

27 March 2018 | Corporate Update

Sapura Energy Berhad

Headway into New Zealand

INVESTMENT HIGHLIGHTS

- **Sapura Energy announced farm-in agreements in New Zealand**
- **Agreements made with OMV New Zealand Ltd and Mitsui E&P Australia Pty Ltd**
- **Farm-in agreements for five offshore exploration permits**
- **Maintain Trading Buy with unchanged TP of RM1.01**

Details of farm-in agreements. Sapura Energy's wholly-owned unit Sapura Exploration and Production (NZ) Sdn Bhd signed a series of farm-in agreements to five onshore exploration permits within the Taranaki Basin in New Zealand. The agreements were signed with OMV New Zealand Ltd and Mitsui E&P Australia Pty Ltd.

Taranaki Basin. The Taranaki Basin is the only hydrocarbon-producing basin in New Zealand. Approximately 2.5b barrels of oil equivalent were discovered to date, of which more than two thirds consist of gas. The exploration permits are for the offshore exploration permits which comprise of PEP 57075, PEP 51906, PEP 60091, PEP 60092 and PEP 60093.

OMV New Zealand Ltd. OMV New Zealand Ltd is a unit of Austrian-based OMV Group, one of the largest industrial listed companies in Vienna. The company has been active in New Zealand since 1999 and is currently the third largest gas producer in the country.

Farm-in structures. Sapura E&P will have 30% interest in each of the five exploration permits that will be operated by OMV New Zealand. Sapura E&P will hold 30% interest in PEP 57075 and PEP 51906 while OMV New Zealand will hold the remaining 70% interest. As for PEP 60091, PEP 60092 and PEP 60093, Sapura E&P will hold 30% interest, OMV New Zealand 40% interest and Mitsui E&P 30% interest.

Our view. While details are still sketchy at this juncture, we are positive on this headway into New Zealand. We understand that the farm-in opportunities for the fields, in particular for PEP 57075 and PEP 51906 were available since 2015. We believe that Sapura Energy's participation will now allow the partners to commit to drilling an exploration well in the fields (drill or drop) and to subsequently drill exploration wells. The exploration permits for the fields were granted to OMV back in 2015 for a period of 12 years. Sapura Energy already has successful track records in developing gas fields and the company also has the necessary heavy assets to undertake the job. As such, this venture will be able to benefit the company on multiple business fronts.

Reiterate Trading Buy

Unchanged Target Price (TP): RM1.01


RETURN STATS

Price (26 th March 2018)	RM0.565
Target Price	RM1.01
Expected Share Price Return	+78.8%
Expected Dividend Yield	+1.8%
Expected Total Return	+80.6%

STOCK INFO

KLCI	1,859.91
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	3,385.6
Price over NA	0.60x
52-wk price Range	RM0.395 – RM2.10
Beta (against KLCI)	2.17
3-mth Avg Daily Vol	82.0m
3-mth Avg Daily Value	RM56.3m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.57
KWAP	7.21
Employees Provident Fund	6.44

No changes to earnings. No change to earnings estimates at this juncture as the fields are not expected to contribute significantly in the near term.

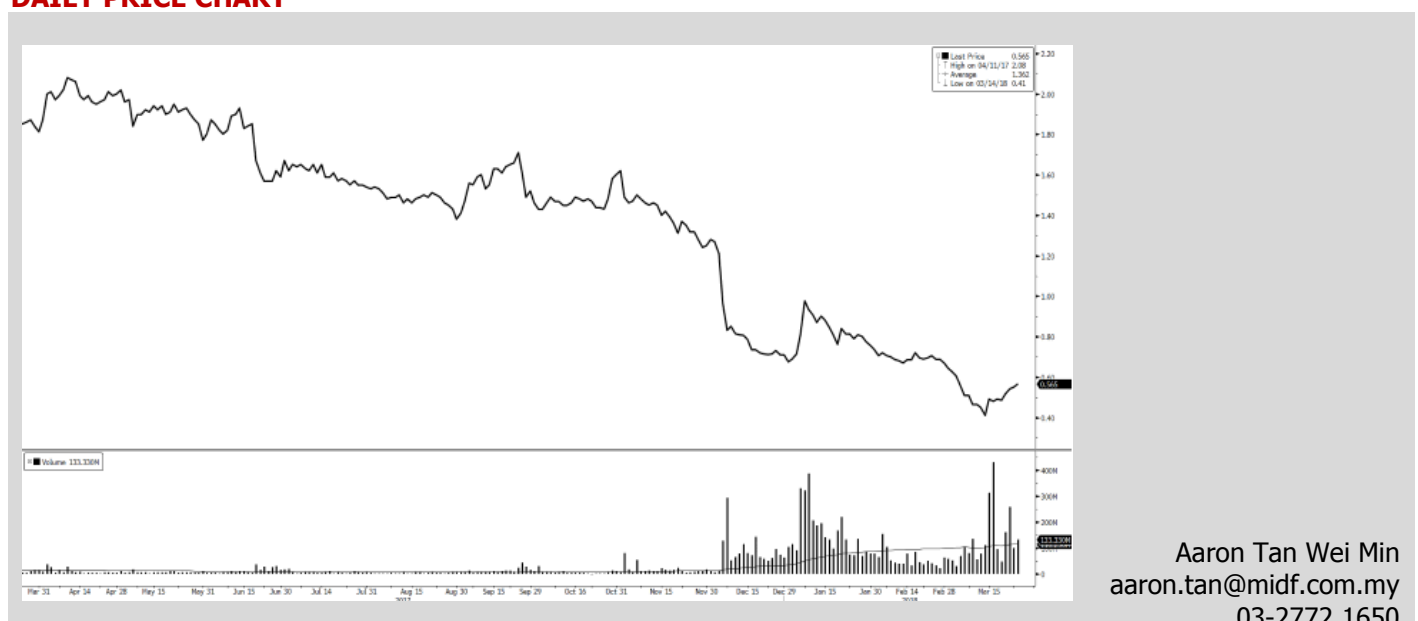
Maintain Trading Buy. Year-to-date, Sapura Energy's share price has declined by approximately -20%ytd. This is despite stable crude oil prices in the tight range of USD60-70pb. We are of the opinion that the current broad-market sell off presents trading opportunities for investors seeking exposure in 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	FY18F	FY19F	FY20F
Revenue (RM m)	10,184.0	7,651.3	6,994.6	7,328.2	7,551.7
EBIT (RM m)	3,070.3	943.4	371.8	887.6	902.5
Pretax Profit (RM'm)	1,408.2	667.9	-357.6	159.2	176.1
Net Profit (RM'm)	-791.6	208.3	-235.2	105.1	135.4
Normalised Net Profit (RM'm)	1,035.0	208.3	-235.2	105.1	135.4
EPS (sen)	-13.2	3.5	-3.9	1.8	2.3
EPS Growth (%)	nm	nm	nm	nm	28.9
PER (x)	nm	16.1	nm	31.9	24.8
Net Dividend (sen)	1.4	1.0	1.0	1.0	1.0
Net Dividend (%)	2.4	1.8	1.8	1.8	1.8

Source: MIDFR, company

DAILY PRICE CHART



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Source: 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.