

COMPANY RESULTS

Sapura Energy (SAPE MK)

1QFY24: Core Loss On Track, Better Rig Utilisation By 2HFY24

SAPE's 1QFY24 core loss/EBITDA were deemed on track. The recent contract wins of RM1.4b will help bring stronger 2HFY24 profits, on the back of more lucrative E&C works and new rig contracts. While it continues to progress on its reset plan, the delayed PN17 regularisation plan and ongoing project slippage risks (ONGC platform) will weigh on existing share price sentiment. Maintain HOLD. Trim target price to RM0.04, which assumes a delayed sustainable recovery from PN17.

1QFY24 RESULTS

Year to 31 Jan (RMm)	1QFY24	qoq % chg	yoy % chg	Ytd FY24 (RMm)	yoy % chg	Comments
Revenue	951.7	(21.8)	7.4	951.7	(21.8)	
- E&C*	574.8	(18.9)	(2.2)	574.8	(18.9)	Lower completion progress on monsoon
- O&M*	144.5	11.6	19.5	144.5	11.6	
- Drilling	294.6	(18.9)	27.1	294.6	(18.9)	Lower operating rigs of 10, vs 11 qoq
PBT	173.5	(123.9)	79.2	173.5	(123.9)	Depreciation halved qoq to RM95m
- E&C	71.3	21.8	48.7	71.3	21.8	1QFY24 EBITDA: RM46m, vs RM62m yoy
- O&M	(0.0)	(100.1)	(100.1)	(0.0)	(100.1)	1QFY24 O&M EBITDA: RM7m vs RM31m yoy
- Drilling	0.9	(98.0)	(101.7)	0.9	(98.0)	1QFY24 rig EBITDA: RM130m vs RM50m yoy
Finance cost	(185.1)	(0.5)	47.6	(185.1)	(0.5)	
Associates	117.8	(154.7)	50.2	117.8	(154.7)	E&P associate profit: RM43m vs RM41m yoy
Pre-tax profit	173.5	(105.2)	79.2	173.5	(105.2)	
Income tax	(29.6)	(205.8)	214.3	(29.6)	(205.8)	
Reported profit	146.1	(104.4)	58.9	146.1	(104.4)	
Core profit	(71.5)	(183.4)	(57.7)	(71.5)	(183.4)	Exclude RM0.22b forex gains

\* E&C : Engineering and Construction; O&M: Operation and Maintenance; E&P: Exploration and Production

Source: Sapura Energy

RESULTS

- 1QFY24 core loss and EBITDA of RM227m are on track vs our/consensus forecasts, even though Sapura Energy's (SAPE) EBITDA was weaker vs RM253m qoq. The weaker results were expected due to: a) lower completion and claims compensation progress for E&C projects, b) lower operating rigs at 10 (vs 11 in 4QFY23), and c) profit breakeven only for the O&M division (despite higher revenue qoq) given the higher industry opex. We expect EBITDA and profit generation to be stronger in 2HFY24, largely from higher rig utilisation.
- EBITDA must remain steady, to generate RM4.75b funds to pay off debt. The RM4.75b is planned from a combination of RM1.8b injection from a white knight, an indicative RM2.3b sale of the upstream associate unit SapuraOMV, and continuous EBITDA generation or RM250m per quarter must be maintained. Its borrowings base remains stickily high at RM10.7b, especially after obtaining further extension of the restraining orders from 11 Jun 23 to 10 Mar 24.

KEY FINANCIALS

Year to 31 Jan (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	4,100	4,551	4,017	4,145	4,272
EBITDA	(2,279)	642	707	754	801
Operating profit	(2,801)	93	47	142	108
Net profit (rep./act.)	(9,051)	(3,204)	(216)	(155)	(175)
Net profit (adj.)	(3,441)	(124)	(216)	(155)	(175)
EPS (sen)	(17.8)	(0.6)	(1.1)	(0.8)	(0.9)
PE (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/B (x)	8.0	(0.2)	(0.6)	(1.2)	(0.5)
EV/EBITDA (x)	n.m.	16.0	14.6	13.7	12.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(220.7)	(70.4)	(5.4)	(3.7)	(4.1)
Net debt/(cash) to equity (%)	11,698.2	(333.7)	(682.6)	(945.9)	(402.5)
Interest cover (x)	(4.5)	1.1	1.3	1.3	1.7
ROE (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus net profit	-	-	(318)	(222)	(358)
UOBKH/Consensus (x)	-	-	0.68	0.70	0.49

Source: Sapura Energy, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

HOLD

(Maintained)

Share Price	RM0.04
Target Price	RM0.04
Upside	+6.0%
(Previous TP)	RM0.05

COMPANY DESCRIPTION

Integrated engineering, procurement, construction, installation and commissioning (EPCIC) oil & gas player.

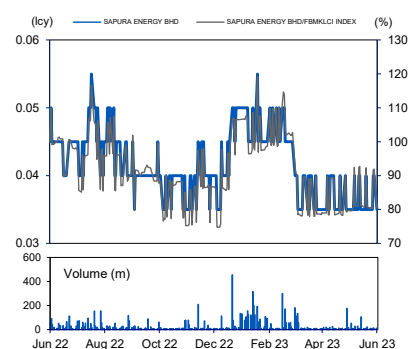
STOCK DATA

GICS sector	Energy			
Bloomberg ticker:	SAPE MK			
Shares issued (m):	15,979.1			
Market cap (RMm):	559.3			
Market cap (US\$m):	119.6			
3-mth avg daily t'over (US\$m):	0.2			
Price Performance (%)				
52-week high/low	RM0.055/RM0.035			
1mth	3mth	6mth	1yr	YTD
0.0	(22.2)	(12.5)	(22.2)	0.0

Major Shareholders

Skim Amanah Saham Bumiputera	36.0
STSB	12.5
-	-
FY24 NAV/Share (RM)	(0.06)
FY24 Net Debt/Share (RM)	0.40

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Won RM1.4b new contracts ytd.** This boosted its orderbook to RM5.8b, and >70% of which are overseas projects. Most of the new wins (about RM979m) are for the E&C segment, and out of this, 58% are related to transportation and installation (T&I) contracts for the Western Hemisphere. About 90% of its bidbook are directed towards overseas projects. The higher mix of T&I E&C projects is aligned with the group's target to be more focused on Atlantic markets and decommissioning opportunities. The new RM352m rigs contracts secured are for Sapura Berani, Sapura Esperanza, Sapura Pelaut and Sapura Alliance.
- Rig utilisation will take time to reach full mode by 2HFY24.** By 23 Jan, Sapura Pelaut had completed its contract for Enquest and was warmed stacked throughout 1QFY24. Westwood reported that Sapura Pelaut was recently mobilised in May 23 (2QFY24) for Petronas Carigali for a 4-5-month job. However, Sapura Alliance was reported to have completed its contract in Brunei by end-May 23, and is now warm stacked, but it appears that Petronas Carigali has employed Sapura Alliance for work in the near term.
- E&C projects update.** E&C vessels had begun works for 2023 Malaysia programme since Mar 23, with the first project being the mobilisation of Sapura 1200 for the Timi project. The Lumut Fabrication yard had two ongoing major E&C platform projects, namely the Mubadala Mercury Removal Unit (MRU) and ONGC KG-98/2 Gas Processing Platform. The Mubadala MRU successfully sailed away on 2 May 23, however ONGC's platform remains in the yard. In our view, The ONGC project is at risk of facing further slippage/earnings risks based on ONGC's latest guidance of a delay in the KG-98/2 first production from Jun 23 to Aug-Oct 23, and its social media posting whereby the ONGC Director of Production Pankaj Kumar had to personally visit the yard in recent months to review the progress, shows the increasing urgency to meet project timelines.
- Progress in reset plan, but long way to go.** SAPE had validated RM1.5b in claims from 2,000 vendors through its Proof of Debt exercise, and the adjudication process is almost complete, with only eight more claims outstanding. SAPE will also strive to rescope certain ongoing E&C contracts, although this may appear to be challenging, especially for: a) the Salman project (announced on 27 Sep 19), b) ONGC platform (announced on 6 Dec 18), c) Dorado wellhead platform (announced on 30 Sep 21), and d) SBM Pipeline Rejuvenation (announced on 3 Jun 20).

### EARNINGS REVISION/RISK

- Retain forecasts of RM0.2b-0.3b losses, and EBITDA of RM0.7b.

### VALUATION/RECOMMENDATION

- Retain HOLD, but trim diluted target price to RM0.04.** Our valuation assumes a scenario of the white knight entry and SapuraOMV sale to be successful, to raise proceeds of RM4b, with an assumed RM2.3b minimum price for the SapuraOMV valuation. Its auditor issued an unqualified opinion given the material future uncertainties, and SAPE was granted more time to submit its PN17 regularisation plan by end-Nov 23.
- Hence, we trim target price further from RM0.05,** as recent events will delay any major near-term share price catalysts. We observed that SAPE appears to be boosting its involvement in training human capital (not only for its own global projects, but may be for the overall O&G industry), and the logistics/supply chain management business (which may include non-O&G/ports sectors), but we are unsure if they will be new revenue streams. All in all, risk-reward is balanced, as it factors both SAPE's financial condition and its existing project execution.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>SAPE strives to report on its greenhouse gas emissions and reduction target.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li><b>Diversity.</b> 28% of total staff are female; staff comprises 37 nationalities as of FY21.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>55% of its board members are independent.</li> </ul> </li> </ul>
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### RIG UTILISATION TREND (AS OF 1QFY24)



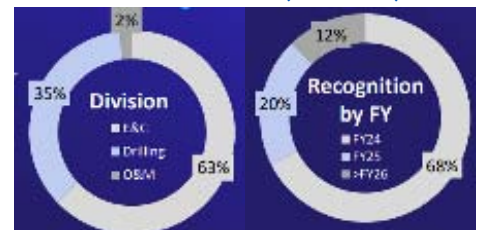
Source: Sapura Energy

### TENDER RIG RATES VS OTHER RIG TYPES



Source: RigLogix

### RM5.6 BILLION ORDERBOOK (AS AT FY23)



Source: Sapura Energy

### KEY TARGETS MOVING FORWARD

Targeted asset deployments and bids
- >85% rig utilisation: Nine rigs secured in SouthEast Asia (SEA), one in West Africa.
- Expand O&M positioning into SEA region.
- E&C: Maintain Atlantic and SEA market share, expand decommissioning works.
- E&C: >65% utilisation for key vessels S1200, S2000 and Constructor; >95% utilisation for six Brazilian JV vessels.
70% of FY24 revenues are secured.
0.8x book-to-bill ratio
B.R.E.D.: Bid Right, Execute, Discipline

Source: Sapura Energy

### PROFIT & LOSS

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Net turnover	4,551	4,017	4,145	4,272
EBITDA	642	707	754	801
Deprec. & amort.	549	660	612	693
EBIT	93	47	142	108
Total other non-operating income	n.a.	0	0	0
Associate contributions	(39)	357	332	281
Net interest income/(expense)	(609)	(540)	(560)	(479)
<b>Pre-tax profit</b>	<b>(3,149)</b>	<b>(137)</b>	<b>(85)</b>	<b>(90)</b>
Tax	(72)	(97)	(88)	(103)
Minorities	18	18	18	18
<b>Net profit</b>	<b>(3,204)</b>	<b>(216)</b>	<b>(155)</b>	<b>(175)</b>
Net profit (adj.)	(124)	(216)	(155)	(175)

### CASH FLOW

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>389</b>	<b>19</b>	<b>138</b>	<b>868</b>
Pre-tax profit	(3,149)	(137)	(85)	(90)
Tax	(62)	(97)	(88)	(103)
Deprec. & amort.	549	660	612	693
Working capital changes	(192)	(591)	(528)	170
Other operating cashflows	3,243	183	228	198
<b>Investing</b>	<b>143</b>	<b>1,952</b>	<b>1,752</b>	<b>752</b>
Capex (growth)	(235)	(270)	(270)	(270)
Investments	0	0	0	0
Proceeds from sale of assets	349	0	0	0
Others	28	2,222	2,022	1,022
<b>Financing</b>	<b>(279)</b>	<b>(2,373)</b>	<b>(873)</b>	<b>(1,373)</b>
Dividend payments	0	0	0	0
Proceeds from borrowings	(391)	(2,000)	(500)	(1,000)
Loan repayment	(373)	(373)	(373)	(373)
Others/interest paid	485	0	0	0
<b>Net cash inflow (outflow)</b>	<b>252</b>	<b>(402)</b>	<b>1,017</b>	<b>247</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>718</b>	<b>851</b>	<b>851</b>	<b>449</b>
Changes due to forex impact	(119)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>851</b>	<b>449</b>	<b>1,868</b>	<b>696</b>

### BALANCE SHEET

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Fixed assets	5,080	4,690	5,350	4,960
Other LT assets	4,823	4,581	2,252	1,813
Cash/ST investment	851	449	1,868	696
Other current assets	1,958	1,978	2,041	1,987
<b>Total assets</b>	<b>12,712</b>	<b>11,697</b>	<b>11,510</b>	<b>9,455</b>
ST debt	10,616	8,243	7,370	5,997
Other current liabilities	4,924	4,445	4,571	4,624
LT debt	0	0	0	0
Other LT liabilities	125	178	178	178
Shareholders' equity	(2,926)	(1,142)	(582)	(1,317)
Minority interest	(27)	(27)	(27)	(27)
<b>Total liabilities &amp; equity</b>	<b>12,712</b>	<b>11,697</b>	<b>11,510</b>	<b>9,455</b>

### KEY METRICS

Year to 31 Jan (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	14.1	17.6	18.2	18.7
Pre-tax margin	(69.2)	(3.4)	(2.1)	(2.1)
Net margin	(70.4)	(5.4)	(3.7)	(4.1)
ROA	n.a.	n.a.	n.a.	n.a.
ROE	n.a.	n.a.	n.a.	n.a.
<b>Growth</b>				
Turnover	11.0	(11.7)	3.2	3.1
EBITDA	n.a.	10.0	6.7	6.2
Pre-tax profit	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.	n.a.
<b>Leverage</b>				
Debt to total capital	138.5	116.5	109.0	128.9
Debt to equity	(362.8)	(721.9)	(1,267.1)	(455.3)
Net debt/(cash) to equity	(333.7)	(682.6)	(945.9)	(402.5)
Interest cover (x)	1.1	1.3	1.3	1.7

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