

# Sapura Energy Berhad

## FY21 Narrows Core Net Loss

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FY21 narrowed loss came in below expectations amidst project disruptions, Covid-19 related additional costs and monsoon season impact. Nonetheless, despite lower revenue due to the pandemic, the group still managed to reduce core net loss on cost optimisation efforts. The group also announced new contract wins of RM1b, bringing order-book to RM13.7b. Maintain OP and TP of RM0.21, premised on the long-term fruition of the group's corporate and financial restructuring efforts.

**FY21 core net loss wider than expected.** SAPNRG reported FY21 core net loss of RM303m (arrived after adjusting for non-core items such as forex, one-off additional income from disposals, and one-off JV technical fees received) came in wider than our full-year loss forecast of RM161m and consensus of RM113m. This was mainly due to weaker-than-expected engineering and construction (E&C) contributions, arising from project schedule disruptions, additional costs arising from Covid-19, and poorer project margins working throughout the monsoon season. No dividends were announced, as expected.

**Improved FY21 despite weaker 4QFY21.** YoY, FY21 core net loss narrowed 77%. Despite the lower revenue amidst slower project progression due to the pandemic, the year saw bottom-line improvements as a result of increased efforts in operational efficiencies and cost optimisation. For the quarter of 4QFY21, core losses widened 40% QoQ from 3QFY21, dragged by weaker E&C due to the aforementioned Covid-19 related costs and weaker margins amid the monsoon season.

**Secured RM1b worth of new contracts.** Additionally, SAPNRG also announced securing six new contracts worth RM1b in total, across Malaysia and Brunei. This marks the second contract announced FYTD, bringing FYTD total new wins to RM2.85b. We are positive on the new wins, boosting its current order-book to RM13.7b, providing increased revenue visibility moving forward. We expect these contracts to fetch low-teens operating margins.

**In the midst of a recovery.** Going forward, the group guides that it remains focused in its acceleration programme, seeking further improvements in commercial and operational activities. Additionally, the recently completed refinancing exercise sees an extension of borrowings to seven years, from an average of ~3 years previously. This effectively alleviates any immediate borrowings repayment risks, while maintaining finance costs level as rates are similar as before. Furthermore, global prospective bids now stand at RM123b – representing an 80% growth YoY, signalling an overall recovery industry-wide of which, the group has successfully submitted RM31.5b worth of bids.

**Maintain OUTPERFORM, with unchanged TP of RM0.21,** pegged to 0.4x PBV – close to mean valuations. Post-results, we widened our FY22E losses by 9% as we lowered our E&C contributions assumptions, based on an order book replenishment assumption of RM5b, while simultaneously introducing new FY23E figures.

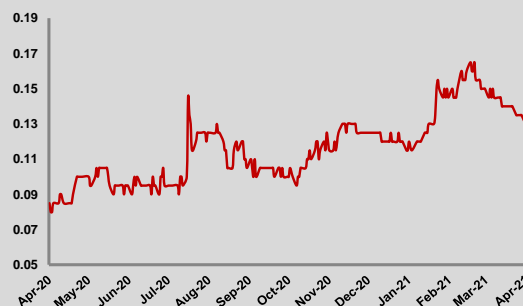
While near-term earnings turnaround still remains uncertain, our OUTPERFORM call is premised on the group's long-term fruition of its ongoing corporate and financial restructuring, and steeply discounted valuations trading at 0.2x PBV.

**Risks to our call include:** (i) deterioration in corporate governance, (ii) cost escalation, and (iii) failure to secure adequate order-book replenishment.

# OUTPERFORM ↔

Price : **RM0.130**  
Target Price : **RM0.210** ↔

### Share Price Performance



KLCI	1,606.68
YTD KLCI chg	-1.3%
YTD stock price chg	4.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SAPE MK Equity
Market Cap (RM m)	2,077.3
Shares Outstanding	15,979.1
52-week range (H)	0.18
52-week range (L)	0.08
3-mth avg daily vol.	82,180,710
Free Float	51%
Beta	1.6

### Major Shareholders

Amanah Saham Nasional	34.1%
Sapura Holdings Sdn Bhd	12.5%
Kumpulan Wang Persaraan	2.8%

### Summary Earnings Table

FY Jan (RM m)	2021A	2022E	2023E
Turnover	5,347.8	6,216.9	6,874.4
EBIT	425.0	100.0	228.5
PBT	(31.7)	(198.9)	(106.0)
<b>Net Profit (NP)</b>	<b>(160.9)</b>	<b>(248.7)</b>	<b>(132.5)</b>
<b>Core NP/(Net Loss)</b>	<b>(302.9)</b>	<b>(248.7)</b>	<b>(132.5)</b>
Consensus		(115.0)	(31.6)
Earnings Revision (%)	-	8.6	NEW
Core EPS (sen)	(1.8)	(1.5)	(0.8)
CNP growth (%)	-77.1	-17.9	-46.7
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.5	0.5	0.5
Core PER (x)	-7.1	-8.6	-16.2
Price/BV (x)	0.2	0.2	0.3
Net-Gearing (x)	1.1	1.2	1.3
Dividend Yield (%)	0.0	0.0	0.0

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Results Highlights								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Jan (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	1,443.5	1,328.4	8.7%	1,111.9	29.8%	5,347.8	6,449.2	-17.1%
Other operating income	16.2	125.2	-87.1%	13.9	16.7%	148.1	111.6	32.7%
Operating expenses	(1,372.5)	(1,211.0)	13.3%	(1,774.1)	-22.6%	(4,677.5)	(6,861.7)	-31.8%
<b>Profit from operations</b>	<b>87.2</b>	<b>242.6</b>	<b>-64.0%</b>	<b>(648.3)</b>	<b>-113.5%</b>	<b>818.3</b>	<b>(301.0)</b>	<b>-371.9%</b>
Deprec. and amortis.	(138.0)	(136.7)	0.9%	(134.5)	2.5%	(543.2)	(524.6)	3.5%
Finance income	2.5	2.5	-0.6%	7.0	-64.1%	35.7	19.0	87.4%
Finance costs	(109.5)	(124.4)	-11.9%	(147.2)	-25.6%	(492.4)	(664.6)	-25.9%
Gains on disposal	0.0	0.0	N.M.	0.4	N.M.	0.0	20.0	N.M.
Net forex	(37.7)	(6.0)	524.6%	(2.9)	1183.2%	(9.0)	28.8	-131.3%
Associates and JV	15.1	80.9	-81.3%	(57.1)	-126.4%	158.8	155.0	2.5%
<b>Profit before tax</b>	<b>(180.3)</b>	<b>59.0</b>	<b>405.6%</b>	<b>(982.6)</b>	<b>81.7%</b>	<b>(31.7)</b>	<b>(1,267.5)</b>	<b>-97.5%</b>
Impairment on goodwill	0.0	0.0	N.M.	(3,043.4)	N.M.	0.0	(3,043.4)	N.M.
Impairment on PPE	0.0	0.0	N.M.	(240.9)	N.M.	0.0	(240.9)	N.M.
Taxation	(35.0)	(41.5)	-15.5%	30.2	-215.8%	(128.5)	(12.8)	905.0%
Non-controlling interests	(0.7)	(0.3)	140.1%	2.2	-132.1%	(0.6)	3.8	-116.4%
<b>Net profit/(loss)</b>	<b>(216.0)</b>	<b>17.2</b>	<b>N.M.</b>	<b>(4,234.5)</b>	<b>-94.9%</b>	<b>(160.9)</b>	<b>(4,560.8)</b>	<b>-96.5%</b>
<b>Core net profit/(net loss)</b>	<b>(178.4)</b>	<b>(127.8)</b>	<b>39.6%</b>	<b>(947.6)</b>	<b>-81.2%</b>	<b>(302.9)</b>	<b>(1,325.2)</b>	<b>-77.1%</b>
Operating margin	6.0%	18.3%		-58.3%		15.3%	-4.7%	
PBT margin	-12.5%	4.4%		-88.4%		-0.6%	-19.7%	
Net margin	-15.0%	1.3%		-380.8%		-3.0%	-70.7%	
Core net margin	-12.4%	-9.6%		-85.2%		-5.7%	-20.5%	
Effective tax rate	-19.4%	70.3%		3.1%		-405.1%	-1.0%	

Source: Bursa Malaysia, Kenanga Research

Segment Breakdown								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Jan (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Revenue</b>								
E&C	1,277.2	1,195.3	6.8%	859.7	48.6%	4,621.1	5,511.2	-16.2%
Drilling	167.0	133.2	25.4%	253.2	-34.1%	728.4	941.4	-22.6%
<b>Operating Profit</b>								
E&C	(10.0)	155.9	-106.4%	(2,016.6)	-99.5%	487.9	(1,925.3)	-125.3%
Drilling	(61.1)	(72.8)	-16.1%	(2,020.9)	-97.0%	(181.3)	(2,155.6)	-91.6%
E&P	(12.5)	32.8	N.M.	(78.8)	-84.2%	(39.4)	(77.8)	-49.4%
<b>Margin</b>								
E&C	-0.8%	13.0%		-234.6%		10.6%	-34.9%	
Drilling	-36.6%	-54.7%		-798.2%		-24.9%	-229.0%	

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	0.400	2,355.6	N	12/2021	4.3%	0.0%	-6.4%	7.1%	4.9	5.3	4.9	0.7	0.7	13.2%	0.0%	0.490	OP
DAYANG ENTERPRISE HLDGS BHD	1.35	1,693.2	Y	12/2021	13.6%	16.1%	42.9%	60.5%	23.4	16.4	10.2	1.0	1.0	6.0%	0.0%	1.80	OP
DIALOG GROUP BHD	3.08	17,378.4	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	28.9	28.4	25.4	4.2	3.8	14.1%	1.0%	4.35	OP
MISC BHD	6.76	30,174.9	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.0	13.9	13.8	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	7.85	62,800.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	32.7	25.0	21.5	2.1	2.0	8.1%	2.0%	7.50	MP
PETRONAS DAGANGAN BHD	19.82	19,690.3	Y	12/2021	10.2%	10.2%	58.9%	48.3%	69.1	43.5	29.3	3.5	3.5	8.0%	2.3%	17.60	UP
SAPURA ENERGY BHD	0.130	2,077.3	Y	01/2022	16.3%	10.6%	-182.1%	-153.3%	N.A.	N.A.	N.A.	0.2	0.2	-2.8%	0.0%	0.210	OP
SERBA DINAMIK HOLDINGS	1.66	6,158.0	Y	12/2021	12.0%	12.0%	10.0%	10.0%	9.7	8.9	8.0	1.9	1.5	18.7%	3.4%	2.80	OP
UZMA BHD	0.685	219.2	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	81.2	8.5	7.1	0.5	0.5	5.5%	0.0%	1.00	OP
VELESTO ENERGY BHD	0.160	1,314.5	Y	12/2021	-14.5%	20.9%	-168.4%	-42.3%	N.A.	N.A.	80.2	0.6	0.6	-1.3%	0.0%	0.110	UP
WAH SEONG CORP BHD	0.820	634.9	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	28.2	9.3	0.9	0.9	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.26	5,604.2	Y	01/2022	-6.6%	-15.5%	-10.0%	-16.6%	9.0	10.0	12.0	3.1	2.5	27.4%	1.1%	6.95	OP
<b>Simple Average</b>					<b>4.9%</b>	<b>9.7%</b>	<b>47.5%</b>	<b>13.9%</b>	<b>30.3</b>	<b>18.8</b>	<b>20.2</b>	<b>1.6</b>	<b>1.5</b>	<b>8.9%</b>	<b>1.2%</b>		

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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