

13 September 2018 | Corporate Update

Sapura Energy Berhad

Proposed sale provides better alternative to listing

Reiterate Trading Buy

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

INVESTMENT HIGHLIGHTS

- **Sapura Energy proposed sale of 50% stake in Sapura Upstream to OMV AG**
- **Better option than listing**
- **Company business prospects remain intact**
- **Current orderbook at approximately RM16.7b**
- **Maintain TRADING BUY at unchanged TP of RM1.01**

Corporate exercise. Sapura Energy Bhd (SEB) announced it has entered into a Heads of Agreement (HOA) for the proposed sale of fifty percent stake in its wholly-owned subsidiary Sapura Upstream to Austria's OMV Aktiengesellschaft (OMV AG). The HOA is based on an enterprise value of USD1.6b. The HOA will also suspend any ongoing listing process for Sapura Upstream pending the completion of the negotiations.

Better option than listing. We opine that should the proposed partnership between SEB and OMV AG materialises, it will provide a better option to the listing of Sapura Upstream - which we estimate to raise approximately USD1.6b, as the partnership is a faster alternative and eliminates the potential discount given by the capital market should it choose to list Sapura Upstream. In addition, via the partnership SEB is expected to benefit from new opportunities in the upstream segment and increasing market reach for its services segment where OMV AG operates in.

Orderbook. Group orderbook is currently at RM16.7b, marking an inflection from FY18 low for the past four years. Out of these, approximately RM5.2b and RM3.8b are expected to be recognised in FY19 and FY20 respectively, while the remaining RM7.7b is to be recognised in FY21 onwards. The company's bidbook, including prospects is at USD13.1b.

Forward earnings expected to improve. Should the sale go through; 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. Therefore, for FY19F in particular, we are expecting the group to return to the black. 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 (12 September 2018)	RM0.36
Target Price	RM1.01
Expected Share Price Return	+180.6%
Expected Dividend Yield	+2.8%
Expected Total Return	+183.4%

STOCK INFO	
KLCI	1,785.25
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,127.22
Price over NA	0.22x
52-wk price Range	RM0.33 – RM1.75
Beta (against KLCI)	1.87
3-mth Avg Daily Vol	101.0m
3-mth Avg Daily Value	RM55.8m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	7.66
KWAP	6.46
EPF	5.21

No changes to earnings. We make no changes to our earnings estimates pending further information on the progress of the negotiations. That said, there could be a possibility of gains on disposal arising from this exercise.

Maintain Trading Buy. Year-to-date, Sapura Energy's share price has declined substantially. This is despite stable crude oil prices in the tight range of USD70pb. 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 target price of **RM1.01** per share.

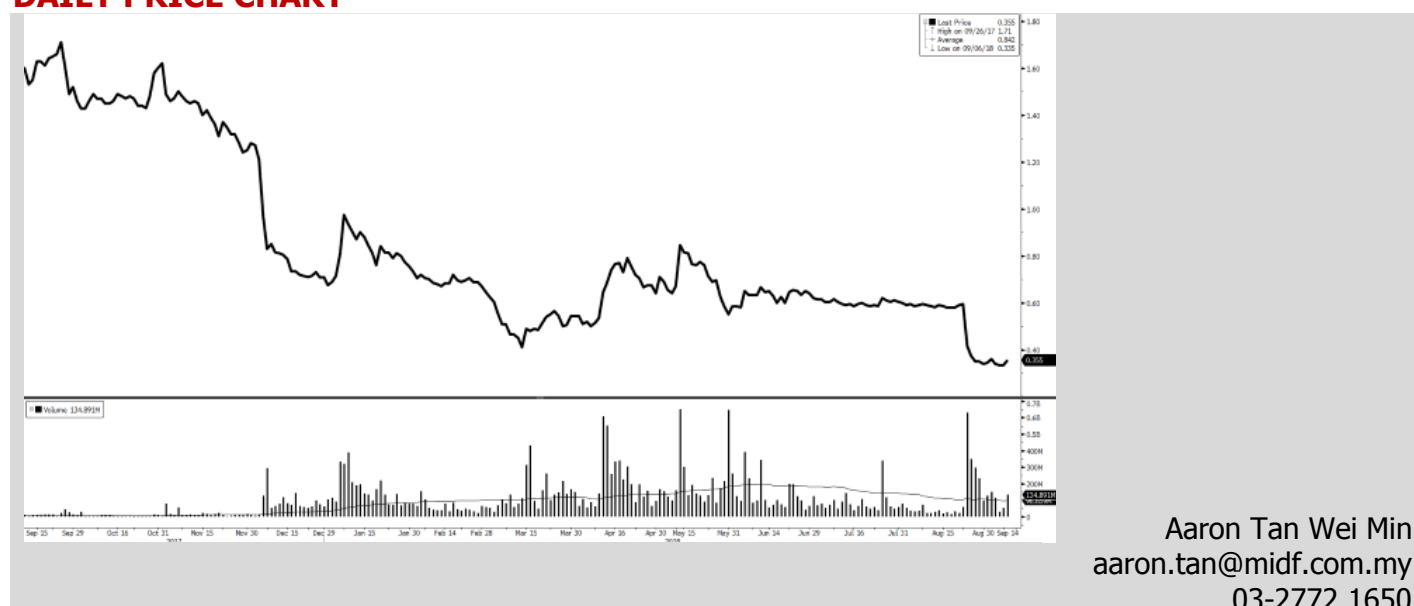


INVESTMENT STATISTICS

FYE Jan	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM m)	10,184.0	7,651.3	5,895.0	7,328.2	7551.7
EBIT (RM m)	3,070.3	943.4	395.0	887.6	902.5
Pretax Profit (RM'm)	1,408.2	667.9	-191.3	159.2	176.1
Net Profit (RM m)	-791.6	208.3	-2,323.6	105.1	135.4
Normalised Net Profit (RM m)	1,035.0	208.3	-243.0	105.1	135.4
EPS (sen)	-13.2	3.5	-42.1	1.8	2.3
EPS Growth (%)	nm	nm	nm	nm	28.9
PER (x)	nm	11.8	nm	20.0	15.7
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.1	1.6	0.0	2.8	2.8

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.