

PP14767/09/2012(030761)

SapuraKencana Petroleum Berhad

“Green Light for SK310 B15 field”

It was announced recently that SapuraKencana Petroleum Berhad (SapuraKencana) has been granted approval from Petronas for the development of SK310 B15 gas field project. The B15 field is expected to produce 100 MMscfd (million standard cubic feet per day) of hydrocarbon gas with first gas delivery expected in 4Q2017. We maintain SapuraKencana as a BUY with target price of RM2.55

- FDP approval from Petronas.** SapuraKencana announced that its wholly-owned subsidiary, SapuraKencana Energy Inc (SKE), has secured a Field Development Plan (FDP) approval from Petronas for the SK310 B15 gas field development project. At this juncture, SKE will begin the development phase for this project soon and the first gas delivery is targeted in 4Q2017. The B15 is located within the SK310 Production Sharing Contract (PSC) area at offshore East Malaysia and was discovered in December 2010.
- Project details.** The development phase will include a central processing platform with a 35-km gas evacuation pipeline to be tied into the existing infrastructure. The B15 field is expected to produce 100 MMscfd of hydrocarbon gas for Petronas’ LNG complex in Bintulu, Sarawak. SapuraKencana is one of the operators of the SK310 PSC with a 30% participating interest alongside other partners including Petronas Carigali Sdn. Bhd. (40% stake) and Diamond Energy Sarawak Sdn. Bhd, a subsidiary of Mitsubishi Corporation (30% stake).
- Our view.** We are positive on the new development of SK310 B15 field which would benefit the group in monetising the asset acquired from Newfield Malaysia in 2013 and enhance the group’s energy portfolio across Southeast Asia (SEA). We were guided that the capex requirement for B15 field is approximately

Friday, November 06, 2015

BUY (TP: RM2.55)

Current Price (RM)	RM2.19
New Target Price (RM)	RM2.55
Previous Target Price (RM)	RM2.95
Previous Recommend.	BUY
Upside To Target Price	16%
Dividend Yield (FY17)	1%

Stock Code	
Bloomberg	SAKP MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,992
Market Cap (RM mn)	13,243
YTD Chg In Share Price	-4%
Beta (x)	2.04
52-week Hi/Lo (RM)	3.27 1.36
3M Average Volume (shrs)	16.34mn
Estimated Free Float	20%

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	

Company Update - SapuraKencana Petroleum

USD300 million with SapuraKencana's portion around USD90 million (based on 30% stake) which will be utilized for the development phase up to 4Q2017. Note that SapuraKencana has allocated a capex of over RM1.5 billion for FY16 where 40% (RM600 million) of the allocation is for energy business. In worst case scenario, we expect the capex allocation for FY17-FY18 to hover around FY16 figures which should be sufficient to sustain the development cost included the B15 development phase. In addition, the group is in the midst of negotiating the gas sales agreement (GSA) with Petronas and expected to conclude this by the end of 2015.

- **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 group's current orderbook is still intact at RM23 billion (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.
- **Earnings outlook.** We keep unchanged our earnings forecast as earnings contribution from SK310 is expected to be realised in FY19 in tandem with the first gas delivery in 4Q2017 while the capex for B15 is not an issue as it would have been provided for by the group. All told, 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	2.19	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.18	12	13	9.9	8.9	0.8	0.8	10	3	1.15	Hold
Bumi Armada	Dec	0.98	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.63	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.10	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	22.56	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.70	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.25	4	6	33.6	19.2	0.8	0.8	5	1	0.90	Sell
Perisai	Dec	0.33	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.54	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.20	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.27	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.35	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.30	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.53	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

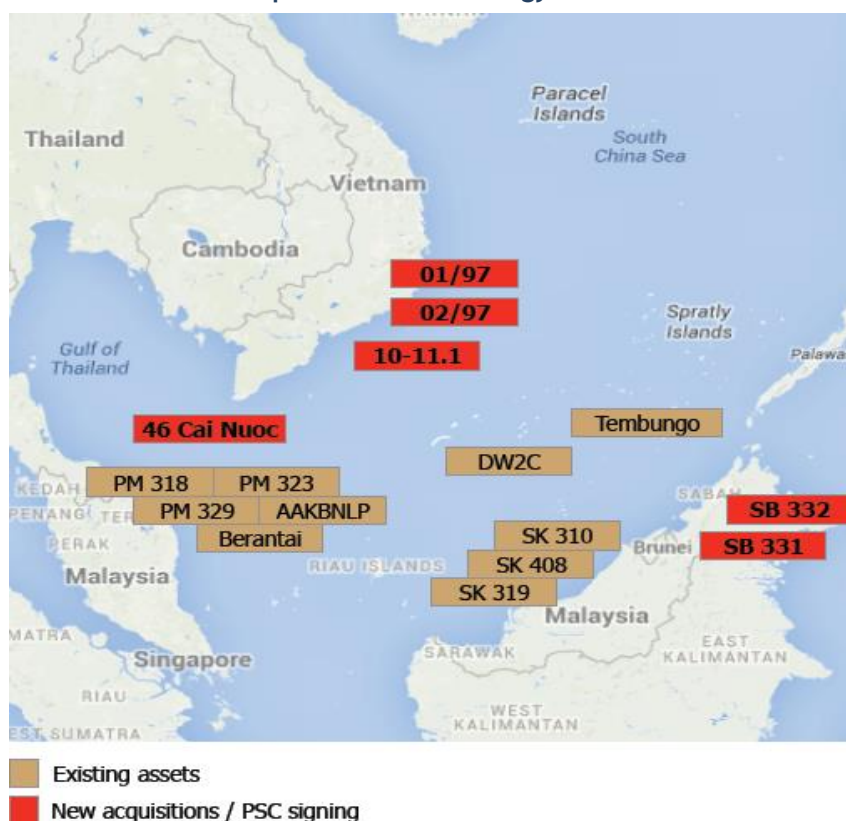
Source: Bloomberg, M&A Securities

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%

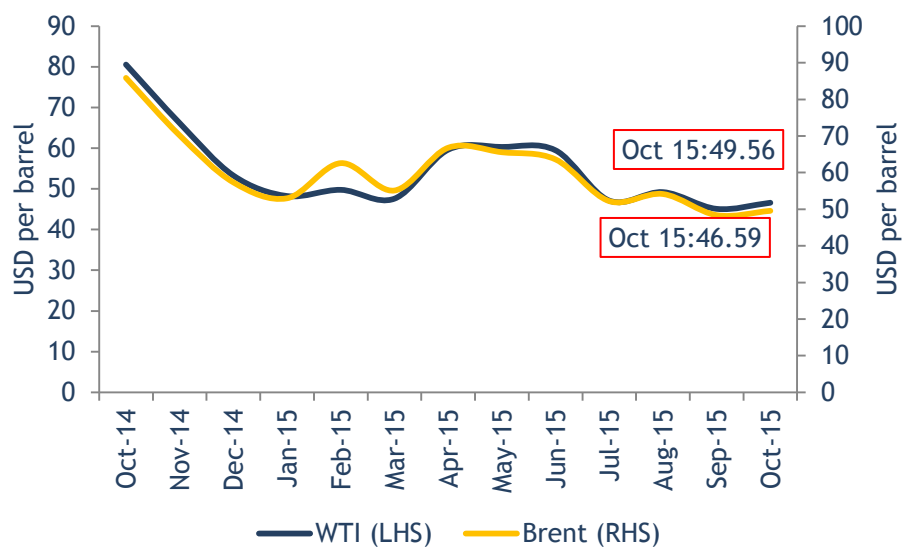
Source: Bursa Malaysia, M&A Securities

SapuraKencana's Energy Asset



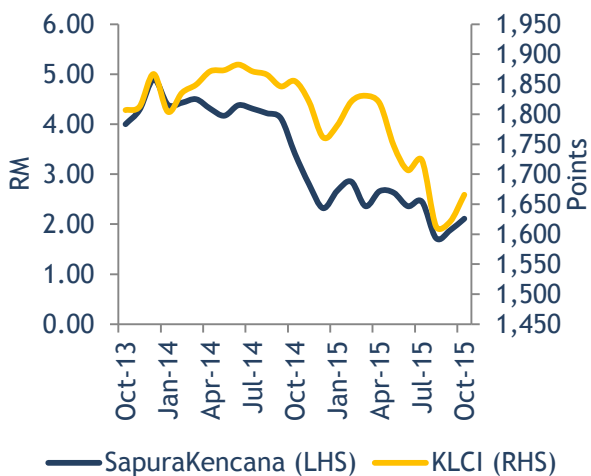
Source: SapuraKencana

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



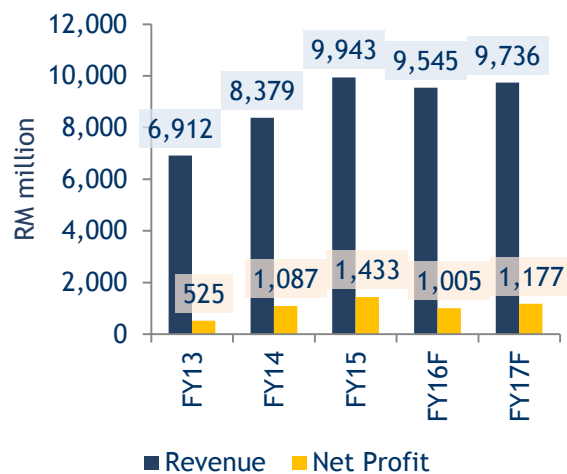
Source: Bloomberg

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



Source: Bloomberg, M&A Securities

Revenue and Net Profit
(FY13-FY17F)



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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