



AmInvestment Bank

## Company report

## SAPURA ENERGY

(SAPE MK EQUITY, SAEN.KL)

17 Nov 2020

New jobs unlikely to reverse order book contraction

**SELL**

(Maintained)

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Rationale for report: Company update

Price	RM0.115
Fair Value	RM0.05
52-week High/Low	RM0.31/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)	(144.5)
Consensus Net Profit (RM mil)	-	(221.9)	(172.0)	(69.1)
DPS (sen)	-	-	-	-
PE (x)	nm	nm	nm	40.7
EV/EBITDA (x)	65.4	33.5	19.0	14.2
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)	1,833.0
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%)
Free Float	21.8
Avg Daily Value (RM mil)	11.5

Price performance	3mth	6mth	12mth
Absolute (%)	-	27.8	(61.7)
Relative (%)	(2.2)	12.1	(61.8)



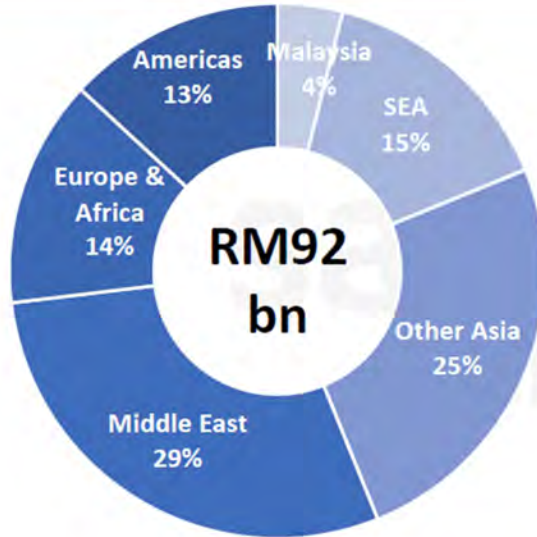
## Investment Highlights

- We maintain our SELL call on Sapura Energy (Sapura) with unchanged forecasts and fair value of RM0.05/share, pegged to 0.2x to the group's FY22F NTA as the group could still experience potential losses and asset impairments in the upcoming quarters amid sluggish project rollouts.
- Sapura has secured 3 contracts worth RM611mil from:
  - Total E&P Golfe Limited – to provide engineering, procurement, supply, construction, installation and pre-commissioning services for two 16" pipelines between DP4 & DP3 and DP3 & DP2 platforms in Al-Khalij Field, Block 6, 110km offshore Qatar.
 

The field is located in water depths of 59 metres, east of the mainland coast and 40km northeast of Halul Island. The works are expected to be completed by 2QFY22.
  - Carigali-PTTEPI Operating Company Sdn Bhd – to provide engineering, procurement, construction, transportation, marine spread chartering, installation, offshore hook up and commissioning of host tie-in and brownfield modification work at Jengka-A and Andalas-B wellhead platforms as well as MUDA central processing platforms.
 

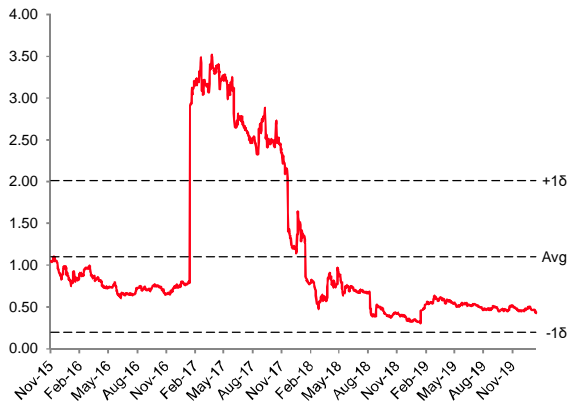
These are for phase 4 development of the additional Andalas pipeline project in the Malaysia-Thailand Joint Development Area. The works are expected to be completed by 3Q FY2022.
  - Total Exploration and Production Congo – to charter Sapura's tender assisted drilling rig Sapura Berani for 3 wells located offshore Congo commencing in 4QFY2021 over 3 months and an option of one well extension.
- Including these contracts, Sapura has secured contracts worth RM2.2bil YTD vs. the group's 1HFY21 revenue recognition of RM2.6bil. Hence, given Sapura's quarterly depletion rate of RM1.2bil–RM1.3bil, we do not expect these new contracts to reverse Sapura's declining outstanding order book trajectory which led to a 5% QoQ contraction to RM13.3bil in 2QFY21.
- Although the group is bidding for RM29.4bil of new jobs with additional prospective projects of RM63bil, clients could defer the awards until next year amid the uncertain oil price outlook.
- Meanwhile, the group's huge debt of RM10bil still needs to be refinanced with 14 banks by next month, which could mean additional equity-raising exercise in the pipeline that will translate to massive dilution given the current low share price.
- Even though Sapura registered an improvement in 1HFY21 results, we remain cautious of any potential cost provisions and asset impairments by 4QFY21 given that Petronas has registered a 1HFY20 loss of RM18bil, together with other oil majors. Hence, the stock currently trades at a low 0.2x PBV.

**EXHIBIT 1: TENDER BOOK BREAKDOWN**

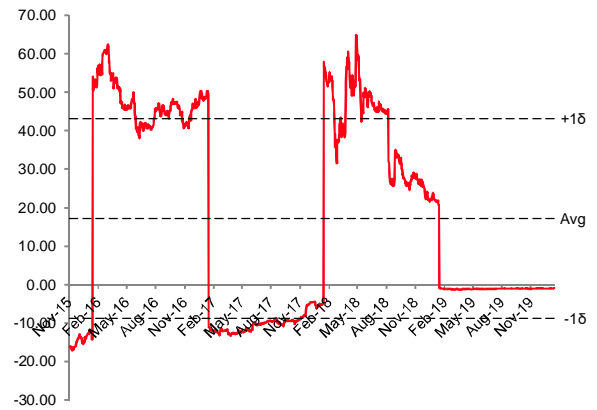


Source: Sapura slides

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



## EXHIBIT 4: 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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