

Sapura Energy Berhad

3QFY20 Still in Losses; Contract Wins

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9MFY20 losses missed expectations, dragged by poorer-than-expected E&C and drilling segments. Post-results, we extended our losses assumptions to FY20-21E. Meanwhile, the company also won contracts/extensions worth RM615m, bringing FYTD-win to RM3.7b and order-book to RM15.1b. Maintain OP and TP of RM0.33 (pegged to 0.4x PBV) with the stock now trading at deep discounts of merely 0.3x PBV.

9MFY20 below expectations. 9MFY20 registered core loss of RM377.5m (arrived after stripping-off non-core items e.g. gains on disposals and forex). Despite narrowed losses YoY, the results still came below expectations, exceeding our full-year loss forecasts of RM198.6m and consensus of RM219.5m. The poorer results were due to weaker-than-expected engineering and construction (E&C), and drilling segments. No dividends were announced, as expected.

Results review. Cumulatively, 9MFY20 narrowed losses were mainly helped by its E&C segment, due to higher earnings recognition from job progressions earlier in the year. This largely offsets the lower contributions from exploration and production (E&P) post 50% stake disposal to OMV AG in end-FY19. Meanwhile, bottom-line was also helped by the lower finance and depreciation costs following the rights issue and impairment exercises concluded in FY19.

However, for 3QFY20, core loss widened YoY, dragged by poorer performance from across all its segments; (i) poorer E&C, despite surge in revenue, due to frontloaded costs recognition for newer jobs, (ii) widened drilling losses, due to lower number of rigs utilised (5 vs. 7), and (iii) weaker E&P post 50% stake disposal. Sequentially, losses were also wider marginally, dragged by poorer E&C (similarly due to higher cost recognition) and higher drilling losses (5 vs. 6 rigs utilised).

Announced RM615m worth of new contracts/extensions. These include: (i) EPCC+I for Full Field Development Phase 3 Facilities, North Malay Basin by Hess Exploration and Production Malaysia B.V., (ii) subsea installation vessel from Mozambique Rovuma Venture S.p.A., (iii) extension of pipe laying vessel "Sapura Topazio" contract from Petrobras, and (iv) extension for semi-submersible tender assist drilling rig "Sapura Esperanza" with Sawarwak/Sabah Shell. Overall, we are positive as this displays the company's continued capabilities in winning contracts. This brings FYTD-wins to RM3.7b (still within FY20E replenishment assumption of RM5b), and order-book to RM15.1b.

Maintain OUTPERFORM, and TP of RM0.33, pegged to 0.4x FY20E PBV. Post-results, we have widened FY20E losses by more than double, while also forecasting losses for FY21E of RM264m (versus prior profit forecast of RM84.1m) as we lowered our contribution assumptions for its E&C and drilling segments. Despite the uncertainty in its earnings turnaround delivery, our OP call is premised on the stock currently trading at floor valuations of merely 0.3x and below its rights issue price of RM0.30. That said, we believe a turnaround is a longer-term eventuality, with all the fundamental building blocks now gradually being put in place, as (i) strong order-book backed by further job wins, (ii) finance and depreciation expenses are much more palatable post-rights and impairments exercises, (iii) gradual increase in drilling rigs utilisation, and (iv) first gas from SK408 by end-FY20 to boost E&P segment. Risks to our call include: (i) lower-than-expected contract replenishment, (ii) costs overrun, (iii) lower-than-expected drilling rigs utilisation, (iv) lower-than-expected E&P production volumes, and (v) poorer-than-expected operating margins.

OUTPERFORM ↔

Price : **RM0.265**
Target Price : **RM0.330** ↔

Share Price Performance



KLCI 1,563.58
YTD KLCI chg -7.5%
YTD stock price chg -7.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SAPE MK Equity
Market Cap (RM m)	4,223.9
Shares Outstanding	15,939.2
52-week range (H)	0.37
52-week range (L)	0.25
3-mth avg daily vol:	85,036,250
Free Float	39%
Beta	1.6

Major Shareholders

Skim Amanah Saham Bumiputera	27.0%
Sapura Holdings Sdn Bhd	12.6%
Tan Sri Sharhil Shamsuddin	5.0%

Summary Earnings Table

FY Jan (RM'm)	2019A	2020E	2021E
Turnover	4,568.4	7,632.3	5,716.9
EBIT	(398.6)	(315.2)	(188.4)
PBT	(1,054.6)	(587.2)	(352.1)
Net Profit (NP)	207.5	(440.4)	(264.0)
Core Net Profit	(884.8)	(440.4)	(264.0)
Consensus (NP)		(219.5)	87.3
Earnings Revision (%)	-	-121.7	-413.9
Core EPS (sen)	-5.4	-2.7	-1.6
CNP growth (%)	155.8	-50.2	-40.0
DPS (sen)	0.5	0.0	0.0
BV/Share (RM)	0.8	0.8	0.8
Core PER (x)	-4.9	-9.9	-16.5
Price/BV (x)	0.3	0.3	0.3
Net-Gearing (x)	0.6	0.8	0.9
Dividend Yield (%)	1.9	0.0	0.0



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Results Highlights

	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
FY Jan (RM' mil)								
Revenue	1,777.4	1,927.4	-7.8%	1,206.1	47.4%	5,337.3	3,083.4	73.1%
Other operating income	2.7	1.8	48.8%	6.8	-59.9%	97.7	13.5	626.0%
Operating expenses	(1,689.3)	(1,812.7)	-6.8%	(960.7)	75.8%	(5,087.7)	(2,616.3)	94.5%
Profit from operations	90.8	116.6	-22.1%	252.2	-64.0%	347.3	480.6	-27.7%
Deprec. and amortis.	(136.6)	(129.2)	5.7%	(180.2)	-24.2%	(390.1)	(511.5)	-23.7%
Finance income	3.8	3.2	20.0%	9.2	-58.5%	12.0	21.7	-44.6%
Finance costs	(150.6)	(152.4)	-1.2%	(259.5)	-42.0%	(517.4)	(723.3)	-28.5%
Gains on disposal	6.3	2.1	195.7%	0.0	N.M.	19.6	0.0	N.M.
Net forex	12.6	(5.8)	n.m.	48.5	-74.1%	31.7	75.8	-58.2%
Associates and JV	60.4	72.4	-16.6%	77.5	-22.1%	212.1	279.6	-24.1%
Profit before tax	(113.2)	(93.2)	-21.5%	(52.2)	-117.0%	(284.8)	(377.2)	-24.5%
Taxation	11.3	(23.3)	N.M.	(48.8)	N.M.	(43.0)	(107.5)	-60.0%
Non-controlling interests	1.1	0.2	339.6%	0.6	91.3%	1.6	1.3	22.4%
Net profit	(100.9)	(116.3)	-13.3%	(31.1)	224.5%	(326.3)	(292.9)	11.4%
Core net profit	(119.8)	(112.6)	6.4%	(87.2)	37.3%	(377.5)	(396.8)	-4.8%
Operating margin	5.1%	6.0%		20.9%		6.5%	15.6%	
PBT margin	-6.4%	-4.8%		-4.3%		-5.3%	-12.2%	
Net margin	-5.7%	-6.0%		-2.6%		-6.1%	-9.5%	
Core net margin	-6.7%	-5.8%		-7.2%		-7.1%	-12.9%	
Effective tax rate	10.0%	-25.0%		-93.5%		-15.1%	-28.5%	

Source: Bursa Malaysia, Kenanga Research

Note: All FY19 numbers, with the exception of net profit and core net profit, have been restated to reflect the 50% disposal of its E&P segment in end-FY19.

Segment Breakdown

	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
FY Jan (RM' mil)								
Revenue								
E&C	1,592.2	1,656.5	-3.9%	959.8	65.9%	4,651.5	2,405.0	93.4%
Drilling	185.9	272.0	-31.7%	246.5	-24.6%	688.2	683.4	0.7%
Operating Profit								
E&C	16.1	27.2	-40.8%	39.6	-59.4%	91.3	55.5	64.4%
Drilling	(48.2)	(35.7)	34.8%	(11.7)	312.8%	(134.8)	(138.6)	-2.8%
E&P	14.3	(5.8)	N.M.	37.1	-61.5%	1.0	73.9	-98.7%
Margin								
E&C	1.0%	1.6%		4.1%		2.0%	2.3%	
Drilling	-25.9%	-13.1%		-4.7%		-19.6%	-20.3%	

Source: Bursa Malaysia, Kenanga Research

Note: FY19 E&P figures were based on 100% stake, before the 50% stake sale was completed in end-FY19.



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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BHD	0.495	2,908.9	N	12/2019	-15.9%	0.0%	34.4%	2.3%	12.9	9.6	9.4	0.9	0.9	9.0%	0.0%	0.530	MP
DAYANG ENTERPRISE HLDGS BHD	2.26	2,277.9	Y	12/2019	0.3%	31.9%	4.6%	6.0%	15.9	15.2	14.4	2.3	2.0	14.2%	0.0%	2.35	OP
DIALOG GROUP BHD	3.39	19,113.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.7	34.1	31.1	5.0	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.885	1,416.0	Y	12/2019	-10.1%	43.0%	-445.8%	121.1%	N.A.	N.A.	62.4	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.15	36,379.5	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	27.5	21.1	20.1	1.0	1.0	4.9%	3.7%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.485	363.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.3	8.2	7.7	0.7	0.6	7.6%	3.3%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.14	57,120.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.5	16.5	14.4	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	23.00	22,849.4	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.3	24.2	22.4	3.9	3.7	15.6%	2.9%	22.75	MP
SAPURA ENERGY BHD	0.265	4,223.9	Y	01/2020	67.1%	-25.1%	-200.9%	-166.8%	N.A.	N.A.	N.A.	0.3	0.3	-3.2%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	2.00	6,167.7	Y	12/2019	23.2%	14.3%	17.2%	13.3%	7.7	6.5	5.8	1.4	1.2	20.2%	4.7%	5.25	OP
UZMA BHD	0.830	265.6	Y	06/2020	21.4%	2.2%	215.5%	9.8%	27.4	8.7	7.9	0.6	0.5	6.2%	0.0%	0.850	MP
VELESTO ENERGY BHD	0.390	3,204.1	Y	12/2019	7.9%	16.8%	61.7%	122.4%	N.A.	108.6	48.8	1.1	1.1	1.0%	0.0%	0.430	OP
WAH SEONG CORP BHD	1.18	909.1	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	14.4	15.4	12.1	1.0	0.9	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.49	6,996.2	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	26.6	32.5	19.5	4.1	3.7	11.9%	0.9%	7.75	OP
Simple Average					5.9%	13.7%	-22.8%	17.5%	19.6	25.1	21.2	1.8	1.7	8.4%	1.4%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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