

PP14767/09/2012(030761)

SapuraKencana Petroleum Berhad

“Solid Orderbook as a Shield”

Results Review

- Actual vs. expectations.** SapuraKencana Petroleum Berhad (SapuraKencana) 6M16 core net profit of RM601 million, excluding exceptional item, came in above ours and consensus estimates respectively, accounting 60% and 57% of ours and consensus full year net profit forecast. The improvement in 6M16 earnings was driven by stronger-than-expected PBT contribution from E&C (+1% y-o-y) and drilling (+33% y-o-y) segment that offset the fragile contribution from energy segment (-64% y-o-y).
- Dividend.** No dividend was declared during the quarter.
- Top line.** SapuraKencana 6M16 revenue dropped marginally to RM5.1 billion (-1% y-o-y) mainly due to the lower contribution from energy segment which fell by 33% y-o-y to RM866 million impacted by lower average price of oil per barrel coupled with the decline of oil reserves in the production Sharing Contract (PSC) blocks. Contrariwise, E&C and drilling segment registered stronger revenue of RM2.7 billion (+0.4% y-o-y) an RM1.6 billion (+22% y-o-y) respectively due to the higher contribution from newly executed international project as well as the commencement of contract at its new rigs within the period.
- Bottom line.** SapuraKencana posted higher core PBT of RM937 million (+1% y-o-y) in 6M16, excluding provision for impairment in oil and gas properties of RM540 million, thanks to the better-than-expected PBT contribution from both the E&C and drilling segment which rose by 1% y-o-y and 33% y-o-y respectively, in line with the increase in revenue as mentioned above. Overall, the group's core PBT margin stood at 19% as at 6M16, higher against 6M16 margin of 18%.

Thursday, September 17, 2015

BUY (TP: RM2.55)

Current Price (RM)	RM1.87
New Target Price (RM)	RM2.55
Previous Target Price (RM)	RM2.95
Previous Recommend.	BUY
Upside To Target Price	36%
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)	10,906
YTD Chg In Share Price	-22%
Beta (x)	2.06
52-week Hi/Lo (RM)	4.24 1.36
3M Average Volume (shrs)	13.10mn
Estimated Free Float	19%

Major Shareholders

Sapura Holdings	17%
STSB	16%
EPF	15%
Khasera Baru	10%

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

- **Strong visibility on RM23 billion orderbook.** 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 RM23 billion as at July 2015 (2.3x of FY15 revenue) with 20% (RM4.6 billion) and 26% (RM5.9 billion) would be burned-out in FY16 and FY17 respectively. Geographical wise, the orderbook breakdown is comprise of 54% (RM12.4 billion) from Americas, 27% (RM6.2 billion) from Malaysia, 15% (RM3.5 billion) from Asia Pacific region and the rest are from Australia as well as Africa.
- **Latest development.** SapuraKencana's wholly-owned subsidiary company, SapuraKencana HL Sdn Bhd has secured a contract worth USD273 million (RM1.04 billion) in July 2015 from ONGC for the Mumbai High South Redevelopment (HSR) Phase - III Project on a turnkey basis. The overall project is scheduled for completion by April 2017. The scope of work is 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.
- **Change to forecast.** We keep unchanged our earnings forecast as we already factored in lower earnings contribution from energy segment in FY16 in line with the lacklustre outlook of global oil prices which are unlikely to recover in the medium term. 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.** SapuraKencana is valued at RM2.55 based on 13x PER (40% discount to last 3-years average low PER of 21x) pegged to FY17 EPS of 20sen and reiterate our **BUY** call underpinned by i) solid orderbook of approximately RM23 billion, one of the largest in our oil and gas space and ii) healthy and steady contribution from its Brazilian 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	1.87	19	20	13.2	12.3	1.1	1.0	10	1	2.55	Buy
Wah Seong	Dec	1.24	14	15	9.5	8.8	0.9	0.9	13	4	1.15	Hold
Bumi Armada	Dec	0.91	7	10	15.3	11.1	1.0	0.9	4	1	1.06	Buy
Dialog Group	Jun	1.60	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
Alam Maritim	Dec	0.49	5	6	9.3	7.9	0.5	0.5	7	NA	0.56	Hold
MMHE	Dec	1.06	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	21.72	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.66	21	24	9.7	8.7	1.8	1.4	22	3	1.80	Buy
UMW-OG	Dec	1.16	9	11	16.2	12.4	0.9	0.8	7	1	0.90	Hold
Perisai	Dec	0.34	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.54	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.23	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	1.06	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.19	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	1.88	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.50	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	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	11.1	9.5
P/BV (x)	2.3	1.4	1.2	0.8	0.8
DPS (sen)	NA	NA	4	3	3
Dividend Yield	NA	NA	2%	2%	1%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

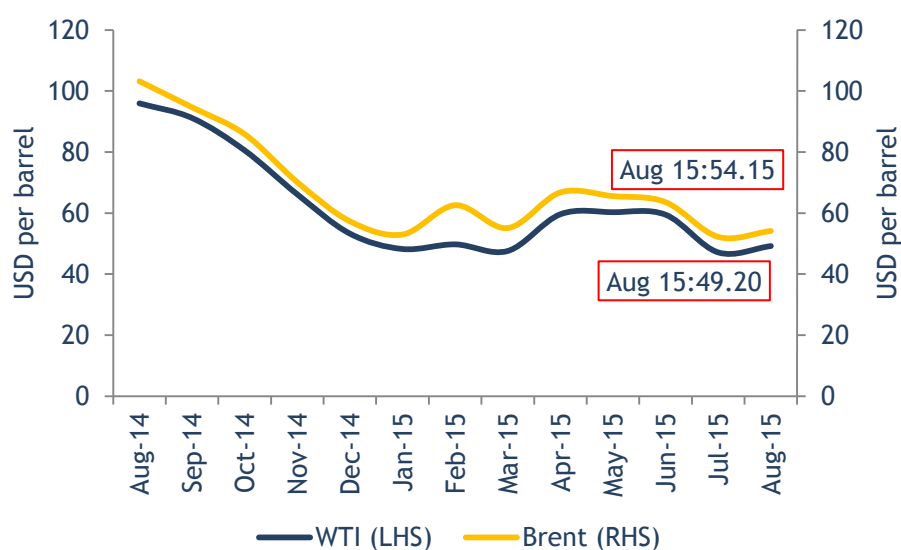
YE: Jan (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue	2,695	2,258	2,804	24%	4%	5,138	5,062	-1%
EBIT	802	795	951	20%	19%	1,669	1,746	5%
Interest expenses	(159)	(180)	(174)	-3%	10%	(342)	(353)	3%
Associates	35	43	42	-4%	17%	129	85	-34%
PBT	527	336	61	-82%	-88%	1,166	397	-66%
Taxation	(81)	(75)	43	-157%	-154%	(209)	(32)	-85%
Net Profit	446	261	104	-60%	-77%	955	365	-62%
EPS	7	4	2	-60%	-77%	16	6	-62%
EBIT Margin	30%	35%	34%			32%	34%	
Pre-tax margin	20%	15%	2%			23%	8%	
Effective tax rate	15%	22%	-71%			18%	8%	

Source: Bursa Malaysia, M&A Securities

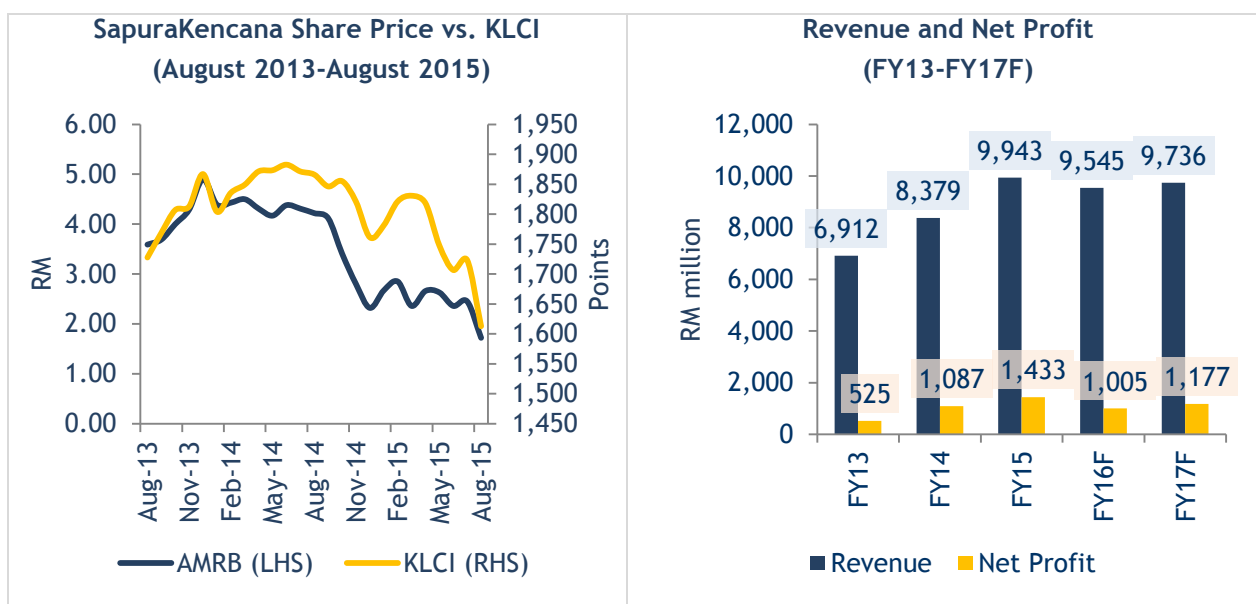
Table 4: Segmental Analysis

YE: Jan (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
<u>Revenue</u>								
E&C	1,578	1,101	1,639	49%	4%	2,728	2,740	0.4%
Drilling	630	770	784	2%	24%	1,275	1,554	22%
Energy	552	416	450	8%	-18%	1,288	866	-33%
<u>PBT</u>								
E&C	283	187	331	76%	17%	510	518	1%
Drilling	161	199	222	12%	38%	318	421	33%
Energy	142	59	(458)	-872%	-421%	518	(417)	-180%

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(August 2014-August 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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