

28 September 2017 | 2QFY18 Results review

## Sapura Energy Berhad

*Drilling segment to remain a bane*

**Maintain NEUTRAL**

**Revised Target Price (TP): RM1.69**  
(previously RM1.71)

### INVESTMENT HIGHLIGHTS

- Sapura Energy Berhad's (SEB) 2QFY18 earnings declined by -74.2%yoy to RM28.9m
- E&C segment buoyant but Drilling and E&P remains weak
- Utilisation rate for Drilling vessels to fall further
- Outstanding orderbook stands at RM15.1b
- Tenderbook amounts to approximately USD8.2b
- Maintain NEUTRAL with a revised TP of RM1.69

**Low drilling utilisation rates a bane.** SEB's 2QFY18 earnings declined by -74.2%yoy to RM28.9m although group revenue only staged a marginal decline of -1.1% to RM1,656.2m. Cumulative 6MFY18 earnings lagged ours and consensus earnings estimates by a variance of more than 50%. The bulk of the declines in revenue and earnings are from the Drilling and E&P segments.

**Engineering & Construction (E&C).** Segment revenue and earnings increased by +35.3%yoy and +55.1%yoy respectively. These were a result of higher activity levels during the quarter and higher contribution from associates and joint ventures. With the completion of some major projects however, yard utilisation rate is expected to be weak in subsequent quarters.

**Drilling.** SEB's drilling segment revenue and earnings slumped by -42.8%yoy and -131.8%yoy as rig utilisation remains low and operating environment remains challenging. There were six rigs out of 16 rigs in operation in 2QFY18, representing a utilisation rate of 37.5% (Teknik Berkas scrapped). Utilisation rates for 3Q could possibly be lower with only five vessels expected to be working. In addition, charter rates remain weak and continue to be on a general declining trend.

**Exploration & Production (E&P).** Both segment revenue and profit recorded a decline of -45.2%yoy and -13.0%yoy respectively due to the cessation of the Berantai RSC in 2QFY17 and lower barrels of oil lifted. The decrease is however offset by higher average realised oil prices of USD50pb in 2QFY18, compared with USD48pb a year earlier. In 2QFY18, the segment lifted 0.8mmboe compared with 1.2mmboe a year earlier.


**Orderbook update.** The current outstanding orderbook is at RM15.1b, where RM3.2b will be recognised in FY18, RM3.4b in FY19 and the remaining RM8.5b in FY20 onwards.

RETURN STATS	
Price (27 September 2017)	RM1.61
Target Price	RM1.69
Expected Share Price Return	+5.0%
Expected Dividend Yield	+0.6%
<b>Expected Total Return</b>	<b>+5.6%</b>

STOCK INFO	
KLCI	1,764.24
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	9,647.4
Price over NA	0.72x
52-wk price Range	RM1.38 – RM2.08
Beta (against KLCI)	2.70
3-mth Avg Daily Vol	8.2m
3-mth Avg Daily Value	RM12.8m
Major Shareholders (%)	
Sapura Holdings	15.90
Employees Provident Fund	10.80
Khasera Baru	10.10
PNB and its associated funds	9.91
KWAP	5.95

**Impact on earnings.** At this point in the financial year, we acknowledge that the company will continue to face headwinds from the Drilling and the E&P segments. Therefore we are revising our FY18 and FY19 earnings to forecasts downwards to RM98.7m and RM152.5m respectively.

**Fundamentals intact.** SEB has been prudent with cash management, actively managing its borrowings every quarter. The company's current cash hoard is around RM2.23b (where a cumulative RM1.11b was used to pare down borrowings for 6MFY18), net gearing level maintaining at around 1.18x.

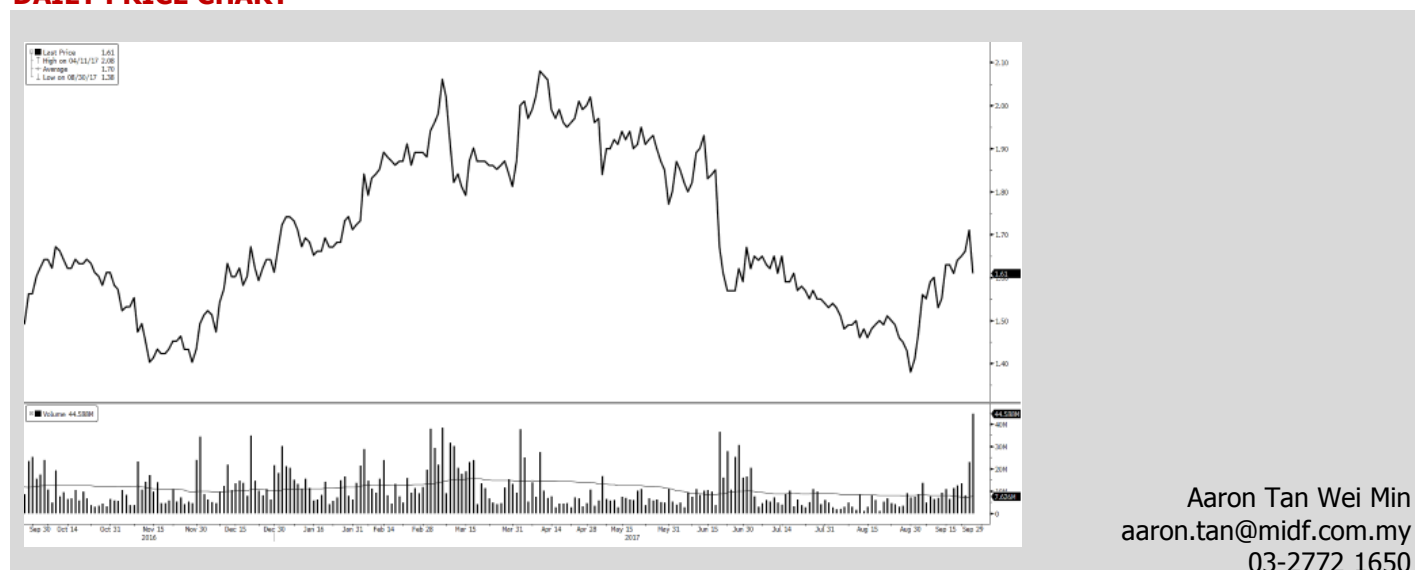
**Maintain Neutral.** At this current juncture, we are still recommending a **NEUTRAL** stance on SEB with a revised TP of **RM1.69** per share (FY19PBR of 0.7x). As such, with company fundamentals remaining intact and stock price behaving erratically guided by global crude oil prices, we posit that there could be trading opportunities with the stock and investors could benefit from the volatile price movements. 

## INVESTMENT STATISTICS

FYE Jan	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM m)	9,943.0	10,184.0	7,651.3	6,994.6	7,328.2
EBIT (RM m)	3,106.6	3,070.3	943.4	859.1	915.4
Pretax Profit (RM'm)	1,616.0	1,408.2	667.9	129.7	187.1
Net Profit (RM m)	1,432.8	-791.6	208.3	98.7	152.5
Normalised Net Profit (RM m)	1,209.0	1,035.0	208.3	98.7	152.5
EPS (sen)	23.9	-13.2	3.5	1.6	2.5
EPS Growth (%)	32.0	-155.0	-126.0	-53.0	55.0
PER (x)	6.7	-12.2	46.3	97.7	63.3
Net Dividend (sen)	4.4	1.4	1.0	1.0	1.0
Net Dividend (%)	3.0	1.0	1.0	1.0	1.0

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 2QFY18 RESULTS SUMMARY

FYE Jan (RM m)	Quarterly Results			Cumulative			Comments
	2Q18	QoQ (%)	YoY (%)	6M17	6M18	YoY (%)	
Revenue	1656.2	-6.4	-1.1	3616.8	3425.8	-5.3	
Operating Expenses	-1269.1	-6.8	-32.6	-3244.2	-2631.4	-18.9	
Other Op Income	23.4	55.5	-98.2	1346.5	38.5	-97.1	
Operating Profit	410.5	-2.8	-63.7	1717.1	832.8	-51.5	
Interest Income	3.4	-24.9	-38.0	12.1	8.0	-33.8	
Interest Expenses	-216.6	6.0	11.0	-387.8	-420.9	8.5	
Depr & Amort	-271.7	-828.0	-69.7	-1217.1	-547.4	-55.0	
Net Forex gain	30.8	-17.4	nm	-387.8	68.1	-117.6	
Share of JV & Assoc	77.3	-32.6	-44.2	218.4	191.9	-12.1	
PBT	33.8	-67.7	-81.9	311.3	138.1	nm	
Tax	-4.4	-94.3	-94.2	-89.6	-81.3	-9.2	
PATAMI	28.9	5.5	-74.2	222.6	56.5	nm	
Segmental:-							
<i>Revenue:</i>							
E&C	1261.1	4.9	58.3	1821.1	2463.3	35.3	
Drilling	278.6	-27.7	-48.2	1161.0	664.0	-42.8	Lower utilisation rate
Energy	162.0	-16.6	-54.1	650.4	356.3	-45.2	Lower barrels produced despite higher selling prices
Operating Profit							
E&C	126.7	-30.2	5.5	198.6	308.1	55.1	
Drilling	-85.0	-508.7	-269.2	201.9	-64.2	-131.8	
Energy	22.4	-9.0	-57.5	54.0	47.0	-13.0	

Source: MIDFR, Company

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.