

## COMPANY RESULTS

### Sapura Energy (SAPE MK)

1HFY23: Continued Progress On Reset Plans

**SAPE's 2QFY23 core loss was smaller qoq, despite a poorer performance from SapuraOMV, due to continued progress on claiming back project costs and asset disposals. However, its gearing remains high, and working capital constraint continues to impact execution (delays in rig startups). We still assume SapuraOMV monetisation as a high possibility (vs rights issue), which is factored into our valuation. Retain HOLD and target price of RM0.05.**

#### 2QFY23 RESULTS

Year to 31 Jan (RMm)	2QFY23	qoq % chg	yoy % chg	Ytd FY23 (RMm)	yoy % chg	Comments
Revenue	1,172.9	32.4	57.0	2,059.0	(7.2)	SAPE said its 2Q EBITDA is RM313m
- E&C*	709.2	20.6	37.7	1,297.0	(21.3)	2Q/ 1QFY23 EBITDA: RM38m/ RM62m
- O&M*	129.4	7.1	245.6	250.3	64.4	2Q/ 1QFY23 EBITDA: RM47m/ RM31m
- Drilling	363.3	56.8	62.5	595.1	25.2	2Q/ 1QFY23 EBITDA: RM150m/ RM50m
PBT	25.2	(74.0)	(101.7)	122.0	(108.0)	
- E&C	58.5	22.1	(105.2)	106.5	(110.0)	
- O&M	44.9	69.2	(124.0)	71.5	(138.9)	
- Drilling	43.1	(187.3)	(579.3)	(6.3)	(147.9)	
Finance cost	(150.6)	20.1	26.8	(276.0)	(274.8)	
Associates	(18.8)	(124.0)	(73.7)	59.6	(7.9)	SapuraOMV - one well write-off. Pending
Pre-tax profit	25.2	(74.0)	(101.7)	122.0	Na	SAPE's confirmation, we assume the
Income tax	(26.9)	186.1	(35.8)	(36.3)	(54.7)	write-off was RM50m (2QFY22: RM47m)
Reported profit	(2.6)	(102.8)	(99.8)	89.3	(105.5)	
Core profit	(26.9)	(67.9)	(57.7)	(110.9)	(92.8)	Exclude RM74m forex gain and write-off

Source: Sapura Energy (SAPE), UOB Kay Hian \*E&C: Engineering and Construction; O&M: Operation and Maintenance

#### RESULTS

- 1HFY23 loss within expectation.** The core loss comprised 40%/19% of our/consensus' FY23 loss forecasts. 2QFY23 marks a continued trend from 1QFY23; back then, Sapura Energy (SAPE) succeeded in claiming back RM23m late delivery charge reversals and RM93m claims from commercial settlement, and more project claims were redeemed in 2Q from the E&C and O&M divisions. The rig segment saw the most improved qoq performance, although the active rig count of 8/11 out of its fleet remains similar qoq, and the three PTTEP rigs were all delayed by a few months from July due to working capital constraint.
- EBITDA appears to have declined qoq.** Contrary to SAPE's disclosure on a better EBITDA qoq (1QFY23: RM250m), operating cash flow before working capital declined qoq from RM213m to RM158m. Loans surged qoq from RM10.7b to RM11b. We suspect some of the EBITDA gains might have been channelled towards vendor repayments. Unlike in the past when an investor briefing is done concurrently with the results release, SAPE will host a briefing this morning and we will obtain further updates.

#### KEY FINANCIALS

Year to 31 Jan (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	5,348	4,100	4,792	4,017	4,145
EBITDA	924	(2,279)	706	530	678
Operating profit	381	(2,801)	201	52	224
Net profit (rep./act.)	(38)	(8,922)	(124)	(295)	151
Net profit (adj.)	(110)	(3,187)	(300)	(295)	151
EPS (sen)	(0.6)	(16.5)	(1.5)	(1.5)	0.8
PE (x)	n.m.	n.m.	n.m.	n.m.	5.1
P/B (x)	0.1	9.1	(19.8)	(2.3)	(4.2)
EV/EBITDA (x)	11.4	n.m.	15.0	19.9	15.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(0.7)	(217.6)	(2.6)	(7.3)	3.6
Net debt/(cash) to equity (%)	110.0	11,698.2	(25,146.7)	(3,019.7)	(5,314.6)
Interest cover (x)	2.1	(4.5)	1.3	0.9	1.2
ROE (%)	n.a.	n.a.	n.a.	n.a.	(58.3)
Consensus net profit	-	-	(571)	(421)	(317)
UOBKH/Consensus (x)	-	-	0.53	0.70	n.m.

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	RM0.05
Upside	+25%

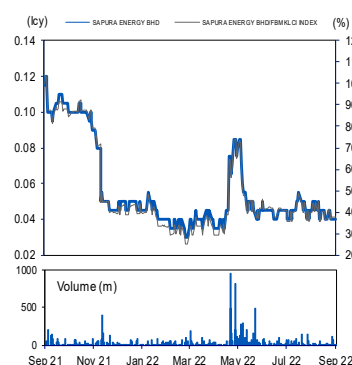
#### COMPANY DESCRIPTION

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):	639.2			
Market cap (US\$m):	138.8			
3-mth avg daily t'over (US\$m):	0.3			
Price Performance (%)				
52-week high/low	RM0.120/RM0.030			
1mth	3mth	6mth	1yr	YTD
(11.1)	(11.1)	33.3	(65.2)	(20.0)
Major Shareholders				%
Skim Amanah Saham Bumiputera				36.0
STSB				12.5
-				-
FY23 NAV/Share (RM)				0.00
FY23 Net Debt/Share (RM)				0.51

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Kong Ho Meng**  
+603 2147 1987  
homeng@uobkayhian.com

## STOCK IMPACT

- **Orderbook now stands at RM7.7b (vs RM8.3b qoq).** This importantly represents the group's ability to win jobs, even when it had to be choosy and sacrifice competitiveness without giving up on margins. New contract and reimbursable terms, and contingency budgets, are also ensured to be of favourable risk-reward, especially in view of high commodity prices/inflation risk. On certain E&C contracts, the client may bear the bunker costs for marine vessels. Another example mentioned is on item procurement where SAPE no longer sets a ceiling price when charging to the client. In the past, if material costs exceeded the ceiling price, the cost difference was borne by SAPE.
- **Claiming back costs will be recurring theme and a key part of its reset plan.** To recap, SAPE took action to terminate one of its worst projects in history - the Taiwan Yunlin wind monopile installation job. On Jul 22, the media reported that the replacement contractor (Abu Dhabi's National Petroleum Construction Company) lost the second monopile after a pile ship incident, and the monopile slipped into a very soft sea bed soil. This is a repeat of SAPE's slipped pile incident, when it was the contractor. The media reported that SAPE contended that the client provided inaccurate soil data, and due to this, huge cost overruns and delays happened as SAPE was stuck between delivering on time and maintaining safety standards. With this repeated incident by another contractor, we believe there is a chance for SAPE to seek compensation legally from the client in court.
- **Asset disposals on track, but working capital constraint remains.** SAPE completed the disposal of its high-spec barge Sapura 3000 in Aug 22, and this will be reflected in 3QFY23. SAPE also secured a sale for three uncompetitive rigs T19, T20 and Sapura Setia, for a total sum of US\$8m. The three rigs are worth RM343m as assets held for sale in 2QFY23, but the sale price is low as these rigs had not been working for up to five years. On existing rigs, the T10, T11 and T12 rigs recently secured five-year long-term contracts with PTTEP. And by end-FY23, 10 out of 11 rigs will be chartered out. However, the three rigs were apparently delayed likely due to working capital constraints. The original startups were 1 July (T11), 15 July (T12) and 15 August (T10). Industry reports stated that the latest startup dates are T10 (started work in end-August), 15 September (T11) and 15 November (T12).
- **PN17 and funding relief may depend on any factor...** SAPE remains under PN17 status, but had positively sought assistance from the debt restructuring committee of the central bank, which expects SAPE to submit a restructuring plan within the coming weeks.
- **...and we rule out likelihood of unwanted rights issue.** SapuraOMV's monetisation is still a high possibility, based on our observation that: a) 2P reserves and 2C resources are higher vs 2018's 253mboe; and b) the go-ahead of the onshore sour gas plant signed between Petronas, Shell and PTTEP under Bintulu's Petrochemical Industrial Park (SISGES project), also means a direct progress on monetising SapuraOMV's B14 field (that is tied to PTTEP's Lang Lebah). Given PTT's commitment and hints that it may set up office base in Sarawak, we see a possibility of PTT becoming a potential buyer.
- **For the price to be attractive (ie not pegging to >US\$100/bbl oil prices)** but also in order to not offend OMV (entry cost of US\$1.6b in 2018), we assume Sapura may consider exiting its stake at close to OMV's valuation of US\$6.3/bbl, potentially freeing up capital of up to RM4b (on its 50% stake). While SapuraOMV's associate earnings were disappointing in 1HFY23 despite higher O&G prices, due to well write-offs and the unplanned maintenance of the Bintulu LNG terminal that impeded its gas production, we understand that the unplanned maintenance issue (for Module 5) was resolved in Aug 22.

## EARNINGS REVISION/RISK

- **Retain forecasts.**

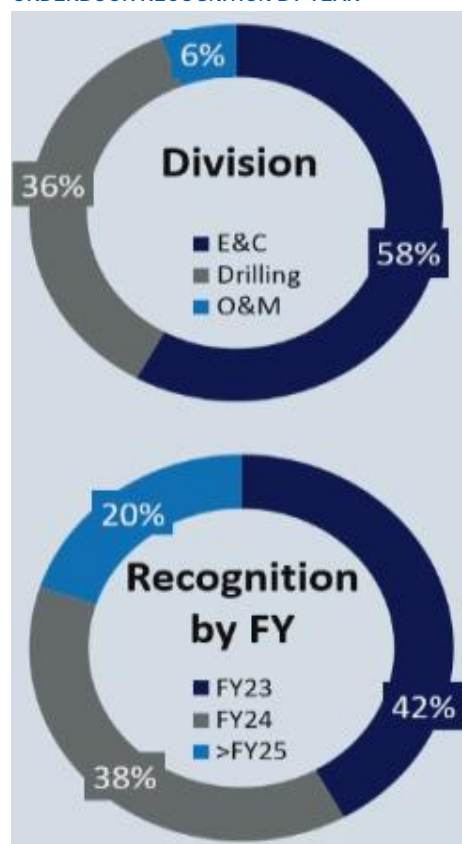
## VALUATION/RECOMMENDATION

- **Retain HOLD with diluted target price of RM0.05.** Our target price is a combination of the negative net tangible equity of RM0.10/share, with a slightly higher valuation for SapuraOMV's monetisation, although for the latter we assume to match OMV's cost of US\$1.6b. Our target price focuses purely on management's efforts to reset the group, along with the value of SapuraOMV should it choose to monetise, without external interference.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

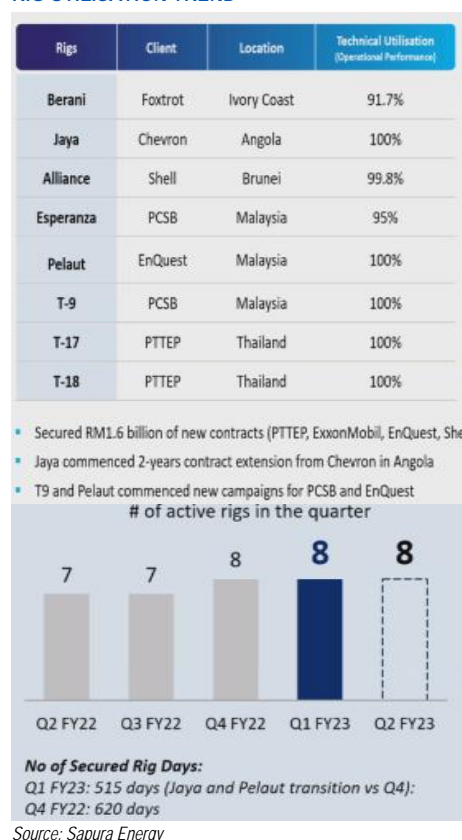
<b>Environmental</b>
- SAPE strives to report on its greenhouse gas emissions and reduction target.
<b>Social</b>
- <b>Diversity.</b> 28% of total staff are female; staff comprises 37 nationalities as of FY21.
<b>Governance</b>
- 55% of its board members are independent.

## ORDERBOOK RECOGNITION BY YEAR



Source: Sapura Energy, UOB Kay Hian

## RIG UTILISATION TREND



Source: Sapura Energy

### PROFIT & LOSS

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Net turnover	4,100	4,792	4,017	4,145
EBITDA	(2,279)	706	530	678
Deprec. & amort.	522	505	478	454
EBIT	(2,801)	201	52	224
Total other non-operating income	(5,735)	176	0	0
Associate contributions	(5,522)	341	317	592
Net interest income/(expense)	(501)	(557)	(568)	(579)
Pre-tax profit	(8,824)	(16)	(199)	238
Tax	(102)	(112)	(100)	(91)
Minorities	4	4	4	4
Net profit	(8,922)	(124)	(295)	151
Net profit (adj.)	(3,187)	(300)	(295)	151

### BALANCE SHEET

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Fixed assets	6,437	6,086	5,762	5,463
Other LT assets	6,241	6,622	6,670	6,983
Cash/ST investment	718	818	573	925
Other current assets	2,673	2,494	1,978	1,928
<b>Total assets</b>	<b>16,069</b>	<b>16,021</b>	<b>14,983</b>	<b>15,299</b>
ST debt	10,658	10,658	10,658	10,658
Other current liabilities	5,184	5,409	4,548	4,604
LT debt	0	0	0	0
Other LT liabilities	149	0	118	227
Shareholders' equity	85	(39)	(334)	(183)
Minority interest	(7)	(7)	(7)	(7)
<b>Total liabilities &amp; equity</b>	<b>16,069</b>	<b>16,021</b>	<b>14,983</b>	<b>15,299</b>

### CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Operating	403	715	181	789
Pre-tax profit	(8,824)	(16)	(199)	238
Tax	(101)	(112)	(100)	(91)
Deprec. & amort.	522	505	478	454
Working capital changes	2,161	121	(249)	202
Other operating cashflows	6,644	217	251	(14)
Investing	(68)	(294)	(94)	(94)
Capex (growth)	(154)	(154)	(154)	(154)
Investments	0	0	0	0
Proceeds from sale of assets	20	0	0	0
Others	67	(139)	61	61
Financing	(199)	(321)	(332)	(343)
Dividend payments	0	0	0	0
Proceeds from borrowings	(435)	(557)	(568)	(579)
Loan repayment	236	236	236	236
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	135	100	(245)	352
Beginning cash & cash equivalent	489	718	818	573
Changes due to forex impact	94	0	0	0
Ending cash & cash equivalent	718	818	573	925

### KEY METRICS

Year to 31 Jan (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	(55.6)	14.7	13.2	16.4
Pre-tax margin	(215.2)	(0.3)	(5.0)	5.7
Net margin	(217.6)	(2.6)	(7.3)	3.6
ROA	n.a.	n.a.	n.a.	1.0
ROE	n.a.	n.a.	n.a.	(58.3)
<b>Growth</b>				
Turnover	(23.3)	16.9	(16.2)	3.2
EBITDA	(346.6)	n.a.	(24.9)	27.8
Pre-tax profit	(9,819.8)	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	99.3	100.4	103.3	101.8
Debt to equity	12,542.8	(27,236.6)	(3,191.3)	(5,819.8)
Net debt/(cash) to equity	11,698.2	(25,146.7)	(3,019.7)	(5,314.6)
Interest cover (x)	(4.5)	1.3	0.9	1.2

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.



### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W