

Results Update

17 September 2015

# SapuraKencana Petroleum Bhd

**BUY**

Hit by RM540m impairment provision

Maintained

Share Price	RM1.87
Target Price	RM2.75

## Company Description

Integrated oil and gas company and top 5 engineering, procurement, construction, installation and commissioning (EPCIC) globally

## Stock Data

Bursa / Bloomberg code	5218 / SAKP MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	5,992.16
Par Value (RM)	1.00
Market cap.	RM11.21bn
Price over NTA	2.37x
52-week price Range	RM1.36–RM4.24
Beta (against KLCI)	2.06
3-m Average Daily Volume	13.30m
3-m Average Daily Value <sup>^</sup>	RM26.60m

## Share Performance

	1m	3m	12m
Absolute (%)	9.36	-20.76	-55.37
Relative (%-pts)	-6.02	-22.10	-49.95

## Major Shareholders

	%
SAPURA HOLDINGS SDN BHD	16.71
STSB	15.90
EMPLOYEES PROVIDENT FUND	14.88
KHASERA BARU SDN BHD	10.10
SEADRILL LTD	8.18

## Historical Chart



Source: Bloomberg

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## Results

- **Earnings dragged down by impairment** - 2QFY16 net profit of RM104.3m dropped 77% YoY and 60% QoQ following provision for impairment on oil and gas assets totalling RM539.9m.
- **Further impairment possible** – The kitchen sinking came after an anticipated V-shape recovery in oil prices did not materialise. After deducting RM195m in deferred tax liabilities, net provision on impairment came down to RM345m. There is potential for further impairment as the latest provision was made on oil price assumption of \$55/barrel. Likewise, any future recovery in oil prices will result in reversal of impairment, though unlikely in the near future.
- **Core earnings intact** – Excluding the impact or impairment, normalised net profit of RM446m actually grew 18% YoY and 72% QoQ. EBITDA margin improved 6 percentage points to 37% while normalised net profit margin increased 2 p.p. to 16%.
- **Steady revenue** – Quarterly revenue increased 4% YoY and 24% QoQ to RM2.8bn following higher contribution from Engineering & Construction (E&C) and Drilling divisions.
- E&C revenue grew 3.8% YoY and 49% QoQ to RM1.64bn while Drilling division increased 24% YoY and 1.8% QoQ to RM783.8m. Meanwhile, revenue from Energy division declined 18.5% YoY due to lower oil prices and less oil barrels lifted but rose 8.3% QoQ.
- **Core earnings in line with expectation** – 1HFY16 normalised results came in line with our expectation as revenue and net profit account for 60% and 52% of our estimates respectively.
- **Good earnings visibility** – The company's orderbook declined to RM23bn from RM24.5bn last quarter. After realising RM5bn so far this year, a remaining RM4.6bn is expected to be booked in FY16, with RM5.9bn in FY17 and RM12.5bn from FY18 onwards.
- **Steady gearing** – Net gearing level remains healthy at 1.28 times as cash position improved to RM1.79bn from RM1.47bn in 1QFY16.

## Earnings Outlook

- **Earnings forecast adjusted** – We have adjusted FY16 forecasts to account for the impairment. For FY17, we lowered our revenue forecast by 9% and EPS by 3.6% respectively due to challenges in replenishing orderbook.
- **Future challenges** would be to replenish its orderbook with a burn rate of RM9bn in FY15. Management estimates there will be US\$360bn of potential capex globally that are up for grabs from 2016 to 2020.

## Valuation & Recommendation

- **Reiterate BUY call with a lower target price of RM2.75 (from RM2.95) as we roll over to FY17 forecasts.**

## Quarterly Performance (RM million)

	2QFY16	2QFY15	YoY	1QFY16	QoQ	1HFY16	1HFY15	YoY
Engineering & Construction	1638.8	1578.1	3.8%	1101.0	48.9%	2740.0	2728.1	0.4%
Drilling	783.8	629.9	24.4%	770.2	1.8%	1554.0	1275.0	21.9%
Energy	449.9	551.9	-18.5%	415.6	8.3%	866.0	1288.0	-32.8%
Corporate expenses	(69.1)	(65.2)	6.0%	(28.8)	140.3%	(97.8)	(152.9)	-36.0%
REVENUE	2803.5	2694.8	4.0%	2258.2	24.2%	5061.7	5138.4	-1.5%
Operating expenses	(1857.9)	(1893.0)	-1.9%	(1464.8)	26.8%	(3322.8)	(3480.1)	-4.5%
Other operating income	4.9	0.2	2594.0%	2.0	140.7%	6.9	10.5	-33.7%
OPERATING PROFIT	950.5	801.9	18.5%	795.4	19.5%	1745.9	1668.7	4.6%
Interest income	6.1	3.7	63.8%	2.7	125.6%	8.8	6.1	46.0%
Interest expenses	(321.0)	(249.3)	28.7%	(179.7)	78.7%	(352.6)	(341.5)	3.2%
Net fair value loss on derivatives	0.0	0.0	-	0.0	-	0.0	(0.1)	-100.0%
Depreciation and amortisation	(321.0)	(249.3)	29%	(337.6)	-4.9%	(658.5)	(565.5)	16.5%
Net foreign exchange (loss)/gain	96.4	22.9	320.9%	12.3	686.5%	109.0	20.2	439.4%
Provision for impairment on O&G assets	(539.9)	0.0	-	0.0	-	(539.9)	0.0	-
Change in provision	0.0	63.5	-	0.0	-	0.0	63.5	-
Gain on disposal of PPE	0.0	7.3	-	0.0	-	0.0	7.3	-
Gain from acquisition of subsidiaries	0.0	0.0	-	0.0	-	0.0	177.8	-
Share of profit from associates & JV	41.5	35.5	17.1%	43.2	-3.9%	84.7	129.2	-34.4%
PBT	61.1	526.7	-88.4%	336.3	-81.8%	397.5	1165.7	-65.9%
Tax	43.1	(80.6)	-153.5%	(75.1)	-157.4%	(32.0)	(209.5)	-84.7%
NET PROFIT	104.3	446.1	-76.6%	261.2	-60.1%	365.5	956.2	-61.8%
Operating margin	33.9%	29.8%		35.2%		34.5%	32.5%	
PBT margin	2.2%	19.5%		14.9%		7.9%	22.7%	
Net margin	3.7%	16.6%		11.6%		7.2%	18.6%	
Tax rate	-70.6%	15.3%		22.3%		8.0%	18.0%	

Source: Company

**Financial Summary (RM million)**

<b>FY end January</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Revenue	6,912.4	8,378.78	9,943.02	9,657.65	8,467.43	8,572.50
Operating expenses	(5,858.59)	(6,546.50)	(6,870.11)	(6,760.36)	(5,503.83)	(5,572.13)
Other operating income	50.60	13.28	33.65	28.97	16.93	21.43
Profit from operations	1,104.4	1,845.6	3,106.6	2,926.3	2,980.5	3,021.8
Net interest cost	(208.09)	(428.98)	(651.29)	(676.04)	(677.39)	(642.94)
Gain/loss on derivatives	1.31	(4.08)	(0.14)	-	-	-
Depreciation and amortisation	(232.86)	(638.02)	(1,306.19)	(1,255.49)	(1,100.77)	(1,114.43)
Gain/loss from forex	(11.09)	208.63	(1.16)	-	-	-
Impairment on receivables	(1.11)	(10.17)	(8.09)	-	-	-
Impairment on O&G assets	-	-	(54.94)	(539.85)	-	-
Change in provision	-	-	63.53	-	-	-
Gain from acquisition/disposal	41.95	-	215.57	-	-	-
Share of profit from JV	135.21	234.81	252.12	193.15	169.35	171.45
PBT	829.75	1,207.76	1,615.96	648.04	1,371.72	1,435.89
Tax	(165.97)	(84.06)	(182.50)	(129.61)	(274.34)	(251.28)
PAT	663.78	1,123.70	1,433.46	518.43	1,097.38	1,184.61
EPS (RM)	0.111	0.188	0.239	0.087	0.183	0.198
PER	16.9	10.0	7.8	21.6	10.2	9.5
Net margin	9.6%	13.4%	14.4%	5.4%	13.0%	13.8%
Tax rate	20.0%	7.0%	11.3%	20.0%	20.0%	17.5%
Sales growth	47.9%	21.2%	18.7%	-2.9%	-12.3%	1.2%
Net profit growth	11.1%	69.3%	27.6%	-63.8%	111.7%	7.9%

Source: Company, JF Apex

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