

# Sapura Kencana (BUY ↔, EPS ↔)

COMPANY INSIGHT

INDUSTRY: OVERWEIGHT

July 2, 2013

Price Target: RM4.74 (↔)

Share Price: RM4.00

## It's More Than Just A Local Champion

### Highlights

- SapuraKencana's 1QFY14 conference call was hosted by Ms Chow Mei Mei, Senior VP of Corporate Strategy and Planning, Mr Tengku Muhammad Taufik, Group CFO and Ms Nor Hafifah Mohd Puzi, Manager of Corporate Strategy and Planning following the release of results on last Friday.
- QoQ: Lower revenue in Fab & HUC was mainly due to delay in commencement of certain projects by principle. However, we are not overly concern as this is just a matter of timing and earnings will eventually flow through. Lower EJV and DGMS were caused by maintaining and drydocking on certain rigs. The company is ready to pursue more complex EPCIC projects. In Malaysia, the company is eyeing another marginal field contract, T&I contract under Pan Malaysia as well as central processing platform contracts (range from US\$0.8-1.5bn).
- Of three PLSVs under the US\$1.4bn contract awarded by Petrobas, 2 are being built in Netherlands with IHC Caland are on track to delivery while another one in Brazil lagged behind schedule by 4-6 months. However, management has included the estimated cost arising from late delivery into the contract value. Expect one PLSV to operate in mid-14 and another one by end of 2014.

### Comments

- We came away from the briefing more positive on SapuraKencana's prospects especially on the tender rig business which is underpinned by massive drilling activities. We maintain our view that SapuraKencana is a proxy to global growth in offshore O&G capex spending.
- 1QFY14 result has not included the contribution from the Seadrill's tender rig which will only consolidate into to group from 2QFY14 onwards. This will accelerate earnings growth.
- After securing the US\$2.7bn contract from Petrobas, SapuraKencana's orderbook stood at US\$26bn as of 28 June 2013. 49% of orderbook from Brazil, 30% from Malaysia and the rest from South East Asia, Australia and others. We also understand the current tenderbook size is almost similar to existing orderbook. In addition, we believe SapuraKencana and its partner has a good chance to secure the US\$1.5bn Sepat front-end engineering and design (FEED) contract from Petronas. If won, it will improve the utilisation rate at Lumut yard from the current 55%.

### Risks

- Execution risk, escalation of vessel and fabrication costs.

### Forecasts

- Unchanged.

### Rating

**BUY (↔)**

- Positives –
  - Strong balance sheet and knowhow.
  - Global trend towards offshore production.
- Negatives –
  - Increased competition for growth markets.
  - Complexities of running a larger organization.

### Valuation

- Maintain BUY call with an unchanged TP of RM4.74 based on 20x FY01/15 EPS of 23.7 sen/share.

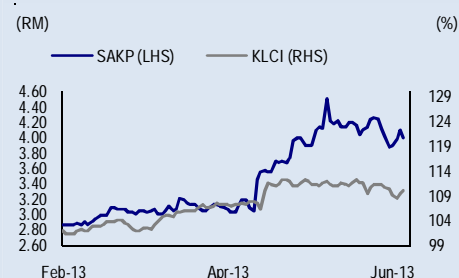
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KLCI	1,775.1
Expected share price return	18.5%
Expected dividend return	0%
Expected total return	18.5%

### Share price



### Information

Bloomberg Ticker	SAKP MK
Bursa Code	5218
Shares (m)	5,004
Market cap (RMm)	23,969
3-mth avg volume ('000)	18,308

Price Performance	1M	3M	12M
Absolute %	-9.1	34.5	85.9
Relative %	-11.4	23.6	63.8

### Major shareholders (%)

STSB	19.0
KHASERA	15.9
EPF	12.4
SEADRILL LTD	6.4

### Summary Earnings Table

FYE Jan (RM m)	2013	2014E	2015E	2016E
Revenue	6,912	6,622	8,558	8,377
EBITDA	1,104	2,077	2,900	2,751
Net profit	494	1,032	1,421	1,475
EPS	9.9	17.2	23.7	24.6
P/E (x)	41	23	17	16
P/BV	1.35	1.81	2.12	2.44
ROA (%)	4.4	6.0	8.3	8.3
ROE (%)	7.8	10.2	12.3	11.4

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## Financial Projections SapuraKencana Petroleum Bhd

## Income statement

FYE 31 Jan (RM m)	2012A	2013	2014E	2015E	2016E
<b>Revenue</b>	<b>4,673</b>	<b>6,912</b>	<b>6,622</b>	<b>8,558</b>	<b>8,377</b>
Operating cost	-4,026	-5,808	-4,545	-5,658	-5,625
<b>EBITDA</b>	<b>647</b>	<b>1,104</b>	<b>2,077</b>	<b>2,900</b>	<b>2,751</b>
Depreciation	-1	-233	-529	-532	-535
Net Interest	-61	-208	-102	-344	-230
Associates	0	0	0	0	0
Jointly controlled entities	103	135	121	135	255
Exceptionals	0	0	0	0	0
<b>Pretax profit</b>	<b>688</b>	<b>799</b>	<b>1,568</b>	<b>2,159</b>	<b>2,242</b>
Taxation	-90	-166	-211	-291	-302
Minority Interest	-143	-139	-325	-447	-465
<b>Core profit</b>	<b>455</b>	<b>494</b>	<b>1,032</b>	<b>1,421</b>	<b>1,475</b>
Basic shares (m)	5,004	5,004	5,992	5,992	5,992
<b>Basic EPS (sen)</b>	<b>9.1</b>	<b>9.9</b>	<b>17.2</b>	<b>23.7</b>	<b>24.6</b>

## Balance sheet

FYE 31 Jan (RM m)	2012A	2013	2014E	2015E	2016E
Fixed assets	2,797	4,222	13,226	13,311	13,385
Other long-term assets	5,164	5,674	5,674	5,674	5,674
Other short-term assets	2,159	1,026	500	500	500
<b>Working capital</b>	<b>(125)</b>	<b>1,170</b>	<b>753</b>	<b>64</b>	<b>938</b>
Receivables	1,927	3,206	3,064	2,935	3,794
Payables	-2,140	-2,280	-2,408	-2,992	-2,975
Inventory	88	244	97	120	119
<b>Net cash / debt</b>	<b>-2,388</b>	<b>-4,915</b>	<b>-9,420</b>	<b>-6,947</b>	<b>-5,957</b>
Cash	2,111	1,026	500	500	500
ST debt	1,066	2,374	6,353	3,881	2,890
LT debt	3,433	3,567	3,567	3,567	3,567
<b>Shareholders' funds</b>	<b>5,121</b>	<b>6,337</b>	<b>10,094</b>	<b>11,515</b>	<b>12,990</b>
Share capital	5,004	5,004	5,992	5,992	5,992
Reserves	117	1,333	4,102	5,523	6,998
Minorities	328	406	731	1,178	1,643
Other liabilities	47	-592	-592	-592	-592

## Summary Earnings Table

	2012A	2013	2014E	2015E	2016E
<b>Revenue</b>	<b>4,673</b>	<b>6,912</b>	<b>6,622</b>	<b>8,558</b>	<b>8,377</b>
EBIT DA	647	1,104	2,077	2,900	2,751
Net profit	455	494	1,032	1,421	1,475
P/E (x)	44.0	40.5	23.2	16.9	16.2
BV / share	1.12	1.35	1.81	2.12	2.44
P / BV	3.57	2.97	2.21	1.89	1.64
ROA (%)	4.9	4.4	6.0	8.3	8.3
ROE (%)	8.9	7.8	10.2	12.3	11.4

## Cashflow

FYE 31 Jan (RM m)	2012A	2013	2014E	2015E	2016E
Pre-tax profit		799	1,568	2,159	2,242
Net interest received		-208	-102	-344	-230
Working capital changes		13	-263	618	-400
Taxation		-166	-211	-291	-302
Others		(5)	631	876	765
<b>Operating cashflow</b>		<b>434</b>	<b>1,623</b>	<b>3,019</b>	<b>2,075</b>
Capex & acquisitions		-843	-688	-618	-610
<b>Free cashflow</b>		<b>-410</b>	<b>935</b>	<b>2,401</b>	<b>1,465</b>
Other inv cashflow		0	0	0	0
Net borrowings		0	0	0	0
Share/convt bond issue		0	0	0	0
Dividends paid		0	0	0	0
Other fin cashflow		0	0	0	0
<b>Net cashflow</b>		<b>(410)</b>	<b>935</b>	<b>2,401</b>	<b>1,465</b>

## Valuation ratios

	2012A	2013	2014E	2015E	2016E
Net DPS (sen)		0.00	0.00	0.00	0.00
FCF / share (sen)		-8.18	15.61	40.07	24.45
FCF yield (%)		-2.05	3.90	10.02	6.11
Market capitalization (m)		20,017	20,017	20,017	20,017
Net cash (m)		-4,915	-9,420	-6,947	-5,957
Enterprise value		24,933	29,437	26,965	25,974
EV/EBITDA (x)		22.6	14.2	9.3	9.4

## Growth (%)

	2012A	2013	2014E	2015E	2016E
Sales	7	48	-4	29	-2
Operating expenses	6	44	-22	24	-1
EBITDA	18	71	88	40	-5
PBT	28	16	96	38	4
Net Profit	47	9	109	38	4
Basic EPS	47	9	74	38	4

## Margins ratios (%)

	2012A	2013	2014E	2015E	2016E
<b>Margins (%)</b>					
EBITDA	13.8	16.0	31.4	33.9	32.8
PBT	14.7	11.6	23.7	25.2	26.8
Net Profit	9.7	7.1	15.6	16.6	17.6

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