

02 July 2013

SapuraKencana Petroleum

Slow start but still on track

OUTPERFORM ↔

Price: RM4.00
Target Price: RM4.72 ↑

We are maintaining our OUTPERFORM call on SKPETRO following yesterday's post-1Q14 results conference call with a higher target price of RM4.72 (from RM4.57) based on an unchanged PER of 22x on higher CY14 earnings. Our target PER is based on 12% discount to peak valuations of 25x that large-cap oil and gas companies traded at during the boom cycle seen in 2007-2008. Key points revealed in the conference call were: 1) confirmation that Seadrill's tender-rig earnings will only be consolidated from 2QFY14 onwards; 2) all the divisions expect improvements in latter quarter with the exception of the fabrication and HUC division; 3) the Berantai field remuneration fee will only kick-start in by 4QFY14; and 4) the order book (as at 28th June) is still strong at RM27.5b. We have reduced our FY14 estimate (-7.4%) as we assume lower Berantai field contribution and higher borrowing costs; but have raised our FY15 estimate (+4.0%) mainly due to expected contributions from the new assets (2 PLSVs and one tender-assisted drilling rig) and from the Berantai FPSO.

Seadrill tender rig contributions to be only consolidated from 2QFY14 onwards. As expected, management guided that Seadrill's tender-rig earnings will only be consolidated from 2QFY14 onwards given that the acquisition was completed only by end-Apr. The guided merger expense amount is c.RM50m for FY14 (some costs had already been booked in FY13) and a portion of the cost will hit the share premium account. We expect to treat these as non-core costs when it appears in latter quarters.

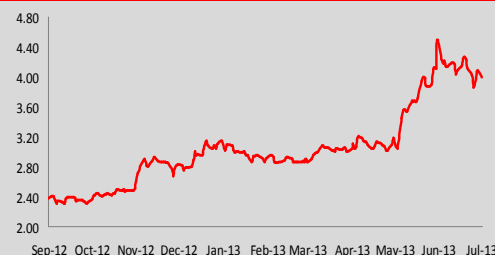
Improvements expected for Offshore Construction & Subsea Services (OCSS), Drilling, Geotech & Maintenance Services (DGMS) and (Energy & Joint Ventures) EJV divisions but Fab and HUC division could continue to be sluggish. Earnings improvements are guided by management for the OCSS, DGMS and EJV divisions as: 1) installation and transport (T&I) activity increases; and 2) the two assets (that suffered earlier-than-expected docking and maintenance exercises in 1QFY14) are chartered out. However, the fabrication and HUC division is guided to be sluggish as contract awards have been slow thus far. While this may surprise the market, we believe that our FY14E revenue for the Fab&HUC division is already quite conservative and as such, we are leaving our estimate for the division unchanged. We suspect that any contracts here will only emerge by end- CY13.

Berantai contribution is only expected by end-FY14. In contrast to our previous expectation of a full-year contribution from the Berantai field from FY14 onwards, management has guided now that its profits will only be booked by 4QFY14.

FY15 to see new assets: 1 new drilling rig and 2 new PLSVs. We understand that SKPETRO will receive its two Chinese-constructed PLSVs in 4QFY14 and 1QFY15 respectively while the KM-2 will be received by the end of CY14. This will be earnings-accretive for FY15 net profit. Given that these assets will be coming in, we have raised our FY15 OCSS revenue by c.RM552.6m as we have assumed the new PLSVs can be chartered out straight away after delivery at a daily charter rate (DCR) of USD280k per day, and our FY15 DGMS division revenue by RM135.6m as we have assumed that the KM-2 will be chartered out for a whole year at a DCR of USD120k.

FY14 forecasts reduced but FY15 raised. We have fine-tuned our FY14 earnings to reflect only one quarter of the Berantai field contribution and higher finance costs due to the additional borrowings for Seadrill. As mentioned for FY15, we have raised our OCSS and DGMS division revenue to factor in contributions of the new assets, which will mitigate the higher borrowing costs assumed for FY15. On the overall, we have reduced our FY14E net profit by 7.4% but have increased our FY15E earnings by 4.0% to RM962.7m and RM1.3b respectively (from RM1.04b and RM1.27b previously).

Share Price Performance



KLCI	1775.14
YTD KLCI chg	5.1%
YTD stock price chg	27.0%

Stock Information

Bloomberg Ticker	SAKP MK Equity
Market Cap (RM m)	23,968.6
Issued shares	5,992.2
52-week range (H)	4.50
52-week range (L)	2.19
3-mth avg daily vol:	18,308,150
Free Float	59%
Beta	N.A.

Major Shareholders

STSB	15.9%
KHASERA	13.3%
EPF	12.0%

Summary Earnings Table

FY Jan (RM'm)	2013A	2014E	2015E
Turnover	6,912.4	8,121.5	10,096.9
EBIT	922.0	1,696.6	2,233.6
PBT	829.8	1,234.2	1,684.2
Net Profit (NP)	524.6	962.7	1,313.7
Core Net Profit	482.6	962.7	1,313.7
Consensus (NP)	-	1,010.9	1,346.1
Earnings Revision (%)	-	-7.4	+4.0
Core EPS (sen)	10.5	16.1	21.9
Core EPS growth	6.2	99.5	36.5
NDPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	0.3	0.8	0.9
BV/Share (RM)	1.3	1.7	1.6
Core PER	38.2	25.1	18.4
Price/NTA (x)	11.7	5.2	4.5
Gearing (%)	0.8	0.9	1.1
Dividend Yield (%)	0.0	0.0	0.0

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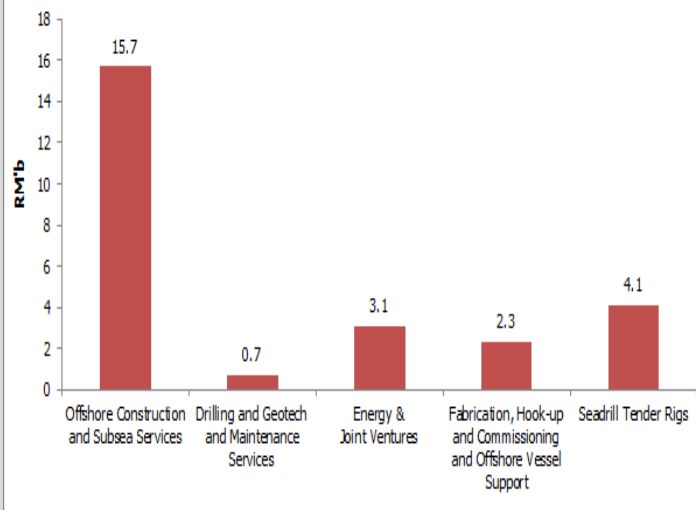
Other points

Borrowings could increase post tender-rig consolidation. We reckon SKPETRO's FY14-15 total borrowings will balloon to RM11.8b-13.3b respectively (from RM10.2-RM10.5b previously assumed). This will raise the borrowing costs of the group.

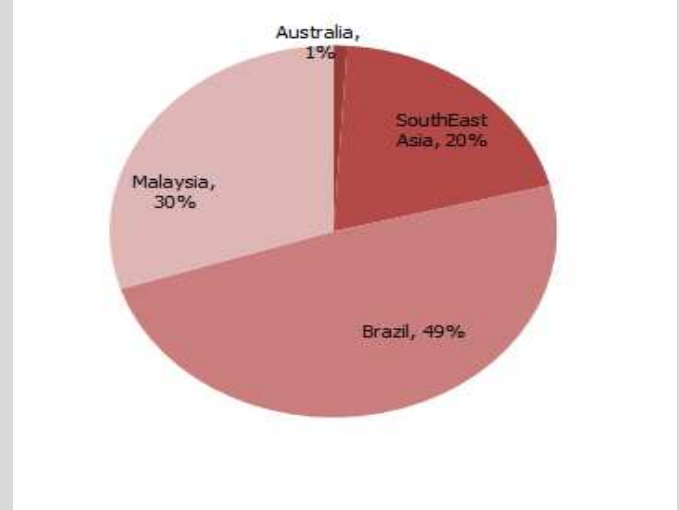
Order book and tender book still strong. The order backlog as at to-date stands at RM25.7b, with the OCSS making the highest contribution of 58%. In terms of geographical segment, Brazilian contracts make up 49% of the backlog with 30% for the Malaysian contracts. The tender book is guided to be similar to its order book and management revealed that the main bids include: 1) 3-4 risk-service contracts, 2) the new leg of the Pan-Malaysian Transport and Installation contract and 3) Engineering Procurement Construction Installation and Commissioning (EPCIC) contracts from Malaysia and India.

Order Book (as at 28 June 2013)

Segmental



Geographical



Source: SapuraKencana Petroleum; Kenanga Research

1QFY14 Income Statement

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
FY Jan (RM m)	FY14	FY13	Chg (%)	FY13	Chg (%)
Turnover	1,622.5	1,957.6	-17.1	681.8	138.0
EBIT	328.9	228.0	44.3	142.8	130.3
Interest expense	-77.1	-77.0	0.1	-15.7	392.3
Associates	46.9	56.4	-16.9	-13.7	-442.7
Exceptional items	0.0	0.0	n/a	0.0	n/a
Pretax profit	159.5	207.8	-23.3	84.6	88.6
Taxation	-30.8	-18.1	70.8	-24.1	27.9
Minority interest	-35.0	-65.9	-46.9	-18.8	86.1
Net profit	93.7	123.9	-24.4	41.7	124.8
Core Net Profit	143.0	85.8	66.7	41.1	247.8
EPS (sen)	1.9	2.5		0.8	
DPS (sen)	0.0	0.0		0.0	
NTA/share (RM)	0.5	0.3		0.3	
Net Gearing	1.0	0.8		0.8	
EBIT margin (%)	20.3	11.6		20.9	
Pretax margin (%)	9.8	10.6		12.4	
Net margin (%)	8.8	4.4		6.0	
Effective tax rate (%)	-19.3	-8.7		-28.5	

Source: SapuraKencana Petroleum Bursa, Kenanga Research

1QFY14 Segmental Breakdown

FY Jan (RM m)	1Q	4Q	Q-o-Q	1Q	Y-o-Y
	FY14	FY13	Chg (%)	FY13	Chg (%)
Revenue	1,622.6	1,957.6	-17.1	681.8	138.0
Offshore Construction and Subsea Services (OCSS)	745.7	772.2	-3.4	409.4	82.2
Energy and Joint Ventures (EJV)	225.1	340.1	-33.8	148.3	51.8
Drilling and Geotech and Maintenance Services (DGMS)	103.5	133.7	-22.6	63.1	63.9
Fabrication, Hook-up Commissioning and Offshore Vessel Support (Fab & HUC)	548.4	711.5	-22.9	61.1	798.2
PBT	159.5	207.8	-23.3	84.6	88.6
Offshore Construction and Subsea Services (OCSS)	62.3	61.5	1.3	52.8	17.9
Energy and Joint Ventures (EJV)	70.4	91.0	-22.6	34.5	103.9
Drilling and Geotech and Maintenance Services (DGMS)	0.1	2.1	-93.9	-3.0	-104.3
Fabrication, Hook-up Commissioning and Offshore Vessel Support (Fab & HUC)	90.6	101.0	-10.3	-0.2	-42,845.3
Margins (%)					
Offshore Construction and Subsea Services (OCSS)	8.4	8.0		12.9	
Energy and Joint Ventures (EJV)	31.3	26.7		23.3	
Drilling and Geotech and Maintenance Services (DGMS)	0.1	1.5		-4.7	
Fabrication, Hook-up Commissioning and Offshore Vessel Support (Fab & HUC)	16.5	14.2		-0.3	

Source: SapuraKencana Petroleum, Bursa, Kenanga Research

Malaysian Oil & Gas Sector Comparisons

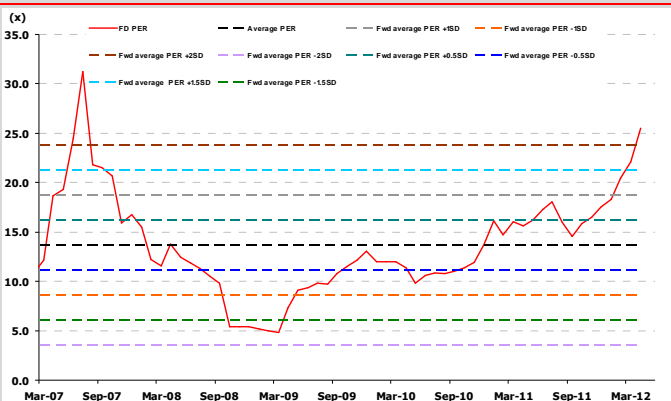
Company	Price (RM)	Market Cap (RM'm)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY12	CY13	CY14				CY13	CY14		
ALAM	1.36	1,081.3	19.4	13.2	10.1	0.0	10.6	2.1	47.0	31.3	1.91	OP
COASTAL	2.28	1,101.5	9.3	8.1	7.1	2.7	14.2	1.3	14.2	15.0	2.90	OP
DAYANG	4.85	2,666.0	26.3	17.4	12.0	2.3	16.9	4.5	51.6	44.8	6.06	OP
DIALOG	2.77	6,670.1	36.4	32.4	30.1	1.5	14.8	5.4	12.2	7.8	3.28	OP
GASMSIA	3.26	4,185.8	25.7	24.1	21.9	3.3	16.1	4.1	6.7	10.0	3.39	OP
MHB	3.48	5,568.0	27.8	23.4	18.5	2.9	8.0	2.2	18.8	26.7	3.39	UP
PANTECH	0.920	476.7	9.2	7.4	6.5	5.0	15.4	1.4	24.7	14.4	1.18	OP
PCHEM	6.62	52,960.0	14.8	14.0	13.3	3.6	16.8	2.5	5.8	5.4	6.97	OP
PERDANA	1.90	947.6	39.2	17.2	13.1	0.0	5.3	2.1	128.2	30.8	2.04	OP
PERISAI	1.55	1,452.35	15.8	14.5	12.3	0.0	16.3	2.6	8.9	17.7	1.76	OP
PETGAS	20.90	41,355.5	31.7	27.8	23.3	2.5	14.2	4.5	13.9	19.4	20.31	MP
SKPETRO	4.00	23,968.6	49.9	26.0	18.7	0.0	7.2	3.6	92.1	39.2	4.59	OP
SEB	0.620	49.4	7.0	6.3	5.1	3.2	11.4	0.8	11.9	21.5	0.78	OP
UZMA	3.20	422.4	18.9	12.4	12.0	0.0	22.8	4.3	52.2	3.5	3.64	OP
WASEONG	1.85	1,427.2	27.2	15.6	13.3	2.7	4.8	1.3	74.3	16.9	1.73	UP
YINSON	4.76	1,049.1	25.8	18.4	13.0	0.0	14.4	4.3	40.3	40.8	5.73	OP
Simple Average			24.0	17.3	14.4							
Weighted Average			27.3	20.8	18.0							

Source: Kenanga Research

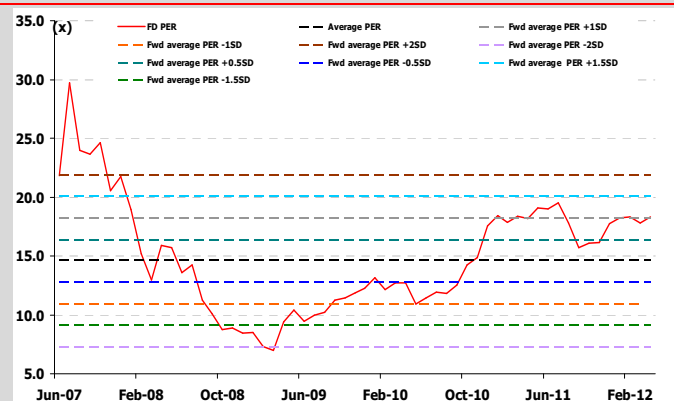
Income Statement					Financial Data & Ratios				
FY Jan (RM'm)	2012A	2013A	2014E	2015E	FY Jan (RM'm)	2012A	2013A	2014E	2015E
Revenue	4,672.6	6,912.4	8,121.5	10,096.9	Growth (%)				
EBITDA	786.7	989.7	1,182.0	1,484.5	Turnover	7.5	47.9	17.5	24.3
Depreciation	(140.1)	(232.9)	(514.6)	(749.1)	EBITDA	16.8	14.3	14.6	14.7
Operating Profit	646.6	922.0	1,696.6	2,233.6	Operating Profit	18.3	42.6	20.9	22.1
Interest Expense	(61.3)	(227.4)	(567.4)	(667.4)	PBT	28.3	20.6	11.9	13.0
Associate	103.1	135.2	105.0	118.0	Core Net Profit	0.2	6.2	11.9	13.0
Exceptional Items	0.0	0.0	0.0	0.0					
PBT	688.1	829.8	1,234.2	1,684.2	Profitability (%)				
Taxation	(90.4)	(166.0)	(271.5)	(370.5)	EBITDA Margin	16.8	14.3	14.6	14.7
Minority Interest	(143.4)	(139.2)	0.0	0.0	Operating Margin	13.8	13.3	15.2	16.7
Net Profit	454.3	524.6	962.7	1,313.7	PBT Margin	14.7	12.0	15.2	16.7
Core Net Profit	454.3	482.6	962.7	1,313.7	Net Margin	9.7	7.6	11.9	13.0
					Core Net Margin	13.1	7.0	11.9	13.0
					Effective Tax Rate	3.8	20.0	22.0	22.0
					ROE	8.3	3.8	5.0	5.2
					ROA	16.8	7.2	10.8	12.6
					DuPont Analysis				
					Net Margin (%)	9.7	7.0	11.9	13.0
					Assets Turnover (x)	0.4	0.5	0.4	0.4
					Leverage Factor (x)	2.2	2.2	2.6	2.6
					ROE (%)	8.3	7.2	10.8	12.6
					Leverage				
					Debt/Asset (x)	0.4	0.4	0.5	0.5
					Debt/Equity (x)	0.8	0.9	1.3	1.3
					Net (Cash)/Debt	2,388.0	4,915.2	7,505.6	10,566.4
					Net Debt/Equity (x)	0.5	0.8	0.9	1.1
					Valuations				
					EPS (sen)	9.1	10.5	16.1	21.9
					NDPS (sen)	0.0	0.0	0.0	0.0
					NTA/Share (RM)	0.1	0.3	0.8	0.9
					BV/Share (RM)	1.0	1.3	1.7	1.6
					PER (x)	42.9	38.4	25.1	18.4
					Net Div. Yld (%)	0.0	0.0	0.0	0.0
					P/NTA (x)	36.3	11.8	5.2	4.5
					P/BV (x)	3.8	3.2	2.4	23.4
					EV/EBITDA (x)	25.9	25.3	23.4	23.4

*2012A based on Proforma Accounts In Prospectus
 Source: Kenanga Research. SapuraKencana Petroleum

Sapura Crest Fwd PER Standard Deviation



Kencana Fwd PER Standard Deviation



Source: Kenanga Research; Bloomberg

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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