

08 December 2015 | Corporate Update

SapuraKencana Petroleum Berhad

Healthy orderbook replenishment

INVESTMENT HIGHLIGHTS

- SapuraKencana Petroleum Berhad (SAKP) announced three contracts totalling approximately RM302m (USD72m)
- The contracts announced involve EPCC works, installation works and drilling works
- The amount is within orderbook replenishment assumption
- RM2.4b worth of orderbook replenishment announced year-to-date
- Maintain BUY with unchanged TP of RM2.89 per share

Three contracts announced. SAKP announced the award of three contracts from its subsidiaries totalling approximately RM302m (USD72m). The three projects involve EPCC works, installation works and drilling works.

EPCC job. The first project is the engineering, procurement, construction and commissioning (EPCC) for Simultaneous Production and Drilling (SIPROD) on D35DP-B Contract by Roc Oil (Sarawak) Sdn Bhd. The works involve the preparation of SIPROD package on D35DP-B platform for a drilling campaign and subsequent well tie-in activities. Works are expected to commence in 4Q15 and expected to be completed by 1Q16; approximately four months.

Installation job. The second job announced is an international job in India. SAKP's unit SapuraKencana TL Offshore was awarded a subcontract from L&T Hydrocarbon Engineering Limited for the Additional Development of the Vasai East Project in India. SAKP's scope of work under the subcontract is for the installation of structures and pipelines and other subsea work at Vasai East which is located in the Arabian Sea approximately 78km offshore Mumbai. This project is expected to be completed by end-4Q16.

Drilling job. SAKP's third contract announcement is a contract extension for its Semi-Tender Assist Drilling Rig (SKD Alliance) for Foxtrot International LDC in Côte d'Ivoire. The contract is for an additional five months extension until August 2016. The company further noted that Foxtrot still retains the option to extend the contract by three additional wells. Should the option be exercised, SKD Alliance's contract will be further extended until the 4Q2016.

Maintain BUY

Unchanged Target Price (TP): RM2.89

RETURN STATS

Price (7 December 2015)	RM2.13
Target Price	RM2.89
Expected Share Price Return	+35.7%
Expected Dividend Yield	+2.6%
Expected Total Return	+38.3%

STOCK INFO

KLCI	1,672.00
Bursa / Bloomberg	5218 / SAKP MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Par Value (RM)	1.00
Market cap. (RM'm)	12,763.3
Price over NA	2.5x
52-wk price Range	RM2.99 – RM1.47
Beta (against KLCI)	2.07
3-mth Avg Daily Vol	14.3m
3-mth Avg Daily Value	RM33.6m
Major Shareholders (%)	
Sapura Holdings	16.71
STSB	15.90
Employees Provident Fund	14.58
Khasera Baru	10.10
PNB and its associated funds	10.83
Seadrill Ltd	8.18

Impact on earnings. These contracts announced are within our orderbook replenishment assumption.

Orderbook. SAKP's current orderbook stands at approximately RM23b. We expect the company to execute and recognise approximately RM8b in FY16 and the remaining in FY17 onwards. As such, our revenue target for FY16 at this juncture remains intact at RM8.1b. The company's tenderbook is approximately equal to the orderbook value. It is of note that the company has secured approximately USD614m (approximately >RM2.4b) worth of contracts year-to-date.

Recommendation. We are reiterating our **BUY** recommendation on SapuraKencana with an unchanged target price of **RM2.89** per share. Our target price is premised on PER17 of 13x, representing a discount of 0.5-standard deviation from its average PER of 16x pegged to EPS17 of 22.2sen.

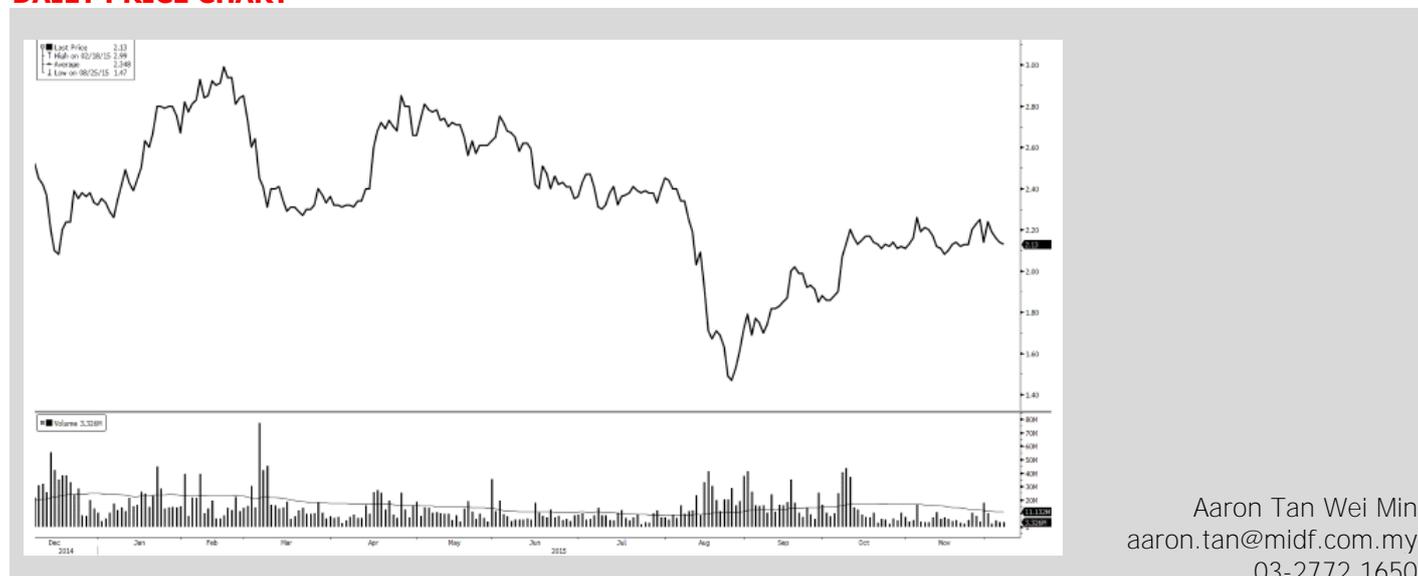


INVESTMENT STATISTICS

FYE Jan	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM m)	6,912.40	8,378.80	9,943.00	8,099.60	8,139.40
EBIT (RM m)	1,104.40	1,845.60	3,106.60	1,517.40	1,634.00
Pretax Profit (RM'm)	829.8	1,207.80	1,616.00	1,423.10	1,541.70
Reported Net Profit (RM m)	524.6	1,086.90	1,432.80	836.90	1,332.30
Normalised Net Profit (RM'm)	-	-	1,209.40	1,267.80	-
Normalised EPS (sen)	10.5	18.1	23.9	21.2	22.2
EPS Growth (%)	-9.8	73.10	31.80	-11.50	5.10
PER (x)	20.3	11.7	8.9	10.1	9.6
Net Dividend (sen)	0	0	4.4	4.5	5.5
Net Dividend (%)	0	0	2.0	2.1	2.6

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.