

Analyst
Arhnu Tan

arhnu@alliancefg.com

+603 2604 3909

12-month upside potential

Target price	5.26
Current price (as 25 Mar)	4.33
Capital upside (%)	21.5
Net dividends (%)	-
Total return (%)	21.5

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	25,946.0
Shares outstanding (m)	5,992.2
Free float (%)	47.4
52-week high / low (RM)	4.96 / 3.00
3-mth avg volume ('000)	9,122.8
3-mth avg turnover (RM m)	40.9

Share price performance

	1M	3M	6M
Absolute (%)	-2.0	-10.7	15.5
Relative (%)	-2.4	-10.4	12.1

Share price chart


Exciting year ahead

We came away from SapuraKencana's analyst briefing positively. Going into 1QFY15, the group will see its OCSS segment earnings (which was weak in 4QFY14) normalise with installation vessels moving on to new contracts, and also maiden contributions from the Newfield acquisition. By 3QFY15, another boost to earnings will come from the commencement of the Petrobras contract. With an outstanding orderbook of RM25.4bn and tender book of another RM25bn, we expect healthy contract newsflow over the course of FY15. We maintain our Strong Buy recommendation with TP of RM5.26.

Analyst briefing highlights

- SapuraKencana held an analyst briefing yesterday and discussed FY14 results as well as the outlook going forward. The briefing was hosted by President and group CEO Tan Sri Dato' Seri Shahril bin Shamsuddin.
- Overall, the outlook continues to be positive for the group, especially so in FY15 as:- (1) earnings from the acquisition of Newfield Malaysia will commence in 1QFY15, (2) the first Petrobras contract will commence in 3QFY15, and (3) the Pan Malaysian Installation (PMI) work flow also commences in FY15.

Transaction costs for Newfield also dragged down earnings

- SAKP noted that in 4QFY14, there was also roughly RM100m of transaction cost for the Newfield acquisition incurred and for FY14, including some other transaction costs carried over for the Seadrill acquisition, total transaction cost for the year was RM135m.
- Adding this once off item back to FY14 core net profit of RM817.6m brings full year FY14 net profit to RM953m and this makes up 97% of house and 93% of consensus estimates. As discussed yesterday, the shortfall in earnings came from the OCSS (offshore construction and subsea services) segment which had a weak showing in 4QFY14 due to project completions and some vessel down time as a result.

OCSS earnings to normalise in 1QFY15 and grow stronger in 2HFY15

- Management noted that the OCSS (offshore construction and subsea services) segment earnings would normalise starting 1QFY15. The group's vessels (like the Sapura900 and QP2000) which were used in the Domgas and also the previous PMI contract are moving/have moved along to new contracts. To recap, the segment reported PBT of only RM19.3m in 4QFY14 compared to RM160.9m PBT in 3QFY14.
- Besides that, there is also works lined up for new vessels like the Sapura1200 and Sapura3500. Another two new deliveries of installation vessels during the year will be put to work for the Pan Malaysian installation. The Sapura3000 also continues to be working and has a full schedule secured for FY15.
- The first Petrobras contract will also start contributing to the OCSS segment starting 3QFY15. To recap, SAKP has taken delivery of 2 vessels (Sapura Topazio and Sapura Daimante) out of the 3 slated for the Petrobras contract and final preparations like mobilisation and testing are taking place towards the contract commencement. To note, delivery of the third vessel (named Sapura Esmeralda) will be delayed by 18 months to mid CY16. This delay, which was guided earlier by the group, is due to financial issues of the shipyard in Brazil. The construction of the vessel has since been handed over to IWC Merwede in the Netherlands and has Petrobras's understanding.

RM25.4bn orderbook and tendering for another RM25bn

- The latest orderbook of RM25.4bn consist of:- (1) RM17.2bn for OCSS, (2) RM2.1bn for fabrication and hook-up and commissioning (FAB & HUC), (3) RM3bn for drilling services and (4) RM3.1bn under energy joint ventures (EJV).
- Out of this total orderbook, RM5.4bn will be recognised in FY15 and the remainder will be recognised up to year 2020 given the long term nature of the Petrobras contracts.



- For orderbook replenishment, SAKP is tendering for another RM25bn in new contracts across their operating segments. These are largely in the OSCC segment, energy segment and also for fabrication works. We view that contract newsflow will continue to be active throughout the year.
- We read on Upstream Online that some jobs the group is vying include:- (1) a third Petrobras contract for smaller flexible pipelaying support vessels, (2) central processing platform (CPP) fabrication for Baronia and Bardegg fields, (3) Mumbai High pipeline installation, (4) risk service contract for the Bubu field, (5) CPP fabrication for Bergading field, and (6) fabrication jobs in the Malaysia-Thai JDA.

Newfield production is steady

- On Newfield assets, earnings contribution will commence in 1QFY15.
- The group highlighted during the briefing that production from the fields continue to be steady at 21-22k barrels per day. While production is expected to continue its natural decline, additional horizontal drilling will be carried out at up to 4 wells per annum, to keep production number steady. This additional drilling will be targeted at the East Belumut field which is currently the most productive.
- We expect to see more news on the on-goings of Newfield throughout the year, as the group is carrying out drilling of 5 wells at SK408, which may lead to additional production in years to come.
- For our estimates, we have factored in RM400-430m per annum contribution to bottom-line from Newfield assets starting FY15.

No changes to estimates

- We make no changes to our earnings estimates and view that with the addition of Newfield assets and Petrobras contract commencing in FY15, net profit growth will be strong at 66% y-o-y.

Maintain STRONG BUY

- We maintain our STRONG BUY recommendation and TP of RM5.26. Our TP is based on FY15 EPS pegging an industry peak cycle average of 20x.
- SAKP remains as our top pick in the O&G sector given its solid orderbook with long-term contracts, estimated 4-year EPS CAGR (FY14-FY17) of 20.8% and undemanding FY15 P/E of 16.3x.

**Figure 1 : Key financial data**

FYE 31 Jan	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM m)	6,912.4	8,378.8	12,689.2	13,593.4	13,722.1
EBITDA (RM m)	1,337.3	2,483.6	3,032.5	3,369.3	3,360.9
EBIT (RM m)	1,104.4	1,845.6	2,601.8	2,897.8	2,848.5
Pretax profit (RM m)	829.8	1,207.8	2,318.2	2,684.0	2,700.8
Reported net profit (RM m)	524.6	1,086.9	1,576.3	1,871.4	1,890.3
Core net profit (RM m)	482.7	952.6	1,576.3	1,871.4	1,890.3
EPS (sen)	8.8	18.1	26.3	31.2	31.5
Core EPS (sen)	8.1	15.9	26.3	31.2	31.5
Alliance / Consensus (%)			105.0	107.7	101.0
Core EPS growth (%)	43.1	97.4	65.5	18.7	1.0
P/E (x)	53.8	27.2	16.5	13.9	13.7
EV/EBITDA (x)	30.4	16.0	10.4	9.0	8.7
ROE (%)	8.3	11.8	15.9	15.9	13.9
Net gearing (%)	0.8	1.1	0.5	0.3	0.2
Net DPS (sen)	-	-	-	-	-
Net dividend yield (%)	-	-	-	-	-
BV/share (RM)	1.27	1.70	1.65	1.96	2.28
P/B (x)	3.4	2.9	2.6	2.2	1.9

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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ALLIANCE RESEARCH SDN BHD (290395-D)
Level 19, Menara Multi-Purpose
Capital Square
8, Jalan Munshi Abdullah
50100 Kuala Lumpur, Malaysia
Tel: +60 (3) 2604 3333
Fax: +60 (3) 2604 3921
Email: allianceresearch@alliancefg.com

Bernard Ching
Executive Director / Head of Research