

3 August 2022

Energy & Petrochemicals | Integrated Oil & Gas

## Sapura Energy (SAPE MK)

**Sell** (Maintained)

### 2-Year Extension For Esmeralda; Keep SELL

- **Keep SELL and MYR0.02 TP, 56% downside.** We are positive on the contract win as it provides a 2-year earnings visibility for the Sapura Esmeralda vessel, despite lower charter rates. The six pipe-laying support vessels (PLSVs) will continue to be among the main earnings contributors for Sapura Energy. That said, we reiterate our SELL call, as a holistic debt and equity restructuring – which would be highly dilutive, in our view – is needed for Sapura Energy to be out of the woods.
- **2-year contract extension for Sapura Esmeralda.** Sapura Energy's JV company has been awarded with a 2-year extension, valued at USD130m (c.MYR580m) by Petróleo Brasileiro SA (Petrobras) for the provision of services and charter of PLSV Sapura Esmeralda. The implied daily charter rates (DCR) of USD178k/day appears to be higher than the rates of Sapura Diamante and Sapura Topazio, which have been awarded 3.5-year contracts by Petrobras.
- **Lower charter rates.** Overall, we are positive on the contract win as it provides a 2-year earnings visibility for this vessel. Recall that Sapura Esmeralda was under an 8-year firm charter contract with another 8-year extension option. The original DCR was as high as USD250k/day. However, we understand that Petrobras has slashed the rates several times in the past few years. Therefore, we estimate that the new DCR is 10-15% lower than the most recent rates prior to the expiry of the firm contract. Subsequent to this new contract, the next PLSV that is due for expiry is Sapura Onix in 3QCY23, followed by Sapura Jade in 1QCY24.
- **Maintain our estimates.** Recall that all six vessels have operated in Brazil for Petrobras in 1QFY23 with average utilisation of 94.8%. The share of profit from these vessels was c.MYR40m in 1QFY23. Assuming net margin of 10%, this contract is likely to contribute net earnings of MYR15m pa. Despite the contract win, we maintain our losses estimates, with the anticipation of a continuous drag by other segments.
- **SELL.** Our SOP-based TP is kept at MYR0.02, assuming 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. Our TP also includes a 6% discount, based on Sapura Energy's ESG score of 2.7. Upside risks: Better-than-expected project execution and stronger-than-expected contract flows.

Target Price (Return):

MYR0.02 (-56.0%)

Price (Market Cap):

MYR0.045 (USD161m)

ESG score:

2.70 (out of 4)

Avg Daily Turnover (MYR/USD)

6.04m/1.37m

#### Analyst

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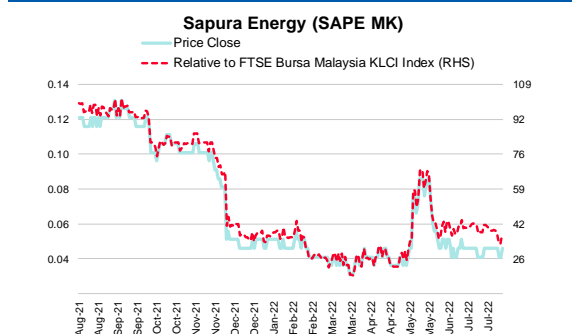
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.0)	0.0	28.6	0.0	(62.5)
Relative	(5.4)	(3.1)	35.2	1.1	(62.6)
52-wk Price low/high (MYR)				0.03 – 0.13	



Source: Bloomberg

#### Overall ESG Score: 2.70 (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 in the process of shifting its E&P portfolio towards more gas production instead of just oil, and entering the RE business, to lower its 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 that 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.

Forecasts and Valuation	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
Total turnover (MYRm)	5,348	4,127	4,196	4,604	4,513
Recurring net profit (MYRm)	(233)	(3,113)	(672)	(300)	(363)
Recurring net profit growth (%)	(73.7)	1,236.3	(78.4)	(55.4)	21.1
Recurring P/E (x)	na	na	na	na	na
P/B (x)	0.1	3.2	na	na	na
P/CF (x)	5.02	1.68	na	4.88	12.54
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	7.71	na	18.54	8.89	7.84
Return on average equity (%)	(1.8)	(193.4)	829.4	52.9	40.4
Net debt to equity (%)	110.1	3,920.5	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jan-21</b>	<b>Jan-22</b>	<b>Jan-23F</b>	<b>Jan-24F</b>	<b>Jan-25F</b>
Malaysia	Recurring EPS	(0.01)	(0.17)	(0.04)	(0.02)	(0.02)
Energy & Petrochemicals	BVPS	0.49	0.01	(0.02)	(0.04)	(0.06)
<b>Sapura Energy</b>	Return on average equity (%)	(1.8)	(193.4)	829.4	52.9	40.4
SAPE MK						
Sell						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jan-21</b>	<b>Jan-22</b>	<b>Jan-23F</b>	<b>Jan-24F</b>	<b>Jan-25F</b>
SOP	Recurring P/E (x)	na	na	na	na	na
	P/B (x)	0.1	3.2	na	na	na
	FCF Yield (%)	0.1	40.9	(34.9)	14.5	1.9
	EV/EBITDA (x)	7.71	na	18.54	8.89	7.84
	EV/EBIT (x)	21.53	na	na	64.30	35.69
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jan-21</b>	<b>Jan-22</b>	<b>Jan-23F</b>	<b>Jan-24F</b>	<b>Jan-25F</b>
i. Higher project wins;	Total turnover	5,348	4,127	4,196	4,604	4,513
ii. Better margins.	Gross profit	1,158	(81)	122	440	518
	EBITDA	842	(2,217)	354	696	769
	Depreciation and amortisation	(540)	(522)	(600)	(600)	(600)
	Operating profit	302	(2,739)	(246)	96	169
	Net interest	(492)	(501)	(566)	(566)	(566)
	Pre-tax profit	(32)	(8,797)	(622)	(220)	(253)
	Taxation	(129)	(102)	(50)	(80)	(110)
	Reported net profit	(161)	(8,896)	(672)	(300)	(363)
	Recurring net profit	(233)	(3,113)	(672)	(300)	(363)
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Jan-21</b>	<b>Jan-22</b>	<b>Jan-23F</b>	<b>Jan-24F</b>	<b>Jan-25F</b>
i. Slowdown in replenishments;	Change in working capital	(743)	2,145	24	120	(27)
ii. Failure to pursue debt restructuring.	Cash flow from operations	165	493	(239)	170	66
	Capex	(164)	(154)	(50)	(50)	(50)
	Cash flow from investing activities	(70)	(68)	(50)	(50)	(50)
	Cash flow from financing activities	(368)	(199)	0	0	0
	Cash at beginning of period	772	489	718	429	548
	Net change in cash	(274)	225	(289)	120	16
	Ending balance cash	489	718	429	548	564
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jan-21</b>	<b>Jan-22</b>	<b>Jan-23F</b>	<b>Jan-24F</b>	<b>Jan-25F</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	489	718	429	548	564
	Tangible fixed assets	9,219	6,733	6,183	5,633	5,083
	Total investments	4,164	4,332	4,522	4,772	4,917
	Total assets	22,665	16,236	15,626	15,693	15,248
	Short-term debt	3,263	10,658	10,658	10,658	10,658
	Total long-term debt	7,069	0	0	0	0
	Total liabilities	13,728	15,982	16,044	16,410	16,328
	Total equity	8,937	254	(418)	(718)	(1,080)
	Total liabilities & equity	22,665	16,236	15,626	15,693	15,248
	<b>Key metrics</b>	<b>Jan-21</b>	<b>Jan-22</b>	<b>Jan-23F</b>	<b>Jan-24F</b>	<b>Jan-25F</b>
	Revenue growth (%)	(17.1)	(22.8)	1.7	9.7	(2.0)
	Recurrent EPS growth (%)	(73.7)	1236.3	(78.4)	(55.4)	21.1
	Gross margin (%)	21.6	(2.0)	2.9	9.6	11.5
	Operating EBITDA margin (%)	15.7	(53.7)	8.4	15.1	17.0
	Net profit margin (%)	(3.0)	(215.6)	(16.0)	(6.5)	(8.0)
	Capex/sales (%)	3.1	3.7	1.2	1.1	1.1
	Interest cover (x)	0.61	(5.25)	(0.44)	0.17	0.30

Source: Company data, RHB

Figure 1: SOP valuation

	MYR (m)	Notes
Net tangible asset excluding E&P	(4,093)	FY23F net tangible asset excluding investments 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/share.
Total value	1,011	
ESG (discount)/ premium	-6%	ESG scoring of 2.7.
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>	Rounded to two decimals.

Source: RHB

## Recommendation Chart

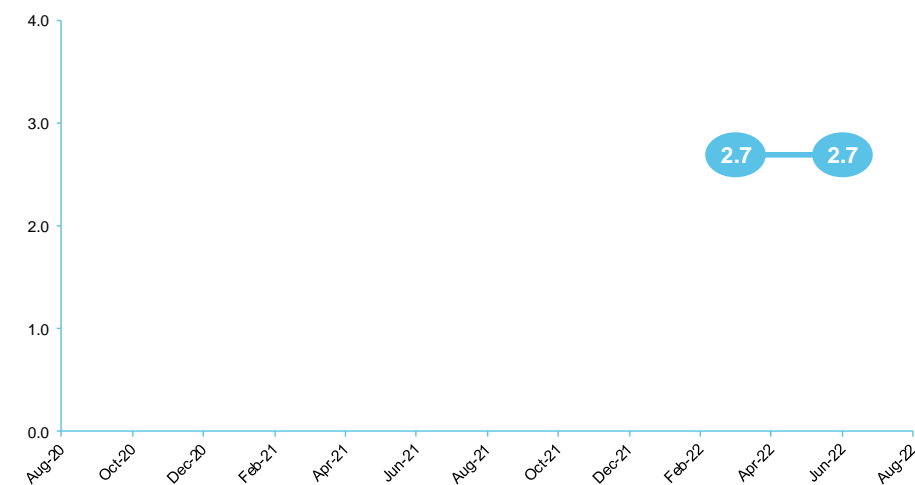


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-06-22	Buy	0.82	0.65
2018-06-21	Buy	0.82	0.60
2018-05-16	Neutral	0.82	0.81

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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