

Sapura Energy Berhad

(5218 | SAPE MK) Energy | Energy Infrastructure, Equipment & Services

On the road to recovery

KEY INVESTMENT HIGHLIGHTS

- Sapura Energy's recorded its first quarterly profit after 2 consecutive financial year losses
- 1QFY20 earnings came in above expectations at RM14.2m
- Earnings were boosted by healthy margins from E&C segment and leaner operation
- Orderbook remains robust and geographically well-diversified at RM14.0b as of April 2020
- FY21-22F earnings revised upward to RM54.5m and RM80.6m respectively
- Upgrade to TRADING BUY with a revised TP of RM0.113 per share

First quarterly profit after two financial years. Sapura Energy Bhd (SEB) staged a return to black with its first reported quarterly net profit of RM14.2m in 1QFY21, which was above ours and market full-year earnings expectations by >100%. This was despite its revenue declining by -16.6%yoy, mainly due to lower revenue recognition from its E&C segment. When compared against 1QFY20, revenue in 1QFY21 was lower by -16.6%yoy due to lesser project activities from its E&C segment due to the business operations restriction as a result of the implementation of Movement Control Order (MCO). Among others, this has resulted in the closure of its fabrication yard for 45 days. That said, its earnings improved by >100%yoy following better margins from the E&C segment. Similarly, on a quarterly sequential basis, both revenue and earnings were higher by +22.0%qoq and >100%qoq attributable to the abovementioned reasons.

Engineering & Construction. Segment revenue dipped by -17.0%yoy attributable to lower activity levels during the quarter which was partly due to the MCO that was implemented from 18th March 2020 until 9th of May 2020. That said, the segment's operating profit was up by +157.9%yoy due to better margins recognised from the ongoing projects. Segment's operating profit margin was recorded at 10.3% in 1QFY21 vs only 3.4% in 1QFY20. Meanwhile, on a quarterly sequential basis, segment revenue increased by +35.5%qoq whilst operating profit grew by +106.1%qoq.

Drilling. Segment revenue was marginally higher by +4.5%yoy at RM240.9m due to favourable USD vs MYR exchange rate movement. An average of 7 rigs was in operation during the quarter with technical utilisation (uptime) of 98.4%. That said, the segment recorded a narrower operating loss of -RM14.9m vs -RM50.9m in 1QFY20. The better performance from the drilling segment was attributable to the: (i) improved margins from rigs in operations as well as; (ii) lower interest expense.

Upgrade to TRADING BUY

(Previously NEUTRAL)

Revised Target Price: RM0.113

(Previously RM0.086)

RETURN STATISTICS

Price @ 29 th June 2020 (RM)	0.09
Expected share price return (%)	+25.4
Expected dividend yield (%)	+0.0
Expected total return (%)	+25.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.3	-6.6
3 months	12.5	7.8
12 months	-70.0	-66.4

KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	No
Issue shares (m)	15,979.08
Estimated free float (%)	43.13
Market Capitalisation (RM'm)	1,438.12
52-wk price range	0.06 – 0.32
Beta vs FBM KLCI (x)	1.68
Monthly velocity (%)	0.00
Monthly volatility (%)	26.65
3-mth average daily volume (m)	130.65
3-mth average daily value (RM'm)	12.51
Top Shareholders (%)	
Permodalan Nasional Berhad	35.96
Sapura Holdings Sdn Bhd	12.52
Kumpulan Wang Persaraan	2.55

ANALYST

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Exploration and Production. The segment recorded a narrowing loss before taxation of -RM6.1m during the quarter vs -RM7.5m in 1QFY20. During the quarter, the segment reported higher production output of 2.4MMboe following the start-up of its SK408 Larak gas field. This was as oppose to only 1.1MMboe lifted in 1QFY20. That said, the higher output was offset by lower lifting price which only averaged at USD39.4/bbl vs USD68.5/bbl in 1QFY20.

Orderbook update. The group's orderbook currently stands at RM14.0b (from RM13.5b in April 2020). Out of these, approximately RM5.7b is expected to be recognised in FY21, RM3.7b in FY22 and RM4.6b from FY23 onwards respectively. The company's bidbook remains healthy at a total of RM74.0b for its E&C segment where 33% of the tenders are located in the Middle East, 29% in Asia, 28% in Europe and Africa and the remaining in Americas.

Deeper cost cutting measures to be implemented. We understand from a series of announcements made by SEB from back in April that there will be a several cost cutting measures to be implemented following the crash in oil price back in March. Recall that, SEB has announced two major cost cutting measures: (i) slashing the salaries of its top management executives and employees between the range of 10-50% and more recently; (ii) SEB is planning to rationalise around 800 of its employees in its bid to further reduce overhead cost. Further to that, SEB is also planning to reduce its CAPEX by RM150m where it plans to prioritise its spending on bankable projects. Altogether, SEB is expecting to save approximately RM800.0m in FY21 from its various cost cutting measures.

FY20-21F earnings revised. Following the better-than-expected earnings, we are revising upward our FY21-22F earnings forecasts to RM54.5m and RM80.64m respectively as we take into account: (i) the cost cutting measures which will generate approximately RM800m in cost savings for FY21 and; (ii) improving margins coming from its E&C segment.

Upgrade to TRADING BUY with a revised TP of RM0.113. Post earnings revision, we are upgrading our recommendation on SEB to **TRADING BUY** with a higher target price of **RM0.113** (from RM0.086 previously). We anticipate that profitability will remain a concern as operating environment continues to be volatile following signs of a potential "second wave" of Covid19 infection cases detected in several countries that have eased their respective lockdown restrictions. That said, we opine that SEB's current share price presents a trading opportunity given that: (i) oil price is expected to recover further following the gradual return in demand which will benefit SEB's E&P segment; (ii) it is well-positioned to potentially win contracts given its width and depth of expertise in providing various oil and gas-related services and; (iii) it is currently trading at an attractive PER of 11.2x which is below its -1SD 5year average PER.

Furthermore, we believe that earnings will be cushioned in FY22 in-line with the gradual ramp up in E&C project execution milestones in FY21 and stable number of rigs in operation (6-7 rigs in 2HFY20) which will negate the impact of the compressed margins and competitive charter rates. Furthermore, with the gas production from Bakong and Gorek gas development project in Sarawak basin has completed their respective development during the month, we opine that it will positively impact SEB's earnings going forward given that majority of the gases to be produced by the field has been sold to PETRONAS-operated Bintulu LNG complex.



INVESTMENT STATISTICS

Financial year ending 31st January (in RM'm unless otherwise stated)	2019A	2020A	2021E	2022F	2023F
Revenue	4,568.4	6,449.2	4,790.4	5,501.4	6,365.8
EBIT	290.9	(301.0)	494.0	565.1	651.6
Pretax Profit	(2,574.9)	(1,267.5)	117.0	169.1	256.6
Net Profit/(Loss)	(2,717.7)	(4,564.6)	54.5	80.6	124.3
Normalised Net Profit/(Loss)	(1,193.2)	(1,276.5)	54.5	80.6	124.3
EPS (sen)	(44.9)	(28.6)	0.5	0.8	1.2
EPS Growth (%)	nm	(63.7)	(1.9)	147.8	154.3
PER (x)	nm	(0.3)	16.5	11.2	7.2
Dividend per share (sen)	-	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

SAPURA ENERGY BERHAD: 1QFY21 RESULTS SUMMARY

Financial year ending 31st January (in RM'm, unless otherwise stated)	Quarterly Results				
	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Revenue	1,632.5	1,111.9	1,356.7	22.0	(16.9)
Operating Expenses	(1,585.7)	(1,774.1)	(1,191.4)	(32.8)	(24.9)
Other Op Income	93.1	13.9	4.1	(70.8)	(95.6)
Operating Profit	139.9	(648.3)	169.3	(126.1)	21.0
Interest Income	5.0	7.0	24.3	247.8	384.9
Interest Expenses	(214.4)	(147.2)	(138.8)	(5.7)	(35.3)
Depr & Amort	(124.3)	(134.5)	(134.9)	0.3	(8.5)
Net Forex gain/(loss)	24.9	(2.9)	33.9	(1,255.8)	35.9
Gain on disposal of PPE	11.1	0.4	-	nm	nm
Share of JV & Assoc	79.3	(57.1)	82.3	(244.1)	3.7
Provision for impairment	-	(3,284.3)	-	nm	nm
Profit Before Tax	(78.4)	(4,267.0)	36.2	(100.8)	(146.2)
Taxation	(31.0)	30.2	(22.3)	(173.7)	(28.1)
Profit After tax	(109.3)	(4,236.7)	13.9	(100.3)	(112.7)
Minority Interest	(0.2)	(2.2)	(0.3)	(86.5)	29.4
PATAMI	(109.1)	(4,234.5)	14.2	(100.3)	(113.0)
PATAMI (ex-EI)	(109.1)	(947.6)	14.2	(101.5)	(113.0)
Basic EPS (sen)	(0.68)	(26.5)	0.09	(100.3)	(113.2)
Diluted EPS (sen)	(0.68)	(26.2)	0.09	(100.3)	(113.2)
Segmental:-					
Revenue:					
E&C	1,402.8	859.7	1,164.4	35.5	(17.0)
Drilling	230.4	253.2	240.9	(4.9)	4.5
Energy	-	-	-	nm	nm
Corporate	(0.8)	(1.0)	(0.7)	(32.1)	(16.1)
Operating Profit					
E&C	48.0	(2,016.6)	123.9	106.1	157.9
Drilling	(50.9)	(2,020.9)	(14.9)	99.3	70.7
Energy	(7.5)	(78.8)	(6.1)	(92.3)	(18.9)
Corporate	(68.0)	(150.6)	(66.7)	55.7	2.0

Source: Company, 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.