



Company report

SAPURA ENERGY

(SAPE MK EQUITY, SAEN.KL)

22 Dec 2020

Re-rating from impending debt deal closure

BUY

(Upgraded)

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03-2036 2280

Rationale for report: Company results

Price	RM0.125
Fair Value	RM0.29
52-week High/Low	RM0.30/RM0.06

Key Changes

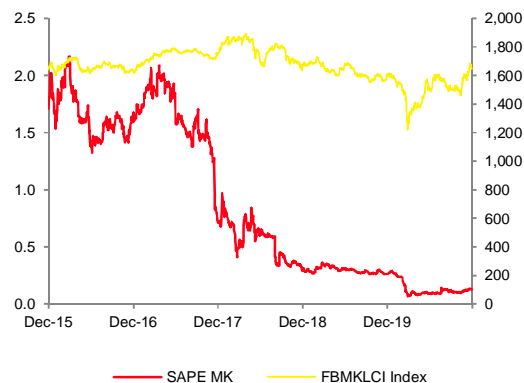
Fair value	↕
EPS	↔

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	44.3
EV/EBITDA (x)	66.3	34.0	19.3	14.4
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)	1,992.4
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)	13.1

Price performance	3mth	6mth	12mth
Absolute (%)	4.2	31.6	(52.8)
Relative (%)	(5.2)	20.4	(53.9)



Investment Highlights

- We upgrade our recommendation to BUY from SELL on Sapura Energy (Sapura) with a higher fair value of RM0.29/share (from RM0.05/share), pegged now to a 50% discount to the group's FY21F book value vs. 0.2x to NTA previously.
- This stems from the group being on the verge of refinancing its RM10bil debt for another 7 years by the end of January next year without any substantive interest cost increases, which we believe was assisted by Sapura's largest GLC-backed shareholder. Additionally, Sapura has secured additional working capital of RM1.2bil for its ongoing and prospective projects.
- Even though we acknowledge the possibility of losses from the normalisation of contract provisions and likely asset impairments in 4QFY21, we view the group's downside risks as cushioned by the steep 78% book value discount currently. Also, the group still 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.
- For now, we maintain our forecasts even though the group's 9MFY20 net profit of RM55mil appears to be well ahead of our FY21F loss of RM290mil and consensus' RM222mil.
- This is because the 9MFY21 results included cost reversals from variation orders and contract adjustments from project completions of 3%–5% of revenue, which imply up to RM168mil, 3x the group's reported earnings. Hence, while the 9MFY21 engineering and construction (E&C) revenue fell 28% YoY to RM3.3bil, its pretax margin rose to 14.9% from just 1% in 3QFY20.
- Additionally, the group registered a RM50mil additional one-off revenue recognition in 3QFY21 from the accounting adjustment arising from sale of a 50% equity stake in its upstream assets to OMV.
- Sapura's 3QFY21 drilling losses doubled yet again QoQ to RM73mil as revenue dropped 29% sequentially with the decline of 1 working rig to 6 rigs in operation with 8 stacked units. This segment's losses are expected to stabilise in 4QFY21 with the same number of rigs expected to be in operation, and likely to narrow as fresh charters progressively improve utilisation rates next year.
- The exploration & production (E&P) segment turnaround to a RM33mil profit from a RM54mil loss was due to crude oil prices rising 14% QoQ to US\$42/barrel, a 4% QoQ increase in average net production to 2.9mil barrels and the absence of unusually higher deferred tax provisions in 2QFY21.

- The group has implemented cost optimisation programmes of RM600mil so far out of RM1.1bil planned initiatives involving commercial renegotiations, operational productivity, procurement, human resources and working capital.
- Sapura's outstanding order book decreased 6% QoQ to RM12.5bil (2.2x FY22F revenues), as the recent new wins amounting to RM611mil were insufficient to offset the 3QFY21 depletion of RM1.3bil. Nevertheless, as the group is bidding for RM38.8bil (+32% QoQ) of new jobs with an additional prospective projects worth RM68bil, we expect order book growth momentum to return over the next 3–6 months with the brightening outlook in upstream capex upcycle.
- Against the backdrop of improving prospects of new jobs across the globe and underpinned by a soon-to-be revitalised debt structure, the stock currently trades at a low 0.2x PBV.

EXHIBIT 1: RESULTS SUMMARY

YE 31 Jan (RMmil)	9MFY20	9MFY21	YoY (%)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)
Revenue	5,337.3	3,904.3	(26.8)	1,777.4	1,219.2	1,328.4	9.0	(25.3)
EBITDA	379.0	874.8	130.8	90.8	319.1	242.6	(24.0)	>100
Net interest expense	(505.3)	(349.7)	(30.8)	(146.7)	(113.4)	(121.9)	7.5	(16.9)
Depreciation & amortization	(390.1)	(405.2)	3.9	(136.6)	(133.7)	(136.7)	2.2	0.1
Associates & JV	212.1	28.7	(86.5)	60.4	(19.5)	80.9	>100	34.0
Net forex gain/loss	31.7	28.7		12.6	0.8	(6.0)		
Exceptionals	19.6	0.0		6.3	0.0	0.0		
Pre-tax Profit	(284.8)	148.6	>100	(113.2)	53.4	59.0	10.5	>100
Taxation	(43.0)	(93.5)	>100	11.3	(29.7)	(41.5)	39.5	(>100)
Minorities	1.6	0.1	(93.9)	1.1	0.1	(0.3)	(>100)	(>100)
Net Profit	(326.3)	55.2	>100	(100.9)	23.7	17.2	(27.5)	>100
EPS (sen)	(2.05)	0.35	>100	(0.63)	0.15	0.11	(26.7)	>100
Gross DPS (sen)	0.0	0.0		0.0	0.0	0.0		
BV/Share (RM)	0.86	0.58	(32.6)	0.86	0.59	0.58	(1.7)	(32.6)
EBITDA margin (%)	7.1	22.4		5.1	26.2	18.3		
Pretax margin (%)	(5.3)	3.8		(6.4)	4.4	4.4		
Effective tax rate (%)	(15.1)	62.9		10.0	55.7	70.3		

Source: Bursa Malaysia

EXHIBIT 2: RESULTS BREAKDOWN

YE 31 Jan (RMmil)	9MFY20	9MFY21	YoY (%)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)
Engineering & Construction	4,651.5	3,343.9	(28.1)	1,592.2	1,032.1	1,195.3	15.8	(24.9)
Drilling	688.2	561.5	(18.4)	185.9	187.4	133.2	(28.9)	(28.3)
Corporate expenses and elimination	(2.5)	(1.1)	(54.7)	(0.6)	(0.3)	(0.2)	(50.0)	(74.9)
Revenue	5,337.3	3,904.3	(26.8)	1,777.4	1,219.2	1,328.4	9.0	(25.3)
Engineering & Construction	91.3	497.9	445.3	16.1	218.1	155.9	(28.5)	>100
Drilling	(134.8)	(120.2)	(10.8)	(48.2)	(32.4)	(72.8)	>100	51.3
Exploration & Production	1.0	(26.9)	(>100)	14.3	(53.6)	32.8	>100	129.4
Corporate expenses and elimination	(242.4)	(202.2)	(16.6)	(95.5)	(78.7)	(56.8)	(27.8)	(40.5)
Pre-tax profit	(284.8)	148.6	(152.2)	(113.2)	53.4	59.0	10.5	>100
Pre-tax margins (%)								
Engineering & Construction	2.0	14.9		1.0	21.1	13.0		
Drilling	(19.6)	(21.4)		(25.9)	(17.3)	(54.7)		

Source: Bursa Malaysia

EXHIBIT 3: PB BAND CHART

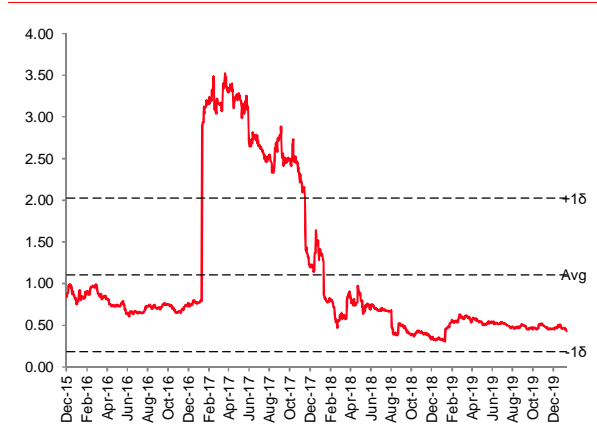


EXHIBIT 4: PE BAND CHART

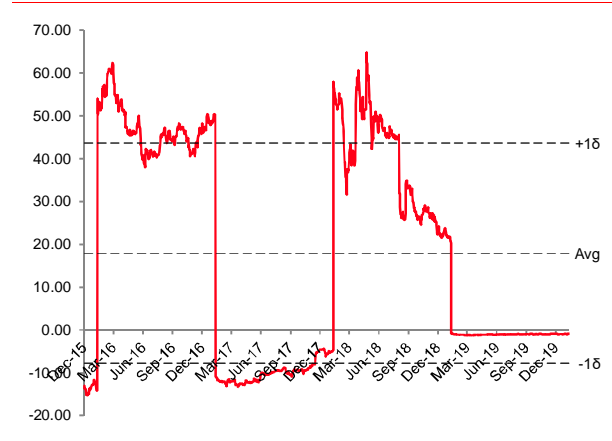
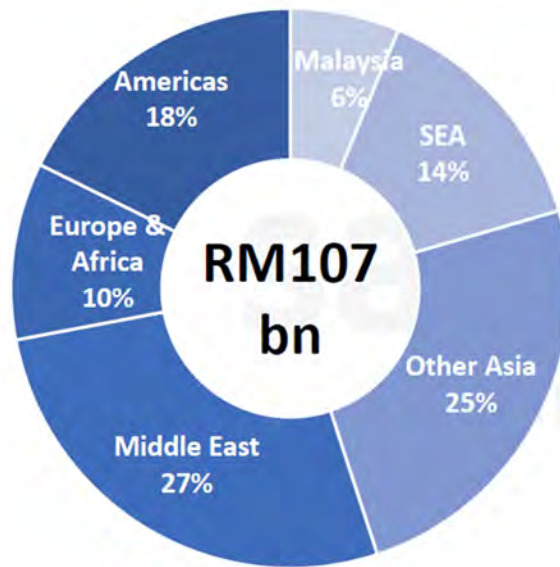


EXHIBIT 5: SAPURA'S TENDER BOOK BREAKDOWN



Source: Sapura slides

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)
Exceptional items	1,347.5	(3,709.6)	-	-	-
Pretax profit	346.1	(4,551.8)	(381.9)	(133.1)	59.2
Taxation	(142.7)	(12.8)	91.6	31.9	(14.2)
Minorities/pref dividends	4.2	-	-	-	-
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
Other long-term assets	4,247.0	4,167.6	4,426.5	4,699.8	4,981.9
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
Other current assets	84.8	168.8	168.8	168.8	168.8
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
Other current liabilities	253.8	476.9	334.4	380.8	421.8
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
Other long-term liabilities	176.7	124.4	130.6	137.2	144.0
Total long-term liabilities	11,323.6	7,234.8	7,952.1	8,349.7	8,767.2
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
Others	9,323.9	5,715.3	2,371.2	2,411.0	2,451.6
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	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(900.0)	(900.0)	(900.0)	(900.0)	(900.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(79.7)	-	-	-	-
Others	(979.4)	(664.6)	(521.6)	(556.3)	(584.1)
Cash flow from financing	(1,059.1)	(664.6)	(521.6)	(556.3)	(584.1)
Net cash flow	6,466.8	(305.7)	125.5	268.5	435.8
Net cash/(debt) b/f	(14,698.9)	(8,887.5)	(9,484.0)	(10,020.0)	(10,449.1)
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, AmlInvestment Bank Bhd estimates

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