



## Company report

## SAPURA ENERGY

(SAPE MK EQUITY, SAEN.KL)

14 Dec 2021

More losses and impairments ahead

**SELL**

(Downgraded)

Alex Goh

alexgoh@ambankgroup.com

03-2036 2280

Rationale for report: Company results

Price	RM0.05
Fair Value	RM0.03
52-week High/Low	RM0.17/RM0.05

## Key Changes

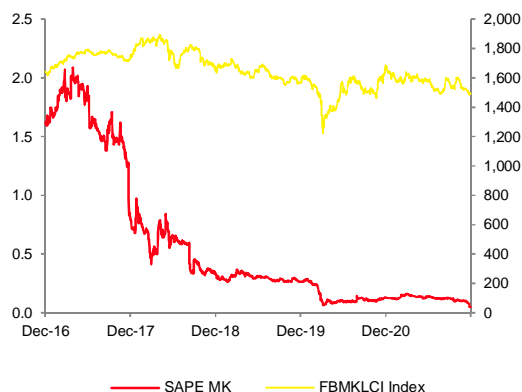
Fair value	⬇️
EPS	⬇️

YE to Jan	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	5,347.8	4,893.3	5,413.1	6,587.2
Core net profit (RM mil)	(160.9)	(3,122.8)	(1,565.9)	(620.8)
FD Core EPS (sen)	(1.0)	(19.6)	(9.8)	(3.9)
FD Core EPS growth (%)	(391.7)	1,841.2	(49.9)	(60.4)
Consensus Net Profit (RM mil)	-	(1,397)	(226.8)	(154.9)
DPS (sen)	-	-	-	-
PE (x)	nm	-	nm	nm
EV/EBITDA (x)	13.1	nm	nm	102.4
Div yield (%)	-	-	-	-
ROE (%)	(1.8)	(42.3)	(31.1)	(15.7)
Net Gearing (%)	110.0	225.8	347.0	427.0

## Stock and Financial Data

Shares Outstanding (million)	15,939.2
Market Cap (RM mil)	797.0
Book Value (RM/share)	0.56
P/BV (x)	0.1
ROE (%)	(1.8)
Net Gearing (%)	110.0
Major Shareholders	PNB(40.0%) Sapura Holdings(16.3%)
Free Float	21.8
Avg Daily Value (RM mil)	4.0

Price performance	3mth	6mth	12mth
Absolute (%)	(60.0)	(63.0)	(61.5)
Relative (%)	(58.0)	(61.0)	(56.7)



## Investment Highlights

- We downgrade Sapura Energy (Sapura) to SELL from HOLD with a lower fair value of RM0.03/share (from an earlier RM0.11/share), pegged to a 50% discount to our revised FY22F NTA of 7 sen. This valuation also incorporates a neutral ESG rating of 3 stars.
- The FY22F NTA discount reflects our sharply deteriorated loss forecasts, up by 79% to RM3.1bil for FY22F and 22x to RM1.6bil for FY23F due to lower engineering & construction (E&C) progress and cost provisions for E&C and drilling divisions. These lower revenue and margin assumptions also reversed FY24F earnings of RM71mil to a loss of RM621mil.
- Sapura's 9MFY22 loss of RM2,283mil was significantly below expectations vs. our earlier FY22F loss of RM1.7bil and street's RM1.4bil. This largely stemmed from slower E&C construction progress, RM212mil asset impairments and RM242mil provisions for foreseeable losses from Covid-19 delays and site variations.
- While management is attempting to claim the additional costs of RM300mil arising from Covid-19 delays for the Yunlin offshore wind farm and ONGC's KG-DWN 98/2 projects, there is no certainty in recovery as we understand that Sapura's clients are also struggling under unprecedented scenarios amid ongoing movement restrictions and volatile commodity prices.
- Together with liquidity issues arising from vendors' tighter credit policies, the operational landscape for Sapura remains bleak on uncertain delivery and margin prospects over the next 2 quarters.
- While the group's short-term debt of RM7bil will be reclassified back to long-term debt after receiving the banks' waiver from a breach of covenant terms for RM10bil debt, this issue could persist over the next few quarters as Sapura is expected to register negative EBITDA for the next 2 years.
- The group's 3QFY22 losses halved QoQ to RM669mil from a doubling in revenues from the E&C division, 4x surge in operation and maintenance and 32% increase in drilling from higher rig utilization.
- This was partly offset by asset impairments of RM212mil and Covid-19 costs of RM131mil in 3QFY22. Additionally, the exploration and production segment turned around from a 2QFY22 loss of RM86mil to a 3QFY22 pretax profit of RM15mil despite average crude lifting price rising 10% QoQ to US\$80/barrel as production slid slightly by 3% to 3.5mil barrels of oil equivalent.

- Even though job prospects are improving across the globe on a higher crude oil price environment, the pandemic's adverse impact on Sapura's earnings delivery appears to be substantively worse than other service providers such as Dialog Group and Yinson operating in different value chain of the sector.
- In the absence of substantive 3QFY22 new contract wins, the group's remaining order book has shrunk by 32% QoQ to RM7.6bil. This translates to an uncomfortably low 1.5x FY22F revenue given the group's current liquidity crisis. Thus suppliers are wary of extending further credit with Sapura's trade payables rising by 24% to RM3.3bil from 4QFY21. Furthermore, the group may not have the financial capacity to undertake new jobs notwithstanding Sapura's bid submissions decreasing by 37% QoQ to RM22bil with management focusing on key geographical areas and market segments.
- While the group has drawn up a restructuring task force to explore asset divestments to improve liquidity, this may imply further impairments to RM8.9bil fixed assets as well as RM5bil goodwill on past acquisitions over the coming quarters. Even without incorporating any further asset impairments, our substantively higher FY22F–FY24F losses have already reversed NTA to a negative 3.7 sen by FY24F.
- The stock currently trades at a justified discount of 30% to FY22F net tangible assets given the prospects of further losses. Any equity-raising exercise would be highly dilutive to existing shareholders at the current battered share price.

## EXHIBIT 1: RESULTS SUMMARY

YE 31 Jan (RMmil)	9MFY21	9MFY22	YoY (%)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)
Revenue	3,904.3	3,673.6	(5.9)	1,328.4	747.1	1,455.9	94.9	9.6
<b>EBITDA</b>	<b>874.8</b>	<b>(1,262.3)</b>	<b>(&gt;100)</b>	<b>242.6</b>	<b>(1,224.8)</b>	<b>(216.0)</b>	<b>(82.4)</b>	<b>(&gt;100)</b>
Net interest expense	(349.7)	(380.7)	8.9	(121.9)	(106.1)	(121.1)	14.2	(0.6)
Depreciation & amortization	(405.2)	(604.8)	49.2	(136.7)	(123.5)	(350.5)	>100	>100
Associates & JV	28.7	58.4	103.9	80.9	(71.5)	66.4	(>100)	(18.0)
Net forex gain/loss	28.7	(16.6)	(>100)	(6.0)	55.0	(27.9)	(>100)	>100
Exceptionals	0.0	6.1		0.0	0.8	0.0	(98.3)	
<b>Pre-tax Profit</b>	<b>148.6</b>	<b>(2,183.2)</b>	<b>(&gt;100)</b>	<b>59.0</b>	<b>(1,470.0)</b>	<b>(649.2)</b>	<b>(55.8)</b>	<b>(&gt;100)</b>
Taxation	(93.5)	(99.1)	6.0	(41.5)	(41.9)	(18.9)	(54.9)	(54.4)
Minorities	0.1	(1.0)	(>100)	(0.3)	(4.9)	(1.2)	(74.9)	>100
<b>Net Profit</b>	<b>55.2</b>	<b>(2,283.3)</b>	<b>(&gt;100)</b>	<b>17.2</b>	<b>(1,516.9)</b>	<b>(669.3)</b>	<b>(55.9)</b>	<b>(&gt;100)</b>
EPS (sen)	0.35	(14.30)	(>100)	0.11	-9.50	-4.19	(55.9)	(>100)
Gross DPS (sen)	0.0	0.0		0.0	0.0	0.0		
BV/Share (RM)	0.58	0.43	(25.9)	0.58	0.48	0.43	(10.4)	(25.9)
EBITDA margin (%)	22.4	(34.4)		18.3	(163.9)	(14.8)		
Pretax margin (%)	3.8	(59.4)		4.4	(196.8)	(44.6)		
Effective tax rate (%)	62.9	(4.5)		70.3	(2.9)	(2.9)		

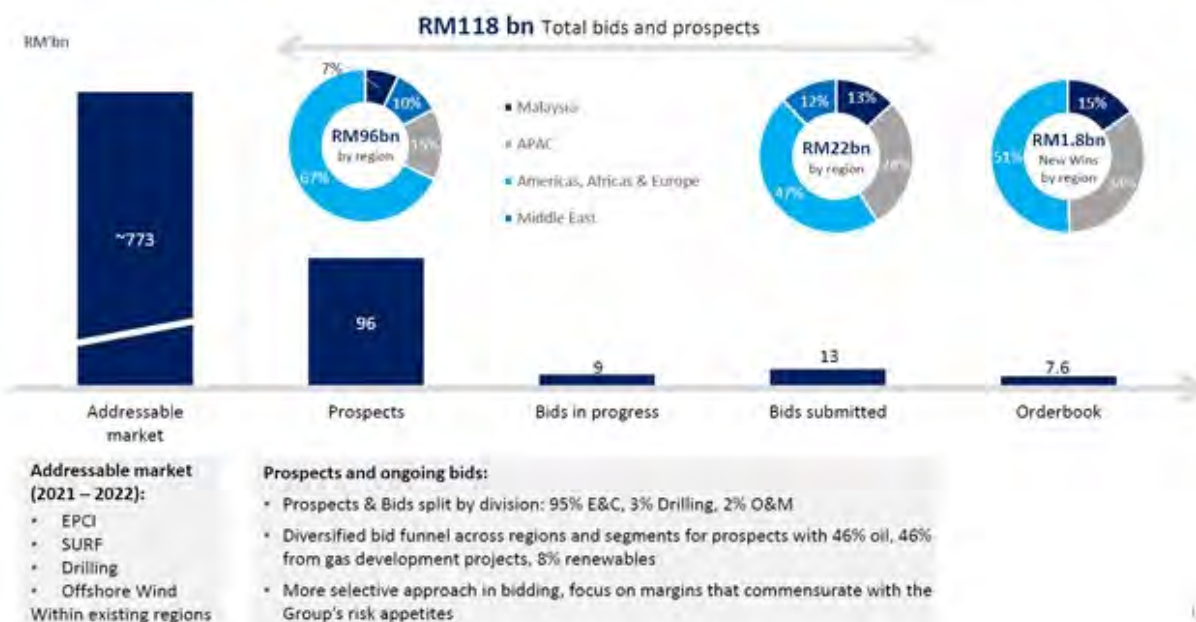
Source: Bursa Malaysia

## EXHIBIT 2: RESULTS BREAKDOWN

YE 31 Jan (RMmil)	9MFY21	9MFY22	YoY (%)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)
Engineering & Construction	2,776.8	2,702.6	(2.7)	924.1	514.9	1,054.0	>100	14.1
Operation & Maintenance	621.5	307.9	(50.5)	285.5	37.5	155.6	>100	(45.5)
Drilling	561.5	769.7	37.1	133.2	223.6	294.3	31.7	>100
Corporate expenses and elimination	(55.5)	(106.5)	91.9	(14.4)	(28.8)	(48.0)	66.7	>100
<b>Revenue</b>	<b>3,904.3</b>	<b>3,673.6</b>	<b>(5.9)</b>	<b>1,328.4</b>	<b>747.1</b>	<b>1,455.9</b>	<b>94.9</b>	<b>9.6</b>
Engineering & Construction	367.3	(1,596.0)	(>100)	37.0	(1,120.3)	(526.8)	(53.0)	(>100)
Operation & Maintenance	130.6	(185.0)	(>100)	118.9	(187.1)	(1.1)	(99.4)	(>100)
Drilling	(120.2)	(5.8)	(95.1)	(72.8)	(9.0)	(18.9)	>100	(74.0)
Exploration & Production	(26.9)	(19.1)	(29.1)	32.8	(85.9)	14.8	(>100)	(54.8)
Corporate expenses and elimination	(202.2)	(377.3)	86.6	(56.8)	(67.8)	(117.2)	72.8	>100
<b>Pre-tax profit</b>	<b>148.6</b>	<b>(2,183.2)</b>	<b>(&gt;100)</b>	<b>59.0</b>	<b>(1,470.0)</b>	<b>(649.2)</b>	<b>(55.8)</b>	<b>(&gt;100)</b>
<b>Pre-tax margins (%)</b>								
Engineering & Construction	13.2	(59.1)		4.0	(>100)	(50.0)		
Operation & Maintenance	21.0	(60.1)		n/a	(>100)	(0.7)		
Drilling	(21.4)	(0.8)		(54.7)	(4.0)	(6.4)		

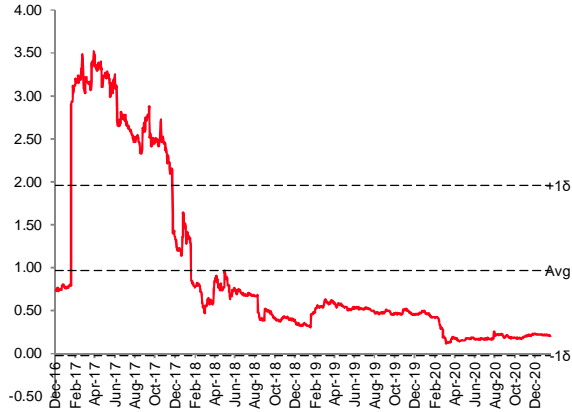
Source: Bursa Malaysia

## EXHIBIT 3: SAPURA'S TENDER BOOK BREAKDOWN

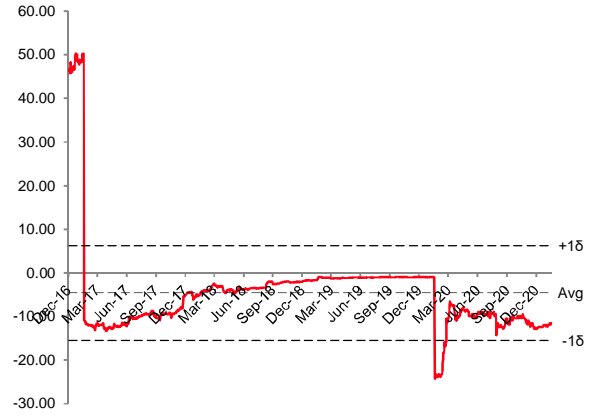


Source: Sapura slides

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



**EXHIBIT 6: ESG RATING**

Overall	★	★	★		
Zero-carbon initiatives	★	★	★		
Health & safety compliance	★	★	★	★	★
Shareholder accountability	★	★	★		
Social responsibility	★	★	★	★	
Pollution control	★	★	★		
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★			
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jan)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	6,449.2	5,347.8	4,893.3	5,413.1	6,587.2
EBITDA	1,083.2	809.3	(3,092.6)	(1,125.6)	159.4
Depreciation/Amortisation	524.6	543.2	570.4	598.9	628.8
Operating income (EBIT)	558.5	266.2	(3,663.0)	(1,724.5)	(469.4)
Other income & associates	155.0	158.8	109.5	276.6	271.4
Net interest	(645.5)	(456.7)	(555.1)	(612.2)	(618.8)
<b>Exceptional items</b>	<b>(4,619.7)</b>	-	-	-	-
Pretax profit	(4,551.8)	(31.7)	(4,108.5)	(2,060.1)	(816.7)
Taxation	(12.8)	(128.5)	986.0	494.4	196.0
<b>Minorities/pref dividends</b>	-	<b>(0.6)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.1)</b>
Net profit	(4,564.6)	(160.9)	(3,122.8)	(1,565.9)	(620.8)
Core net profit	55.2	(160.9)	(3,122.8)	(1,565.9)	(620.8)
Balance Sheet (RMmil, YE 31 Jan)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	9,638.9	9,218.6	9,548.3	9,849.4	10,120.6
Intangible assets	4,947.8	4,927.7	4,681.4	4,447.3	4,224.9
<b>Other long-term assets</b>	<b>4,179.0</b>	<b>4,331.0</b>	<b>4,424.2</b>	<b>4,643.3</b>	<b>4,859.1</b>
Total non-current assets	18,765.7	18,477.3	18,653.8	18,939.9	19,204.6
Cash & equivalent	772.4	489.0	(755.0)	(2,350.2)	(3,068.2)
Stock	383.9	423.3	364.8	403.6	491.1
Trade debtors	2,657.6	3,212.5	2,451.3	2,711.7	3,299.9
<b>Other current assets</b>	<b>168.8</b>	<b>88.4</b>	<b>90.1</b>	<b>91.9</b>	<b>93.8</b>
Total current assets	3,982.7	4,213.1	2,151.2	857.0	816.5
Trade creditors	2,703.0	2,956.7	2,710.0	2,997.9	3,648.1
Short-term borrowings	3,145.7	3,263.5	3,916.1	4,112.0	4,317.6
<b>Other current liabilities</b>	<b>480.2</b>	<b>306.5</b>	<b>(283.9)</b>	<b>(48.6)</b>	<b>98.0</b>
Total current liabilities	6,328.8	6,526.6	6,342.2	7,061.2	8,063.6
Long-term borrowings	7,110.4	7,068.7	8,482.5	8,312.8	8,146.6
<b>Other long-term liabilities</b>	<b>134.4</b>	<b>156.7</b>	<b>164.6</b>	<b>172.8</b>	<b>181.5</b>
<b>Total long-term liabilities</b>	<b>7,244.8</b>	<b>7,225.5</b>	<b>8,647.1</b>	<b>8,485.6</b>	<b>8,328.0</b>
Shareholders' funds	9,182.5	8,947.2	5,824.4	4,258.5	3,637.7
Minority interests	(7.9)	(8.8)	(8.5)	(8.4)	(8.3)
BV/share (RM)	0.58	0.56	0.36	0.27	0.23
Cash Flow (RMmil, YE 31 Jan)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	(4,551.8)	(31.7)	(4,108.5)	(2,060.1)	(816.7)
Depreciation/Amortisation	(524.6)	(543.2)	(570.4)	(598.9)	(628.8)
Net change in working capital	639.3	(433.8)	(19.2)	222.2	119.3
<b>Others</b>	<b>5,696.3</b>	<b>2,323.6</b>	<b>3,061.9</b>	<b>2,880.8</b>	<b>2,630.5</b>
Cash flow from operations	1,259.2	1,314.9	(1,636.2)	443.9	1,304.3
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	-	-	-	-	-
<b>Others</b>	<b>(664.6)</b>	<b>(492.4)</b>	<b>(554.5)</b>	<b>(605.6)</b>	<b>(607.2)</b>
<b>Cash flow from financing</b>	<b>(664.6)</b>	<b>(492.4)</b>	<b>(554.5)</b>	<b>(605.6)</b>	<b>(607.2)</b>
<b>Net cash flow</b>	<b>(305.4)</b>	<b>(77.5)</b>	<b>(3,090.7)</b>	<b>(1,061.6)</b>	<b>(202.9)</b>
<b>Net cash/(debt) b/f</b>	<b>(8,887.5)</b>	<b>(9,483.7)</b>	<b>(9,843.2)</b>	<b>(13,153.6)</b>	<b>(14,775.0)</b>
Net cash/(debt) c/f	(9,192.8)	(9,561.2)	(12,933.9)	(14,215.2)	(14,977.9)
Key Ratios (YE31 Jan)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	41.2	(17.1)	(8.5)	10.6	21.7
EBITDA growth (%)	(27.2)	(25.3)	(482.1)	(63.6)	(114.2)
Pretax margin (%)	(70.6)	(0.6)	(84.0)	(38.1)	(12.4)
Net profit margin (%)	(70.8)	(3.0)	(63.8)	(28.9)	(9.4)
Interest cover (x)	0.9	0.6	(659.9%)	(281.7%)	(75.9%)
Effective tax rate (%)	0.3	405.1	24.0	24.0	24.0
Dividend payout (%)	nm	nm	nm	nm	nm
Debtors turnover (days)	154	200	211	174	167
Stock turnover (days)	21	28	29	26	25
Creditors turnover (days)	141	193	211	192	184

Source: Company, AmInvestment Bank Bhd estimates



**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.