

29 September 2023

Energy & Petrochemicals | Integrated Oil & Gas

## Sapura Energy (SAPE MK)

**Sell** (Maintained)

### Wider Losses; Reiterate SELL

- **Reiterate SELL and MYR0.02 TP, 64% downside.** Sapura Energy's 1HFY24 (Jan) results were within expectations, with narrower losses expected in 2HFY24. Although there was a slight improvement in its orderbook, we remain cautious on its engineering & construction (E&C) segment's profitability – despite the global oil & gas landscape turning more robust. We keep our SELL rating, as a holistic debt and equity restructuring – highly dilutive, in our view – is inevitable for SAPE to get out of the woods.
- **Within expectations.** SAPE's 1HFY24 core loss of MYR163m is deemed within expectations, at 61% and 68% of our and Street's full-year forecasted losses, as we expect narrower losses in 2HFY24. No dividend was declared, as expected.
- **Results review.** Core losses widened by 28% to MYR92m in 2QFY24 largely due to weaker E&C contribution (project delays and higher project costs), and higher finance costs, masking the better energy arm contribution. Cumulatively, 1H24 losses were flat at MYR163m, as the energy division's turnaround and better drilling contribution were offset by weaker E&C contribution as well as higher tax expenses and finance costs.
- **Outlook.** SAPE announced MYR1.4bn (USD300m) worth of offshore transportation and installation (T&I) services contracts in Angola, from Azule Energy Angola. Works are expected to be completed by 4QFY26. As such, its orderbook rose 9% QoQ to MYR6.3bn. Orderbook replenishment remains one of its biggest challenges, with limited access to bank guarantees and working capital. SAPE is pursuing major projects in Africa, and the Mediterranean, Atlantic, and Asia Pacific regions. The drilling segment is expected to deliver a stable performance as 10 out of 11 rigs are under charter contracts. In early September, SAPE received a formal notification from the Corporate Debt Restructuring Committee (CDRC), stating that the standstill period under CDRC's regime was extended up to 10 Mar 2024. The group is actively working towards an agreement in principle with its financiers by the end of this year. In view of its stretched cash flow, SAPE will continue its strategy of pursuing contracts with relatively lower working capital requirements, as well as asset monetisation.
- **Our loss estimates are largely unchanged,** as we are uncertain on the E&C division's profitability, but expect narrower 2HFY24 losses. We keep our SOP-based TP at MYR0.02, inclusive of a 10% ESG discount. Note that we have assumed 20% of total debt was converted to equity based on a conversion price of MYR0.10/share. Our share base is enlarged by 21.4bn or 1.2x. Upside risks: Better-than-expected project execution and stronger-than-expected contract flow.

Target Price (Return): MYR0.02 (-63.6%)  
Price (Market Cap): MYR0.06 (USD187m)  
ESG score: 2.5 (out of 4)  
Avg Daily Turnover (MYR/USD) 2.66m/0.58m

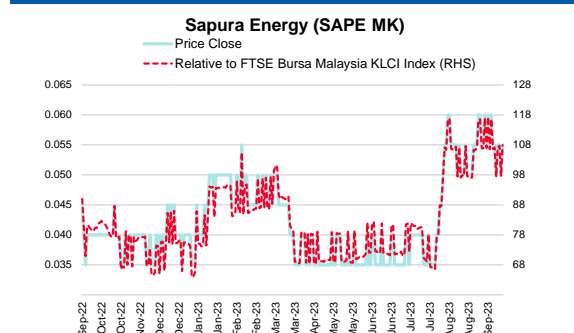
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	57.1	0.0	57.1	37.5	22.2
Relative	60.8	0.3	53.3	34.4	20.1
52-wk Price low/high (MYR)				0.04 – 0.06	



Source: Bloomberg

#### Overall ESG Score: 2.5 (out of 4)

##### E: MODERATE

SAPE has various environmental policies in place to ensure zero spills, efficient management of hazardous waste, and plastic waste reduction. In FY23, the group's drilling business implemented Shell's Greenhouse Gas Reduction campaign at Sapura Esperanza's semi tender rig work in Malikai Phase 2. As a result, it managed to reduce its carbon equivalent emissions by about 5.86 kilo tonnes. It is also working on reporting of climate-related risks and opportunities. However, these initiatives are on hold as the group focuses on resolving its financial condition.

##### S: GOOD

SAPE prioritises health and safety through its various policies and has won multiple awards as a result. In FY23, its Lost Time Injury Frequency (LTIF) fell 4.6% to 0.62 from FY22's 0.65. However, it recorded one fatality in Apr 2023. The group is involved in multiple community engagement programmes such as its collaboration with Malaysia's Department of Skills Development, where comprehensive training programmes are developed for local talents.

##### G: GOOD

Half of its board of directors are independent, and comprise members that are skilled, and experienced. There is female representation as well. The company ensures that timely, reliable, information is provided to shareholders.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Jan-22	Jan-23	Jan-24F	Jan-25F	Jan-26F
Total turnover (MYRm)	4,100	4,551	4,636	4,576	4,676
Net profit (MYRm)	(3,268)	(192)	(266)	(323)	(322)
Net profit growth (%)	1,302.8	(94.1)	38.3	21.3	(0.4)
Recurring P/E (x)	na	na	na	na	na
P/B (x)	8.7	na	na	na	na
P/CF (x)	2.1	na	na	na	na
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	na	15.3	15.8	14.2	14.0
ROAE (%)	na	na	na	na	na
Net debt to equity (%)	na	na	na	na	na

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
Malaysia	Recurring EPS	- 0.18	- 0.01	- 0.01	- 0.02	0.02
Energy & Petrochemicals	BVPS	0.00	- 0.16	- 0.17	- 0.19	0.21
<b>Sapura Energy</b>	Return on average equity (%)	(200.4)	38.4	8.7	9.6	8.7
SAPE MK						
Sell						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
SOP	Recurring P/E (x)	na	na	na	na	na
	P/B (x)	11.9	na	na	na	na
	FCF Yield (%)	34.6	15.2	(57.6)	1.5	6.5
	EV/EBITDA (x)	na	9.39	9.64	8.49	8.19
	EV/EBIT (x)	na	42.43	40.86	27.25	26.00
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
i. Higher project wins;	Total turnover	4,100	4,551	4,636	4,576	4,676
ii. Better margins.	Gross profit	8,200	9,103	462	544	542
	EBITDA	(2,241)	705	720	799	803
	Depreciation and amortisation	(522)	(549)	(550)	(550)	(550)
	Operating profit	(2,764)	156	170	249	253
	Net interest	(507)	(609)	(606)	(606)	(606)
	Pre-tax profit	(8,932)	(492)	(186)	(213)	(212)
	Taxation	(129)	(72)	(80)	(110)	(110)
	Reported net profit	(9,051)	(546)	(266)	(323)	(322)
	Recurring net profit	(3,268)	(172)	(266)	(323)	(322)
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
i. Slowdown in replenishments;	Change in working capital	2,317	531	(565)	(17)	29
ii. Failure to pursue debt restructuring.	Cash flow from operations	504	389	(532)	65	116
	Capex	(154)	(235)	(50)	(50)	(50)
	Cash flow from investing activities	(61)	143	(50)	(50)	(50)
	Cash flow from financing activities	(361)	(279)	0	0	0
	Cash at beginning of period	489	718	851	269	284
	Net change in cash	82	252	(582)	15	66
	Ending balance cash	718	851	269	284	350
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
Sapura Energy is a Malaysian integrated oil & gas services company involved in engineering & construction, drilling as well as exploration and production.	Total cash and equivalents	718	851	269	284	350
	Tangible fixed assets	6,437	5,080	4,580	4,080	3,580
	Total investments	4,204	4,137	4,387	4,532	4,673
	Total assets	16,069	12,712	12,823	12,447	12,215
	Short-term debt	10,658	10,616	10,616	10,616	10,616
	Total liabilities	15,991	15,665	16,042	15,988	16,078
	Total equity	78	(2,953)	(3,219)	(3,542)	(3,863)
	Total liabilities & equity	16,069	12,712	12,823	12,447	12,215
	<b>Key metrics</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
	Revenue growth (%)	(23.3)	11.0	1.9	(1.3)	2.2
	Gross margin (%)	200.0	200.0	10.0	11.9	11.6
	Operating EBITDA margin (%)	(54.7)	15.5	15.5	17.5	17.2
	Net profit margin (%)	(220.7)	(12.0)	(5.7)	(7.1)	(6.9)
	Capex/sales (%)	3.8	5.2	1.1	1.1	1.1
	Interest cover (x)	(5.24)	0.25	0.28	0.41	0.42

Source: Company data, RHB

29 September 2023

Energy &amp; Petrochemicals |

Figure 1: 6MFY24 results review

FYE Jan (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	6MFY23	6MFY24	YoY (%)	Comments
Revenue	1,172.9	951.7	1,143.2	20%	(3%)	2,059.0	2,094.9	2%	
EBITDA	238.2	113.9	74.0	(35%)	(69%)	311.9	187.9	(40%)	
Depreciation	(119.6)	(95.0)	(96.5)	2%	(19%)	(228.5)	(191.5)	(16%)	
EBITDA margin (%)	20.3	12.0	6.5			15.1	9.0		
EBIT	118.6	18.9	(22.5)	(219%)	(119%)	83.5	(3.6)	(104%)	
Interest expense	(148.9)	(180.8)	(199.1)	10%	34%	(271.4)	(379.9)	40%	
Other operating cost	(945.5)	(847.2)	(1,073.5)	27%	14%	(1,765.1)	(1,920.7)	9%	
Other operating income	10.8	9.4	4.4	(53%)	(59%)	18.1	13.8	(24%)	
JVs	(18.8)	117.8	151.5	29%	NM	59.6	269.3	352%	
El/Others	74.3	217.6	134.5			250.3	352.1		
Pre-tax profit	25.2	173.5	64.5	(63%)	156%	122.0	237.9	95%	
Pre-tax margin (%)	2.1	18.2	5.6			5.9	11.4		
Tax	(26.9)	(29.6)	(27.0)	(9%)	0%	(36.3)	(56.5)	56%	
Effective tax rate (%)	(106.9)	(17.1)	-41.8			(29.8)	(23.8)		
Minority interest	(0.9)	2.2	5.3	142%	(721%)	3.7	7.5	104%	
Net profit	(2.6)	146.1	42.8	(71%)	NM	89.3	188.9	111%	
Core profit	(76.9)	(71.5)	(91.7)	28%	19%	(160.9)	(163.2)	1%	Within expectations. 2QFY24 core loss of MYR92m was derived after stripping off MYR134m of FX gains, and MYR0.2m of PPE disposal gains
Net margin (%)	(6.6)	(7.5)	(8.0)			(7.8)	(7.8)		

Source: Company data, RHB

Figure 2: 6MFY24 segmental results review

FYE Jan (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	6MFY23	6MFY24	YoY (%)
<b>Segmental revenue</b>								
Engineering & Construction	709.2	574.8	718.1	25%	1%	1,297.0	1,292.9	(0%)
Drilling	363.3	294.6	321.4	9%	(12%)	595.1	616.0	4%
Energy	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Operations & Maintenance	129.4	144.5	149.8	4%	16%	250.3	294.2	18%
<b>Operating profit</b>								
Engineering & Construction	58.5	71.3	26.4	(63%)	(55%)	106.5	97.7	(8%)
Drilling	43.1	0.9	5.7	568%	(87%)	(6.3)	6.5	(204%)
Energy	(92.0)	43.8	61.7	41%	(167%)	(50.1)	105.6	(311%)
Operations & Maintenance	44.9	(0.0)	(1.6)	5,632%	(104%)	71.5	(1.6)	(102%)

Source: Company data, RHB

Figure 3: SOP valuation

	MYR (m)	Notes
Net tangible asset excluding exploration & production (E&P)	(4,465)	FY24F net tangible asset excluding investment in associate and JV (E&P)
Energy (E&P)	2,964.1	DCF, 7.9% WACC, RHB crude oil price forecast, 20% discount
Additional equity from debt	2140	Assuming 20% of total debt (MYR2.14bn) is converted to equity based on the conversion price of MYR0.10 per share
Total value	639	
ESG (discount)/premium	(10%)	ESG score of 2.5
Enlarged share base	39,775.9	Share base is enlarged by 1.2x post conversion of debt to equity
<b>Fully diluted TP (MYR)</b>	<b>0.02</b>	<b>Rounded to two decimals</b>

Source: RHB

## Recommendation Chart

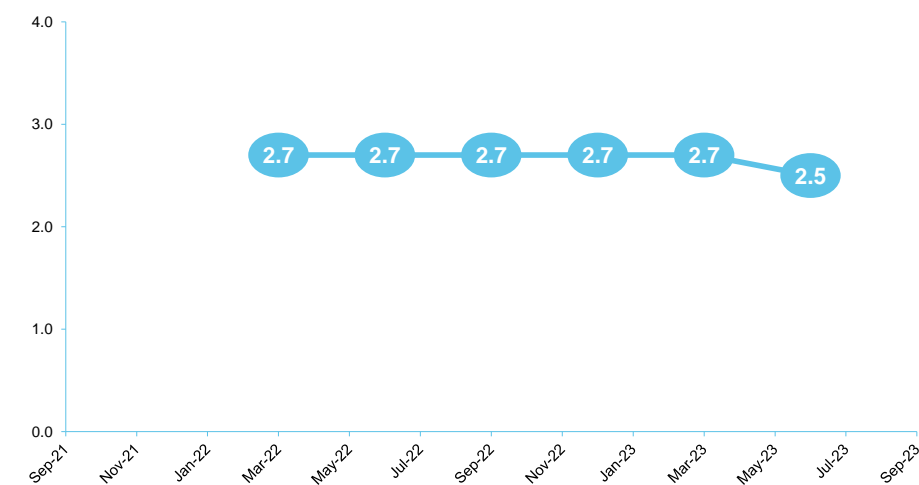


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-06-27	Sell	0.02	0.04
2023-03-30	Sell	0.02	0.04
2022-09-26	Sell	0.02	0.04
2022-06-28	Sell	0.02	0.05
2022-03-21	Sell	0.02	0.04
2020-04-30	Sell	0.05	0.09
2019-12-06	Neutral	0.29	0.26
2019-09-30	Neutral	0.30	0.28
2019-03-26	Buy	0.45	0.34
2018-12-07	Buy	0.46	0.35
2018-11-12	Buy	0.49	0.38
2018-10-01	Neutral	0.41	0.43
2018-09-12	Buy	0.43	0.36
2018-08-27	Neutral	0.43	0.38
2018-07-02	Buy	0.82	0.62

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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