

PP14767/09/2012(030761)

SapuraKencana Petroleum Berhad

“New Awards from Mumbai”

SapuraKencana’s Petroleum Berhad (SapuraKencana) has been awarded a new contract from Oil and Natural Gas Corporation Limited (ONGC) worth USD273 million (RM1.04 billion) which could replenish the group’s orderbook by 4% to RM25.5 billion. We believe the SapuraKencana’s outlook is crystal clear despite facing a downside risk of the challenging oil and gas period as the group already pocketed RM2.0 billion of new contract wins in 2015. We value SapuraKencana at RM2.95 and the stock is a BUY.

- Grab ONGC jobs.** SapuraKencana’s wholly-owned subsidiary company, SapuraKencana HL Sdn Bhd has secured a contract worth USD273 million (RM1.04 billion) from ONGC for the Mumbai High South Redevelopment (HSR) Phase - III Project on a turnkey basis. The overall project is scheduled to be completed by April 2017.
- Detail of contract.** The scope of work consist of surveys, design, engineering, procurement, fabrication, transport and installation, hook-up, and commissioning of three new Well Head platforms, about 116 km of submarine pipelines, approximately 7.5 km of submarine cable, modification works on existing platforms including clamp-on works on two platforms, subsea repair works on three jackets and D1C pile remedial works.
- Boost orderbook to RM25.5 billion.** We are positive on the new contract from ONGC which could replenish the group’s orderbook by 4% to RM25.5 billion (2.6x of FY15 revenue). We estimate the total RM1.04 billion contracts secured in India may potentially contribute RM145 million to SapuraKencana’s bottom-line, based on FY16 PBT margin assumption of 14%. The management also guided that the size of their tender

Wednesday, July 15, 2015

BUY (TP: RM2.95)

Current Price (RM)	RM2.32
New Target Price (RM)	RM2.95
Previous Target Price (RM)	RM3.22
Previous Recommend.	BUY
Upside To Target Price	27%
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)	14,681
YTD Chg In Share Price	6%
Beta (x)	1.83
52-week Hi/Lo (RM)	4.44 2.02
3M Average Volume (shrs)	10.73mn
Estimated Free Float	19%

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

Company Update - SapuraKencana Petroleum

book is shoulder-to-shoulder with the current order book value

- **Change to forecast.** We maintain our FY16 and FY17 earnings for now as the new contract secured is within our new job wins projection. 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 reiterate 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 reiterate our **BUY** call underpinned by i) solid orderbook of approximately RM25.5 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	2.32	20	21	13.7	12.7	1.2	1.1	13	1	2.95	Buy
Wah Seong	Dec	1.36	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.08	8	10	15.7	11.7	1.0	1.0	4	2	1.32	Hold
Dialog Group	Jun	1.59	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.51	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	20.54	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.18	24	28	10.8	9.3	2.4	2.1	22	3	2.64	Hold
UMW-OG	Dec	1.55	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.42	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.54	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.20	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.12	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.36	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.53	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.58	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		

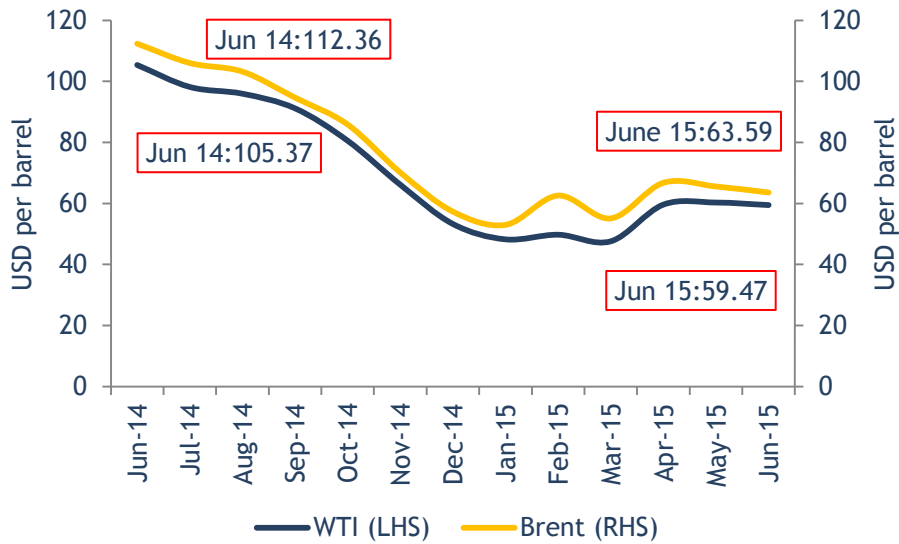
Source: Bloomberg, M&A Securities

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%

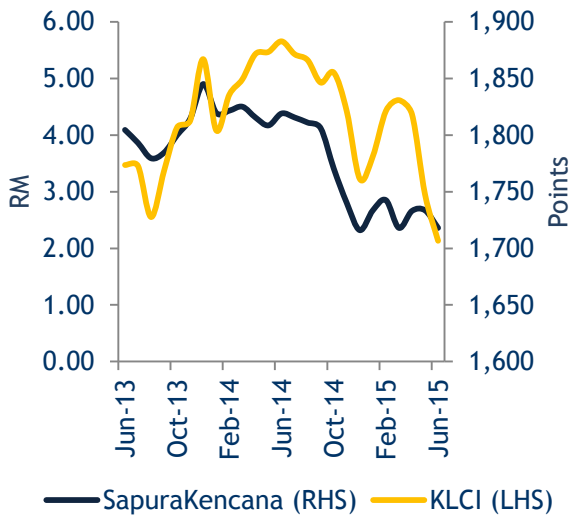
Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(June 2014-June 2015)

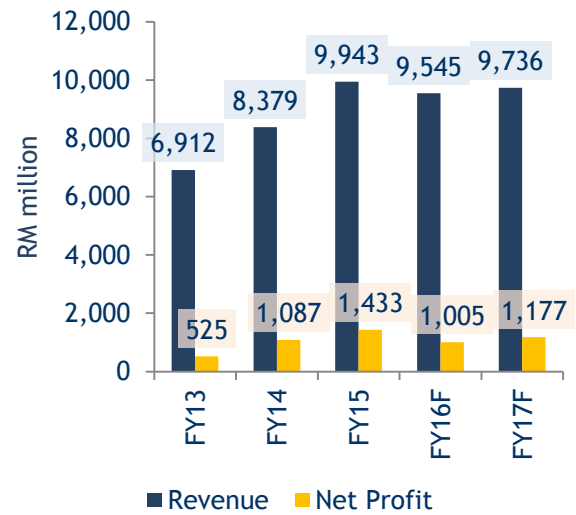


Source: Bloomberg

SapuraKencana Share Price vs. KLCI
(June 2013-June 2015)



Revenue and Net Profit
(FY13-FY17F)



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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