

30 June 2020

Sapura Energy Berhad

1QFY21 Improves, Thanks to E&C

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1QFY21 narrowed losses came better than expectations, thanks to improved E&C margins from greater job progressions. The group is currently undergoing a cost rationalisation exercise, which will see a reduction of opex by RM650m. Addressing its borrowings risks, the group is also working on a refinancing exercise, which will lengthen its borrowings maturity profile to 10 years (from 3 years currently). Nonetheless, we maintain our UP call and TP of RM0.05, as we see possible risk in order-book replenishment amidst the current industry environment.

1QFY21 results better than expected. SAPNRG recorded 1QFY21 core net loss of RM19.7m (after stripping-off forex gains of RM33.9m), coming in above expectations against our full-year loss forecasts of RM977m and consensus of RM567.3m. The better-than-expected results were mainly due to its huge margins recovery in its engineering and construction (E&C) segment. No dividends were announced, as expected.

Results buoyed by better E&C margins. YoY, 1QFY21 saw narrowing core losses, mainly thanks to its E&C segment seeing better margins, due to greater project progression as many of its jobs at hand moved into advanced stages of completion. Meanwhile, results were also marginally helped by better drilling rig utilisation (7 rigs utilised, versus 5 in 1QFY20), on top of higher net lifting volumes from its exploration and production (E&P) segment (2.4mmboe vs 1.1mmboe in 1QFY20). Sequentially, core losses also hugely narrowed QoQ, largely for similar reasons, as (i) E&C margins improved due to projects progression, and (ii) higher E&P net lifting volumes of 2.4mmboe vs. 1.4mmboe in 4QFY20, following higher production from SK408. Meanwhile, drilling utilisation stayed flatish QoQ at 7 rigs.

In cost rationalisation mode. The group is continuing its costs savings efforts and guiding that it is able to achieve an opex savings of RM650m in FY21, stemming from salary cuts, asset downsizing as well as procurement savings. Additionally, addressing its balance sheet stress, the group is also in the midst of a refinancing exercise, which is expected to be completed by end-FY21. This is expected to see freeing up of working capital of ~RM1.5b, as well as lengthening its borrowings maturity profile from 3 years currently to 10 years. Meanwhile, the group's order-book of RM14b (RM800m YTD wins) and bid book of RM27b stayed relatively intact, with no significant deferments or cancellation seen to-date. Nonetheless, given the impact of the current oil down cycle and low oil prices, outlook for the short to medium-term remains uncertain, as we feel that its order-book replenishments could still be at risk.

Maintain UNDERPERFORM, with unchanged TP of RM0.05, pegged to 0.1x PBV. Post-results, our FY21/22E losses forecasts are narrowed as we increased E&C contribution assumption.

Despite the improved results, we still opt to remain cautious as SAPNRG stands to be one of the hardest hit under the current oil down-cycle, which we believe may lead to possible risks to its order-book replenishment. This is on top of its weak balance sheet, with net-gearing currently at a high of 1.1x. We hold firm our view that we may possibly see breakeven results only beyond FY22.

Risks to our call include: (i) better-than-expected recognition of order-book and project execution margins, and (ii) huge improvements in cash flow and balance sheet.

UNDERPERFORM ↔

Price : RM0.090
Target Price : RM0.050 ↔

Share Price Performance



Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SAPE MK Equity
Market Cap (RM m)	1,438.1
Shares Outstanding	15,979.1
52-week range (H)	0.32
52-week range (L)	0.06
3-mth avg daily vol:	130,654,100
Free Float	49%
Beta	1.7

Major Shareholders

Amanah Saham Nasional	36.0%
Sapura Holdings Sdn Bhd	12.5%
Kumpulan Wang Persaraan	2.6%

Summary Earnings Table

FY Jan (RM m)	2020A	2021E	2022E
Turnover	6,449.2	5,716.9	6,336.4
EBIT	(3,906.3)	(212.8)	(125.0)
PBT	(4,551.8)	(424.5)	(633.7)
Net Profit (NP)	(4,560.8)	(318.3)	(475.3)
Core Net Profit	(1,325.2)	(318.3)	(475.3)
Consensus (NP)		(567.3)	(446.0)
Earnings Revision (%)	-	-67.4	-60.4
Core EPS (sen)	-8.0	-1.9	-2.9
CNP growth (%)	49.8	-76.0	49.3
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.6	0.5	0.5
Core PER (x)	-1.1	-4.7	-3.1
Price/BV (x)	0.2	0.2	0.2
Net-Gearing (x)	1.0	1.4	1.5
Dividend Yield (%)	0.0	0.0	0.0

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Results Highlights

	1Q FY21	4Q FY20	Q-o-Q Chg	1Q FY20	Y-o-Y Chg	3M FY21	3M FY20	Y-o-Y Chg
FY Jan (RM m)								
Revenue	1,356.7	1,111.9	22.0%	1,632.5	-16.9%	1,356.7	1,632.5	-16.9%
Other operating income	4.1	13.9	-70.8%	93.1	-95.6%	4.1	93.1	-95.6%
Operating expenses	(1,191.4)	(1,774.1)	-32.8%	(1,585.7)	-24.9%	(1,191.4)	(1,585.7)	-24.9%
Profit from operations	169.3	(648.3)	-126.1%	139.9	21.0%	169.3	139.9	21.0%
Deprec. and amortis.	(134.9)	(134.5)	0.3%	(124.3)	8.5%	(134.9)	(124.3)	8.5%
Finance income	24.3	7.0	247.8%	5.0	384.9%	24.3	5.0	384.9%
Finance costs	(138.8)	(147.2)	-5.7%	(214.4)	-35.3%	(138.8)	(214.4)	-35.3%
Gains on disposal	0.0	0.4	N.A.	11.1	N.A.	0.0	11.1	N.A.
Net forex	33.9	(2.9)	-1255.8%	24.9	35.9%	33.9	24.9	35.9%
Associates and JV	82.3	(57.1)	-244.1%	79.3	3.7%	82.3	79.3	3.7%
Impairment on goodwill	0.0	(3,043.4)	N.A.	0.0	N.A.	0.0	0.0	N.A.
Impairment on PPE	0.0	(240.9)	N.A.	0.0	N.A.	0.0	0.0	N.A.
Profit before tax	36.2	(4,267.0)	100.8%	(78.4)	146.2%	36.2	(78.4)	-146.2%
Taxation	(22.3)	30.2	-173.7%	(31.0)	-28.1%	(22.3)	(31.0)	-28.1%
Non-controlling interests	0.3	2.2	-86.5%	(0.2)	-229.4%	0.3	(0.2)	-229.4%
Net profit	14.2	(4,234.5)	-100.3%	(109.1)	-113.0%	14.2	(109.1)	-113.0%
Core net profit	(19.7)	(947.6)	-97.9%	(145.2)	-86.4%	(19.7)	(145.2)	-86.4%
Operating margin	12.5%	-58.3%		8.6%		12.5%	8.6%	
PBT margin	2.7%	-383.8%		-4.8%		2.7%	-4.8%	
Net margin	1.0%	-380.8%		-6.7%		1.0%	-6.7%	
Core net margin	-1.5%	-85.2%		-8.9%		-1.5%	-8.9%	
Effective tax rate	61.6%	0.7%		-39.5%		61.6%	-39.5%	

Source: Bursa Malaysia, Kenanga Research

Segment Breakdown

	1Q FY21	4Q FY20	Q-o-Q Chg	1Q FY20	Y-o-Y Chg	3M FY21	3M FY20	Y-o-Y Chg
FY Jan (RM m)								
Revenue								
E&C	1,116.4	859.7	29.9%	1,402.8	-20.4%	1,116.4	1,402.8	-20.4%
Drilling	240.9	253.2	-4.9%	230.4	4.5%	240.9	230.4	4.5%
Profit Before Tax								
E&C	123.9	(2,016.6)	-106.1%	48.0	157.9%	123.9	48.0	157.9%
Drilling	(14.9)	(2,020.9)	-99.3%	(50.9)	-70.7%	(14.9)	(50.9)	-70.7%
E&P	(6.1)	(78.8)	-92.3%	(7.5)	-18.9%	(6.1)	(7.5)	-18.9%
Margin								
E&C	11.1%	-234.6%		3.4%		11.1%	3.4%	
Drilling	-6.2%	-798.2%		-22.1%		-6.2%	-22.1%	

Source: Bursa Malaysia, Kenanga Research

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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	0.220	1,294.9	N	12/2020	1.4%	4.8%	10.3%	12.5%	4.6	4.2	3.7	0.4	0.4	9.2%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.23	1,335.3	Y	12/2020	-25.9%	7.7%	-38.7%	9.5%	6.1	9.9	9.0	0.9	0.8	8.8%	0.0%	1.30	MP
DIALOG GROUP BHD	3.60	20,297.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	37.9	36.3	33.1	5.4	5.1	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.390	624.0	Y	12/2020	3.2%	28.4%	-72.2%	23.2%	N.A.	65.7	53.3	0.3	0.3	0.4%	0.0%	0.450	MP
MISC BHD	7.69	34,326.2	Y	12/2020	3.4%	5.4%	33.2%	-19.5%	21.3	16.0	19.9	1.0	1.0	6.1%	3.9%	8.85	OP
PANTECH GROUP HOLDINGS BHD	0.370	274.8	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	8.4	16.0	8.9	0.5	0.5	2.8%	2.7%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	6.20	49,600.0	Y	12/2020	-16.5%	10.4%	-33.1%	36.2%	17.6	26.3	19.3	1.7	1.6	6.2%	1.9%	5.75	MP
PETRONAS DAGANGAN BHD	20.60	20,465.2	Y	12/2020	-16.7%	12.2%	-42.7%	68.5%	25.0	43.5	25.8	3.4	3.4	7.8%	1.8%	17.95	UP
SAPURA ENERGY BHD	0.090	1,438.1	Y	01/2021	-11.4%	10.8%	-124.0%	-249.3%	N.A.	N.A.	N.A.	0.2	0.2	-3.5%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.59	5,360.8	Y	12/2020	15.0%	15.0%	9.6%	12.1%	10.8	9.8	8.8	2.2	1.7	19.5%	3.5%	2.70	OP
UZMA BHD	0.580	185.6	Y	06/2020	14.6%	2.3%	186.6%	10.1%	19.1	6.7	6.1	0.4	0.4	5.6%	0.0%	0.670	MP
VELESTO ENERGY BHD	0.145	1,191.3	Y	12/2020	-9.9%	0.0%	-19.4%	24.4%	37.2	46.2	37.1	0.4	0.4	0.9%	0.0%	0.140	UP
WAH SEONG CORP BHD	0.495	383.3	Y	12/2020	-56.3%	45.5%	-203.6%	-148.5%	5.5	N.A.	N.A.	0.4	0.4	-7.2%	0.0%	0.510	UP
YINSON HOLDINGS BHD	5.80	6,181.5	Y	01/2021	-26.7%	-1.1%	76.5%	5.3%	28.8	16.3	15.5	3.9	3.3	22.0%	1.0%	7.10	OP
Simple Average					-10.7%	14.6%	-18.6%	-9.0%	18.5	24.7	20.0	1.5	1.4	6.6%	1.1%		

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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