

26 March 2024

Energy & Petrochemicals | Integrated Oil & Gas

Sapura Energy (SAPE MK)

Sell (Maintained)

Weak Set Of Results; Reiterate SELL

- **Reiterate SELL and MYR0.02 TP, 50% downside.** Sapura Energy's FY24 (Jan) results missed estimates, largely dragged by a higher cost base for key operating segments. We remain cautious on its engineering & construction (E&C) segment's profitability. The Edge reported that TotalEnergies and Mubadala are frontrunners to acquire its 50% stake in SapuraOMV. Such a plan is essential to reset SAPE. Maintain SELL, as SAPE's holistic debt and equity restructuring – highly dilutive, in our view – is inevitable for it to get out of the woods.
- **Below expectations.** SAPE's FY24 core loss of MYR980m came in below expectations, mainly dragged by weaker-than-expected margins. No dividend was declared, as expected.
- **Results review.** SAPE recorded a MYR589m core loss in 4QFY24 after stripping off MYR126m in FX losses and MYR14m in PPE impairment losses – its worst performing quarter in the past two years. Core losses widened by 1.6x to MYR589m in 4QFY24, largely due to softer E&C numbers, as a result of lower progress from ongoing projects as well as a weaker E&P arm which slipped into losses of MYR182m (from MYR74m profit in 3QFY24). We understand there was a write-off of capitalised exploration costs recognised in 4QFY24. Cumulatively, FY24 losses widened by 4.7x YoY to MYR980m, no thanks to weaker contributions from all three key segments.
- **Outlook.** As there was no contract win announced, its orderbook shrank by 7% QoQ to MYR5bn as of 4QFY24. Orderbook replenishment remains one of its biggest challenges, with limited access to bank guarantees and working capital. The drilling segment is expected to deliver a stable performance, as 10 out of 11 rigs are under charter contracts. Meanwhile, the Edge reported that TotalEnergies and Mubadala are frontrunners to acquire its 50% stake in SapuraOMV. The offer price is not known, but news reports had previously put it at USD1.2bn. The High Court granted SAPE and some of its wholly-owned subsidiaries an extension of the restraining order for a period of three months from 11 Mar 2024, allowing it to finalise the proposed Schemes of Arrangement for the approval of its creditors. The standstill period with the financiers is extended until 10 Jun 2024.
- **We widen our FY25F loss estimate by 6% on higher operating costs.** Our SOP-based TP is largely unchanged at MYR0.02, inclusive of a 10% ESG discount. We have assumed that 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.

Forecasts and Valuation	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
Total turnover (MYRm)	4,551	4,258	4,576	4,676	4,694
Net profit (MYRm)	(172)	(980)	(406)	(323)	(345)
Net profit growth (%)	(94.7)	470.6	(58.6)	(20.3)	6.7
Recurring P/E (x)	na	na	na	na	na
P/B (x)	na	na	na	na	na
P/CF (x)	na	na	na	na	na
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	18.2	10.4	8.4	8.4	8.4
ROAE (%)	na	na	na	na	na
Net debt to equity (%)	na	na	na	na	na

Source: Company data, RHB

Source: Company data, RHB

Target Price (Return): MYR0.02 (-50%)
 Price (Market Cap): MYR0.04 (USD154m)
 ESG score: 2.5 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.12m/0.24m

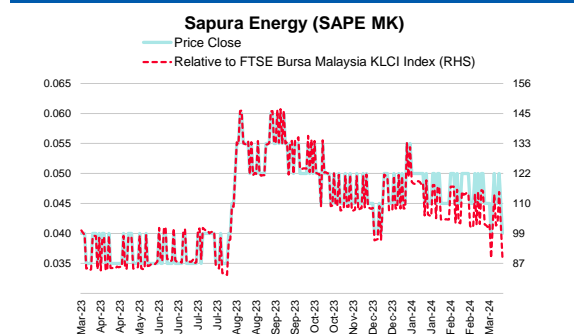
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.1)	(20.0)	(11.1)	(27.3)	(11.1)
Relative	(16.8)	(19.2)	(16.8)	(33.8)	(20.9)
52-wk Price low/high (MYR)				0.04	-0.06



Source: Bloomberg

Overall ESG Score: 2.5 (out of 4)

E: MODERATE

Sapura Energy has environmental policies in place to ensure zero spills, efficient management of hazardous waste, and plastic waste reduction. It is shifting its E&P portfolio towards more gas production instead of just oil, and entering the RE business, to lower emissions. It is working on reporting climate-related risks and opportunities. However, these initiatives have been put on hold as it focuses on resolving its financial condition.

S: GOOD

It prioritises health and safety through its various policies, has had zero lost-time incidents, and has won multiple awards as a result. COVID-19 measures were implemented in response to the pandemic. The group recorded zero fatalities in FY22. However, lost-time injury frequency rose by 215% from 0.2 (FY21) to 0.63. It is involved in multiple community engagement programmes such as giving scholarships and engaging in charity work

G: GOOD

Half of its board of directors are independent, and comprise members who are skilled and experienced. However, there is no female representation on the board. The group 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.

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Financial Exhibits

Asia	Financial summary (MYR)	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
Malaysia	Recurring EPS	- 0.01	- 0.03	- 0.02	- 0.02	0.02
Energy & Petrochemicals	BVPS	- 0.16	- 0.23	- 0.25	- 0.27	0.28
Sapura Energy	Return on average equity (%)	38.4	27.7	9.3	6.8	6.8
SAPE MK						
Sell						
	Valuation metrics	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
	Recurring P/E (x)	na	na	na	na	na
	P/B (x)	na	na	na	na	na
	FCF Yield (%)	20.9	15.4	(96.2)	13.3	(2.3)
	EV/EBITDA (x)	8.99	na	8.32	7.34	7.61
	EV/EBIT (x)	40.67	na	32.69	23.31	22.27
Valuation basis						
SOP						
Key drivers						
i. Increase in project wins;						
ii. Better margins.						
Key risks						
i. Slowdown in job replenishments;						
ii. Failure to pursue debt restructuring.						
Company Profile						
Sapura Energy is a Malaysian integrated oil & gas services company involved in engineering & construction, drilling as well as exploration and production.						
	Income statement (MYRm)	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
	Total turnover	4,551	4,258	4,576	4,676	4,694
	Gross profit	9,103	8,515	483	542	498
	EBITDA	705	(434)	738	803	760
	Depreciation and amortisation	(549)	0	(550)	(550)	(500)
	Operating profit	156	(434)	188	253	260
	Net interest	(609)	(787)	(628)	(628)	(648)
	Pre-tax profit	(492)	(884)	(296)	(233)	(255)
	Taxation	(72)	(106)	(110)	(90)	(90)
	Reported net profit	(546)	(980)	(406)	(323)	(345)
	Recurring net profit	(172)	(509)	(406)	(323)	(345)
	Cash flow (MYRm)	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
	Change in working capital	531	1,620	(657)	63	12
	Cash flow from operations	389	311	(657)	148	33
	Capex	(235)	(198)	(50)	(50)	(50)
	Cash flow from investing activities	143	302	(50)	(50)	(50)
	Cash flow from financing activities	(279)	(120)	0	0	0
	Cash at beginning of period	718	851	1,454	746	844
	Net change in cash	252	494	(707)	98	(17)
	Ending balance cash	851	1,454	746	844	827
	Balance sheet (MYRm)	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
	Total cash and equivalents	851	1,454	746	844	827
	Tangible fixed assets	5,080	5,348	4,848	4,348	3,898
	Total investments	4,137	4,653	4,798	4,939	5,073
	Total assets	12,712	14,020	13,744	13,544	13,222
	Short-term debt	10,616	10,982	10,982	10,982	10,982
	Total liabilities	15,665	18,212	18,341	18,465	18,488
	Total equity	(2,953)	(4,192)	(4,597)	(4,921)	(5,266)
	Total liabilities & equity	12,712	14,020	13,744	13,544	13,222
	Key metrics	Jan-23	Jan-24	Jan-25F	Jan-26F	Jan-27F
	Revenue growth (%)	11.0	(6.5)	7.5	2.2	0.4
	Recurrent EPS growth (%)	(94.7)	196.3	(20.3)	(20.3)	6.7
	Gross margin (%)	200.0	200.0	10.6	11.6	10.6
	Operating EBITDA margin (%)	15.5	(10.2)	16.1	17.2	16.2
	Net profit margin (%)	(12.0)	(23.0)	(8.9)	(6.9)	(7.3)
	Capex/sales (%)	5.2	4.6	1.1	1.1	1.1
	Interest cover (x)	0.25	(0.54)	0.30	0.40	0.40

Source: Company data, RHB

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Figure 1: FY24 results review

FYE Jan (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Revenue	1,217.2	1,103.9	1,058.8	(4%)	(13%)	4,551.3	4,257.6	(6%)	
EBITDA	285.4	(59.7)	(151.7)	154%	(153%)	704.6	(23.5)	(103%)	
Depreciation	(188.7)	(99.3)	(119.7)	21%	(37%)	(548.7)	(410.6)	(25%)	
EBITDA margin (%)	23.5	(5.4)	-14.3			15.5	(0.6)		
EBIT	96.7	(159.0)	(271.4)	71%	(381%)	155.8	(434.0)	(379%)	
Interest expense	(181.2)	(198.1)	(209.1)	6%	15%	(608.8)	(787.1)	29%	
Other operating cost	(936.0)	(1,174.7)	(1,226.1)	4%	31%	(3,933.4)	(4,321.5)	10%	
Other operating income	4.2	11.1	15.5	40%	269%	86.7	40.4	(53%)	
JVs	(215.3)	161.4	(93.5)	(158%)	(57%)	(38.6)	337.2	(974%)	
El/Others	(3,047.0)	258.8	(139.8)			(2,657.8)	471.1		
Pre-tax profit	(3,346.8)	63.0	(713.8)	(1,233%)	(79%)	(3,149.4)	(412.8)	(87%)	
Pre-tax margin (%)	(275.0)	5.7	-67.4			(69.2)	(9.7)		
Tax	27.9	(31.2)	(18.1)	(42%)	(165%)	(72.0)	(105.9)	47%	
Effective tax rate (%)	(0.8)	(49.6)	2.5			2.3	25.6		
Minority interest	15.8	(0.9)	3.4	(480%)	(78%)	17.8	10.0	(44%)	
Net profit	(3,303.1)	30.9	(728.4)	(2,458%)	(78%)	(3,203.5)	(508.7)	(84%)	
Core profit	118.0	(227.9)	(588.6)	158%	(599%)	(171.7)	(979.7)	471%	Below expectations. 4QFY24 core loss was derived after stripping off MYR126m in FX losses and MYR14m PPE impairment losses.
Net margin (%)	9.7	(20.6)	(55.6)			(3.8)	(23.0)		

Source: Company data, RHB

Figure 2: FY24 segmental results review

FYE Jan (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Segmental revenue								
Engineering & Construction	692.9	689.1	665.9	(3%)	(4%)	2,820.0	2,647.9	(6%)
Drilling	436.4	326.4	293.9	(10%)	(33%)	1,374.1	1,236.3	(10%)
Energy	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Operations & Maintenance	113.3	158.7	127.4	(20%)	12%	519.4	580.3	12%
Operating profit								
Engineering & Construction	(880.5)	(75.4)	(225.8)	200%	(74%)	(801.1)	(203.6)	(75%)
Drilling	(1,654.8)	(42.5)	(54.3)	28%	(97%)	(1,660.8)	(90.3)	(95%)
Energy	(333.3)	74.3	(182.0)	nm	(45%)	(359.1)	(2.2)	(99%)
Operations & Maintenance	34.8	(5.8)	(30.0)	414%	nm	140.1	(37.5)	nm

Source: Company data, RHB

Figure 3: SOP valuation

	MYR (m)	Notes
Net tangible asset excluding exploration & production (E&P)	-6,123	FY24 net tangible assets excluding investments in associate and JV (E&P).
Energy (E&P)	4,715.0	Assume asset was monetised at USD1bn (net of debt).
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	732	
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.
Fully diluted TP (MYR)	0.02	Rounded to two decimal points.

Source: RHB

Emissions And ESG

Trend analysis

SAPE has yet to disclose its emissions data.

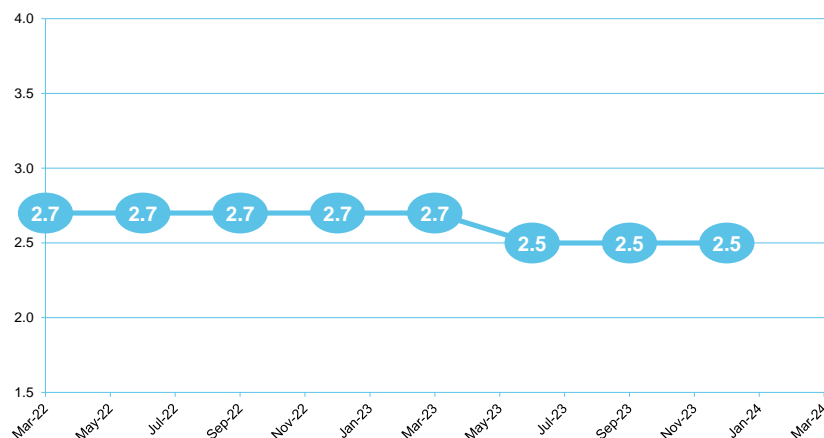
Emissions (tCO ₂ e)	Jan-22	Jan-23	Jan-24
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- SAPE started recycling scrap materials at its fabrication yards in Lumut and Pasir Gudang.
- In FY23, its drilling business implemented Shell's Greenhouse Gas Reduction campaign at Sapura Esperanza's semi tender rig work in Malikai Phase 2 which managed to reduce its carbon equivalent emissions by c.5.86 kilo tonnes.
- In FY23, the group obtained convening and restraining orders from the High Court for it to propose a debt restructuring scheme to creditors and prevent legal actions or proceedings during the process. These orders were renewed in March this year.
- While the group prioritises its safety performance, in Apr 2023, SAPE reported a work-related safety incident.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-12-14	Sell	0.02	0.05
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

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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