

03 August 2022

Sapura Energy Berhad

Contract Extension for Brazilian PLSV

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SAPNRG announced a two-year contract extension for its "Sapura Esmeralda" PLSV, worth USD130m (~RM580m). Despite being positive on the news, we still believe it to be insufficient to stage a turnaround for the company. The group is still classified under PN17, with material uncertainty on its going concern status and debts remaining unsustainably high at ~RM10.7b – which are all classified as short-term borrowings in its balance sheet. Maintain UNDERPERFORM with TP of RM0.005.

Contract extension for Sapura Esmeralda PLSV. SAPNRG announced that its joint venture entity in Brazil with Seabras has been awarded an extension of a charter and service contract by Petrobras for the pipe laying support vessel (PLSV) "Sapura Esmeralda". The extension is for two years commencing immediately, with a contract value of USD130m (~RM580m).

Our takeaways are as follows:

- Positive on the extension contract.** Overall, we are positive on the extension contract, especially given the group's current financially distressed situation. This is in-line with the group's "reset" strategy of attempting to secure more asset-based contracts (e.g. via its vessels and drilling rigs), as such form of contracts require less working capital outlay. The company's lack of access to credit facilities has made project execution for typical engineering and construction jobs highly uncertain. This is also the group's second YTD contract win announcement – bringing YTD wins to ~RM3.3b, with its orderbook at ~RM8b.
- Struggling position still unchanged.** Despite the positive news of a contract extension, we believe this is still greatly insufficient to stage a financial turnaround for the company. The stock is currently still classified under PN17, with its auditors highlighting material uncertainty related to its going concern status. The group still carries an unsustainably high debt of ~RM10.7b – all of which are classified as short-term borrowings in its balance sheet. As such, we feel some form of external intervention – e.g. restructuring of current loan structures, borrowings haircut from banks, or the emergence of an angel investor, may be necessary before the company could expect a sustainable turnaround.

Post contract extension, we made no changes to our FY23-24E numbers, as we deem the contract extension as falling broadly within our estimated assumptions. The group is still expected to continue its loss-making trend throughout FY23-24, barring any successful restructuring of its financials and operations.

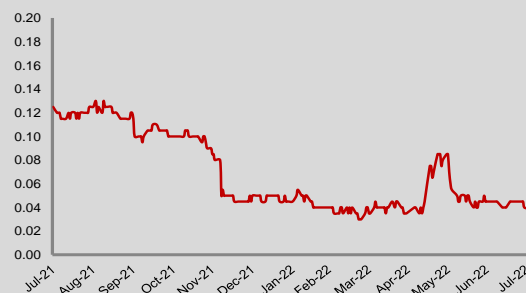
Maintain UNDERPERFORM, with unchanged TP of RM0.005 – pegged to 0.5x PBV on its 1QFY23 net assets. While we accord a 1-star ESG rating to SAPNRG which entails a 10% downward adjustment to our TP based on ESG, we keep our TP as it is already next to nil.

Risk to our call include: sooner-than-expected successful restructuring.

UNDERPERFORM ↔

Price : **RM0.045**
Target Price : **RM0.005** ↔

Share Price Performance



KLCI	1,495.05
YTD KLCI chg	-4.6%
YTD stock price chg	-10.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SAPE MK Equity
Market Cap (RM m)	719.1
Shares outstanding	15,979.1
52-week range (H)	0.13
52-week range (L)	0.03
3-mth avg daily vol:	101,426,700
Free Float	54%
Beta	1.3

Major Shareholders

Amanah Saham Nasional	39.4%
Sapura Holdings Sdn Bhd	10.6%
Jurudata Sdn Bhd	2.1%

Summary Earnings Table

FY Jan (RM m)	2022A	2023E	2024E
Revenue	4,126.8	3,836.9	3,936.9
EBIT	(8,296.2)	408.0	528.0
PBT	(8,797.4)	(467.0)	(347.0)
Net Profit (NP)	(8,895.9)	(490.4)	(364.4)
Core Net Profit	(3,254.6)	(490.4)	(364.4)
Consensus (NP)		-571.0	-420.7
Earnings Revision (%)		-	-
Core EPS (sen)	(20.4)	(3.1)	(2.3)
Core EPS growth (%)	2042.9	-84.9	-25.7
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.0	0.0	0.0
Core PER (x)	-0.2	-1.5	-2.0
Price/BV (x)	2.8	-3.1	-1.2
Net-Gearing (x)	39.0	-42.9	-16.7
Dividend Yield (%)	0.0	0.0	0.0

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Income Statement						Financial Data & Ratios					
FY Jan (RM m)	2020A	2021A	2022A	2023E	2024E	FY Jan	2020A	2021A	2022A	2023E	2024E
Revenue	6,449.2	5,347.8	4,126.8	3,836.9	3,936.9	Growth (%)					
Op. Profit	(3,906.3)	425.0	(8,296.2)	408.0	528.0	Revenue	41.2	(17.1)	(22.8)	(7.0)	2.6
PBT	(4,551.8)	(31.7)	(8,797.4)	(467.0)	(347.0)	Op. Profit	879.9	(110.9)	(2,052.1)	(104.9)	29.4
Net Profit	(4,560.8)	(160.9)	(8,895.9)	(490.4)	(364.4)	PBT	331.6	(99.3)	27,630.2	(94.7)	(25.7)
CNP	(1,325.2)	(151.9)	(3,254.6)	(490.4)	(364.4)	Core NP	49.8	(88.5)	2,042.9	(84.9)	(25.7)
Balance Sheet						Profitability (%)					
FY Jan (RM m)	2018A	2019A	2020A	2021E	2022E	Oper. Margin	-60.6	7.9	-201.0	10.6	13.4
F. Assets	9,621	9,219	6,733	6,260	5,788	PBT Margin	-70.6	-0.6	-213.2	-12.2	-8.8
Inta. Assets	4,948	4,928	1,705	1,705	1,705	CNP Margin	-20.5	-2.8	-78.9	-12.8	-9.3
Oth. LT ass.	4,168	4,329	4,471	4,471	4,471	ETR	-0.3	-405.1	-1.2	-5.0	-5.0
Inventories	386	423	429	399	399	ROA	-5.8	-0.7	-20.0	-3.3	-2.6
Receivables	1,803	1,434	1,325	1,232	1,232	ROE	-14.4	-1.7	1276.7	208.3	60.7
Other CA	1,229	1,843	855	855	855	DuPont Analysis					
Cash	772	489	718	92	(273)	N.Margin(%)	-20.5	-2.8	-78.9	-12.8	-9.3
T. Assets	22,926	22,665	16,236	15,014	14,177	Ass. T/O(x)	0.3	0.2	0.3	0.3	0.3
Payables	2,894	2,669	3,705	3,445	3,445	Leve. Fac. (x)	2.5	2.5	63.7	-63.8	-23.6
ST Borrow.	3,146	3,263	10,658	10,658	10,658	ROE (%)	-14.4	-1.7	1276.7	208.3	60.7
Oth. ST Lia.	477	547	1,475	1,475	1,475	Leverage					
LT Borrow.	7,110	7,069	0	(472)	(945)	Debt/Asset (x)	0.4	0.5	0.7	0.7	0.7
Oth. LT Lia.	124	180	143	143	143	D./Equity (x)	1.1	1.2	41.8	-43.3	-16.2
Mino. Int.	(8)	(9)	(1)	0	0	N.(Cash)/Debt	9484	9843	9940	10094	9987
Net Assets	9,183	8,946	255	(235)	(600)	Net D/E (x)	1.03	1.10	38.99	-42.88	-16.65
Share Capi.	10,872	10,872	10,872	10,872	10,872	Valuations					
Reserves	(1,690)	(1,927)	(10,617)	(11,107)	(11,472)	EPS (sen)	-8.3	-1.0	-20.4	-3.1	-2.3
Equity	9,183	8,946	255	(235)	(600)	DPS (sen)	1.0	0.0	0.0	0.0	0.0
Cashflow Statement						BV/s. (RM)	0.6	0.6	0.0	0.0	0.0
FY Jan (RM m)	2018A	2019A	2020A	2021E	2022E	PER (x)	-0.5	-4.7	-0.2	-1.5	-2.0
Opera. CF	96	165	493	930	1,050	Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Invest. CF	(87)	(70)	(68)	(50)	(50)	P/BV (x)	0.1	0.1	2.8	-3.1	-1.2
Financ. CF	(7,327)	(368)	(199)	(1,507)	(1,365)						

Source: 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.YI d. (%)	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	0.370	2,189.7	N	12/2022	12.8%	0.0%	-10.7%	3.4%	3.2	3.6	3.5	0.5	0.5	14.1%	0.0%	0.630	OP
DAYANG ENTERPRISE HLDGS BHD	0.945	1,094.1	Y	12/2022	10.8%	12.0%	46.6%	50.2%	25.0	17.0	11.3	0.8	0.8	4.8%	0.0%	1.25	OP
DIALOG GROUP BHD	2.22	12,526.5	Y	06/2022	13.5%	49.2%	1.7%	13.2%	23.6	23.2	20.5	2.7	2.5	11.3%	1.3%	3.30	OP
MISC BHD	7.19	32,094.3	Y	12/2022	-0.8%	4.2%	-15.2%	1.1%	17.0	20.0	19.8	0.9	0.9	4.7%	4.6%	7.70	MP
PETRONAS CHEMICALS GROUP BHD	8.85	70,800.0	Y	12/2022	16.4%	-10.0%	-3.9%	-21.1%	9.8	10.2	12.9	2.0	1.8	19.0%	4.9%	11.00	OP
PETRONAS DAGANGAN BHD	22.72	22,571.3	Y	12/2022	30.0%	5.0%	-1.8%	26.6%	41.2	42.0	33.1	4.0	4.0	9.6%	2.4%	17.85	UP
SAPURA ENERGY BHD	0.045	719.1	Y	01/2023	-7.0%	0.0%	-115.1%	-174.3%	N.A.	N.A.	N.A.	2.9	(3.2)	-4904.0%	0.0%	0.005	UP
UZMA BHD	0.365	128.5	Y	06/2022	-2.7%	10.0%	-60.4%	72.1%	5.4	13.6	7.9	0.3	0.3	1.9%	0.0%	0.540	OP
VELESTO ENERGY BHD	0.085	698.3	Y	12/2022	-6.8%	9.6%	-136.7%	-168.7%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.100	UP
WAH SEONG CORP BHD	0.555	429.7	Y	12/2022	44.1%	26.2%	51.9%	56.4%	N.A.	11.9	7.6	0.7	0.7	5.9%	0.0%	0.790	MP
YINSON HOLDINGS BHD	2.07	6,601.7	N	01/2023	6.1%	-16.6%	1.2%	20.7%	11.0	10.9	9.0	1.9	1.6	16.1%	2.9%	2.50	OP
Simple Average					10.6%	8.1%	-22.0%	-11.0%	17.0	16.9	14.0	1.6	0.9	-438.1%	1.5%		

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★			
	Corporate Social Responsibility	★	★		
	Management/Workforce Diversity	★	★		
	Accessibility & Transparency	★			
	Corruption-Free Pledge	★	★		
	Carbon-Neutral Initiatives	★	★		
SPECIFIC	Diversification from pure O&G	★	★		
	Emission Targets and Climate Goals	★	★		
	Occupational Health and Safety	★	★	★	★
	Pollution control	★	★		
	Supply chain auditing	★			
	Energy efficiency	★			
OVERALL		★			

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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