PP14767/09/2012(030761)

Wednesday, December 23, 2015

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SapuraKencana Petroleum Berhad

"Hit by Higher Impairment Provision"

Results Review

- **Actual vs. expectations.** SapuraKencana Petroleum Berhad (SapuraKencana) posted weaker 9M16 net profit of RM495 million (-62% y-o-y) as the group incurred provision impairment on its oil and gas asset of RM857 million due to lower crude oil prices. After deducting RM216 million deferred tax liabilities, the net provision of impairment came down to RM641 million. Therefore, excluding exceptional item, 9M16 core net profit came in at RM851 million (-17% y-o-y), above ours and consensus estimates respectively, accounting 85% and 83% of both divide forecast. The improvement in 9M16 earnings was driven by stronger-than-expected core PBT contribution from E&C (+27% y-o-y) and drilling (+27% y-o-y) segment that offset the fragile contribution from energy segment (-72% y-o-y).

- **Dividend.** No dividend was declared during the quarter.

- **Top line.** SapuraKencana 9M16 revenue rose to RM7.9 billion (+5% y-o-y) mainly driven by the higher contribution from E&C and drilling segment which registered stronger revenue of RM4.6 billion (+13% y-o-y) and RM2.2 billion (+16% y-o-y) respectively due to the higher contribution from newly executed international project as well as the commencement of contract for its new rigs within the period. Contrariwise, energy segment posted weaker revenue of RM1.3 billion (-27% y-o-y) impacted by lower average realise price of oil per barrel coupled with lower barrels of oil lifted.

- **Bottom line.** SapuraKencana posted higher core PBT of RM1.4 billion (+5% y-o-y) in 9M16, excluding provision for impairment in oil and gas properties of RM857 million, provision for impairment on investment of RM28 million and changes in provision of RM64 million.

BUY (TP: RM2.55)

Current Price (RM)	RM1.71
New Target Price (RM)	**RM2.55**
Previous Target Price (RM)	RM2.95
Previous Recommend.	BUY
Upside To Target Price	**49%**
Dividend Yield (FY17)	**2%**

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)	10,187
YTD Chg In Share Price	-26%
Beta (x)	2.07
52-week Hi/Lo (RM)	3.01 | 1.36
3M Average Volume (shrs)	9.82mn
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

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Overall, core PBT contribution from E&C and drilling remain sturdier in 9M16, surged by 27% y-o-y respectively in line with the increase in revenue as mentioned above. Overall, the group's core PBT margin stood at 18% as at 9M16 which more or less the same against 9M16 margin of 18%.

- **Strong visibility on RM21 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 RM21 billion as at October 2015 (2.1x of FY15 revenue) with 9% (RM2.0 billion) and 28% (RM5.8 billion) would be burned-out in FY16 and FY17 respectively. Geographical wise, the orderbook breakdown is comprise of 57% (RM12.0 billion) from Americas, 27% (RM5.7 billion) from Malaysia, 13% (RM2.7 billion) from Asia Pacific region and the rest are from Australia as well as Africa.

- **Latest development.** 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. 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). We were guided that the capex requirement for B15 field is approximately USD300 million with SapuraKencana's portion around USD90 million (based on 30% stake) which will be utilized for the development phase up to 4Q2017.

- **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 oil price movement and hence, FY16 earnings estimated to be lower by 30% y-o-y. Nonetheless, FY17 earnings are projected to increase by 17% y-o-y lifted by i) steady contribution from E&C segment and ii) healthy contribution from PLSV's operation in Brazil.

- **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) potential upstream asset acquisition in Vietnam.

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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	1.71	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	0.90	12	13	9.9	8.9	0.8	0.8	10	3	0.94	Hold
Bumi Armada	Dec	1.02	6	8	16.5	12.8	0.9	0.8	(3)	2	1.20	Buy
Dialog Group	Jun	1.54	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	0.94	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	23.90	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.27	18	21	9.6	8.2	1.6	1.4	18	2	1.71	Buy
UMW-OG	Dec	1.09	4	6	33.6	19.2	0.8	0.8	5	1	0.83	Sell
Perisai	Dec	0.28	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	0.17	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.17	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.05	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	1.93	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.52	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	10.2	8.7
P/BV (x)	2.3	1.4	1.2	0.8	0.7
DPS (sen)	NA	NA	4	3	3
Dividend Yield	NA	NA	2%	2%	2%

Source: Bursa Malaysia, M&A Securities

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Table 3: Results Analysis

YE: Jan (RM million)	3Q15	2Q16	3Q16	q-o-q	y-o-y	9M15	9M16	y-o-y
Revenue	2,410	2,804	2,891	3%	20%	7,549	7,952	5%
EBIT	769	951	849	-11%	10%	2,438	2,595	6%
Interest expenses	(172)	(174)	(196)	13%	14%	(513)	(549)	7%
Associates	64	42	89	114%	39%	193	174	-10%
PBT	411	61	198	224%	-52%	1,577	595	-62%
Taxation	(63)	43	(68)	-258%	8%	(272)	(100)	-63%
Net Profit	348	104	130	25%	-63%	1,304	495	-62%
EPS	6	2	2	25%	-63%	22	8	-62%
EBIT Margin	32%	34%	29%			32%	33%	
Pre-tax margin	17%	2%	7%			21%	7%	
Effective tax rate	15%	-71%	34%			17%	17%	

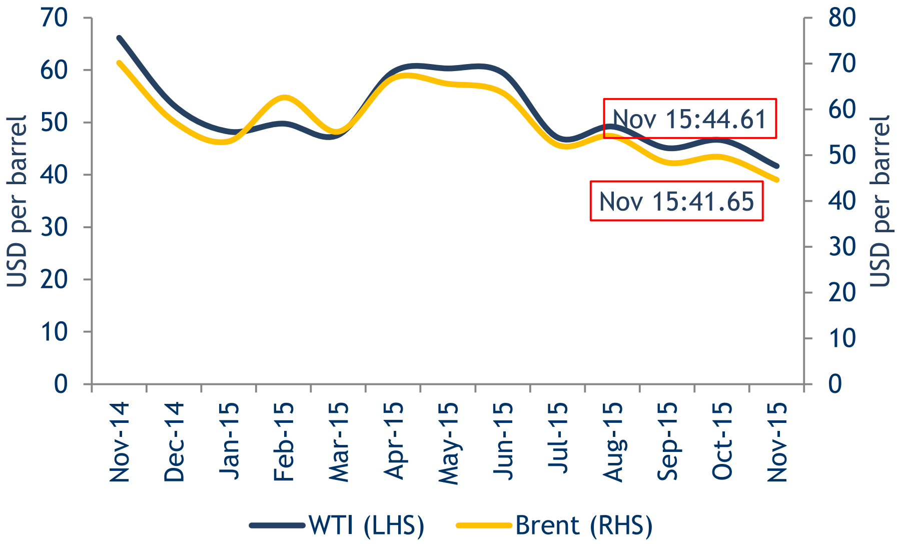
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Jan (RM million)	3Q15	2Q16	3Q16	q-o-q	y-o-y	9M15	9M16	y-o-y
Revenue								
E&C	1,303	1,639	1,833	12%	41%	4,031	4,573	13%
Drilling	665	784	694	-11%	4%	1,940	2,248	16%
Energy	452	450	407	-10%	-10%	1,741	1,273	-27%
PBT								
E&C	243	331	354	7%	46%	753	872	16%
Drilling	147	222	52	-77%	-65%	464	473	2%
Energy	119	(458)	(133)	NM	NM	637	(550)	NM

Source: Bursa Malaysia, M&A Securities

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



Source: Bloomberg

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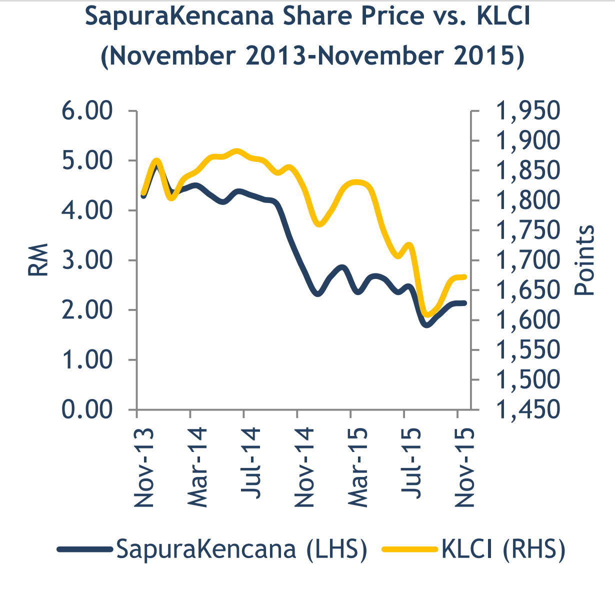

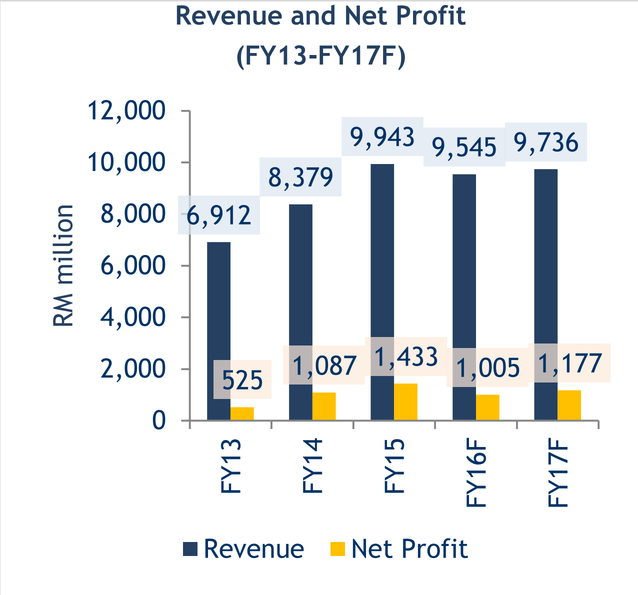

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STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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