22 January 2018 | Corporate Update

Sapura Energy Berhad

Possible Energy Segment Spinoff

Upgrade to Trading Buy
(previously HOLD)
***Unchanged* Target Price (TP): RM1.01**

INVESTMENT HIGHLIGHTS

- **Possible spinoff of Energy segment as reported in media**
- **Strong and rising global crude oil prices probable catalyst for spinoff**
- **Positive view on potential spinoff**
- **Multiple benefits to be seen post spinoff**
- **Upgrade to Trading Buy with unchanged TP of RM1.01**

In the news. It was reported on newswires that Sapura Energy is mulling to list its Energy Segment, comprising the upstream oil and gas production business. The reported rationale for considering this corporate spinoff is based on upbeat global crude oil prices which have increased by over +25% from 2017's average.

MIDF's view. We are positive on this news as the spinoff could allow Sapura Energy's Energy segment to gain higher valuation as an individual entity compared with when it was within the enlarged Sapura Energy group. Drawing examples from local and global independent upstream oil and gas producers, company valuations have increased by over +10% since December 2017 when global crude oil prices staged a strong surged touching USD70pb.

Background on Energy Segment. At this juncture, we opine that the Energy Segment is the only stable segment in terms of earnings amongst all the business segments. Latest 9MFY18 segment revenue inched up by +5.7%yoy while cumulative segment profit before tax sustaining at above RM50m. The commendable results are attributable to higher barrels of oil lifted and higher average selling prices achieved. For 3QFY18, 0.9mmboe were lifted with an average lifting price of USD58pb (EBITDA breakeven ranging between USD30-35pb). Contributions from B15 gas field is expected to accrue in a more meaningful manner in FY19 only.

Immediate benefits upon Energy segment spinoff:

(i) Possible higher valuation from revaluing Sapura Energy's upstream assets, expected output and expected higher hydrocarbon average selling prices;
(ii) More efficient capital raising and allocation for future heavy oilfield capex and opex and;
(iii) Possible reduction in existing group debts (current net gearing level at 1.26x) from proceeds from spinoff

RETURN STATS	
Price (19 January 2018)	RM0.84
Target Price	RM1.01
Expected Share Price Return	+20.2%
Expected Dividend Yield	+1.2%
Expected Total Return	**+21.4%**

STOCK INFO	
KLCI	1,828.83
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	5,033.4
Price over NA	0.65x
52-wk price Range	RM0.675 – RM2.08
Beta (against KLCI)	2.44
3-mth Avg Daily Vol	75.1m
3-mth Avg Daily Value	RM84.5m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.58
Employees Provident Fund	8.96
KWAP	7.25

Orderbook update. The current outstanding orderbook is at approximately RM15.1b. Contract wins year-to-date total RM2.8b, while tenderbook is currently at USD5b and prospects at USD4.5b. RM1.7b is expected to be recognised in FY18, RM4.3b in FY19 and the remaining portion from FY20 onwards.

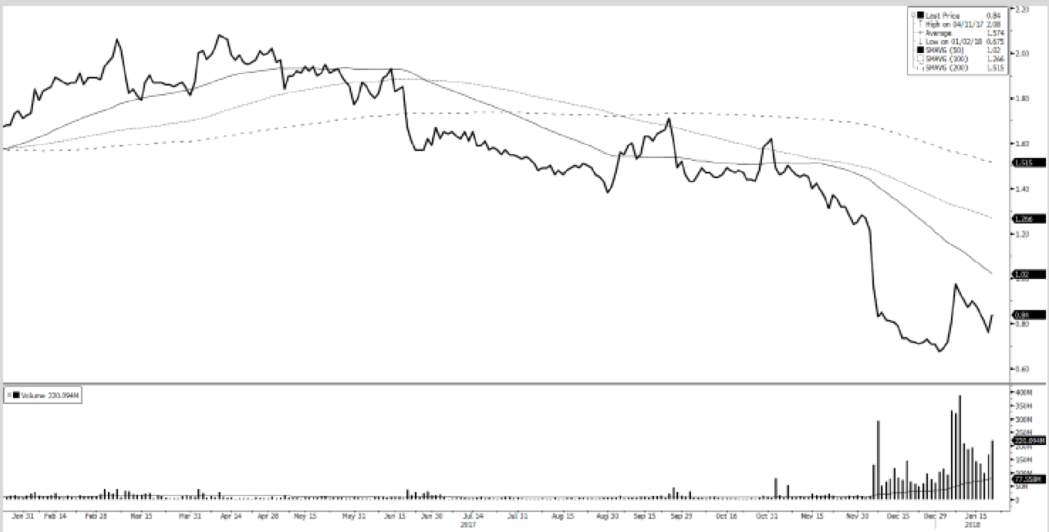
Upgrade to Trading Buy. Over the past six months, global crude oil prices have staged a strong surge by over +41% rising to a three and a half year high of USD70pb. This has caused a slight revaluation in local oil and gas related shares. In addition, the rise in global crude oil prices has also stoked investors' interests in local oil and gas shares, where trading volume for Sapura Energy surged for the past two months (average of 110m). 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 upgrading Sapura Energy to **Trading Buy** with an unchanged TP of **RM1.01** per share.

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	371.8	887.6
Pretax Profit (RM'm)	1,616.0	1,408.2	667.9	-357.6	159.2
Net Profit (RM m)	1,432.8	-791.6	208.3	-235.2	105.1
Normalised Net Profit (RM m)	1,209.0	1,035.0	208.3	-235.2	105.1
EPS (sen)	23.9	-13.2	3.5	-3.9	1.8
EPS Growth (%)	31.8	nm	nm	nm	144.7
PER (x)	3.5	nm	24.2	nm	47.9
Net Dividend (sen)	4.4	1.4	1.0	1.0	1.0
Net Dividend (%)	5.2	1.6	1.2	1.2	1.2

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

DISCLOSURES AND DISCLAIMER

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 *rise* 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 *fall* 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.