

02 July 2018 | 1QFY19 Results Review

Sapura Energy Berhad

Holding on despite challenges

Reiterate Trading Buy

Unchanged Target Price (TP): RM1.01

INVESTMENT HIGHLIGHTS

- Sapura Energy ended its 1QFY19 results in the red at – **RM108.2m**
- Bulk of losses attributable to Drilling segment at – **RM68.7m**
- EBITDA positive at **RM228m**
- Year-to-date new wins approximately **RM4.5b**
- Current order at approximately **RM16.7b**
- Maintain **TRADING BUY** at unchanged **TP of RM1.01**

Challenging first quarter. Sapura Energy reported 1QFY19 losses of –RM135.7m. This is premised on revenue level of RM1.1b. The losses mainly stem from the Drilling segment. However, EBITDA recorded healthy levels of RM228m.

Heavy Engineering. Segment revenue remained flat q-o-q at RM665.6m but segment profit declined to RM36.5m. The lacklustre earnings are a result of low revenue and earnings recognition from the projects which are currently at hand. 1QFY19 segment operating margin is at 5.55% while segment EBITDA margin is at 8%.

Drilling. 1QFY19 segment revenue remained weak at RM183.4m while registering an operating loss of –RM68.7m. This is largely due to low utilisation rate of approximately 33% (this was guided earlier in previous reports). Despite this, the segment however recorded healthy EBITDA margin of 57%.

E&P. Segment revenue performed relatively well at RM209.8m while maintaining segment profitability as 1.1mmboe was lifted in 1QFY19 compared with 0.8mmboe in 1QFY19. The average crude lifting price was at USD70pb while EBITDA breakeven cost is at USD30-35pb.


Orderbook. Group orderbook is currently at RM16.7b, marking an inflection from FY18 low for the past four years. Out of these, approximately RM5.2b and RM3.8b are expected to be recognised in FY19 and FY20 respectively, while the remaining RM7.7b is to be recognised in FY21 onwards. The company's bidbook, including prospects is at USD13.1b.

RETURN STATS	
Price (29 June 2018)	RM0.64
Target Price	RM1.01
Expected Share Price Return	+57.8%
Expected Dividend Yield	+1.6%
Expected Total Return	+59.4%

STOCK INFO	
KLCI	1,691.50
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	3,835.0
Price over NA	0.60x
52-wk price Range	RM0.430 – RM1.72
Beta (against KLCI)	2.96
3-mth Avg Daily Vol	172.3m
3-mth Avg Daily Value	RM108.6m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.40
KWAP	7.18

Forward earnings expected to improve. There were no impairments made as previously guided. Therefore, for FY19F in particular, we are expecting the group to return to the black. The chunk of the group earnings will stem from the upbeat offshore activity levels of the E&C segment and sustainably higher crude oil prices of the E&P segment.

Unchanged earnings estimate. No change to earnings estimate.

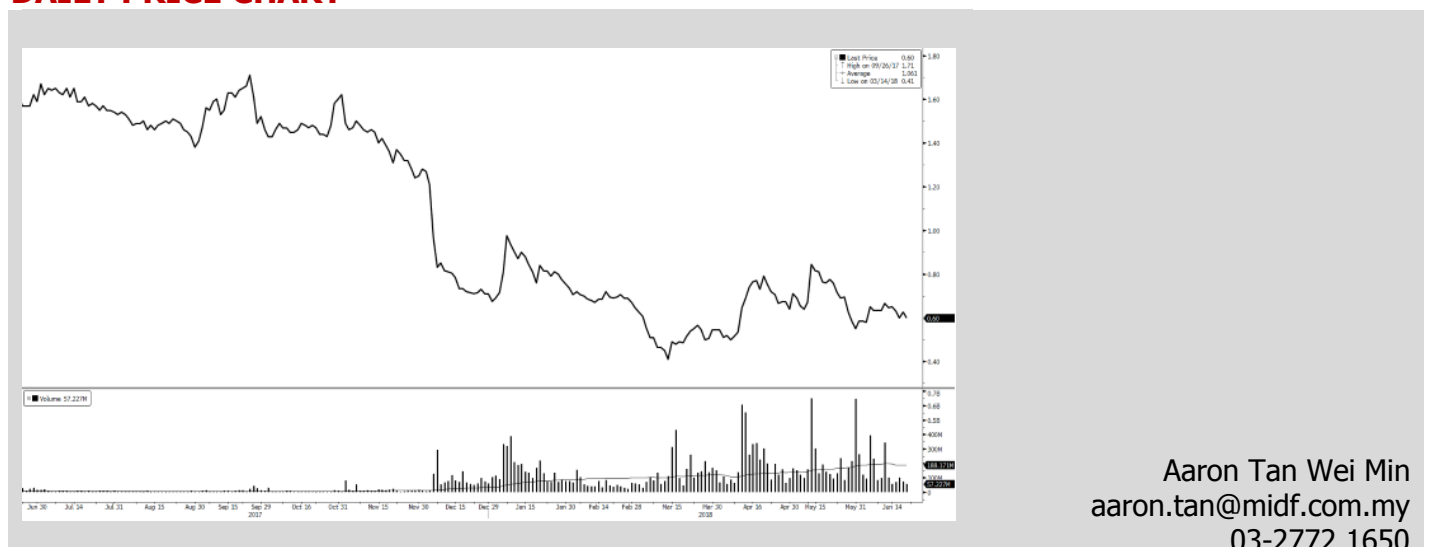
Maintain Trading Buy. Year-to-date, Sapura Energy's share price has declined by approximately -34%ytd. This is despite stable crude oil prices in the tight range of USD70pb. We are of the opinion that the current broad-market sell off presents trading opportunities for investors seeking exposure in oil and gas service providers with direct upstream exposure. Although we acknowledge that Sapura Energy's profitability might still be weak due to its other underperforming segment, we believe that the share offers short term trading opportunities for investors. As such, we are maintaining our **Trading Buy** call on Sapura Energy with an unchanged TP of **RM1.01** per share. 

INVESTMENT STATISTICS

FYE Jan	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM m)	10,184.0	7,651.3	5,895.0	7,328.2	7551.7
EBIT (RM m)	3,070.3	943.4	395.0	887.6	902.5
Pretax Profit (RM'm)	1,408.2	667.9	-191.3	159.2	176.1
Net Profit (RM m)	-791.6	208.3	-2,323.6	105.1	135.4
Normalised Net Profit (RM m)	1,035.0	208.3	-243.0	105.1	135.4
EPS (sen)	-13.2	3.5	-42.1	1.8	2.3
EPS Growth (%)	nm	nm	nm	nm	28.9
PER (x)	nm	18.4	nm	36.5	28.3
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.1	1.6	0.0	1.6	1.6

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

RESULTS REVIEW SUMMARY

FYE Jan (RM m)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)
Revenue	1769.6	1189.2	1054.9	-11.3	-40.4
Operating Expenses	-1362.3	-856.3	3.6	-100.4	-100.3
Other Op Income	15.1	16.0	-841.7	-5347.8	-5691.5
Operating Profit	422.3	348.9	216.8	-37.9	-48.7
Interest Income	4.6	5.4	5.6	4.7	23.5
Interest Expenses	-204.3	-210.3	-227.9	8.4	11.6
Depr & Amort	37.3	-243.9	-221.6	-9.1	-693.9
Net Forex gain	37.3	na	10.7	nm	-71.2
Share of JV & Assoc	114.6	56.9	108.2	90.1	-5.6
Provision for impairment	na	-2132.3	na	-100	nm
PBT	104.4	-2252.0	-108.2	-95.2	-203.6
Tax	-77.0	-34.4	-28.4	-17.5	-63.1
PATAMI	27.4	-2285.5	-135.7	-94.1	-595.1
Segmental:-					
Revenue:					
E&C	1202.2	670.3	665.6	-0.7	-44.6
Drilling	385.4	230.4	183.4	-20.4	-52.4
Energy	194.3	286.5	209.8	-26.8	8
Operating Profit					
E&C	181.4	-84.2	36.5	-143.3	-79.9
Drilling	20.8	-2114.5	-68.7	-96.8	-430.2
Energy	24.6	26.4	9.0	-66.1	-63.6

Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.