

07 December 2018 | 3QFY19 Results Review

## Sapura Energy Berhad

*Earnings prospects gradually improving*

### INVESTMENT HIGHLIGHTS

- Sapura Energy 3QFY19 losses narrowed to –RM31.1m
- PBT returned to black at RM40.1m during the quarter
- Higher revenue recognition from E&C and E&P segments
- Higher E&P profits due to higher average crude price
- Maintain Trading Buy with a revised TP of RM0.60

**Higher revenue recognition.** Sapura Energy Bhd's (SEB) 3QFY19 reported losses narrowed to -RM31.1m from –RM126m in 2QFY19 and -RM274.4m in 3QFY18. It also recorded a PBT of RM40.1m in 3QFY19 vs -RM209.7m in 3QFY18. This is largely attributable to higher revenue recognition of +19.3%yoy especially from both engineering and construction (E&C) and exploration and production (E&P) segments. Its cumulative 9MFY19 however widened to -RM262.5m (vs -RM217.9m in 3QFY18), which is below ours and consensus' expectations despite the higher revenue due to three consecutive quarters of reported losses.

**Engineering & Construction.** Segment revenue and profit climbed by +16.7%yoy and +235.0%yoy respectively. The higher revenue is attributable to higher activity levels while improvement in profit is in line with higher revenue recognized during the quarter and higher contribution from share of profit from associates and JVs during the quarter.

**Drilling.** Segment revenue was lower marginally by -1.9%yoy. However, the segment's losses have narrowed to -RM11.7m (from -RM81.5m in 3QFY18) due to the favourable impact from the lower depreciation costs in the current quarter as a result of the asset impairment exercise in 4QFY18. Seven rigs were in operations during the quarter 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 +42.6%yoy attributable to higher average selling prices (average USD79pb in 3QFY19 vs USD58pb in 3QFY18) while higher profit of +328.2%yoy is due to higher number of barrels of oil lifted during the quarter at 1.1mmboe in 3QFY19 vs 0.8mmboe in 3QFY18.

**Reiterate Trading Buy**  
**Revised Target Price (TP): RM0.60**  
*(Previously RM1.01)*

RETURN STATS	
Price (6 December 2018)	RM0.36
Target Price	RM0.60
Expected Share Price Return	+66.7%
Expected Dividend Yield	+1.8%
<b>Expected Total Return</b>	<b>+68.5%</b>

STOCK INFO	
KLCI	1,683.34
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,127.2
Price over NA	0.22x
52-wk price Range	RM0.31 – RM1.23
Beta (against KLCI)	1.77
3-mth Avg Daily Vol	95.6m
3-mth Avg Daily Value	RM37.7m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.49
KWAP	7.66
Employees Provident Fund	5.21

**Contract award from India's ONGC.** Further to the earnings announcement, SEB also announced that it has clinched another contract via a consortium where SEB holds a 48.33% stake in through its wholly-owned subsidiary Sapura Fabrication Sdn Bhd. The consortium will be undertaking engineering, procurement, construction, installation and commissioning (EPCIC) works for Central Processing Platform and Living Quarters for the KG-DWN 98/2NELP block. The block, which is located offshore the Godavari Delta on the east coast of India, covers an area of approximately 7,295 kilometres of the Krishna-Godavari basin with water depth ranging between 300 metres to 3,200 metres. The contract is awarded by Oil and Natural Gas Corporation (ONGC) in India and is worth RM1.47b. The contract is expected to be completed by January 2021 which translates to an approximately RM300m in revenue recognition for SEB's FY20-22 going forward.

**Orderbook update.** Including the RM1.47b contract win announced yesterday, the group's orderbook currently stands at RM18.6b. Out of these, approximately RM2.3b, RM6.0b and RM10.3b are expected to be recognised in FY19, FY20, FY21 onwards respectively. Out of the RM6.0b to be recognised in FY20, about RM3.8b will be from its E&C segment. The company's bidbook is currently at USD8.8b with bid prospects at USD14.3b.

**Improved forward earning prospects.** For FY19F and going into FY20F, we are expecting better 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. About RM3.8b worth of revenue from the E&C segment is expected to be recognized in FY20F. 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 in 2QFY19.

**FY19 earnings reduced, FY20 earnings maintained.** We are reducing our FY19 earnings forecast to -RM116.1m due to the cumulative losses effect from the 9MFY19. 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 for both its E&C and E&P segment from FY20 onwards.

**Maintain Trading Buy.** We note that the industry climate in general has been improving with crude oil price gradually improving to levels above USD60pb after recently plunging to below USD60pb, which we opine will continue to drive activity levels up especially for companies that have direct exposure to the upstream segments such as SEB. Management guided that even with the oil price at the current level; it is well above SEB's break-even level. 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 E&P segments. Furthermore, we are expecting to see a ramp-up in its activity levels as early as 1QCY19 as EPCIC contract works begin and yard utilisation will increase to 40% in 4QFY19 (from 10% currently) with more meaningful revenue recognition expected from 2QFY20 onwards. Yard utilisation is also expected to gradually increase to 80% with more works undertaken in the next six months.

As such, we are maintaining our **Trading Buy** call on Sapura Energy with a revised TP of **RM0.60** per share (from RM1.01 per share previously). Our TP revision is premised on the enlarged SEB's share base in relation to the expected completion of the rights issue and RCPT-i at the end of this month. Additionally, we continue to believe that the share offers short term trading opportunities for investors as we opine that earnings could start to surprise on the upside sooner-than-expected.

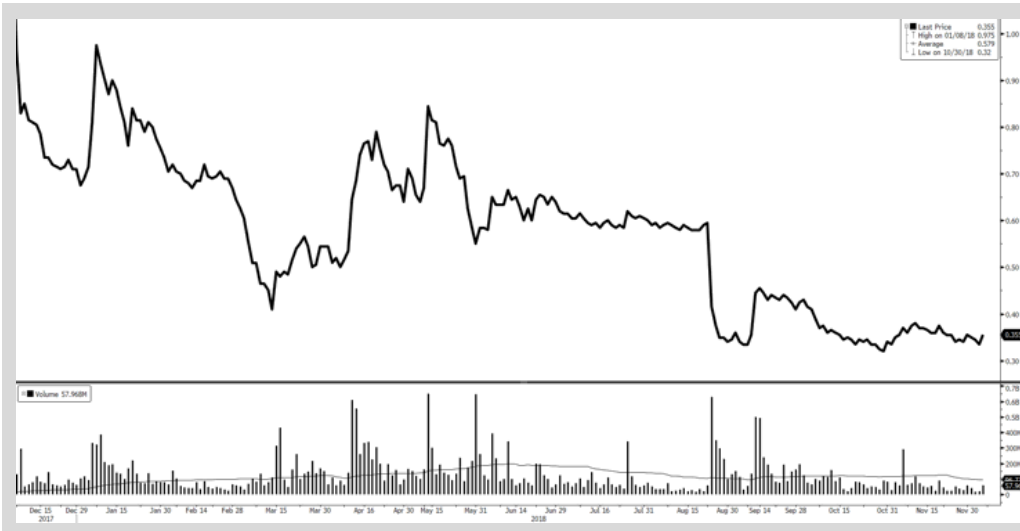


## INVESTMENT STATISTICS

FYE Jan	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM m)	10,184.0	7,651.3	5,895.0	4,266.3	6,097.6
EBIT (RM m)	3,070.3	943.4	395.0	114.4	511.9
Pretax Profit (RM'm)	1,408.2	667.9	(191.3)	(234.6)	164.9
Net Profit (RM m)	(791.6)	208.3	(2,323.6)	(116.1)	135.4
<b>Normalised Net Profit (RM'm)</b>	<b>1,035.0</b>	<b>208.3</b>	<b>(243.0)</b>	<b>(116.1)</b>	<b>135.4</b>
EPS (sen)	(13.2)	3.5	(42.1)	(1.2)	1.4
EPS Growth (%)	nm	nm	nm	(2.8)	nm
PER (x)	nm	9.7	nm	nm	25.1
Net Dividend (sen)	1.4	1.0	-	-	0.6
Net Dividend (%)	4.1	2.9	-	-	1.8

Source: Company, MIDFR

## DAILY PRICE CHART



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**Table 1: Sapura Energy's quarterly earnings review**

FYE Jan (RM m)	Quarterly Results					Cumulative		
	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	9MFY18	9MFY19	YoY (%)
Revenue	1,280.0	1,259.7	1,502.2	19.3	17.4	4,705.8	3,816.9	(18.9)
Operating Expenses	(1,018.1)	(1,012.8)	(1,104.2)	9.0	8.5	(3,649.5)	(2,958.7)	18.9
Other Op Income	13.1	3.0	6.9	127.1	(47.2)	51.5	13.5	(73.7)
Operating Profit	275.0	250.0	404.9	62.0	47.3	1,107.8	871.7	(21.3)
Interest Income	8.0	8.1	9.3	15.4	16.5	16.0	23.1	44.1
Interest Expenses	(227.5)	(247.1)	(265.3)	7.4	16.7	(648.3)	(740.4)	14.2
Depr & Amort	(270.7)	(221.4)	(242.4)	9.5	10.5	(818.1)	(685.4)	16.2
Net Forex gain	(22.2)	37.0	56.2	51.7	(352.8)	45.9	103.9	126.3
Share of JV & Assoc	27.7	93.8	77.5	(17.3)	180.0	219.6	279.6	27.3
Provision for impairment	-	-	-	nm	nm	-	-	nm
PBT	(209.7)	(79.7)	40.3	(150.5)	(119.2)	(71.6)	(147.6)	106.2
Tax	(65.5)	(46.3)	(77.5)	67.5	18.4	(146.9)	(146.6)	(0.2)
<b>PATAMI</b>	<b>(274.4)</b>	<b>(126.0)</b>	<b>(31.1)</b>	<b>(75.3)</b>	<b>(88.7)</b>	<b>(217.9)</b>	<b>(292.9)</b>	<b>34.4</b>
<b>Segmental:-</b>								
<b>Revenue:</b>								
E&C	822.3	779.5	959.8	23.1	16.7	3,285.6	2,405.0	(26.8)
Drilling	251.2	253.5	246.5	(2.8)	(1.9)	915.2	683.4	(25.3)
Energy	207.7	227.6	296.2	30.1	42.6	537.0	733.5	36.6
Corporate	(0.3)	(0.9)	(1.2)	30.3	347.8	(58.9)	(5.0)	(91.4)
<b>Operating Profit</b>								
E&C	(29.3)	(20.5)	39.6	293.2	235.0	278.8	55.5	(80.1)
Drilling	(93.1)	(58.3)	(11.7)	80.0	87.5	(157.4)	(138.6)	11.9
Energy	8.7	27.8	37.1	33.3	328.2	55.6	73.9	32.8
Corporate	(95.9)	(28.7)	(24.8)	13.8	74.2	(248.6)	(138.4)	44.3

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.