

Sapura Energy (SAPE MK)

1HFY1/23: In line, in the red

Maintain SELL and MYR0.03 SOP-based TP

SAPE remained in the red for the 6th consecutive quarter, continuously weighed down by legacy issues. 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 remains a challenge & a work in progress. We see better value elsewhere for now.

2QFY1/23 results: Salient points

SAPE reported lower QoQ core net loss of MYR77m (-61%) in 2QFY1/23, which took its 1HFY23 core net loss to MYR272m (vs. -MYR448m in 1HFY22); 70% of our FY estimate. The drilling ops were the key driver in 2QFY23, with PBT of MYR43m (vs. -MYR49m in 1Q23), fuelled by higher utilization. This was followed by its E&C and O&M ops, which fared equally well, with higher PBT (+22%/ +69% QoQ) respectively. This was negated by the losses at its energy ops (-MYR92m vs. +MYR42m in 1QFY23) due to write-off of an exploration well. SAPE managed to achieve EBITDA break-even; a positive but remained in net current liability & negative operating CF for the 5th and 2nd consecutive quarters. Net debt/ gearing levels remained high, at MYR9.5b/ 53.3x respectively.

Improving but not out of the woods still

Our estimates are unchanged, expecting SAPE to be in the red in FY23 on lower losses in 2HFY23. While its operational/ financial restructuring exercises are underway, turning around SAPE (a PN17 status) remains a challenge. It will take a while still. Much of its FY23 ops are still exposed to legacy contracts (Fig: 3). SAPE still needs to re-base its costs structure to a much lower level while at the same time, ensure that its MYR7.7b order backlog and MYR24.4b bids do not continue to suffer from further cost overruns/ provisions. The need to divest/ monetize its assets/ businesses (>MYR.300m) is inevitable and an ongoing process.

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	-	-	(672)	(364)	(327)
MKE vs. Consensus (%)	-	-	41.9	47.3	46.1

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SELL

Share Price	MYR 0.04
12m Price Target	MYR 0.03 (-25%)
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.

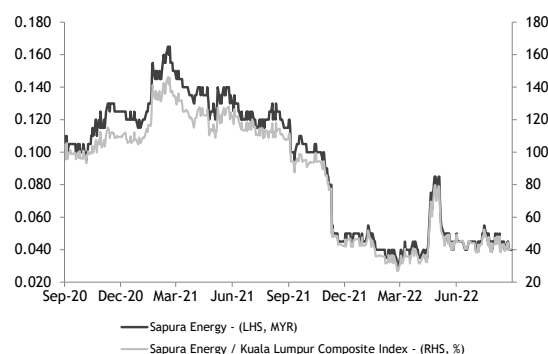
Statistics

52w high/low (MYR)	0.12/0.03
3m avg turnover (USDm)	0.3
Free float (%)	84.4
Issued shares (m)	15,979
Market capitalisation	MYR639.2M
	USD139M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(11)	(11)	(65)
Relative to index (%)	(6)	(10)	(63)

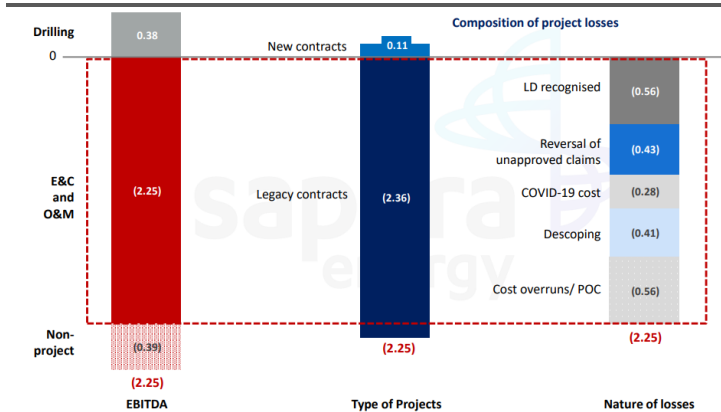
Source: FactSet

Fig 1: Results summary

FY Jan (MYR m)	Quarterly					Cumulative		
	2Q23	2Q22	% YoY	1Q23	% QoQ	6MFY23	6MFY22	% YoY
Turnover	1,172.9	747.1	57.0	886.1	32.4	2,059.0	2,217.7	(7.2)
EBITDA	(0.8)	(9.9)	(91.6)	(255.0)	(99.7)	(255.9)	154.1	NM
EBIT	118.7	(211.6)	NM	(146.1)	NM	(27.4)	(100.1)	(72.6)
Int. income	1.7	12.7	(86.9)	3.0	(44.4)	4.6	15.2	(69.4)
Int. expense	(150.6)	(118.7)	26.8	(125.4)	20.1	(276.0)	(274.8)	0.5
Associates	(18.8)	(71.5)	(73.7)	78.4	NM	59.6	(7.9)	NM
Exceptional items	74.2	(1,080.9)	NM	286.9	(74.1)	361.1	(1,166.4)	NM
Pre-tax profit	25.2	(1,470.0)	NM	96.8	(74.0)	122.0	(1,534.0)	NM
Tax	(26.9)	(41.9)	(35.8)	(9.4)	NM	(36.3)	(80.1)	(54.7)
Minority interest	(0.9)	(4.9)	(82.6)	4.5	NM	3.7	0.2	NM
Net profit	(2.6)	(1,516.9)	(99.8)	91.9	NM	89.3	(1,614.0)	NM
Net profit Ex EI	(76.8)	(436.0)	(82.4)	(195.0)	(60.6)	(271.8)	(447.6)	(39.3)
EBIT margin (%)	10.1	(28.3)	38.4	(16.5)	26.6	(1.3)	(4.5)	3.2
Tax rate (%)	106.9	(2.9)	NM	9.7	97.2	29.8	(5.2)	35.0
Segmental	2Q23	2Q22	% YoY	1Q23	% QoQ	6MFY23	6MFY22	% YoY
Turnover	1,172.9	747.1	57.0	886.1	32.4	2,059.0	2,217.7	(7.2)
- Engineering & Construction	709.2	514.9	37.7	587.8	20.6	1,297.0	1,648.5	(21.3)
- O&M	129.4	37.5	>100	120.9	7.1	250.3	152.3	64.4
- Drilling	363.3	223.6	62.5	231.8	56.8	595.1	475.4	25.2
- Energy	0.0	0.0	NM	0.0	NM	0.0	0.0	NM
- Consolidation adjustment	(29.1)	(28.8)	1.0	(54.4)	(46.5)	(83.5)	(58.5)	42.8
Pretax profit	25.2	(1,470.0)	NM	96.8	(74.0)	122.0	(1,534.0)	NM
- Engineering & Construction	58.5	(1,120.3)	NM	47.9	22.1	106.5	(1,069.2)	NM
- O&M	44.9	(187.1)	NM	26.6	69.2	71.5	(183.9)	NM
- Drilling	43.1	(9.0)	NM	(49.3)	NM	(6.3)	13.1	NM
- Energy	(92.0)	(85.9)	7.2	41.9	NM	(50.1)	(33.9)	NM
- Consolidation adjustment	(29.3)	(67.8)	(56.8)	29.7	NM	0.4	(260.1)	NM
	2Q23	2Q22	% YoY	1Q23	% QoQ	6MFY23	6MFY22	% YoY
Pretax margin (%)	2.1	(196.8)	NM	10.9	(8.8)	5.9	(69.2)	75.1
- Engineering & Construction	8.3	(217.6)	NM	8.2	0.1	8.2	(64.9)	73.1
- O&M	34.7	(499.5)	NM	22.0	12.7	28.6	(120.8)	NM
- Drilling	11.9	(4.0)	15.9	(21.3)	33.1	(1.1)	2.8	(3.8)

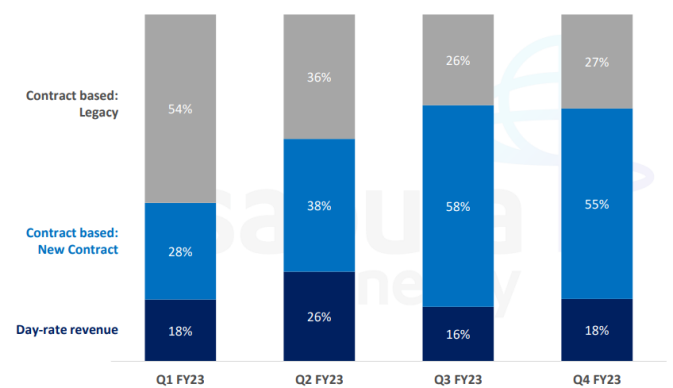
Source: Maybank IBG Research

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



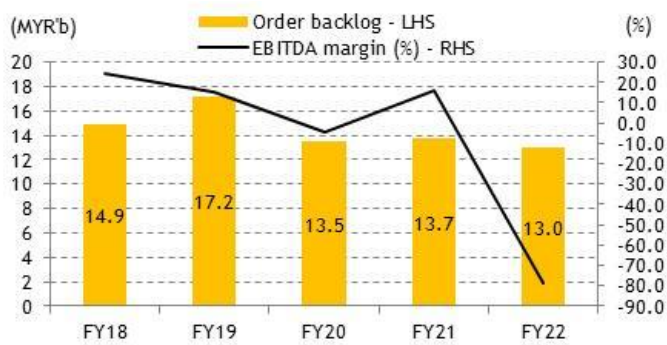
Source: Company

Fig 3: FY23's legacy contracts by quarter



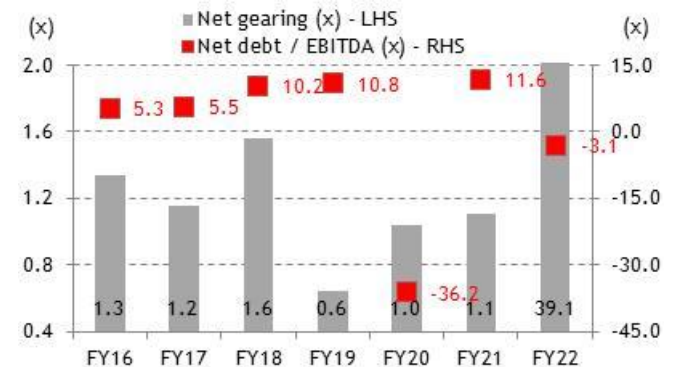
Source: Company

Fig 4: Order backlog vs. EBITDA margin



Source: Maybank IBG Research

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



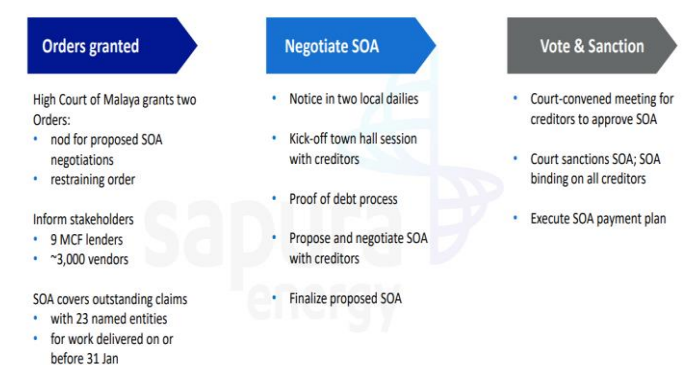
Source: Maybank IBG Research

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

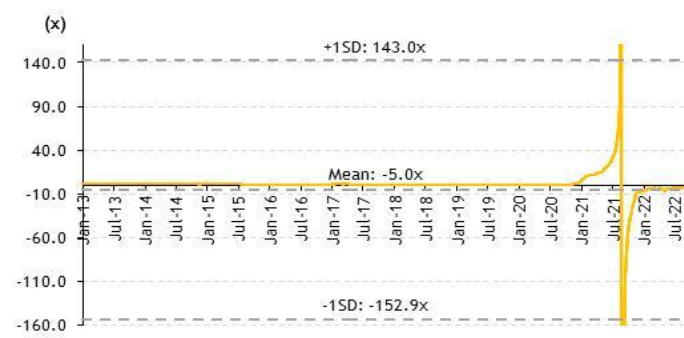
Source: Maybank IBG Research

Fig. 7: Scheme of arrangement (SOA) process



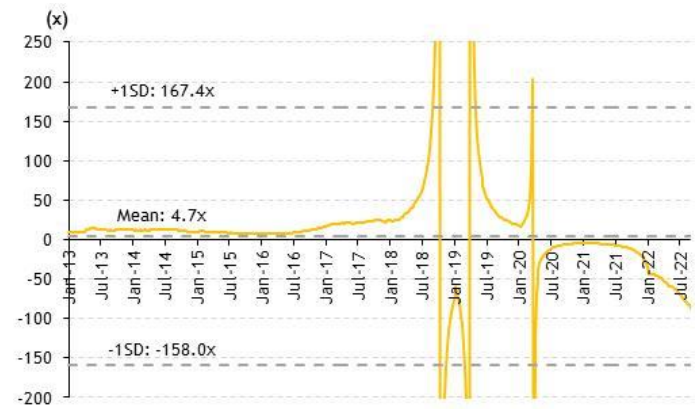
Source: Company

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)	(0.3)	(0.3)	(0.3)
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	0.1	48.9	11.4	nm	nm
EV/EBITDA (x)	13.8	nm	nm	nm	nm
EV/EBIT (x)	38.7	nm	nm	40.8	39.2

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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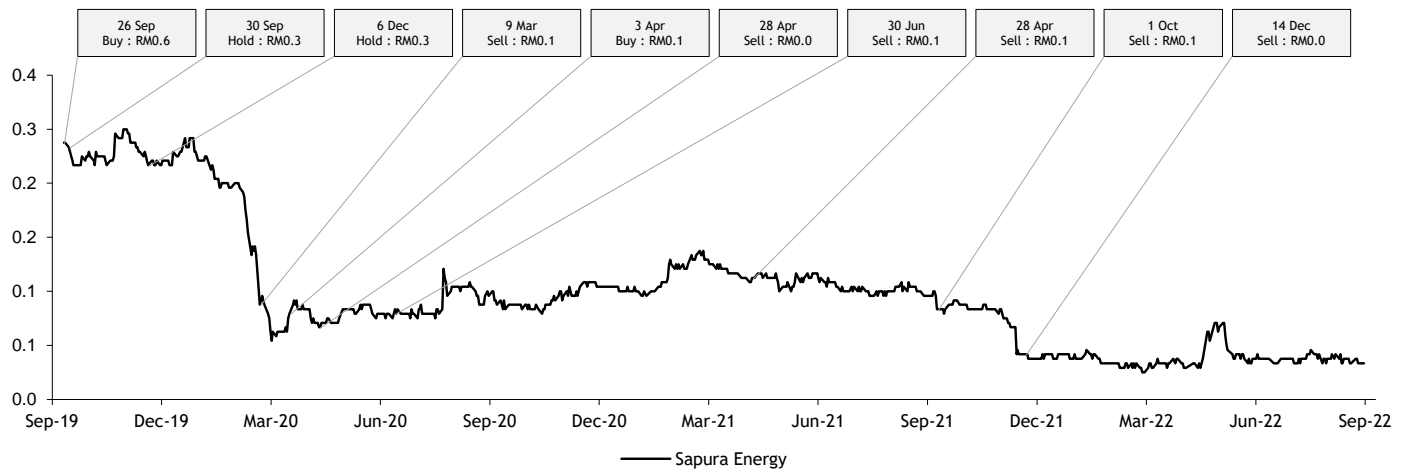
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