

12 November 2018 | Corporate Update

## Sapura Energy Berhad

*50% Sapura upstream disposal to OMV inked*

**Reiterate Trading Buy**

**Unchanged Target Price (TP): RM1.01**  
**(ex-TP: RM0.60)**

### INVESTMENT HIGHLIGHTS

- **Sapura Energy's 50% disposal of Sapura Upstream to OMV AG inked**
- **Gain on disposal to amount to RM2.7b**
- **Gearing to reduce to 0.62x with interest savings of RM138m annually**
- **Current orderbook at approximately RM16.9b**
- **Maintain TRADING BUY at unchanged TP of RM1.01**

**Disposal agreement inked.** Following the Heads of Agreement (HOA) announced by Sapura Energy (SEB) back in September for the proposed sale of fifty percent stake in its wholly-owned subsidiary Sapura Upstream to Austria's OMV Aktiengesellschaft (OMV AG), SEB has announced last Friday that a definitive agreement has been signed between SEB and OMV with regards to the abovementioned exercise.

**RM2.7b gain on disposal.** As a result of the disposal, SEB will be receiving up to a maximum of USD975m in cash. This translates to approximately RM4.056b – inclusive of USD350m in debt from Sapura Upstream; with RM2.7b to be recognised as gain from the disposal. RM3.0b will be used to pare down its debt while the remaining will be used to fund SEB's working capital as well as to finance the cost of the transaction. Refer to Table 1 for the details on total proceeds and Table 2 for the use of proceeds. The exercise is expected to be completed in 1QCY19.

**Gearing to reduce to 0.62x.** Should both the proposed rights issue of RM4.0b and this disposal go through where proceeds from both are channelled to repayment of borrowings, SEB's total borrowings is expected to reduce to RM9.8b from RM17.2b in FY18. This will also result in SEB's gearing declining to 0.62x from 1.74x currently. Additionally, SEB will also benefit from interest savings of about RM138.0m annually where average interest rate on its borrowings is currently at 4.6% per annum.

**Forward earnings expected to improve.** We are positive on this disposal as we expect the company's forward earnings to improve further – in particular from savings in operating expenses. The company will also benefit from the reduced constrain on its cash attributable to the upstream business. Furthermore, we are expecting SEB's earnings to gradually improve as 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.

RETURN STATS	
Price (9 November 2018)	RM0.38
Target Price	RM1.01
Expected Share Price Return	+165.8%
Expected Dividend Yield	+2.6%
<b>Expected Total Return</b>	<b>+168.4%</b>


STOCK INFO	
KLCI	1,708.09
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,247.06
Price over NA	0.24x
52-wk price Range	RM0.31 – RM1.48
Beta (against KLCI)	1.80
3-mth Avg Daily Vol	119.0m
3-mth Avg Daily Value	RM48.1m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	12.16
KWAP	7.66

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**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.

**FY19-20F normalised earnings maintained.** We have incorporated the RM2.7b gain on disposal into our FY19F net profit. However, we are maintaining our FY19F normalised earnings at RM10.9m at this juncture. We are also making no changes to our FY20F earnings forecasts at this juncture as despite the potential annual interest savings from the corporate exercises, we remain wary of SEB's soft E&C and drilling segment activities which we opine will continue to be a drag on its earnings.

**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 potential 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	2,709.9	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	19.0	16.5
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.7	2.0	0.0	2.6	2.6

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## APPENDIX

**Table 1: Total proceeds from disposal of 50% stake in Sapura Upstream**

Total proceeds to SEB	USD'm	RM'm
Share subscription proceeds from OMV	540	2,247
Repayment of inter-company debt	350	1,456
<b>Initial proceeds to SEB at closing</b>	<b>890</b>	<b>3,703</b>
<b>Additional Consideration:</b>		
<i>Mexico Block 30</i>	55	229
<i>Brent Oil price movement 2019-2022</i>	30	125
<b>Maximum proceeds to be raised by SEB</b>	<b>975</b>	<b>4,056</b>

Source: Company, MIDFR

**Table 2: Use of proceeds**

Details of use	Amount		Estimated timeframe for use from receipt of proceeds
	USD'000	RM'000	
Repayment of bank borrowings and facilities of the SEB Group	720,000	2,995,560	Within 2 months
Working capital of SEB Group	245	1,019,323	Within 24 months
Estimated expenses relating to the proposed transaction	10	41,605	Within 2 months
<b>Total</b>	<b>975,000</b>	<b>4,056,488</b>	

Source: Company, MIDFR

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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.