

29 March 2018 | 4QFY18 Results Review

Sapura Energy Berhad

Normalised losses anticipated

Reiterate Trading Buy

Unchanged Target Price (TP): RM1.01

INVESTMENT HIGHLIGHTS

- Sapura Energy 4QFY18 losses at **–RM2.3b**
- Impairments made on drilling rigs amounting to **–RM2.1b**
- **No major impairments expected in FY19**
- **Total borrowings declined -11.8%yoy to RM16.4b**
- **Operating cash flow sufficient to sustain capex and debt repayments**
- **Maintain Trading Buy with unchanged TP of RM1.01**

Impairments on drilling rigs. Sapura Energy's 4QFY18 reported losses amounted to –RM2.3b. This is largely attributable to impairment charges made on its drilling rigs amounting to –RM2.1b. Excluding the impairment charges and unrealised forex losses, normalised LATAMI is at approximately –RM243m, well within our and consensus expectations on full year FY18 losses.

Engineering & Construction. Segment revenue and profit declined by -12.9%yoy and -55.3%yoy respectively. The lower revenue is attributable to lower activity levels while lower profit is due to various impairment charges on PPE and loss on disposals. New contract wins for the year at approximately RM3b.

Drilling. While segment revenue nearly halved to RM1.1b, the segment swung into losses largely due to impairment charges on the rigs amounting to nearly RM2.1b. Current vessel utilisation rate is at approximately 33% (five vessels in operations) with technical utilisation (uptime) of 99%. Moving forward, vessel utilisation rate is expected to remain for the five operational rigs.

Exploration and Production. This segment is still profitable largely owing to upbeat global crude oil prices and aggressive efforts made into this segment. Higher quarterly revenue is attributable to higher barrels of oil lifted and higher average selling prices (average USD57pb) while lower profit is due to impairment charges made during the quarter. 3.5mboe was lifted in FY18 compared to 4.2mboe in FY17.

Borrowings declined. Total group borrowings declined by -11.8%yoy to RM16.4b from RM18.6b. Current net gearing spiked to 1.55x (previously 1.1x) as a result of the decline in asset base from RM37.4b to RM30.0b – largely due to aggressive asset impairments. Moving forward, no major asset impairments are expected.

RETURN STATS	
Price (28 March 2018)	RM0.50
Target Price	RM1.01
Expected Share Price Return	+102.0%
Expected Dividend Yield	+2.0%
Expected Total Return	+104.0%


STOCK INFO	
KLCI	1,857.87
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,996.1
Price over NA	0.60x
52-wk price Range	RM0.395 – RM2.10
Beta (against KLCI)	2.17
3-mth Avg Daily Vol	83.1m
3-mth Avg Daily Value	RM56.5m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.40
KWAP	7.19
Employees Provident Fund	6.38

Cash flow. The group's operating cash flow is sufficient to finance its debt principal repayments and capex requirements for the group's gas field developments. Hence, there is no need for cash calls or any other fund raising activities in the near term.

Orderbook. The group's orderbook currently stands at RM16.6b, marking an inflection from FY18 low for the past four years. Out of these, approximately RM5.6b and RM3.1b are expected to be recognised in CY18 and CY19 respectively. The company's bidbook is at USD13b.

Forward earnings expected to improve. Despite the massive reported losses, mainly from the drilling rigs segment, we do not expect further impairments of such scale in the foreseeable future. For FY19F, 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.

Changes no earnings. No change to earnings estimates as we believe FY19 will be a turnaround year.

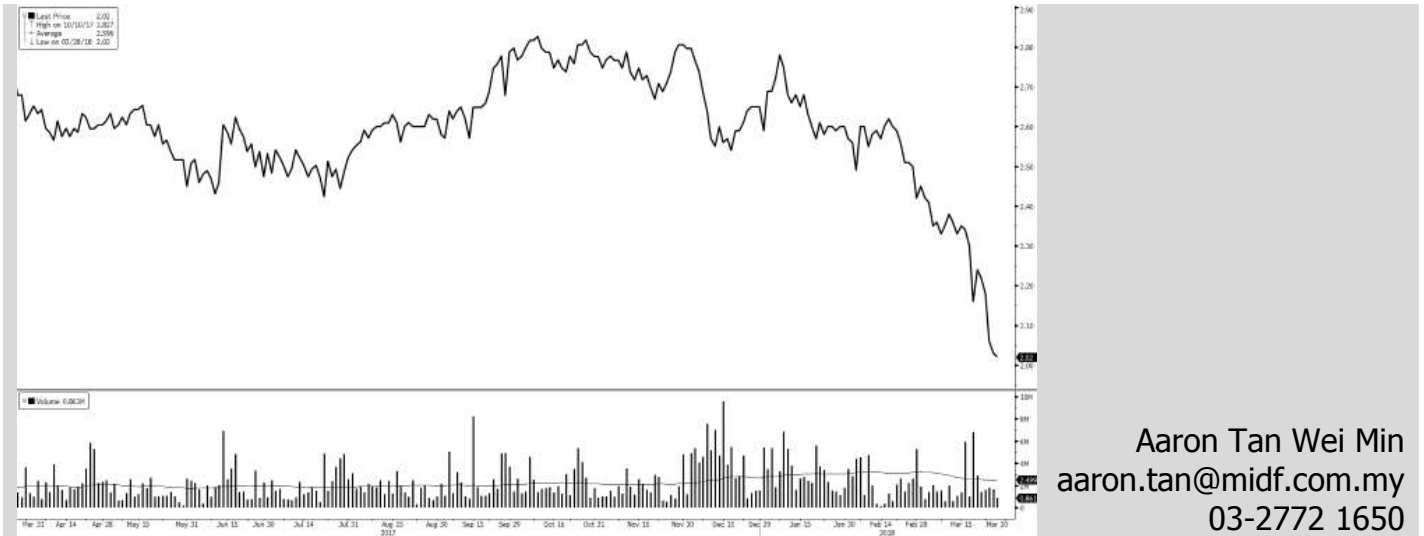
Maintain Trading Buy. Year-to-date, Sapura Energy's share price has declined by approximately -25%ytd. This is despite stable crude oil prices in the tight range of USD60-70pb. We are of the opinion that the current broad-market sell off presents trading opportunities for investors seeking exposure in 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	14.4	nm	28.5	22.1
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.7	2.0	0.0	2.0	2.0

Source: MIDFR, Company

DAILY PRICE CHART



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4QFY18 RESULTS SUMMARY

FYE Jan (RM m)	Quarterly Results			Cumulative			Comments
	4Q18	QoQ (%)	YoY (%)	2017	2018	YoY (%)	
Revenue	1,189.2	-7.1	-34.4	7651.3	5895.0	-23.0	
Operating Expenses	-856.3	-15.9	-35.7	-6276.4	-4505.8	-28.2	
Other Op Income	16.0	22.7	457.5	1360.5	67.6	-95.0	
Operating Profit	348.9	26.9	-27.8	2735.4	1456.7	-46.7	
Interest Income	5.4	-32.8	-4.7	23.8	21.4	-10.1	
Interest Expenses	-210.3	-7.5	-4.9	-799.9	-858.7	7.4	
Depr & Amort	-243.9	-190.1	-22.1	-1792.1	-1062.0	-40.7	Lower depreciation due to lower asset base
Share of JV & Assoc	56.9	105.6	-61.4	456.9	276.5	-39.5	
Provision for impairment	-2132.3	nm	654.3	-282.7	-2132.3	654.3	Impairments on drilling rigs as recovery not within immediate term
PBT	-2252.0	973.8	1697.6	385.2	-2323.6	nm	
Tax	-34.4	-47.5	-27.8	-179.1	-181.2	1.2	
PATAMI	-2285.5	732.9	1226.3	208.3	-2503.5	nm	
Segmental:-							
<i>Revenue:</i>							
E&C	670.3	-18.5	-42.0	4543.6	3955.9	-12.9	
Drilling	230.4	-8.3	-42.0	2018.8	1145.5	-43.3	
Energy	286.5	37.9	4.5	1121.0	850.4	-24.1	3.5mmboe lifted in FY18
Operating Profit							
E&C	-84.2	187.3	123.5	435.1	194.5	-55.3	
Drilling	-2114.5	2170.1	1242.7	78.4	-2271.8	nm	
Energy	26.4	205.3	-64.3	129.8	82.1	-36.8	

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.