

26 September 2018 | Corporate Update

Sapura Energy Berhad

Capital injection provides opportunity for growth

Reiterate Trading Buy

Unchanged Target Price (TP): RM1.01

INVESTMENT HIGHLIGHTS

- **Sapura Energy obtains firm support for RM4.0b rights issue**
- **PNB to emerge as largest single shareholder post-rights issue**
- **Capital injection provides opportunity for growth**
- **RM815m worth of new contract wins**
- **Maintain Trading Buy with unchanged TP of RM1.01**

Firm support for RM4.0b rights issue. Sapura Energy Berhad (SEB) announced that it has obtained firm support from its major shareholders i.e PNB and its associated funds (PNB) as well as; Sapura Technology Sdn Bhd (STSB) to subscribed to the RM4.0b rights issues announced late last month. The firm support is received via the means of letters of irrevocable undertaking for their proposed issuance of rights shares with free warrants and rights issue of Islamic redeemable convertible preference shares (RCPS-i).

PNB to emerge as largest single shareholder post-rights issue. Post-issue, PNB is expected to emerge as the largest single shareholder of SEB by holding 40% of the post-rights issue enlarged share capital. According to the irrevocable letter of undertaking, PNB will subscribe to its full entitlement of rights shares with warrants and excess shares with warrants not taken up of RM3.0b. In addition, PNB will also fully subscribe to the RM1.0b RCPS-i. Meanwhile, STSB will subscribe to the minimum of RM300m as announced earlier.

Capital injection provides opportunity for growth. With the rights issue fully-subscribed, we opine that the capital injection will enable SEB to bid for higher-value contracts in key regions which will bring value-added earnings growth for the company.


RM815m worth of new contract wins. Sapura has also announced that it has won three new contracts under Engineering and Construction (E&C) in Malaysia, Australia and Nigeria as well as; extended its contract for provision of semi-submersible tender assist drilling rig for Brunei Shell Petroleum Co. These four contracts are worth RM815m in total which brings SEB's new contract wins for the year to approximately RM5.3b which is within our orderbook replenishment expectations.

RETURN STATS	
Price (25 September 2018)	RM0.44
Target Price	RM1.01
Expected Share Price Return	+130.0%
Expected Dividend Yield	+2.3%
Expected Total Return	+132.3%

STOCK INFO	
KLCI	1,794.47
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,636.5
Price over NA	0.27x
52-wk price Range	RM0.33 – RM1.75
Beta (against KLCI)	1.92
3-mth Avg Daily Vol	115.0m
3-mth Avg Daily Value	RM57.0m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.65
KWAP	7.66
Employees Provident Fund	5.21

Orderbook. With the addition of the new contract wins, SEB's total orderbook now amounts to RM17.5b. Out of these, approximately RM5.8b and RM3.3b are expected to be recognised in CY18 and CY19 respectively.

No changes to earnings. No change to our earnings estimates pending the results announcement due this week.

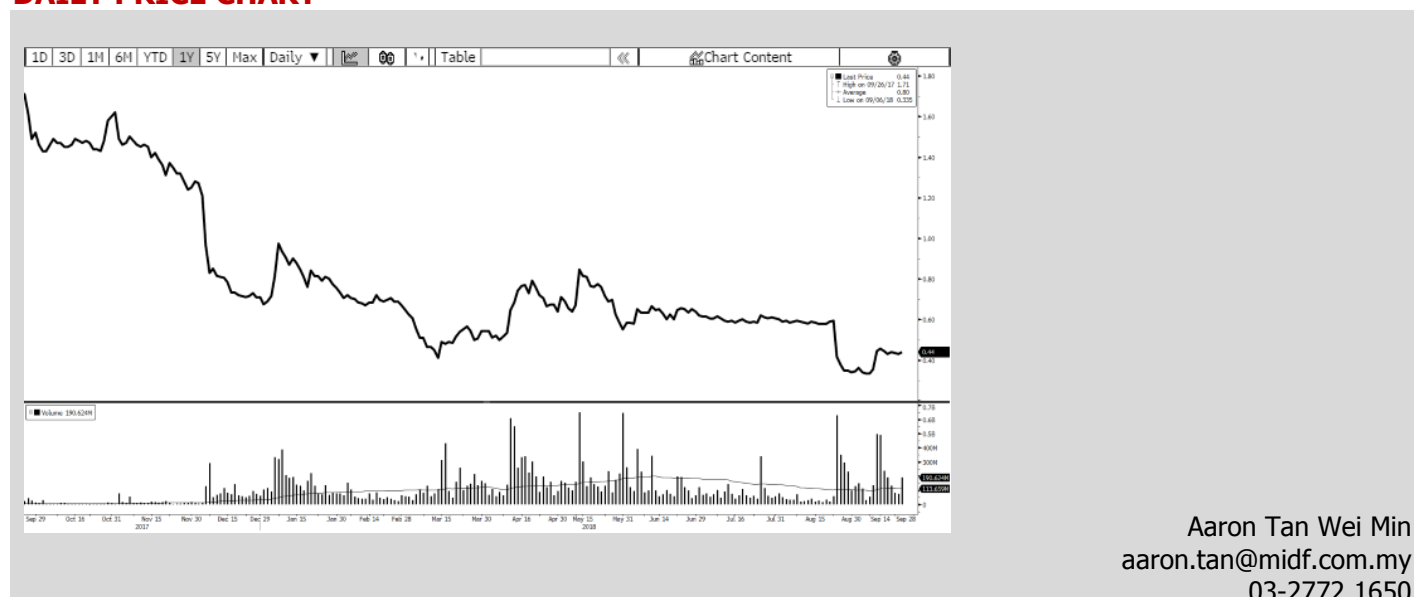
Maintain Trading Buy. Year-to-date, Sapura Energy's share price has declined by approximately -65%ytd. This is despite stable crude oil prices in the tight range of USD70-80pb. We are of the opinion that the current broad-market sell off presents trading opportunities for investors seeking exposure in oil and gas service providers with direct upstream exposure. Although we acknowledge that Sapura Energy's profitability might still be weak due to its other underperforming segment, we believe that the share offers short term trading opportunities for investors. As such, we are maintaining our **Trading Buy** call on Sapura Energy with an unchanged TP of **RM1.01** per share. 

INVESTMENT STATISTICS

FYE Jan	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM m)	10,184.0	7,651.3	5,895.0	7,328.2	7551.7
EBIT (RM m)	3,070.3	943.4	395.0	887.6	902.5
Pretax Profit (RM'm)	1,408.2	667.9	-191.3	159.2	176.1
Net Profit (RM m)	-791.6	208.3	-2,323.6	105.1	135.4
Normalised Net Profit (RM m)	1,035.0	208.3	-243.0	105.1	135.4
EPS (sen)	-13.2	3.5	-42.1	1.8	2.3
EPS Growth (%)	nm	nm	nm	nm	28.9
PER (x)	nm	14.4	nm	24.4	19.1
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.7	2.0	0.0	2.3	2.3

Source: MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.