

### COMPANY RESULTS

## Sapura Energy (SAPE MK)

3QFY23: Weak Quarter; Reset Plans Ongoing

**SAPE's core loss is deemed in line, as we expect stronger 4QFY23 revenue and drilling income. For investors assessing the new government's policies, we believe the new management team is doing its best to reset the group's financial conditions on its own without further government intervention. Hence, we do not see the latter happening as a near-term event, but may be a longer-term possibility if our FY24-25 forecasts are at major risks of downgrades. Maintain HOLD. Target price: RM0.05.**

### 3QFY23 RESULTS

Year to 31 Jan (RMm)	3QFY23	qoq % chg	yoy % chg	Ytd FY23 (RMm)	yoy % chg	Comments
Revenue	1,275.1	8.7	(12.4)	3,334.1	(9.2)	
- E&C*	830.0	17.0	(21.3)	2,127.0	29.0	Lower completion progress
- O&M*	155.7	20.3	0.1	406.0	166.6	
- Drilling	342.6	(5.7)	16.4	937.7	97.3	Higher effective day rates
PBT	75.4	199.3	Na	197.4	Na	
- E&C	(27.1)	Na	(94.9)	79.4	(107.4)	Likely, lower claims received
- O&M	33.9	(24.6)	(3325.0)	105.3	(157.3)	
- Drilling	0.3	(99.3)	(101.7)	(6.0)	(145.5)	Three rigs had partial contribution to 3Q
Finance cost	(160.9)	6.8	28.9	(436.9)	(274.8)	
Associates	117.1	(722.3)	76.4	176.7	(7.9)	3Q: Energy (RM24m), Brazil is the bulk of the remainder associates
Pre-tax profit	75.4	199.3	(111.6)	197.4	(1534.0)	
Income tax	(63.6)	136.2	235.8	(99.9)	0.9	
Reported profit	10.2	(492.9)	(101.5)	99.5	(104.4)	
Core profit	(149.7)	455.7	(57.7)	(260.6)	(86.8)	Exclude RM0.2b forex gains

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

### RESULTS

- 9MFY23 core loss deemed in line with ours, though above consensus expectation.** Sapura Energy's (SAPE) 3QFY23 core results excluded RM151m forex gains and a RM9m disposal gain. The rigs fell qoq to a breakeven profit and three of the rigs saw delayed startup on the long-term contracts to PTT (Thailand), and likely had only partial contribution to 3QFY23. E&C reverted qoq to a loss, likely on lower claims received. We expect a stronger 4QFY23 ahead on higher revenues (as per its orderbook guidance) and rig utilisation.
- 3QFY23 EBITDA at RM246m (9MFY23: RM389m).** Note that SAPE's disclosure of 9MFY23 EBITDA is RM808m. Despite better EBITDA qoq, the 9MFY23 operating cash flow is at a loss of RM81m, due to working capital outflow. Capex surged from RM86m in 1HFY23 to RM201m ytd. Loans remain similar qoq at RM11b, though if based on US\$ terms should show some repayments.

### 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	-	-	(490)	(348)	(254)
UOBKH/Consensus (x)	-	-	0.61	0.85	n.m.

Source: Sapura Energy Bhd, 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	+36.4%

### 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):	145.3
3-mth avg daily t'over (US\$m):	0.2

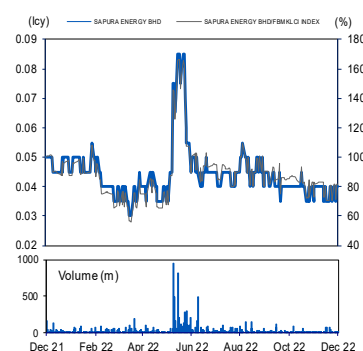
### Price Performance (%)

52-week high/low	RM0.085/RM0.030			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.0	0.0	(11.1)	(27.3)	(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)

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### STOCK IMPACT

- Continued progress on asset divestments.** SAPE completed the sale of the Sapura 3000 barge on 11 Aug 22, but the disposal proceeds of RM313m were only recognised in 3QFY23. This had been deposited with Maybank Islamic to repay the loans, as required under the terms of the bank's supplemental facility to SAPE of a RM300m revolving credit that was signed back during 29 Apr 22. In 3QFY23, SAPE also completed the sale of three uncompetitive rigs, which are rigs T19, T20 and Sapura Setia. This sale, along with the sale of Sapura 3000 barge, contributed to disposal proceeds of RM349m in the cash flow.
- By end-3QFY23, 10 rigs were fully operational.** Previously, we highlighted that three rigs saw that long-term contracts to PTT had delayed startup, whereby the original startups were 1 July (for T11), 15 July (for T12) and 15 August (for T10). Industry reports stated the latest startup dates were end-Aug 22 (for T10), 15 September (for T11) and 15 November (for T12). After monitoring the latest rig schedules, we believe that those three rigs had started their contracts as per the latest industry expectations by Nov 22.
- SAPE submitted a restructuring plan on 29 Sep 22.** SAPE remains under PN17 status, but had positively sought waivers from its creditors and lenders, including extension of the restraining orders with creditors until 10 Mar 23, while for the financiers a standstill of their agreements (ie any breach of payments owed or financial covenants) until 10 Dec 22. Although we are unsure if the lenders have agreed to waive beyond 10 December, SAPE had submitted its draft plans to the debt restructuring committee of the central bank, ie the Corporate Debt Restructuring Committee (CRDC). It had since participated in many CRDC meetings with bankers to refine the terms of the restructuring.
- Not ruling out further government interference, but unlikely a near-term event.** In May 22, before Anwar Ibrahim assumed the role of Prime Minister, he had a nationwide debate on SAPE's financial condition. Anwar stressed the importance of conducting a full forensic audit on the cause of financial losses, citing the controversial example of Perwaja's bailout in 1988, especially as PNB entered as a major shareholder since 2018. At the same time, Economy Minister Rafizi Ramli filed a third-party discovery application to seek founder Shahril's remuneration (which he deemed as a serious corporate governance issue), in the midst of the defamation suit the founder launched against him.
- On SAPE's benefit, we believe the new management team and directors are doing their best to reset the group on their own amid huge challenges, without any further government or outside parties' intervention, and hence we view that the latter is not likely a near-term event.** If market conditions continue to be unfavourable and impede SAPE's financial recovery, a full audit process may be possible, and may extend to past corporate governance issues, past acquisitions of subsidiaries, and the previous management teams under the pre-merger era of SapuraCrest and Kencana Petroleum, and this possibility will in our view increase if the downgrade risks to our FY24-25 forecasts also increases.

### EARNINGS REVISION/RISK

- Retain forecasts.** SAPE will hold an investor briefing today. It now has an outstanding orderbook of RM6.6b, vs RM7.7b in 2QFY23. On top of this, the JV/associate orderbook is approximately RM5.7b. Based on its 2QFY23 guidance, SAPE is expecting revenue of RM1.7b in 4QFY23 (RM5b for FY23), vs our revenue forecast of RM4.7b.

### VALUATION/RECOMMENDATION

- Retain HOLD, and diluted target price of RM0.05.** Our target price is a combination of the negative net tangible equity of RM0.10/share, and a valuation for SapuraOMV's potential monetisation, at a valuation 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.

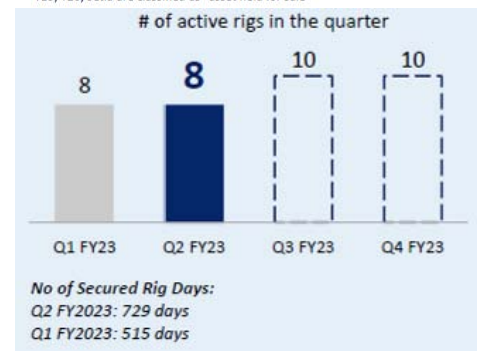
### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<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 2QFY23)

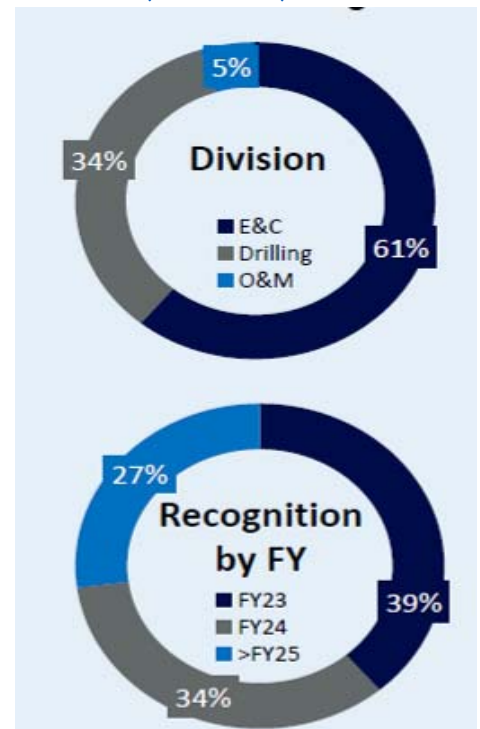
Rigs	Client	Location	Technical Utilisation (Operational Performance)
Berani	Foxtrot	Ivory Coast	97.3%
Jaya	Chevron	Angola	99.1%
Alliance	Shell	Brunei	100%
Esperanza	PCSB	Malaysia	99.5%
Pelaut	EnQuest	Malaysia	95.2%
T-9	PCSB	Malaysia	98.5%
T-17	PTTEP	Thailand	99.1%
T-18	PTTEP	Thailand	98.1%

- T10 mobilized to Pakarang, Thailand [Block G1/61]
- Improved utilization as call-out contracts are gaining momentum
- T19, T20, Setia are classified as "asset held for sale"



Source: Sapura Energy

### ORDERBOOK (AS AT 2QFY23)



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)
<b>Pre-tax profit</b>	<b>(8,824)</b>	<b>(16)</b>	<b>(199)</b>	<b>238</b>
Tax	(102)	(112)	(100)	(91)
Minorities	4	4	4	4
<b>Net profit</b>	<b>(8,922)</b>	<b>(124)</b>	<b>(295)</b>	<b>151</b>
Net profit (adj.)	(3,187)	(300)	(295)	151

### CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>403</b>	<b>715</b>	<b>181</b>	<b>789</b>
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)
<b>Investing</b>	<b>(68)</b>	<b>(294)</b>	<b>(94)</b>	<b>(94)</b>
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
<b>Financing</b>	<b>(199)</b>	<b>(321)</b>	<b>(332)</b>	<b>(343)</b>
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
<b>Net cash inflow (outflow)</b>	<b>135</b>	<b>100</b>	<b>(245)</b>	<b>352</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>489</b>	<b>718</b>	<b>818</b>	<b>573</b>
Changes due to forex impact	94	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>718</b>	<b>818</b>	<b>573</b>	<b>925</b>

### 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>

### 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

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