

01 October 2018 | 2QFY19 Results Review

## Sapura Energy Berhad

*Pick-up in activity levels to fuel 2HFY19*

**Reiterate Trading Buy**

**Unchanged Target Price (TP): RM1.01**

### INVESTMENT HIGHLIGHTS

- **Sapura Energy 2QFY19 losses at –RM126m**
- **Higher E&P profits due to higher crude price**
- **No major impairments expected in FY19**
- **Net gearing expected to decline to 0.7x post-bonus issue**
- **Maintain Trading Buy with unchanged TP of RM1.01**

**Lower revenue recognition.** Sapura Energy Bhd's (SEB) 2QFY19 reported losses amounted to –RM126m. This is largely attributable to lower revenue recognition from both engineering and construction (E&C) and drilling segments. This brings its 1HFY19 losses to –RM262.5m, which is below ours and consensus' expectations.

**Engineering & Construction.** Segment revenue and profit declined by -38.2%yoy and ->100%yoy respectively. The lower revenue is attributable to lower activity levels while lower profit is due to lower revenue recognized during the quarter.

**Drilling.** Segment revenue was lower by -9.0%yoy due mainly due to the unfavourable effects of weakening USD to MYR quarter-over-quarter. However, the segment's losses have narrowed to -RM58.3m (from -RM85.0m in 2QFY18) due to the favourable impact from the lower depreciation costs in the current quarter as a result of the asset impairment exercise in 4QFY18. The loss-making position for the segment was also led by lower vessel utilisation rate is at approximately 33% (with average of 5.8 vessels in operations) with technical utilisation (uptime) of 99%. Moving forward, vessel utilisation rate are expected to increase to 50% rate in 2HFY19.

**Exploration and Production.** This segment remains profitable largely owing to upbeat global crude oil prices and aggressive efforts made into this segment. Revenue was higher by +8.5%qoq attributable to higher average selling prices (average USD77pb in 2QFY19 vs USD70pb in 1QFY19) while higher profit of +210.7%qoq is due to higher number of barrels of oil lifted during the quarter at 1.12mmbae in 2QFY19 vs 1.08mmbae in 1QFY19.

**Borrowings expected to decline post-bonus issue.** Total group borrowings are expected to decline to approximately 0.7x post bonus issue from the current 1.69x as of July 2018. The bonus issue which is expected to complete in December 2018, will generate approximately RM4.0b for SEB. Management is expecting an interest savings of about RM400m annually once the borrowings have been pared down.


RETURN STATS	
Price (28 September 2018)	RM0.41
Target Price	RM1.01
Expected Share Price Return	+146.3%
Expected Dividend Yield	+2.4%
<b>Expected Total Return</b>	<b>+148.7%</b>

STOCK INFO	
KLCI	1,793.15
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,456.8
Price over NA	0.60x
52-wk price Range	RM0.335 – RM1.62
Beta (against KLCI)	1.92
3-mth Avg Daily Vol	122.8m
3-mth Avg Daily Value	RM67.4m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.49
KWAP	7.66
Employees Provident Fund	5.21

**Orderbook update.** Group orderbook currently stands at RM16.9b, marking an inflection from FY18 low for the past four years. Out of these, approximately RM4.3b and RM4.6b are expected to be recognised in FY19 and FY20 respectively. The current contract wins-to-date constitutes of ~50% of the past three-year cumulative contracts wins for SEB. The company's bidbook is at USD7.4b with bid prospects at USD10.8b.

**Forward earnings expected to improve.** Despite the reported losses largely stemming from the drilling segment, there is unlikely to be further impairments attributable to the drilling segment in the foreseeable future. However, management guided that should there be any potential future impairments, it will be more visible in 4QFY19. For FY19F in particular, we are expecting a better 2HFY19 performance due to 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. In addition, we are also expecting increased utilization rate from the drilling side with the reactivation of Berani in 3QCY18 to serve Petronas Carigali and Sapura Alliance which began its 5+5 years contract with Shell in Brunei during the quarter.

**FY19 earnings reduced, FY20 earnings maintained.** We are reducing our FY19 earnings forecast to RM10.6m due to the cumulative losses effect from the 1HFY19. However, we are maintaining our FY20 earnings forecasts at this juncture as we are expecting more meaningful earnings to be recognized next year due to the recent contract wins and pick-up in activity levels.

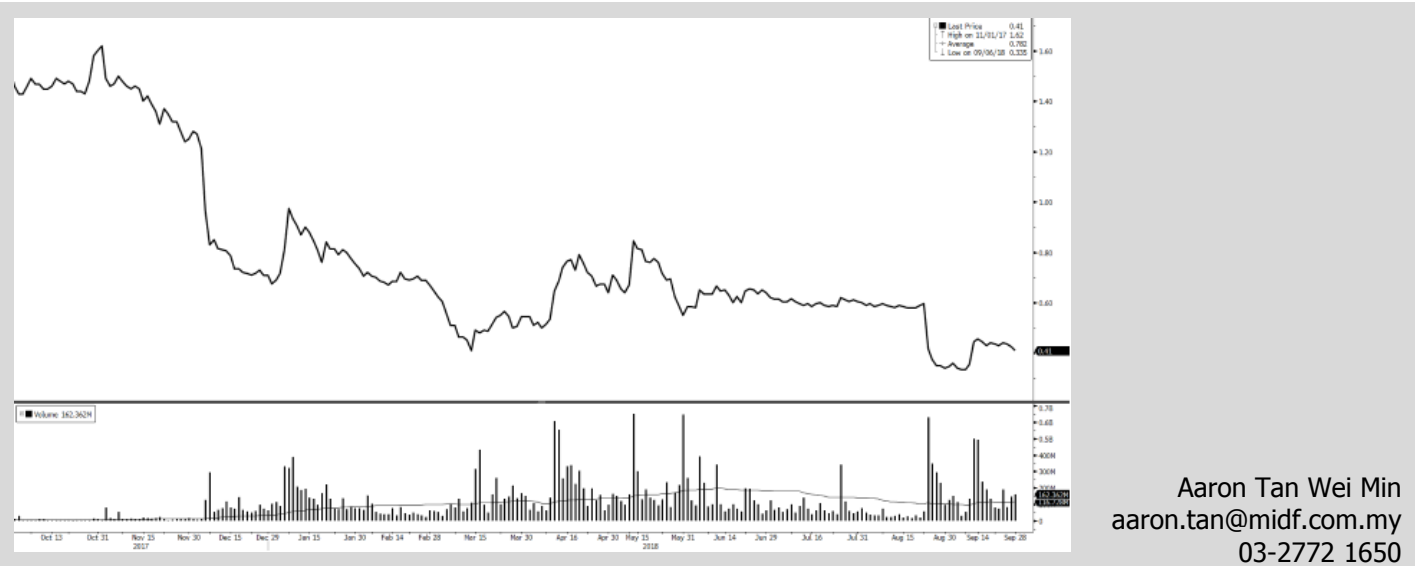
**Maintain Trading Buy.** We note that the industry climate in general has been improving with crude oil price sustaining at levels above USD70pb, which we opine will continue to drive activity levels up especially for companies that have direct exposure to the upstream segments such as SEB. Although we acknowledge that Sapura Energy's profitability might still be weak in the near term due to its underperforming drilling segment, however, we remain positive on SEB's increasing orderbook replenishments; potential interest savings from paring down its borrowings as well as; the expected pick-up in activity levels for both its E&C and drilling segments. Additionally, we continue to 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	7,551.7
EBIT (RM m)	3,070.3	943.4	395.0	580.1	902.5
Pretax Profit (RM'm)	1,408.2	667.9	-191.3	110.5	176.1
Net Profit (RM m)	-791.6	208.3	-2,323.6	10.6	135.4
Normalised Net Profit (RM m)	1,035.0	208.3	-243.0	10.6	135.4
EPS (sen)	-13.2	3.5	-42.1	0.2	2.3
EPS Growth (%)	nm	nm	nm	nm	28.9
PER (x)	nm	14.4	nm	20.5	17.8
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.7	2.0	0.0	2.4	2.4

Source: Company, MIDFR

**DAILY PRICE CHART**



Aaron Tan Wei Min  
aaron.tan@midf.com.my  
03-2772 1650

## SAPURA ENERGY BHD: 2QFY19 RESULTS SUMMARY

FYE Jan (RM m)	Quarterly Results			Cumulative			Comments
	2Q19	QoQ (%)	YoY (%)	6M18	6M19	YoY (%)	
Revenue	1,259.7	19.4	-23.9	3,425.8	2,314.6	-32.4	
Operating Expenses	-1,012.8	20.3	-20.2	-2,631.4	-1,854.5	-29.5	
Other Op Income	3.0	-15.4	-87.0	38.5	6.6	-82.7	
Operating Profit	250.0	15.3	-39.1	832.8	466.8	-44.0	
Interest Income	8.1	43.6	136.2	8.0	13.7	71.9	
Interest Expenses	-247.1	8.4	14.1	-420.9	-475.0	12.9	
Depr & Amort	-221.4	2.1	-18.5	-547.4	-443.1	-19.1	Lower depreciation due to lower asset base
Net Forex gain	37.0	245.0	20.2	68.1	47.7	-29.9	
Share of JV & Assoc	93.8	-13.4	21.4	191.9	202.0	5.3	
Provision for impairment		0.0	0.0	0.0	0.0	0.0	
PBT	-79.7	-26.4	-336.0	138.1	-187.8	nm	
Tax	-46.3	63.2	958.6	-81.3	-74.6	-8.2	
PATAMI	-126.0	-7.8	-535.4	56.8	-262.5	nm	
Segmental:-							
<i>Revenue:</i>							
E&C	779.5	17.1	-38.2	4,543.6	3,955.9	-12.9	
Drilling	253.5	38.3	-9.0	2,018.8	1,145.5	-43.3	
Energy	227.6	8.5	40.5	1,121.0	850.4	-24.1	1.2mmboe lifted in 1HFY19
Corporate	-0.9	-75.6	nm	-4.8	-57.7	1,110.1	
Operating Profit							
E&C	-20.5	-156.2	-116.2	435.1	194.5	-55.3	
Drilling	-58.3	-15.1	-31.4	78.4	-2,271.8	-2,998.7	
Energy	27.8	210.7	24.3	129.8	82.1	-36.8	
Corporate	-28.7	-66.2	-5.1	-113.6	-152.7	34.4	

Source: MIDFR, Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.