

PP14767/09/2012(030761)

SapuraKencana Petroleum Berhad

“Grabs RM300 million Multiple Awards”

Market Access

SapuraKencana Petroleum Berhad (SapuraKencana) announced its wholly-owned subsidiary companies have been awarded with 2 new contracts from Roc Oil (Sarawak) Sdn Bhd and L&T Hydrocarbon Engineering Limited and a contract extension from Foxtrot International LDC. These carry a combined value of USD72 million (RM300 million). We remain positive on the long-term outlook of SapuraKencana despite facing downside risk of challenging oil and gas period and the multiple new awards will boost further its current orderbook of RM23.0 billion. We value SapuraKencana at RM2.55 and the stock is a BUY.

- E&C Malaysia award.** SapuraKencana has been awarded a contract for the provision of engineering, procurement, construction and commissioning (EPCC) for simultaneous production and drilling (SIPROD) on D35DP-B project by Roc Oil (Sarawak) Sdn Bhd. The job scope is comprised of the preparation of SIPROD package on D35DP-B platform for a drilling campaign and subsequent well tie-in activities. The contract will commence in 4Q15 with expected completion by 1Q16.
- E&C India award.** The group secured a subcontract from L&T Hydrocarbon Engineering Limited (LTHE) for the additional development of the Vasai East project in India. The scope of work under the subcontract is for the installation of structures and pipelines and other subsea work at Vasai East which is located in the Arabian Sea, 78km offshore Mumbai. The works is estimated to be completed by March 2016.
- Drilling’s contract extension.** SapuraKencana has been awarded an additional 5 month contract for its semi-tender assist drilling rig “SKD Alliance” for Foxtrot International LDC (Foxtrot) in Côte d'Ivoire which targeted to be completed by August 2016 and still preserves the option to extend the contract by 3

Wednesday, December 09, 2015

BUY (TP: RM2.55)

Current Price (RM)	RM2.10
New Target Price (RM)	RM2.55
Previous Target Price (RM)	RM2.95
Previous Recommend.	BUY
Upside To Target Price	21%
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)	12,643
YTD Chg In Share Price	-9%
Beta (x)	2.07
52-week Hi/Lo (RM)	3.01 1.36
3M Average Volume (shrs)	10.96mn
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

Company Update - SapuraKencana Petroleum

additional wells which will retain the SKD Alliance on contract until the final quarter of 2016.

- **Strong visibility on RM23 billion orderbook.** We remain positive on this new multiple contract award of RM300 million as it will add to SapuraKencana's solid orderbook which now stands 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 African region.
- **Earnings outlook.** We keep unchanged our earnings forecast pending for 3Q16 results to be released later this month. 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-year 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)

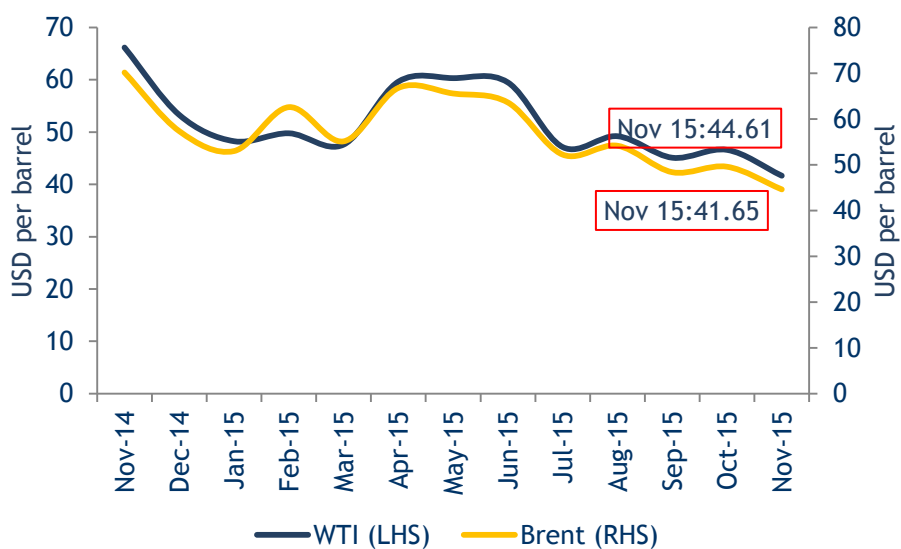
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.10	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.03	12	13	9.9	8.9	0.8	0.8	10	3	0.94	Sell
Bumi Armada	Dec	1.04	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.59	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	0.99	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	24.74	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.38	18	21	9.6	8.2	1.6	1.4	18	2	1.71	Buy
UMW-OG	Dec	1.16	4	6	33.6	19.2	0.8	0.8	5	1	0.83	Sell
Perisai	Dec	0.30	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	NA	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.18	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.37	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.12	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.04	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.51	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

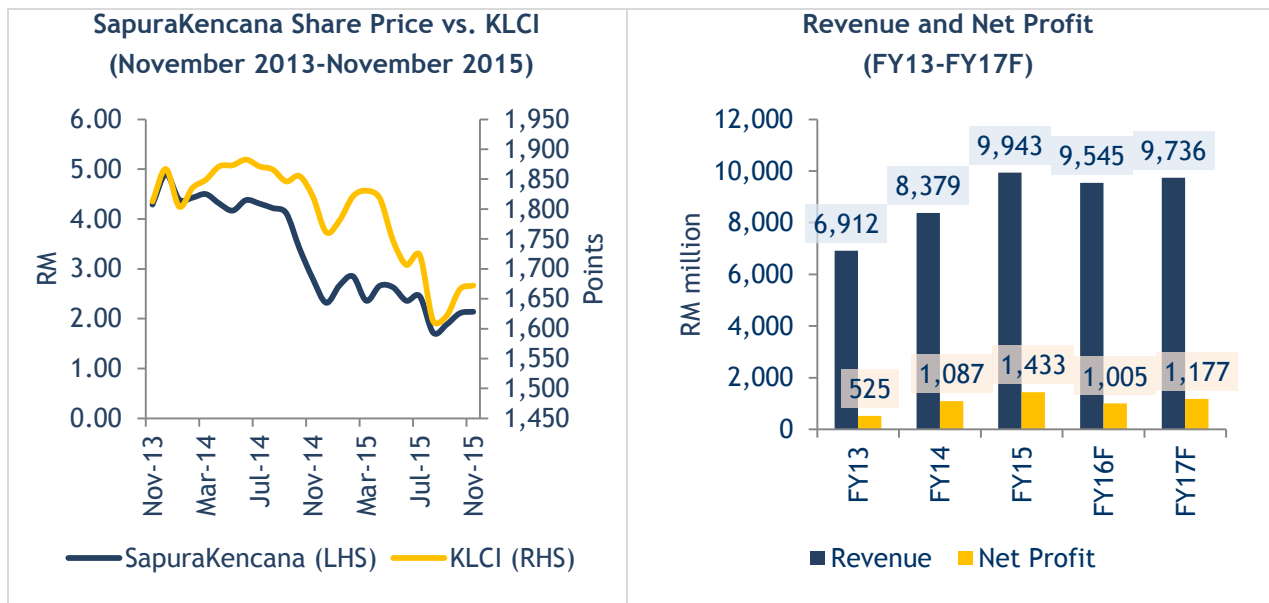
Table 2: Financial Forecast

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

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

Source: Bloomberg



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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