility, offshore Sabah, from Petronas Carigali Sdn Bhd
 - Engineering, procurement, construction and commissioning (EPCC) contract from Petronas Floating LNG 1 (L) Ltd to relocate and tie-in PFLNG Satu (Petronas floating liquefied natural gas) by 3QFY20, currently located in the Kumang Cluster, offshore Sarawak; and
 - Additional scope for offshore transportation and installation under the existing contract for the provision of EPCC plus installation for full field development Phase 2 facilities, North Malay Basin from Hess Exploration and Production Malaysia B.V., to be completed by 2QFY20
- Including the US\$353mil (RM1.5bil) contract to survey, design, build, transport, install and commission the central processing platform & living quarters of KW-DWN-98/2 project development offshore platform, which was awarded on 6 Dec 2018, Sapura has secured massive new orders worth RM9.3bil for FY19 to date, which translate to 2.3x the RM2.8bil jobs clinched in FY18.
- We maintain FY19F-FY21F earnings as this new award is within our FY19F new win assumption of RM9bil, raising the group's outstanding order book by 4% to RM17.7bil – 3x FY20F revenues).
- As highlighted in our past reports, Sapura's order book prospects have improved significantly with the massive new offshore rollouts globally.
- Recently selected as one of Saudi Aramco's 4 new long-term agreement programme contractors for a 6-year firm period (excluding 2 optional extensions of 3 years), we expect substantive expansions from Sapura's current tender book of US\$8.5bil and prospective bids of US\$14.3bil.
- The stock currently trades at half its ex-PBV of 0.5x for a group with a rising order growth momentum.

EXHIBIT 1: POTENTIAL GLOBAL CAPEX ROLLOUTS FROM 2018 TO 2025



Source: Sapura slides

EXHIBIT 2: GLOBAL CAPEX PROSPECTS FROM 2018 TO 2025



Source: Sapura slides

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

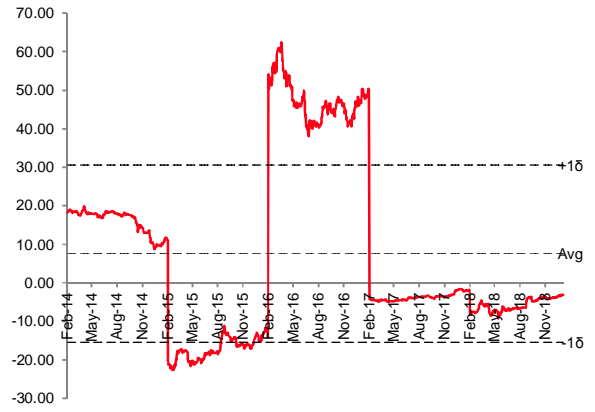


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jan)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	7,651.3	5,895.0	4,751.6	5,977.0	8,070.9
EBITDA	2,779.2	1,431.4	574.5	1,471.8	1,796.6
Depreciation/Amortisation	1,792.1	1,062.0	987.6	1,022.1	1,056.6
Operating income (EBIT)	987.1	369.5	(413.1)	449.7	740.1
Other income & associates	456.9	276.5	420.9	429.3	437.9
Net interest	(776.1)	(837.3)	(790.8)	(776.5)	(748.0)
Exceptional items	(282.7)	(2,132.3)	-	-	-
Pretax profit	385.2	(2,323.6)	(783.0)	102.5	430.0
Taxation	(179.1)	(181.2)	234.9	(24.6)	(103.2)
Minorities/pref dividends	2.2	1.3	0.7	0.3	0.2
Net profit	208.3	(2,503.5)	(547.4)	78.3	327.0
Core net profit	491.0	(2,503.5)	(547.4)	78.3	327.0
Balance Sheet (RMmil, YE 31 Jan)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	15,140.0	11,454.7	11,367.1	11,245.0	11,088.5
Intangible assets	8,483.5	7,918.9	7,522.9	7,146.8	6,789.4
Other long-term assets	6,518.2	5,892.3	6,424.8	6,974.3	7,541.7
Total non-current assets	30,141.7	25,266.0	25,314.8	25,366.2	25,419.6
Cash & equivalent	3,519.5	1,716.2	1,159.9	589.3	339.6
Stock	458.5	376.6	284.7	358.2	483.6
Trade debtors	3,234.4	2,530.1	2,008.6	2,526.7	3,411.8
Other current assets	95.1	103.9	103.9	103.9	103.9
Total current assets	7,307.5	4,726.8	3,557.2	3,578.1	4,339.0
Trade creditors	3,765.6	2,797.1	2,338.5	2,941.6	3,972.1
Short-term borrowings	3,511.1	1,722.2	1,808.3	1,898.7	1,993.7
Other current liabilities	52.8	108.7	(5.7)	31.0	43.1
Total current liabilities	7,329.4	4,628.0	4,141.1	4,871.3	6,008.8
Long-term borrowings	15,136.0	14,693.0	14,546.0	13,746.0	13,058.7
Other long-term liabilities	1,903.6	1,221.5	1,282.5	1,346.7	1,414.0
Total long-term liabilities	17,039.5	15,914.4	15,828.6	15,092.7	14,472.7
Shareholders' funds	13,076.1	9,450.0	8,902.5	8,980.8	9,277.8
Minority interests	4.2	0.4	(0.3)	(0.6)	(0.8)
BV/share (RM)	2.18	1.58	1.49	1.50	1.55
Cash Flow (RMmil, YE 31 Jan)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	385.2	(2,323.6)	(783.0)	102.5	430.0
Depreciation/Amortisation	(1,792.1)	(1,062.0)	(987.6)	(1,022.1)	(1,056.6)
Net change in working capital	457.8	(135.2)	40.3	48.3	32.0
Others	4,097.4	6,239.6	3,767.3	3,545.4	3,491.0
Cash flow from operations	3,148.3	2,718.9	2,037.1	2,674.1	2,896.4
Capital expenditure	(391.0)	(900.0)	(900.0)	(900.0)	(900.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(391.0)	(900.0)	(900.0)	(900.0)	(900.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	(93.3)	-	-	-	-
Dividends paid	(59.9)	-	-	-	(30.0)
Others	(799.9)	(858.7)	(802.5)	(783.7)	(751.8)
Cash flow from financing	(953.1)	(858.7)	(802.5)	(783.7)	(781.7)
Net cash flow	1,804.2	960.2	334.5	990.5	1,214.7
Net cash/(debt) b/f	(16,381.6)	(15,127.5)	(14,698.9)	(15,194.4)	(15,055.4)
Net cash/(debt) c/f	(14,577.4)	(14,167.3)	(14,364.4)	(14,203.9)	(13,840.7)
Key Ratios (YE 31 Jan)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	(24.9)	(23.0)	(19.4)	25.8	35.0
EBITDA growth (%)	(10.2)	(48.5)	(59.9)	156.2	22.1
Pretax margin (%)	5.0	(39.4)	(16.5)	1.7	5.3
Net profit margin (%)	2.7	(42.5)	(11.5)	1.3	4.1
Interest cover (x)	1.3	0.4	(52.2%)	0.6	1.0
Effective tax rate (%)	46.5	7.8	30.0	24.0	24.0
Dividend payout (%)	-	nm	nm	-	-
Debtors turnover (days)	175	178	174	138	134
Stock turnover (days)	25	26	25	20	19
Creditors turnover (days)	193	203	197	161	156

Source: Company, AmInvestment Bank Bhd estimates

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