

PP14767/09/2012(030761)

SapuraKencana Petroleum Berhad

“Bags RM503 million Contracts”

SapuraKencana Petroleum Berhad (SapuraKencana) successfully secured multiple awards from THHE Fabricators, Hess Exploration & Production Malaysia and Sarawak Shell/Sabah Shell Petroleum. These carry a combined value of USD117 million (RM503 million). We remain positive on the long-term outlook of SapuraKencana despite facing downside risk of challenging oil and gas period. Its multiple new awards win will boost further its current orderbook of RM21.0 billion. We value SapuraKencana at RM2.55 and the stock is a BUY.

- **E&C Malaysia award.** SapuraKencana has been awarded a contract for the provision of hook up & commissioning works for KNPG-B Phase II, Kinabalu Non Associated Gas (NAG) Development Project by THHE Fabricators. The job scope is comprised of provision of supervision, manpower, equipment and marine spread to carry out the hook up and commissioning of a compression system module and high pressure high temperature (HPHT) facilities on the KNPG-B Central Processing Platform. The contract will commence in 1Q16 with expected completion within 8 month period.
- **E&C International award.** The group secured a contract from Hess Exploration & Production Malaysia B.V. for the provision of engineering, procurement and construction of the Subsea Isolation Valve (SSIV) Systems at Block PM302, North Malay Basin. The scope of work under the contract comprises the complete responsibility for carrying out and completing the work for SSIV skids, subsea umbilical and flying lead, hydraulic power unit (HPU), topside umbilical termination unit (TUTU), umbilical termination assembly (UTA) and the supporting details. The works is estimated to be completed by 1Q17.

Monday, January 18, 2016

BUY (TP: RM2.55)

Current Price (RM)	RM1.68
New Target Price (RM)	RM2.55
Previous Target Price (RM)	RM2.95
Previous Recommend.	BUY
Upside To Target Price	52%
Dividend Yield (FY17)	1%

Stock Code

Bloomberg	SAKP MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,992
Market Cap (RM mn)	10,307
YTD Chg In Share Price	-15%
Beta (x)	2.12
52-week Hi/Lo (RM)	3.01 1.36
3M Average Volume (shrs)	7.93mn
Estimated Free Float	19%

Major Shareholders

Sapura Holdings	17%
STSB	16%
EPF	15%
Khasera Baru	10%

Note

OCSS - Offshore Construction & Subsea Services
DES - Drilling and Energy Services
Fab & HUC - Fabrication, Hook-up Commissioning
& Offshore Vessel Support
E&C - Engineering and Construction

- **Drilling contract.** SapuraKencana has been awarded the provision of its semi tender assist drilling rig “SKD Esperanza” by Sarawak Shell and Sabah Shell Petroleum for the period of 18 month with options to extend for further 18 month. The group also announced that the current contract of its semi tender assist drilling rig “SKD T20” is now expected to be completed in June 2016 with an option to extend by 5 additional wells which will keep SKD T20 on contract until final quarter of 2016.
- **Strong visibility on RM21 billion orderbook.** We remain positive on this new multiple contract award of RM503 million as it will add to SapuraKencana’s solid orderbook which now stands at RM21 billion as at October 2015 (2.1x of FY15 revenue) with 9% (RM2.0 billion) and 28% (RM5.8 billion) would be burned-out in FY16 and FY17 respectively. Geographical wise, the orderbook breakdown is comprise of 57% (RM12.0 billion) from Americas, 27% (RM5.7 billion) from Malaysia, 13% (RM2.7 billion) from Asia Pacific region and the rest are from Australia as well as Africa.
- **Earnings outlook.** We keep unchanged our earnings forecast as the new contract secured is within our assumption. At this stage, FY16 earnings estimated to be lower by 30% y-o-y as we already factored in lower earnings contribution from energy segment in FY16 in line with the lacklustre oil price movement. Nonetheless, FY17 earnings are projected to increase by 17% y-o-y lifted by i) steady contribution from E&C segment and ii) healthy contribution from PLSV’s operation in Brazil.
- **Valuation & recommendation.** SapuraKencana is valued at RM2.55 based on 13x PER (40% discount to last 3-years average low PER of 21x) pegged to FY17 EPS of 20sen and reiterate our **BUY** call underpinned by i) solid orderbook of approximately RM21 billion, one of the largest in our oil and gas space and ii) potential upstream asset acquisition in Vietnam.

Table 1: Peers Comparison (Calenderised)

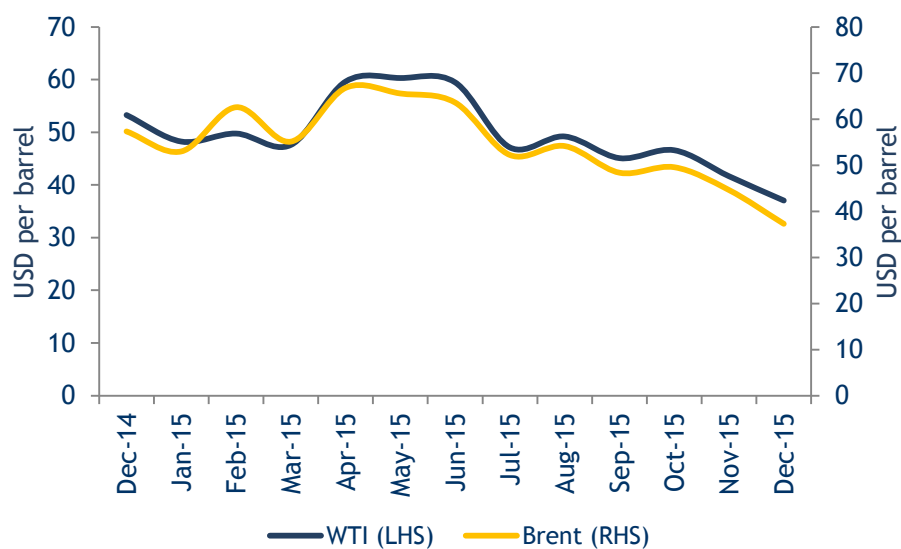
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	1.68	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	0.88	12	13	9.9	8.9	0.8	0.8	10	3	0.94	Hold
Bumi Armada	Dec	0.96	6	8	16.5	12.8	0.9	0.8	(3)	2	1.20	Buy
Dialog Group	Jun	1.52	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	0.92	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	23.90	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.15	18	21	9.6	8.2	1.6	1.4	18	2	1.71	Buy
UMW-OG	Dec	0.92	4	6	33.6	19.2	0.8	0.8	5	1	0.83	Sell
Perisai	Dec	0.26	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	NA	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.15	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.14	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.00	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	1.74	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.46	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

Source: Bloomberg, M&A Securities

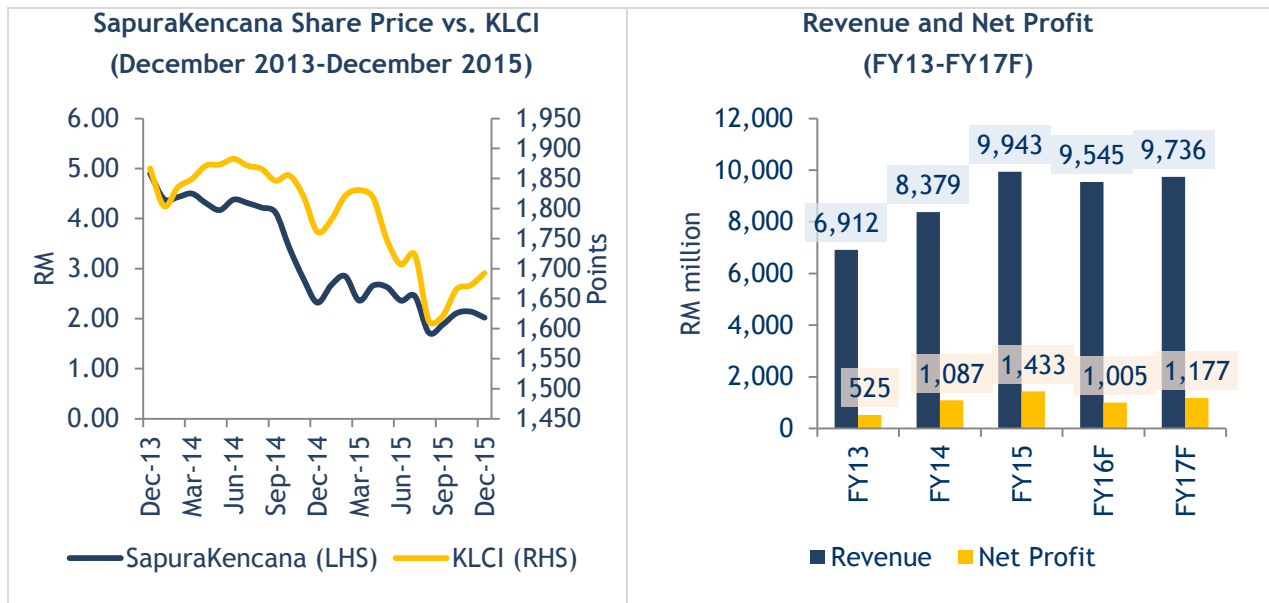
Table 2: Financial Forecast

YE: Jan (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	6,912	8,379	9,943	9,545	9,736
EBIT	922	1,846	3,107	1,527	1,655
Net interest	(227)	(444)	(651)	(620)	(633)
Pre-tax profit	830	1,208	1,616	1,289	1,509
Taxation	(166)	(84)	(183)	(283)	(332)
Net Profit	525	1,087	1,433	1,005	1,177
EPS (sen)	10	19	24	17	20
EBIT Margin	13%	22%	31%	16%	17%
Pre-tax margin	12%	14%	16%	14%	16%
PER (x)	27.9	22.7	11.2	14.4	12.3
P/BV (x)	2.3	1.4	1.2	1.2	1.1
DPS (sen)	NA	NA	4	3	3
Dividend Yield	NA	NA	2%	1%	1%

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(December 2014-December 2015)

Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my