

PP14767/09/2012(030761)

SapuraKencana Petroleum Berhad

“Remains Optimistic despite Challenging FY16”

Results Review

- **Actual vs. expectations.** SapuraKencana Petroleum Berhad (SapuraKencana) 1Q16 core net profit of RM261 million (-21% y-o-y), excluding exceptional item, came in line with ours and consensus estimates respectively, accounting 20% and 24% of ours and consensus full year net profit forecast, thanks to higher PBT contribution by drilling segment (+27% y-o-y) that offset fragile contribution from E&C (-18% y-o-y) and energy segment (-70% y-o-y).
- **Dividend.** The group has declared an interim dividend of 1.35sen/share for the quarter, translating into a dividend payout ratio of 30%, slightly lower than 1Q15 payout of 43%.
- **Top line.** Despite the improvement by drilling segment (+19% y-o-y), SapuraKencana 1Q16 revenue dropped to RM2.3 billion (-8% y-o-y) mainly due to lower contribution from energy segment which fell by 44% y-o-y to RM416 million impacted by lower average price per barrel coupled with the decline of oil reserves in the production Sharing Contract (PSC). E&C segment also recorded a weaker revenue of RM1.1 billion (-4% y-o-y) due to lower scope of works for the existing contract in tandem with the clients' planned activities.
- **Bottom line.** Excluding one-off item in 1Q15, SapuraKencana 1Q16 core PBT was downed by 27% y-o-y to RM336 million hammered by weaker-than-expected PBT contribution from both the E&C and energy segment which slipped by 18% y-o-y and 70% y-o-y respectively. However, PBT contribution from drilling segment showed a significant improvement (+27% y-o-y) lifted by the commencement of contract for new deliveries.

Tuesday, June 16, 2015

BUY (TP: RM2.95)

Current Price (RM)	RM2.42
New Target Price (RM)	RM2.95
Previous Target Price (RM)	RM3.22
Previous Recommend.	BUY
Upside To Target Price	22%
Dividend Yield (FY17)	1%

Stock Code

Bloomberg	SAKP MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,992
Market Cap (RM mn)	15,519
YTD Chg In Share Price	12%
Beta (x)	1.80
52-week Hi/Lo (RM)	4.51 2.02
3M Average Volume (shrs)	11.23mn
Estimated Free Float	22%

Major Shareholders

Sapura Holdings	17%
STSB	16%
EPF	15%
Khasera Baru	9%

Note

OCSS - Offshore Construction & Subsea Services
DES - Drilling and Energy Services
Fab & HUC - Fabrication, Hook-up Commissioning
& Offshore Vessel Support
E&C - Engineering and Construction

Overall, the group's core PBT margin stood at 15% as at 1Q16, lower against 1Q15 margin 19%.

- **Solid orderbook as a shield.** We remain positive on the long-term outlook of SapuraKencana despite facing downside risk of the challenging oil and gas period including Petronas' decision to cut capex by 15% in 2015. The management guided that the group's current orderbook is still intact at RM24.5 billion as at May 2015 (2.5x of FY15 revenue) with 26% (RM6.4 billion) and 21% (RM5.1 billion) would be burned-out in FY16 and FY17 respectively. Geographical wise, the orderbook breakdown comprise of 51% (RM12.5 billion) from South America, 31% (RM7.6 billion) from Malaysia, 12% (RM2.9 billion) from other SEA countries and the rest are from Australia, Africa as well as North America. Moreover, the management also guided that the size of their tender book is shoulder-to-shoulder with the current order book value.
- **Multiple contracts wins secure in May 2015.** SapuraKencana has successfully secured multiple transportation and installation (T&I) work in Mexico, Indonesia, Vietnam and India with a combined value of approximately USD269 million (RM969 million). The breakdown of awards consist of; i) Mexico - the contract of installation of structures and superstructures of fixed marine platforms, pipe laying and lifting of major power generation equipment worth between USD41.2 million (RM148.3 million) and USD98.1 million (RM353.2 million); ii) Indonesia - the contract for the work of offshore and onshore pipeline installation for the construction of 14" x 200km - Kalija 1 Natural Gas Transmission Pipeline of Kepodang worth USD97.5 million (RM351.0 million); and iii) Vietnam and India - the contract for the provision of services for the Installation of nearshore, offshore pipeline and facilities and wellhead facilities for Thai Binh - Ham Rong project in Offshore Vietnam and a contract for the provision of transport and installation services for the PB Gas Lift Riser Replacement project at offshore north-west of Mumbai, India. The total value of the awards in Vietnam and India is USD73.5 million (RM264.6 million).
- **Officially return to Syariah list.** Finally, SapuraKencana has been admitted back into the Securities Commission's (SC) Syariah-Compliance list in May 2015 review after being removed from the list in November 2014 review. To recap, SapuraKencana has signed a USD2.3 billion or RM8.2 billion equivalent Islamic facility agreements in January 2015 with 11 local, regional and international banks to refinance and convert its conventional borrowings. Post-conversion, the group's total conventional borrowings over total assets had shrunk to 29% from 49% and hence meeting SC's Syariah requirement of below 33% threshold.
- **Change to forecast.** We made adjustment to our earnings by cutting our FY16 and FY17 earnings forecast by 21% and 15% respectively on the assumption of lacklustre outlook of global oil prices which will likely to impact the Energy segment. Nonetheless, FY17 earnings are projected to increase by 17% y-o-y lifted by i) steady contribution from drilling segment and ii) potential contribution from Vietnam's E&P business.
- **Valuation & recommendation.** We re-value our target price for SapuraKencana at RM2.95 based on 15x PER (30% discount to last 3-years average low PER) pegged to FY17 EPS of 20sen and

Results Review - SapuraKencana Petroleum Berhad

reiterate our **BUY** call underpinned by i) solid orderbook of approximately RM24.5 billion, which one of the largest in our oil and gas space and ii) healthy contribution from Brazil's operation.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.42	20	21	13.7	12.7	1.2	1.1	13	1	2.95	Buy
Wah Seong	Dec	1.32	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.15	8	10	15.7	11.7	1.0	1.0	4	2	1.32	Hold
Dialog Group	Jun	1.64	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.57	7	7	9.5	9.4	0.7	0.7	9	NA	0.56	Sell
MMHE	Dec	1.16	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	20.46	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.40	24	28	10.8	9.3	2.4	2.1	22	3	2.64	Hold
UMW-OG	Dec	1.71	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.44	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.51	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.24	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.27	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.49	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.44	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.52	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Jan (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	6,912	8,379	9,943	9,545	9,736
EBIT	922	1,846	3,107	1,527	1,655
Net interest	(227)	(444)	(651)	(620)	(633)
Pre-tax profit	830	1,208	1,616	1,289	1,509
Taxation	(166)	(84)	(183)	(283)	(332)
Net Profit	525	1,087	1,433	1,005	1,177
EPS (sen)	10	19	24	17	20
EBIT Margin	13%	22%	31%	16%	17%
Pre-tax margin	12%	14%	16%	14%	16%
PER (x)	27.9	22.7	11.2	14.4	12.3
P/BV (x)	2.3	1.4	1.2	1.2	1.1
DPS (sen)	NA	NA	4	3	3
Dividend Yield	NA	NA	2%	1%	1%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Jan (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	2,444	2,395	2,258	-6%	-8%	2,444	2,258	-8%
EBIT	867	668	795	19%	-8%	867	795	-8%
Interest expenses	(173)	(153)	(180)	17%	4%	(173)	(180)	4%
Associates	94	59	43	-27%	-54%	94	43	-54%
PBT	639	39	336	756%	-47%	639	336	-47%
Taxation	(129)	90	(75)	-184%	-42%	(129)	(75)	-42%
Net Profit	509	129	261	102%	-49%	509	261	-49%
EPS	9	2	4	102%	-49%	9	4	-49%
EBIT Margin	35%	28%	35%			35%	35%	
Pre-tax margin	26%	2%	15%			26%	15%	
Effective tax rate	20%	-229%	22%			20%	22%	

Source: Bursa Malaysia, M&A Securities

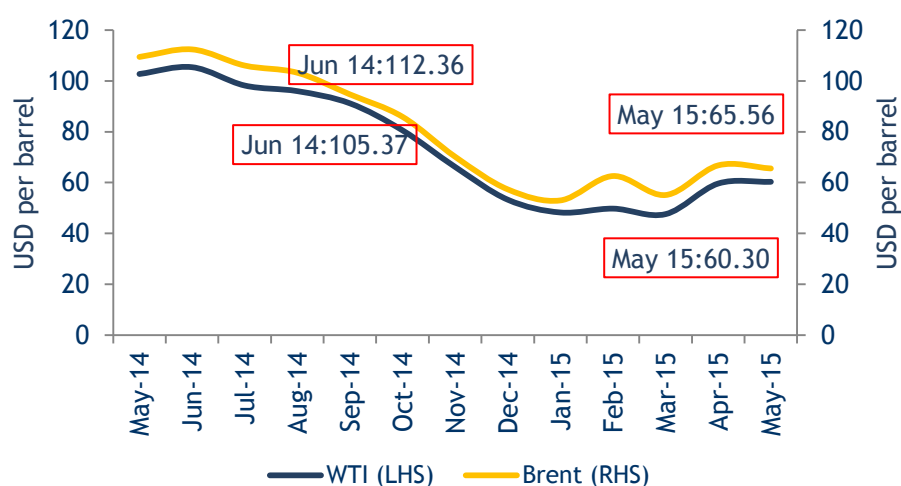
Table 4: Segmental Analysis

YE: Jan (RM million)	1Q15	1Q16	y-o-y	3M15	3M16	y-o-y
Revenue						
E&C	1,150	1,101	-4%	1,150	1,101	-4%
Drilling	645	770	19%	645	770	19%
Energy	736	416	-44%	736	416	-44%
PBT						
E&C	227	187	-18%	227	187	-18%
Drilling	157	199	27%	157	199	27%
Energy	376	59	-84%	376	59	-84%

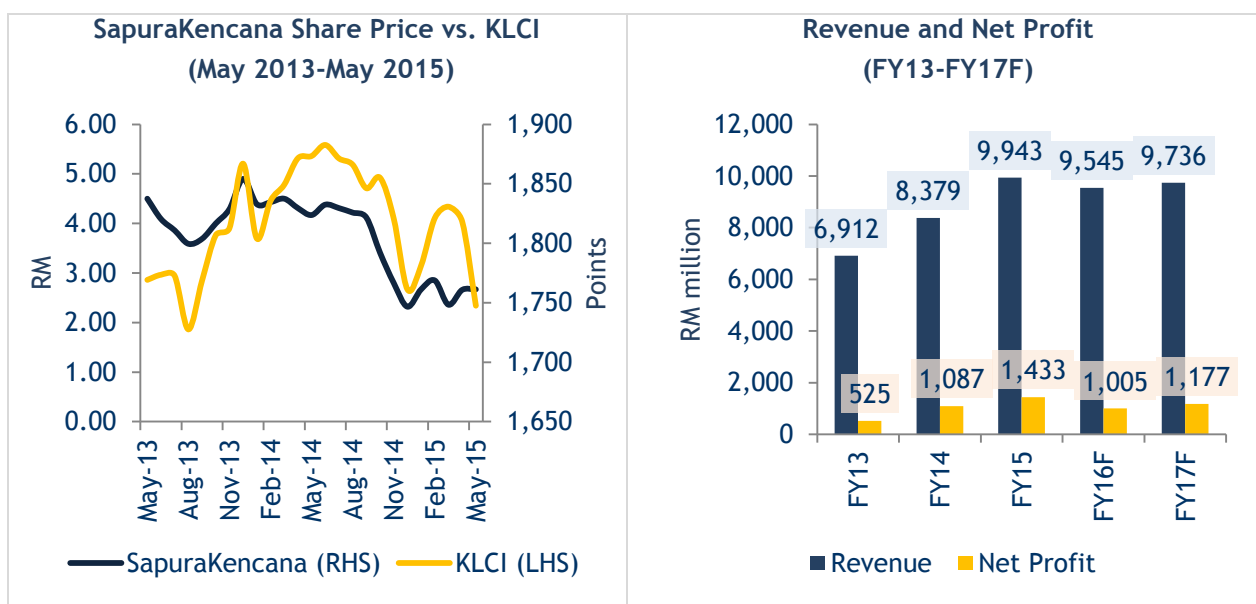
Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price

(May 2014-May 2015)



Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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