

Sapura Energy (SAPE MK)

1QFY1/23 results - In the red

Maintain SELL and MYR0.03 TP

Excluding the one-offs in 1QFY1/23, SAPE remained in the red for the 5th consecutive quarter, weighed down by legacy issues (54% of its total contracts). SAPE remains vulnerable for its negative mix of stretched balance sheet, tight cash flows, legacy contracts, poor execution and cost overruns. While an operational and financial restructuring exercise is underway, turning around SAPE will be a massive challenge and will take time. We see better values elsewhere for now. Our TP is SOP-based.

1QFY1/23 results: Salient points

Headline net profit of MYR92m in 1QFY1/23 consisted of MYR287m exceptional items (MYR176m forex gain, est. MYR111m on LAD reversals, VO etc). Excluding that, SAPE reported core net loss of MYR195m. It remained EBITDA -ve (MYR144m) for the 3rd consecutive quarter. Its cash level fell 25% QoQ. Net debt/ gearing levels were at MYR9.6b/ 60.6x respectively. It remained in: (i) net cash liability (MYR13b; 4th consecutive quarter) and (ii) negative operating CF (MYR76m) in 1Q23.

A massive challenge to re-engineer its ops

Our estimates are unchanged, expecting SAPE to be in the red in FY23. While its operational and financial restructuring exercises are currently underway, turning around SAPE (a PN17 status now) will be a massive challenge and will take a considerable time. 31% of its FY23 projects are still exposed to legacy contracts. It has won MYR2.7b (incl. JV's MYR176m) worth of new jobs to-date but delivering its order backlog (MYR8.3b; ex-JV; bid book: MYR22.8b) without further cost overruns/ provisions is crucial, an immediate priority in our view. The need to divest/ monetize its assets/ businesses (>MYR.300m) is inevitable. SAPE needs to re-base its costs structure to a much lower level still. Its debt restructuring is underway.

Risks override reward

We still see better values elsewhere, for now. For an exposure to the O&G space, we continue to advocate our preference for Hibiscus (HIBI MK; BUY; TP: MYR1.90) and Yinson (YNS MK; BUY; TP: MYR4.05).

FYE Jan (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	5,348	4,127	4,133	4,219	4,307
EBITDA	845	(3,241)	(279)	(63)	(50)
Core net profit	(161)	(3,255)	(391)	(192)	(176)
Core EPS (sen)	(1.0)	(20.4)	(2.4)	(1.2)	(1.1)
Core EPS growth (%)	nm	nm	nm	nm	nm
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	nm	nm	nm	nm
P/BV (x)	0.2	2.8	nm	nm	nm
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(1.8)	(193.4)	(656.0)	82.9	42.4
ROAA (%)	(0.7)	(16.7)	(2.5)	(1.2)	(1.1)
EV/EBITDA (x)	13.8	nm	nm	nm	nm
Net gearing (%) (incl perps)	110.1	nm	net cash	net cash	net cash
Consensus net profit	-	-	(457)	(329)	(291)
MKE vs. Consensus (%)	-	-	14.5	41.5	39.5

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SELL

Share Price	MYR 0.05
12m Price Target	MYR 0.03 (-33%)
Previous Price Target	MYR 0.03

Company Description

Sapura Energy Bhd operates as an investment holding company, which provides integrated oil and gas services and solutions.

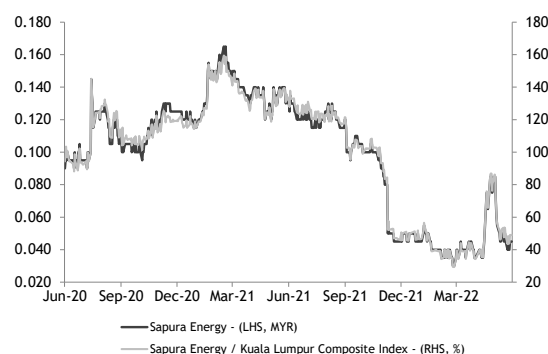
Statistics

52w high/low (MYR)	0.14/0.03
3m avg turnover (USDm)	1.5
Free float (%)	84.4
Issued shares (m)	15,979
Market capitalisation	MYR719.1M
	USD163M

Major shareholders:

Permodalan Nasional Bhd.	39.6%
Sapura Holdings Sdn. Bhd.	10.6%
Kumpulan Wang Persaraan	2.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(44)	50	(67)
Relative to index (%)	(39)	67	(64)

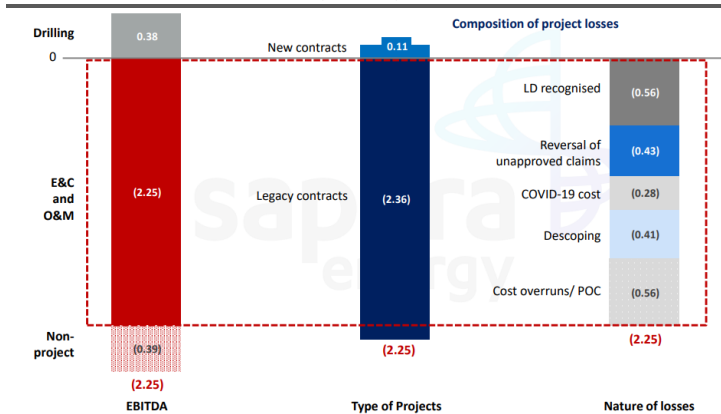
Source: FactSet

Fig 1: Results summary

FY Jan (MYR m)	Quarterly				
	1Q23	1Q22	% YoY	4Q22	% QoQ
Turnover	886.1	1,470.6	(39.7)	453.1	95.5
EBITDA	(144.0)	164.0	NM	(3,179.8)	(95.5)
EBIT	(35.1)	111.4	NM	(2,052.6)	(98.3)
Int. income	3.0	2.5	19.2	(18.2)	NM
Int. expense	(125.4)	(156.0)	(19.6)	(123.0)	1.9
Associates	78.4	63.6	23.4	25.8	>100
Exceptional items	286.9	(85.5)	NM	(4,446.1)	NM
Pre-tax profit	96.8	(64.0)	NM	(6,614.2)	NM
Tax	(9.4)	(38.2)	(75.4)	(3.4)	175.1
Minority interest	4.5	5.1	(11.4)	5.0	(9.6)
Net profit	91.9	(97.1)	NM	(6,612.6)	NM
Net profit Ex EI	(195.0)	(11.6)	NM	(2,166.5)	NM
<i>EBIT margin (%)</i>	<i>(4.0)</i>	<i>7.6</i>	<i>(11.5)</i>	<i>(453.0)</i>	<i>NM</i>
<i>Tax rate (%)</i>	<i>9.7</i>	<i>(59.7)</i>	<i>69.4</i>	<i>(0.1)</i>	<i>9.8</i>
Segmental	1Q23	1Q22	% YoY	4Q22	% QoQ
Turnover	886.1	1,470.6	(39.7)	453.1	95.5
- Engineering & Construction	587.8	1,133.7	(48.1)	142.4	>100
- O&M	120.9	114.8	5.3	98.2	23.0
- Drilling	231.8	251.8	(8.0)	263.7	(12.1)
- Energy	0.0	0.0	NM	0.0	NM
- Consolidation adjustment	(54.4)	(29.7)	83.2	(51.2)	6.3
Pretax profit	96.8	(64.0)	NM	(6,614.2)	NM
- Engineering & Construction	47.9	51.1	(6.2)	(2,592.4)	NM
- O&M	26.6	3.2	>100	(76.7)	NM
- Drilling	(49.3)	22.1	NM	(3,788.1)	(98.7)
- Energy	41.9	52.0	(19.4)	(19.9)	NM
- Consolidation adjustment	29.7	(192.3)	NM	(137.3)	NM
	1Q23	1Q22	% YoY	4Q22	% QoQ
Pretax margin (%)	10.9	(4.4)	15.3	(1,459.6)	NM
- Engineering & Construction	8.2	4.5	3.6	(1,820.5)	NM
- O&M	22.0	2.7	19.2	(78.0)	NM
- Drilling	(21.3)	8.8	NM	(1,436.7)	NM

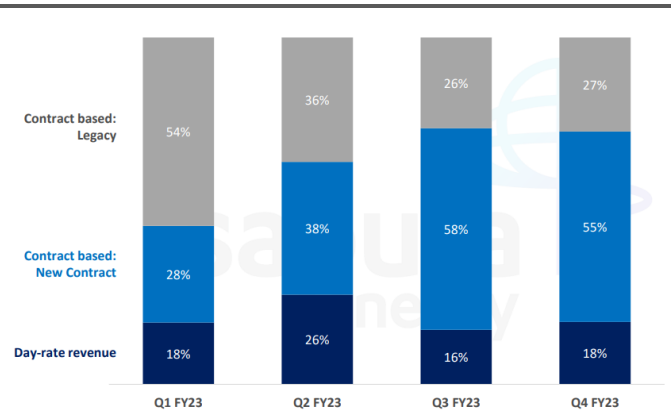
Source: Maybank IBG Research

Fig 2: FY22's performance (MYR'b)



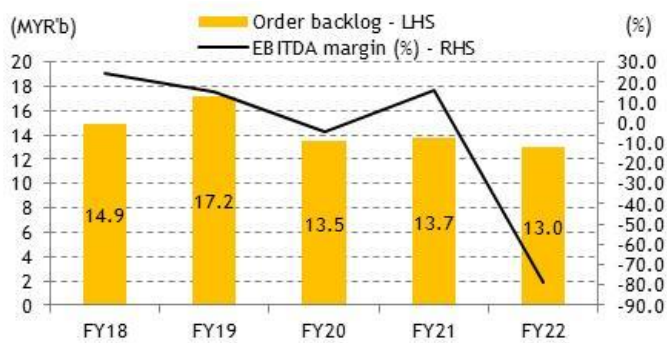
Source: Company

Fig 3: FY23's legacy contracts by quarter



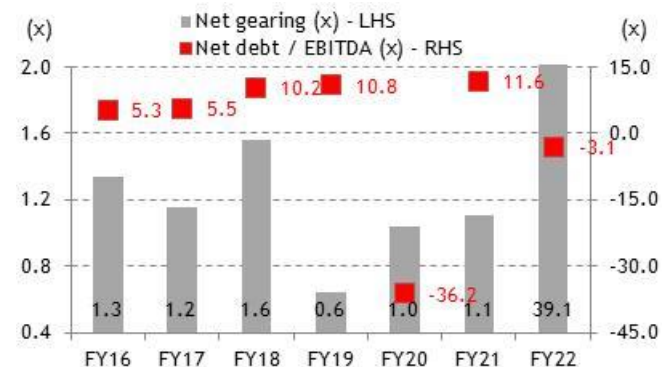
Source: Company

Fig 4: Order backlog vs. EBITDA margin



Source: Maybank IBG Research

Fig 5: Net gearing vs. net debt-to-EBITDA



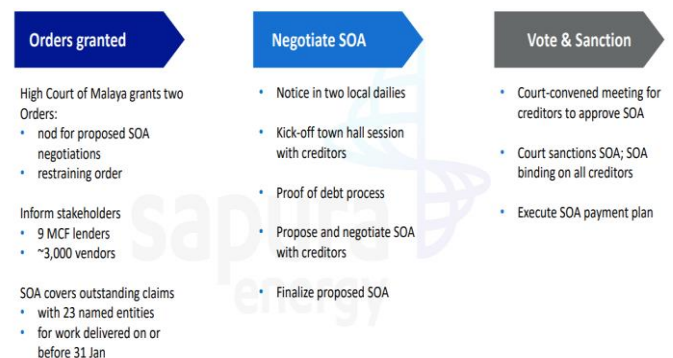
Source: Maybank IBG Research

Fig. 6: SOTP valuation

	(MYR'm)	Comment
E&C	2,910	8x FY24 EBITDA
Drilling	3,381	0.4x BV
Associates		
- Energy	3,200	Based on USD1.6b EV
- PLSVs	849	8x FY24 net profit (6 units)
	10,340	
Net debt	-9,940	Based on FY22
	400	
Enlarged share base (m)	15,972	
SOP	0.03	Ex-warrants & RCPS-i

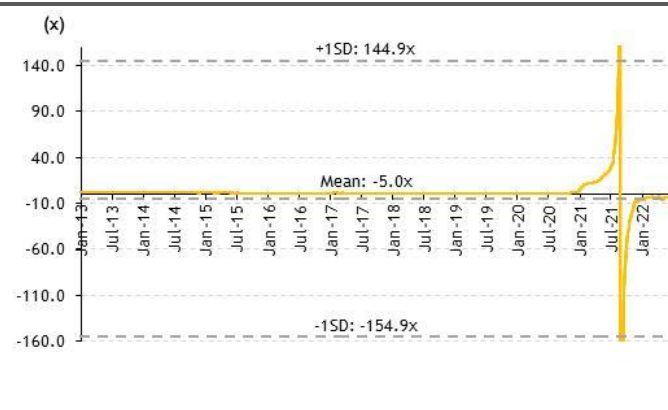
Source: Maybank IBG Research

Fig. 7: Scheme of arrangement (SOA) process



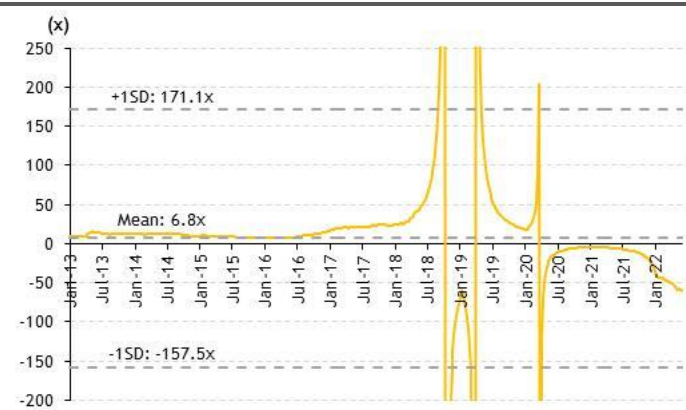
Source: Company

Fig 8: 1-year forward PBV



Source: Maybank IBG Research

Fig 9: 1-year forward EV/ EBITDA



Source: Maybank IBG Research

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	nm	nm
Core P/E (x)	nm	nm	nm	nm	nm
P/BV (x)	0.2	2.8	nm	nm	nm
P/NTA (x)	0.5	(0.5)	(0.4)	(0.4)	(0.3)
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	0.1	48.9	10.1	nm	nm
EV/EBITDA (x)	13.8	nm	nm	nm	nm
EV/EBIT (x)	38.7	nm	nm	41.1	39.5

INCOME STATEMENT (MYR m)

Revenue	5,347.8	4,126.8	4,133.4	4,218.9	4,306.9
EBITDA	845.0	(3,240.8)	(279.3)	(62.7)	(50.3)
Depreciation	(543.2)	522.3	322.3	322.3	322.3
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	301.8	(2,718.5)	43.0	259.6	272.1
Net interest income / (exp)	(492.4)	(521.9)	(520.1)	(516.6)	(516.6)
Associates & JV	158.8	84.2	92.6	97.6	102.6
Exceptionals	(0.0)	(5,641.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(31.7)	(8,797.4)	(384.4)	(159.4)	(141.9)
Income tax	(128.5)	(102.5)	(6.3)	(32.8)	(34.4)
Minorities	(0.6)	4.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(160.9)	(8,895.9)	(390.7)	(192.2)	(176.3)
Core net profit	(160.9)	(3,254.6)	(390.7)	(192.2)	(176.3)

BALANCE SHEET (MYR m)

Cash & Short Term Investments	489.0	717.8	464.7	384.6	304.9
Accounts receivable	1,434.3	1,325.5	206.7	210.9	215.3
Inventory	423.2	428.9	258.3	263.7	269.2
Property, Plant & Equip (net)	9,218.6	6,732.5	7,204.9	7,677.2	8,149.6
Intangible assets	4,927.7	1,705.4	1,705.4	1,705.4	1,705.4
Investment in Associates & JVs	4,109.4	4,331.6	4,424.2	4,521.9	4,624.5
Other assets	2,062.8	994.3	994.3	994.3	994.3
Total assets	22,665.1	16,235.9	15,258.5	15,758.0	16,263.1
ST interest bearing debt	3,263.5	10,658.0	3,263.5	3,263.5	3,263.5
Accounts payable	2,669.0	3,705.3	3,444.5	4,136.2	4,817.6
LT interest bearing debt	7,068.7	0.0	7,068.7	7,068.7	7,068.7
Other liabilities	727.0	1,618.0	1,618.0	1,618.0	1,618.0
Total Liabilities	13,728.4	15,981.7	15,395.1	16,086.7	16,768.2
Shareholders Equity	8,945.6	254.9	(135.8)	(328.0)	(504.3)
Minority Interest	(8.8)	(0.8)	(0.8)	(0.8)	(0.8)
Total shareholder equity	8,936.8	254.2	(136.6)	(328.7)	(505.1)
Total liabilities and equity	22,665.1	16,235.9	15,258.5	15,758.0	16,263.1

CASH FLOW (MYR m)

Pretax profit	(31.7)	(8,797.4)	(384.4)	(159.4)	(141.9)
Depreciation & amortisation	543.2	(522.3)	(322.3)	(322.3)	(322.3)
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(651.6)	2,322.6	1,028.5	682.1	671.5
Cash taxes paid	(128.5)	(102.5)	(6.3)	(32.8)	(34.4)
Other operating cash flow	(158.8)	(84.2)	(92.6)	(97.6)	(102.6)
Cash flow from operations	164.8	492.7	222.8	69.9	70.2
Capex	(162.1)	(141.1)	(150.0)	(150.0)	(150.0)
Free cash flow	2.6	351.6	72.8	(80.1)	(79.8)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	76.1	325.8	(325.8)	0.0	0.0
Other invest/financing cash flow	(362.1)	(448.6)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(283.4)	228.8	(253.0)	(80.1)	(79.8)

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(17.1)	(22.8)	0.2	2.1	2.1
EBITDA growth	nm	nm	nm	nm	nm
EBIT growth	nm	nm	nm	503.3	4.8
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	15.8	nm	nm	nm	nm
EBIT margin	5.6	nm	1.0	6.2	6.3
Pretax profit margin	nm	nm	nm	nm	nm
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	nm	nm
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.5	63.7	nm	nm	nm
ROAE (%)	(1.8)	(193.4)	(656.0)	82.9	42.4
ROAA (%)	(0.7)	(16.7)	(2.5)	(1.2)	(1.1)
Liquidity & Efficiency					
Cash conversion cycle	(90.3)	(93.5)	(206.2)	(289.7)	(342.5)
Days receivable outstanding	97.3	120.4	66.7	17.8	17.8
Days inventory outstanding	34.7	33.0	29.0	22.7	22.8
Days payables outstanding	222.4	246.9	301.9	330.3	383.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.6	0.2	0.2	0.2	0.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.0	1.0	1.0	1.0
Net gearing (%) (incl perps)	110.1	nm	net cash	net cash	net cash
Net gearing (%) (excl. perps)	110.1	nm	net cash	net cash	net cash
Net interest cover (x)	0.6	na	0.1	0.5	0.5
Debt/EBITDA (x)	12.2	nm	nm	nm	nm
Capex/revenue (%)	3.0	3.4	3.6	3.6	3.5
Net debt/ (net cash)	9,843.2	9,940.3	9,867.5	9,947.6	10,027.3

Source: Company; Maybank IBG Research

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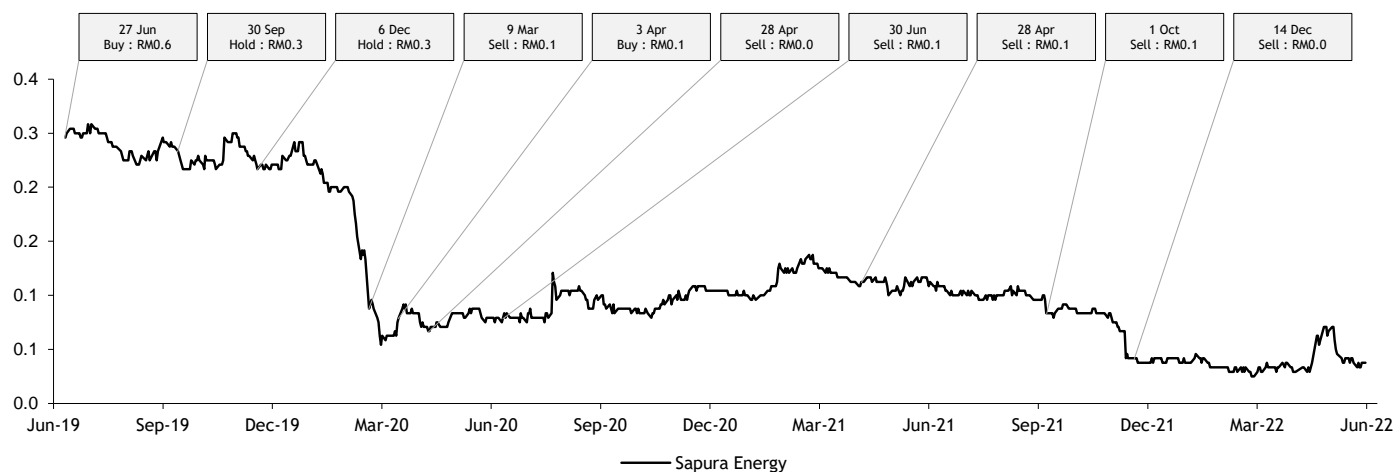
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