



AmInvestment Bank

## Company report

## SAPURA ENERGY

(SAPE MK EQUITY, SAEN.KL)

30 June 2020

Bumpy rides ahead despite improved 1QFY21

**SELL**

(Maintained)

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Rationale for report: Company results

Price	RM0.09
Fair Value	RM0.05
52-week High/Low	RM0.32/RM0.06

## Key Changes

Fair value	⬇️
EPS	⬇️

YE to Jan	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	6,449.2	4,770.2	5,738.3	6,873.0
Core net profit (RM mil)	(855.0)	(290.2)	(101.1)	45.0
FD Core EPS (sen)	(5.4)	(1.8)	(0.6)	0.3
FD Core EPS growth (%)	(25.0)	(66.1)	(65.1)	>100)
Consensus Net Profit (RM mil)	-	(567.3)	(446.0)	(247.7)
DPS (sen)	-	-	-	-
PE (x)	nm	nm	nm	31.9
EV/EBITDA (x)	63.1	32.4	18.4	13.8
Div yield (%)	-	-	-	-
ROE (%)	(39.6)	(3.2)	(1.1)	0.5
Net Gearing (%)	103.3	112.7	118.9	121.5

## Stock and Financial Data

Shares Outstanding (million)	15,939.2
Market Cap (RM mil)	1,434.5
Book Value (RM/share)	0.58
P/BV (x)	0.2
ROE (%)	(39.6)
Net Gearing (%)	103.3

Major Shareholders	PNB(40.0%) Sapura Holdings(16.3%)
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Free Float	21.8
Avg Daily Value (RM mil)	12.5

Price performance	3mth	6mth	12mth
Absolute (%)	20.0	(67.3)	(70.0)
Relative (%)	7.8	(64.7)	(66.4)



## Investment Highlights

- We maintain our SELL call on Sapura Energy (Sapura) with a slightly higher fair value of RM0.05/share (from RM0.04/share), pegged to 0.2x the group's FY22F NTA. The group could still experience multiple bumpy rides ahead with potential losses in the upcoming quarters from potential revenue deferrals of RM600mil–RM800mil from the engineering & construction (E&C) and drilling operations due to work progress slowdowns and clients' requests.
- We have cut Sapura's FY21F–FY22F losses by 41%–73% and reversed FY23F back to a profit of RM45mil, from a 2–3-percentage point improvement in the E&C division. The improved forecasts stemmed from the better-than-expected 1QFY21 normalised net profit of RM14mil vs. our earlier FY21F loss of RM494mil and consensus' RM567mil.
- Excluding a net forex gain of RM34mil, Sapura would have registered a 1QFY21 loss of RM20mil, still substantively better than the normalised 4QFY20 loss of RM950mil. This stemmed from higher asset utilisation rates, which increased E&C revenue by 30% QoQ to RM1.1bil, while exploration and production (E&P) losses narrowed to only RM6mil from RM79mil previously due to a 71% QoQ rise in upstream production to 2.4mil boe, partly offset by its lifting crude oil prices dropping by 43% QoQ to US\$39/barrel.
- This drove the 1QFY21 E&C pretax margin to a surprisingly high 11%, which Sapura has only been able to achieve 1%–5% over the past 2 years before the unprecedented Covid-19 pandemic. As such, we are uncertain whether the group will be able to maintain such a strong margin performance in the subsequent quarters as management's cost-saving plan of RM650mil for opex and RM150mil for capex this year may not materialise so soon.
- The drilling division is expected to extend further losses, as the number of working rigs could drop to 6 in 2QFY21 from 7 in 1QFY21. The Jaya unit has been declared under force majeure since April this year while the flexible pipelay vessel Sapura Diamante will drop out of charter in 4QFY21 during the transition from Mexico to Africa.
- Sapura's outstanding order book surprisingly rose 4% QoQ to RM14bil (2.9x FY21F revenues), which management indicated could have stemmed from a weaker MYR as the group has only announced new jobs worth RM766mil this year while 1QFY21 revenue was higher at RM1.4bil. Even though the group is bidding for RM27bil of new jobs with an additional prospective projects worth RM35bil, the order book could still decline as clients are likely to postpone or cancel these projects if the current gloomy offshore outlook persists.

- The group views substantive provisions as less likely under the improved oil price environment compared to mid-March this year, notwithstanding the pending audit of its E&P segment by its JV partner, OMV. However, we do not preclude the possibility of an equity-raising exercise pursuant to management's plan to refinance its RM10bil debt with 14 banks by the end of the year and secure additional working capital of RM1.5bil for its ongoing and prospective projects. Given the prospects of further losses in the coming quarters, the stock currently trades at a low 0.2x PBV.

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**EXHIBIT 1: RESULTS SUMMARY**


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YE 31 Jan (RMmil)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Revenue	1,632.5	1,111.9	1,356.7	22.0	(16.9)
<b>EBITDA</b>	<b>151.0</b>	<b>(140.1)</b>	<b>169.3</b>	>100	12.1
Net interest expense	(209.4)	(645.5)	(114.5)	(82.3)	(45.3)
Depreciation & amortization	(124.3)	(134.5)	(134.9)	0.3	8.5
Associates & JV	79.3	(57.1)	82.3	>100	3.7
Net forex gain/loss	24.9	(2.9)	33.9		
Exceptionals	0.0	(3,286.7)	0.0		
<b>Pre-tax Profit</b>	<b>(78.4)</b>	<b>(4,267.0)</b>	<b>36.2</b>	>100	>100
Taxation	(31.0)	30.2	(22.3)		
Minorities	0.2	0.0	0.3		
<b>Net Profit</b>	<b>(109.1)</b>	<b>(4,236.7)</b>	<b>14.2</b>	>100	>100
<b>Normalised EBITDA</b>	<b>158</b>	<b>(651)</b>	<b>203</b>	>100	28.5
<b>Normalised Net Profit</b>	<b>(109)</b>	<b>(950)</b>	<b>14.2</b>	>100	>100
EPS (sen) - continuing operations	(0.7)	(26.5)	0.1	>100	>100
Gross DPS (sen)	0.0	0.0	0.0		
BV/Share (RM)	0.87	0.57	0.60	5.3	(31.0)
EBITDA margin (%)	9.3	(12.6)	12.5		
Pretax margin (%)	(4.8)	(>100)	2.7		
Effective tax rate (%)	(39.5)	0.7	61.6		

Source: Bursa Malaysia

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**EXHIBIT 2: RESULTS BREAKDOWN**


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YE 31 Jan (RMmil)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Engineering & Construction	1,402.8	859.7	1,116.4	29.9	(20.4)
Drilling	230.4	253.2	240.9	(4.9)	4.5
Corporate expenses and elimination	(0.8)	(1.0)	(0.7)	(32.1)	(16.1)
<b>Revenue</b>	<b>1,632.5</b>	<b>1,111.9</b>	<b>1,356.7</b>	22.0	(16.9)
Engineering & Construction	48.0	(2,016.6)	123.9	>100	>100
Drilling	(50.9)	(2,020.9)	(14.9)	(99.3)	(70.7)
Exploration & Production	(7.5)	(78.8)	(6.1)	(92.3)	(18.9)
Corporate expenses and elimination	(68.0)	(150.6)	(66.7)	(55.7)	(2.0)
<b>Pre-tax profit</b>	<b>(78.4)</b>	<b>(4,267.0)</b>	<b>36.2</b>	>100	>100
<b>Pre-tax margins (%)</b>					
Engineering & Construction	3.4	(>100)	11.1		
Drilling	(22.1)	(>100)	(6.2)		

Source: Bursa Malaysia

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

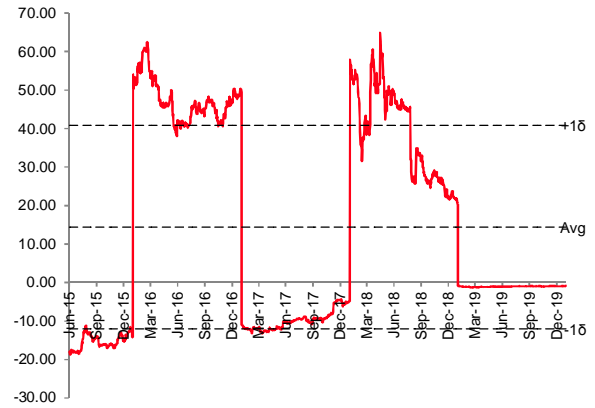
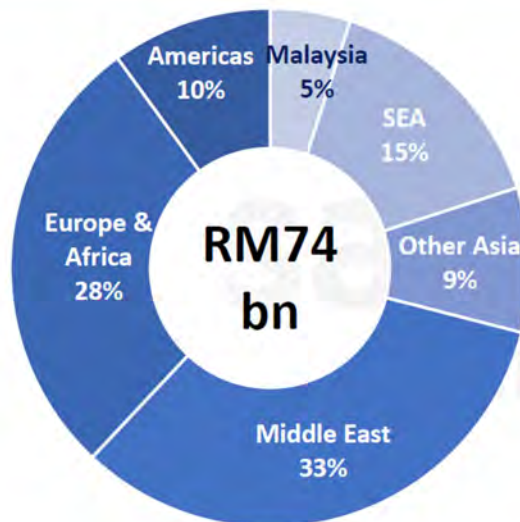
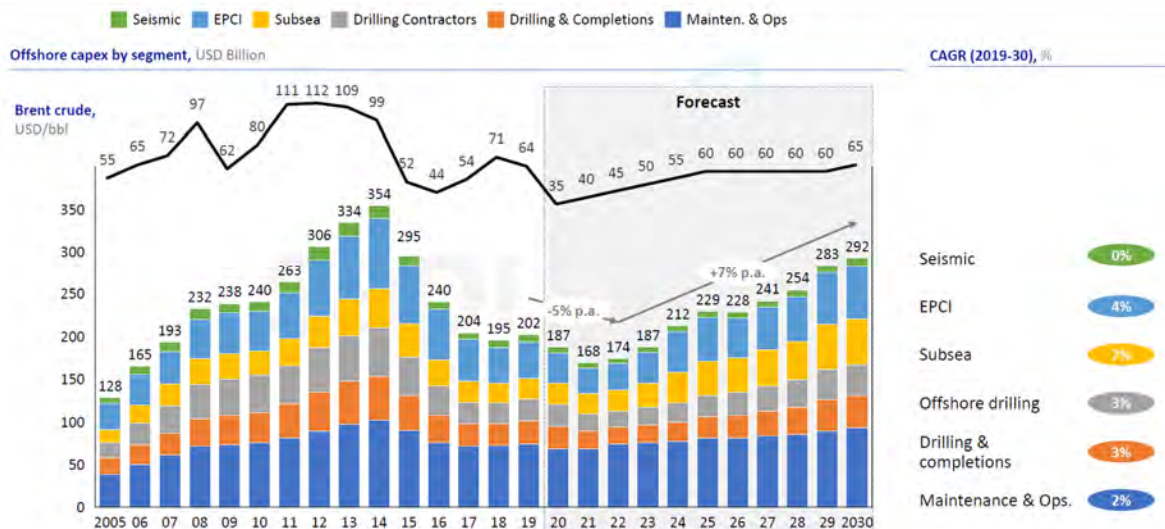


EXHIBIT 5: TENDER BOOK BREAKDOWN (RM74BIL)



Source: Sapura slides

EXHIBIT 6: GLOBAL CAPEX PROSPECTS



Source: Rystad Energy/Sapura

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,568.4	6,449.2	4,770.2	5,738.3	6,873.0
EBITDA	293.0	173.0	353.8	645.3	882.2
Depreciation/Amortisation	682.5	524.6	550.9	578.4	607.3
Operating income (EBIT)	(389.5)	(351.6)	(197.1)	66.9	274.9
Other income & associates	340.9	155.0	332.8	351.3	362.5
Net interest	(952.8)	(645.5)	(517.6)	(551.3)	(578.2)
<b>Exceptional items</b>	<b>1,347.5</b>	<b>(3,709.6)</b>	-	-	-
Pretax profit	346.1	(4,551.8)	(381.9)	(133.1)	59.2
Taxation	(142.7)	(12.8)	91.6	31.9	(14.2)
<b>Minorities/pref dividends</b>	<b>4.2</b>	-	-	-	-
Net profit	207.5	(4,564.6)	(290.2)	(101.1)	45.0
Core net profit	(1,140.0)	(855.0)	(290.2)	(101.1)	45.0
Balance Sheet (RMmil, YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	10,024.8	9,621.2	9,970.3	10,291.9	10,584.6
Intangible assets	7,997.1	4,947.8	4,700.4	4,465.4	4,242.1
<b>Other long-term assets</b>	<b>4,247.0</b>	<b>4,167.6</b>	<b>4,426.5</b>	<b>4,699.8</b>	<b>4,981.9</b>
Total non-current assets	22,268.9	18,736.6	19,097.3	19,457.1	19,808.6
Cash & equivalent	8,098.4	772.4	1,104.7	1,231.8	1,532.6
Stock	354.5	386.0	355.6	427.8	512.4
Trade debtors	2,769.7	2,862.6	2,389.6	2,874.6	3,443.0
<b>Other current assets</b>	<b>84.8</b>	<b>168.8</b>	<b>168.8</b>	<b>168.8</b>	<b>168.8</b>
Total current assets	11,307.4	4,189.7	4,018.8	4,703.0	5,656.8
Trade creditors	2,288.7	2,893.9	2,641.8	3,177.9	3,806.3
Short-term borrowings	5,838.9	3,145.9	3,303.2	3,468.4	3,641.8
<b>Other current liabilities</b>	<b>253.8</b>	<b>476.9</b>	<b>334.4</b>	<b>380.8</b>	<b>421.8</b>
Total current liabilities	8,381.4	6,516.8	6,279.5	7,027.1	7,870.0
Long-term borrowings	11,147.0	7,110.4	7,821.5	8,212.5	8,623.2
<b>Other long-term liabilities</b>	<b>176.7</b>	<b>124.4</b>	<b>130.6</b>	<b>137.2</b>	<b>144.0</b>
<b>Total long-term liabilities</b>	<b>11,323.6</b>	<b>7,234.8</b>	<b>7,952.1</b>	<b>8,349.7</b>	<b>8,767.2</b>
Shareholders' funds	13,875.1	9,182.5	8,892.3	8,791.2	8,836.2
Minority interests	(3.8)	(7.9)	(7.9)	(7.9)	(7.9)
BV/share (RM)	0.87	0.58	0.56	0.55	0.55
Cash Flow (RMmil, YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	346.1	(4,551.8)	(381.9)	(133.1)	59.2
Depreciation/Amortisation	(682.5)	(524.6)	(550.9)	(578.4)	(607.3)
Net change in working capital	(561.6)	620.0	108.6	25.4	16.4
<b>Others</b>	<b>9,323.9</b>	<b>5,715.3</b>	<b>2,371.2</b>	<b>2,411.0</b>	<b>2,451.6</b>
Cash flow from operations	8,425.9	1,258.9	1,547.0	1,724.9	1,920.0
Capital expenditure	(900.0)	(900.0)	(900.0)	(900.0)	(900.0)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	-	-	-	-	-
Cash flow from investing	(900.0)	(900.0)	(900.0)	(900.0)	(900.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(79.7)	-	-	-	-
<b>Others</b>	<b>(979.4)</b>	<b>(664.6)</b>	<b>(521.6)</b>	<b>(556.3)</b>	<b>(584.1)</b>
<b>Cash flow from financing</b>	<b>(1,059.1)</b>	<b>(664.6)</b>	<b>(521.6)</b>	<b>(556.3)</b>	<b>(584.1)</b>
<b>Net cash flow</b>	<b>6,466.8</b>	<b>(305.7)</b>	<b>125.5</b>	<b>268.5</b>	<b>435.8</b>
<b>Net cash/(debt) b/f</b>	<b>(14,698.9)</b>	<b>(8,887.5)</b>	<b>(9,484.0)</b>	<b>(10,020.0)</b>	<b>(10,449.1)</b>
Net cash/(debt) c/f	(8,232.1)	(9,193.1)	(9,358.5)	(9,751.5)	(10,013.3)
Key Ratios (YE31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(9.5)	41.2	(26.0)	20.3	19.8
EBITDA growth (%)	(76.9)	(41.0)	104.5	82.4	36.7
Pretax margin (%)	7.6	(70.6)	(8.0)	(2.3)	0.9
Net profit margin (%)	4.5	(70.8)	(6.1)	(1.8)	0.7
Interest cover (x)	(40.9%)	(54.5%)	(38.1%)	0.1	0.5
Effective tax rate (%)	41.2	0.3	24.0	24.0	24.0
Dividend payout (%)	-	nm	nm	nm	-
Debtors turnover (days)	212	159	201	167	168
Stock turnover (days)	29	21	28	25	25
Creditors turnover (days)	203	147	212	185	185

Source: Company, AmInvestment Bank Bhd estimates

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