

29 November 2018 | Corporate Update

Sapura Energy Berhad

Selected for a LTAP with Saudi Aramco

Reiterate Trading Buy

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

INVESTMENT HIGHLIGHTS

- **Sapura Energy selected for a LTAP with Saudi Aramco**
- **LTAP is for a period of six years with optional extensions**
- **Further inroad into the Middle East**
- **Current orderbook at approximately RM18.0b**
- **Maintain TRADING BUY at unchanged TP of RM1.01**

LTA programme with Saudi Aramco. Sapura Energy announced that it has been selected to join a long-term agreement (LTA) programme with Saudi Arabian Oil Company (Saudi Aramco) via its wholly-owned subsidiary Sapura Fabrication Sdn. Bhd and Sapura Saudi Arabia.

LTA for EPCI contracts. The long-term agreement programme will allow Sapura Energy to participate in bids for engineering, procurement, fabrication, transportation and installation (EPCI) contracts to support Saudi Aramco's offshore projects. The programme will be for a period of six years with the option for extensions.

Further inroad into the Middle East. With Sapura's participation in this long-term programme with Saudi Aramco, we opine that it will open further inroads into penetrating the Middle East region. This is in line with Sapura's ongoing effort of investing to open up new markets for the group. As of September 2018, Sapura Energy has invested approximately USD101.0b in Middle East. Currently, Sapura has minimal exposure in the Middle East with active bids for 14 projects worth approximately USD3.9b as of September 2018.

Orderbook update. Total orderbook currently stands at RM18.0b, including the new contract wins of RM1.75b announced earlier this month. 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.


Potentially earnings accretive. We are positive on Sapura's entry into the long-term agreement programme with Saudi Aramco as we opine that this will open doors for future potential contract wins in the Middle East - which will potentially be earnings accretive to the company. 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 sustainable crude oil prices of the E&P segment.

RETURN STATS	
Price (28 November 2018)	RM0.35
Target Price	RM1.01
Expected Share Price Return	+188.6%
Expected Dividend Yield	+2.9%
Expected Total Return	+191.5%

STOCK INFO	
KLCI	1,686.55
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,067.29
Price over NA	0.22x
52-wk price Range	RM0.31 – RM1.32
Beta (against KLCI)	1.80
3-mth Avg Daily Vol	113.0m
3-mth Avg Daily Value	RM44.3m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	12.16
KWAP	7.66

FY19-20F normalised earnings maintained. We are making no changes to our FY19-20F earnings forecasts at this juncture as there are no contracts that have been won or awarded arising from the long-term agreement at this point in time.

Maintain Trading Buy. We note that the industry climate in general has been rather volatile with crude oil price declining to below USD60pb recently, a level last seen in November 2017. However, we expect the current volatile crude oil price environment to gradually improve next year with OPEC ready to curtail production in 2019 and more visibility on the trade war outcome between US and China.

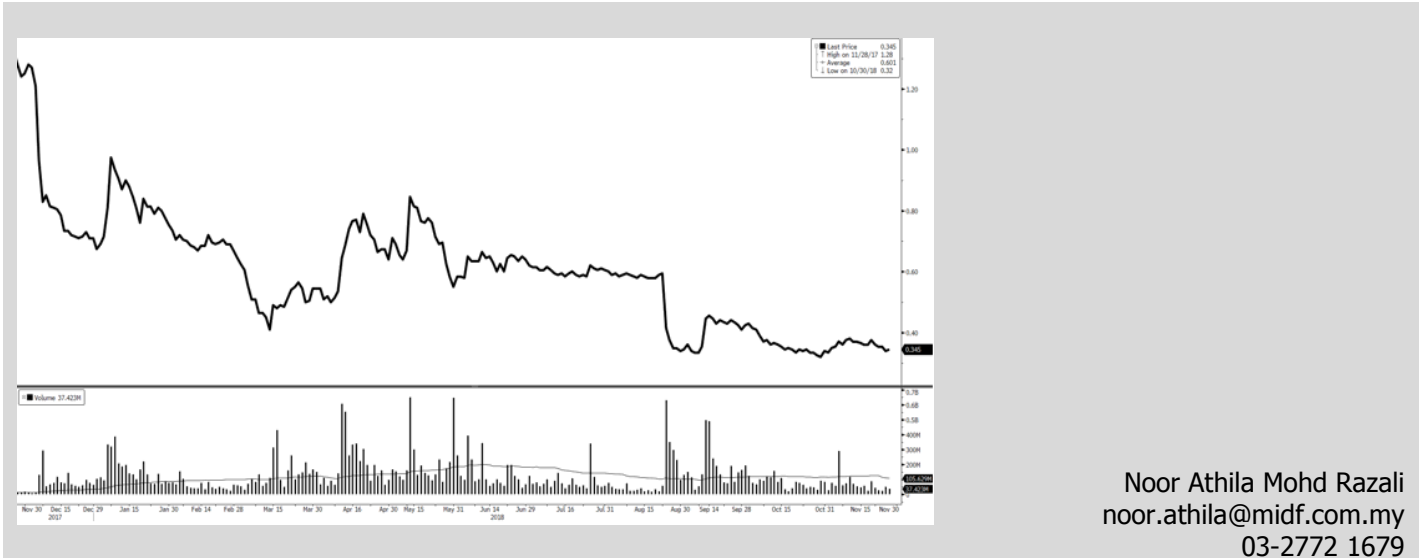
Although we acknowledge that Sapura Energy's profitability might still be weak in the near term due to its underperforming drilling segment, however, we remain positive on SEB's increasing orderbook replenishments; potential interest savings from paring down its borrowings as well as; the potential pick-up 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	2.9	2.9

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.