

# Sapura Energy Berhad

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

## Maintain NEUTRAL

### Bracing for impact

**Revised Target Price: RM0.086**

(Previously RM0.28)

#### KEY INVESTMENT HIGHLIGHTS

- Sapura Energy's 4QFY20 normalised loss narrowed by -54.9% year-over-year to -RM947.6m
- Earnings were marred by impairments on goodwill and provision for impairment in light of Covid19 and oil price crash
- Orderbook remains robust and geographically well-diversified at RM13.5b
- FY21-22F earnings revised down to -RM262.6m and RM57.4m respectively
- Maintain NEUTRAL with a revised TP of RM0.086 per share

#### Quarterly losses narrowed yoy despite lower revenue recognition.

Sapura Energy Bhd's (SEB) 4QFY20 normalised loss had narrowed year-over-year by -54.9% to -RM947.6m, from -RM2,103.1m loss recorded in 4QFY19. This was despite its revenue declining by -25.1%yoy, mainly due to lower revenue recognition from its E&C segment. The normalised loss was derived after we exclude the one-off impairment on: (i) goodwill on consolidation of RM3,043.4m; (ii) a provision on property, plant and equipment of RM240.9m; (iii) gain on disposal of PPE of RM20.0m and; (iv) forex gain of RM28.8m. Aside from the impairments, the loss was also attributable to thin margins recognised on its E&C projects given that most projects are currently at the initial stage of development. This brought its cumulative FY20 normalised losses to -RM1,276.5m (vs -RM1,142.9m in FY19) which was below our and consensus' full-year FY20 earnings estimates.

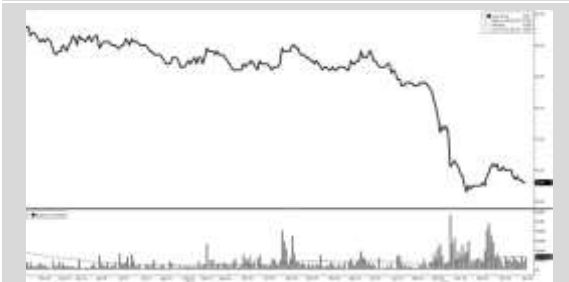
**Engineering & Construction.** Segment revenue and normalised operating loss slumped by -31.8%yoy and ->100%yoy to RM859.7m and -RM755.2m respectively. The decline in revenue was attributable to lower activity levels during the quarter. The segment also recognised a provision for impairment on goodwill of consolidation worth RM1,055.0m and a provision for impairment on property, plant and equipment of RM206.4m. Additionally, in view of the challenging operating environment due to Covid19, an additional provision of RM438.8m was recognized in anticipation of delays and prolonged durations arising from restriction of movements and lockdowns worldwide. Furthermore, the segment continues to suffer from margin compression given that most of its projects currently are on the initial stage of execution. This naturally involves a high upfront capital spending and procurements related to the projects which offsets the revenue recognition.

**Drilling.** Segment revenue was marginally higher by +1.3%yoy at RM253.2m and the segment finally returned to black with a normalised operating profit of RM2.0m (excluding segment impairments of RM2,022.9m). An average of 7 rigs was in operation during the quarter with technical utilisation (uptime) of 98.4%. The better performance from the drilling segment was attributable to the: (i) lower

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> April 2020 (RM)	0.08
Expected share price return (%)	+7.7
Expected dividend yield (%)	+0.0
Expected total return (%)	+7.7

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-2.1
3 months	0.0	-63.8
12 months	-75.0	-70.2

#### KEY STATISTICS

FBM KLCI	1,380.30
Syariah compliant	Yes
Issue shares (m)	15,979.08
Estimated free float (%)	43.13
Market Capitalisation (RM'm)	1,278.33
52-wk price range	RM0.06-RM0.32
Beta vs FBM KLCI (x)	1.78
Monthly velocity (%)	11.02
Monthly volatility (%)	26.65
3-mth average daily volume (m)	133.24
3-mth average daily value (RM'm)	16.33
Top Shareholders (%)	
Amanah Saham Nasional Bhd	30.48
Sapura Holdings Sdn Bhd	12.52
Amanah Saham Wawasan 2020	3.44


depreciation recognised during the quarter as a result from the impairment undertaken by the group last year on its rig fleet and; (ii) increase in operational efficiency. It is worth noting that the segment managed to turn around with only half of its rig fleet currently in operation.

**Exploration and Production.** The segment recorded a loss before taxation of -RM78.8m which was >100% higher than FY19 due to the write-off of an unsuccessful exploration well as well as higher depletion, depreciation and amortization expenditure on its oil & gas properties. That said, during the quarter the segment reported higher production output following the start-up of its SK408 Larak gas field.

**Orderbook update.** The group's orderbook currently stands at RM13.5b. Out of these, approximately RM5.8b is expected to be recognised in FY21, RM3.8b in FY22 and RM3.9b from FY23 onwards respectively. The company's bidbook remains healthy at a total of USD5.6b for its E&C segment where 30% of the tenders are located in the Middle East, 31% in Asia, 26% in Europe and Africa and the remaining in Americas and Malaysia. Meanwhile, its bid prospects currently stands at USD10.6b.

**FY20-21F earnings revised.** We are revising down our FY21-22F earnings forecasts to -RM262.6m and RM57.4m respectively as we take into account: (i) the current headwinds' impact on the group's profitability and; (ii) the deferment of revenue recognition (of up to ~RM800m from FY21 to FY22) as a result of it.

**Maintain NEUTRAL with a revised TP of RM0.086.** Post earnings revision and rolling forward our valuation base year to FY22, we are maintaining our **NEUTRAL** recommendation on SEB with a lower target price of **RM0.086** (from RM0.28 previously). We opine that our recommendation is fair given the global pandemic Covid19 and oil price crash that took place in early March 2020 continues to take shape. We opine that operating environment is expected to remain challenging for the remainder of CY20. This is as the impact from the current headwinds will continue to be felt through six months from the onset of the crisis whereby operations are likely to resume in a "new normal" environment with movement restrictions and businesses take on a cautious stand on spending.

Furthermore, we anticipate profitability will remain a concern due to the continued margin compression experienced by its E&P segment as well as; competitive charter rates for its rigs should the current headwinds persist for more than six months. That said, we believe that earnings will be slightly cushioned in FY22 in-line with the gradual ramp up in E&C project execution milestones in FY21 and increase in number of rigs in operation (7-8 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 due for first lifting in mid-CY20, 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	6,504.4	6,658.4	6,812.9
EBIT	290.9	(301.0)	(34.8)	460.8	491.7
Pretax Profit	(2,574.9)	(1,267.5)	(381.8)	114.8	146.7
Net Profit/(Loss)	(2,717.7)	(4,564.6)	(262.6)	57.4	73.4
<b>Normalised Net Profit/(Loss)</b>	<b>(1,142.1)</b>	<b>(1,276.5)</b>	<b>(262.6)</b>	<b>57.4</b>	<b>73.4</b>
EPS (sen)	(44.9)	(28.6)	(2.6)	0.6	0.7
EPS Growth (%)	nm	(63.7)	9.2	(21.9)	127.8
PER (x)	nm	(0.3)	(3.0)	13.9	10.9
Dividend per share (sen)	-	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, MIDFR

**SAPURA ENERGY BERHAD: 4QFY20 RESULTS SUMMARY**

Financial year ending 31st January (in RM'm, unless otherwise stated)	Quarterly Results					Cumulative		
	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	1,485.1	1,777.4	1,111.9	(37.4)	(25.1)	4,568.4	6,449.2	41.2
Operating Expenses	(1,685.6)	(1,689.3)	(1,774.1)	5.0	5.2	(4,301.9)	(6,861.7)	(59.5)
Other Op Income	10.9	2.7	13.9	>100	27.8	24.3	111.6	>100
Operating Profit	(189.7)	90.8	(648.3)	>-100	>100	290.9	(301.0)	>-100
Interest Income	4.8	3.8	7.0	82.1	45.0	26.5	19.0	(28.3)
Interest Expenses	(256.0)	(150.6)	(147.2)	(2.2)	(42.5)	(979.4)	(664.6)	(32.1)
Depr & Amort	(171.0)	(136.6)	(134.5)	(1.5)	21.3	(682.5)	(524.6)	23.1
Net Forex gain/(loss)	(126.9)	12.6	(2.9)	(123.3)	(97.7)	(51.1)	28.8	>-100
Gain on disposal of PPE	-	6.3	0.4	(93.5)	nm	-	20.0	nm
Share of JV & Assoc	61.4	60.4	(57.1)	>-100	>-100	340.9	155.0	(54.6)
Provision for impairment	(1,520.3)	-	(3,284.3)	nm	nm	(1,520.3)	(3,284.3)	nm
Profit Before Tax	(2,197.7)	(113.2)	(4,267.0)	>100	94.2	(2,574.9)	(4,551.8)	76.8
Taxation	(35.2)	11.3	30.2	168.4	>-100	(142.7)	(12.8)	(91.0)
Profit After tax	(2,232.9)	(102.0)	(4,236.7)	>100	89.7	(2,717.6)	(4,564.6)	68.0
Minority Interest	(2.9)	(1.1)	(2.2)	106.4	(23.7)	(4.2)	(3.8)	(9.7)
PATAMI	(2,230.0)	(100.9)	(4,234.5)	>100	89.9	(2,713.5)	(4,609.5)	69.9
PATAMI (ex-EI)	(2,103.1)	(119.8)	(947.6)	>100	(54.9)	(1,142.1)	(1,276.5)	11.8
Basic EPS (sen)	(35.4)	(0.6)	(26.5)	>100	(25.2)	(44.9)	(28.6)	(36.3)
Diluted EPS (sen)	(35.1)	(0.6)	(26.2)	>100	(25.3)	(44.8)	(28.6)	(36.2)
<b>Segmental:-</b>								
<b>Revenue:</b>								
E&C	1,260.0	1,592.2	859.7	(46.0)	(31.8)	3,665.0	5,511.2	50.4
Drilling	250.0	185.9	253.2	36.2	1.3	933.5	941.4	0.9
Energy	-	-	-	nm	nm	-	-	nm
Corporate	(24.9)	(0.6)	(1.0)	53.6	(96.1)	(30.0)	(3.4)	(88.5)
<b>Operating Profit</b>								
E&C	(624.4)	16.1	(2,016.6)	>100	>-100	(568.9)	(1,925.3)	>100
Drilling	(1,092.4)	(48.2)	(2,020.9)	>-100	(85.0)	(1,231.0)	(2,155.6)	(75.1)
Energy	(1.1)	14.3	(78.8)	>-100	>100	(5.1)	(77.8)	>100
Corporate	(407.6)	(95.5)	(150.6)	(57.8)	63.0	(546.0)	(393.0)	28.0

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.