

22 November 2018 | Corporate Update

Sapura Energy Berhad

Bags RM1.75b worth of contracts

Reiterate Trading Buy

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

INVESTMENT HIGHLIGHTS

- Sapura Energy bags RM1.75b worth of contracts
- Contracts won mainly for EPCTI jobs in Mexico
- Total contract wins-to-date is RM7.0b
- Current orderbook at approximately RM18.0b
- Maintain TRADING BUY at unchanged TP of RM1.01

Sapura Energy won RM1.75b worth of contracts. Sapura Energy announced that it has won several contracts with a combined value of RM1.75b. The contracts won are mainly for the provision of offshore engineering, procurement, construction, transportation and installation (EPCTI) as well as; provision for Pan Malaysia Underwater Services. With this latest wins, it brings Sapura's total contract wins-to-date to RM7.0b.

Provision for EPCTI. Sapura Energy via its wholly-owned subsidiary has secured an EPCTI contract from Hokchi Field Development in the Gulf Of Mexico with a water depth of 40 meters which is expected to be completed by the end of 1QCY20. Additionally, Sapura also secured another EPCTI contract from ENI Mexico S.de.R.L.de.C.V in the Gulf of Mexico with a maximum water depth of 40 meters which is to be completed by the end of 2QCY19.

Provision for Pan Malaysia Underwater Services. Along with EPCTI contract wins, Sapura also announced it has been awarded a five-year contract to provide underwater services for Petroleum Arrangement Contractors (PACs), package C by four companies. These companies are: Sarawak Shell Bhd/ Sabah Shell Petroleum Company Ltd, Murphy Sarawak Oil Co. Ltd, Repsol Oil & Gas Malaysia Ltd and; Kebangsaan Petroleum Operating Company Sdn Bhd. We understand that the scope of work for the contract consists of underwater services which includes the utilisation of vessels, air and saturation diving, remotely operated vehicles (ROVs). The contract is expected to be completed by the end of 3QCY23.


Orderbook update. Including the new contract wins of RM1.75b, the group total orderbook currently stands at RM18.0b. 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.

RETURN STATS	
Price (21 November 2018)	RM0.38
Target Price	RM1.01
Expected Share Price Return	+165.8%
Expected Dividend Yield	+2.6%
Expected Total Return	+168.4%

STOCK INFO	
KLCI	1,695.37
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 – RM1.38
Beta (against KLCI)	1.80
3-mth Avg Daily Vol	124.0m
3-mth Avg Daily Value	RM49.5m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	12.16
KWAP	7.66

Forward earnings expected to improve. We are positive on the contract wins as we expect the company's forward earnings to improve further, especially in light of the recently announced RM4.0b rights issue and disposal of 50% stake in Sapura Upstream which will further elevate its earnings with an expected annual interest savings of RM138m. 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.

FY19-20F normalised earnings maintained. We are making no changes to our FY19-20F earnings forecasts at this juncture as most of the earnings from this new contract wins will only be recognized from CY20 onwards. Furthermore, 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.

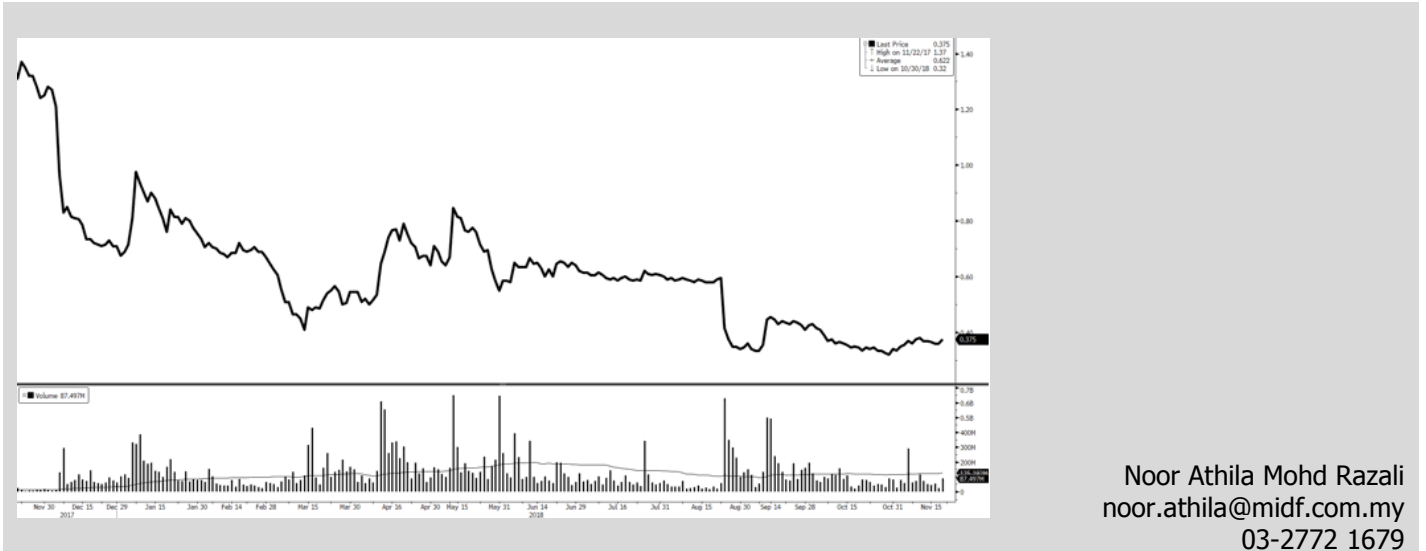
Maintain Trading Buy. We note that the industry climate in general has been improving with crude oil price sustaining at levels above USD70pb, which we opine will continue to drive activity levels up especially for companies that have direct exposure to the upstream segments such as SEB. Although we 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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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.