

Recommendation: **BUY**Stock Code: **8575** Bloomberg: **SCRES MK** Price: **MYR0.77** 12-Month Target Price: **MYR0.95** Date: **September 28, 2006****Board:** Main**Sector:** Technology**GICS:** Energy / Oil & Gas Equipment & Services**Market Capitalization:** MYR682.1 mln

**Summary:** SapuraCrest Petroleum (SapCres) is one of Malaysia's leading offshore oil & gas services providers. It lays pipelines, drills, and provides diving, maintenance and vessel support services and geological surveys to major oil companies predominantly in offshore Malaysia.

**Analyst:** Lorraine Tan, CFA

## Results Review & Earnings Outlook

- 2QFY07 (Jan.) net profit of MYR7.9 mln, down 62.5% YoY, continues to reflect sharply reduced revenue from its installation of pipeline & facilities (IPF) segment. Similar to 1QFY07, this is due to the near completion a 3-year contract with new activities not expected to start until 4QFY07 and a fall in profit margin from higher pipelay vessel charter costs.
- Some of this shortfall was made up by stronger performances in its drilling and marine services segments. However, given that its drilling activities are not wholly owned, the rise in contribution from this segment also raised minority interests. On the bright side, IPF achieved a pretax profit of MYR1.7 mln, turning around from an MYR11.1 mln pre-tax loss in 1QFY07 but we believe that this may be due to lowered depreciation by MYR7.5 mln for the group on the adoption of FRS.
- We have lowered our IPF revenue assumption but raised our expected profit contribution from drilling and marine services. This results in a 23.7% reduction in our FY07 net profit forecast to MYR47.9 mln. While interim profit of MYR13.7 mln only makes up 28.5% of our revised profit, we believe that the 2HFY07 performance should show stabilized positive IPF segment contribution. The drilling and marine services divisions should continue to perform well with the former benefiting from higher utilization rates and rising rig day rates and the latter from the ONGC (ONGC IN, Not Ranked) contract. FY08 profit forecast is lowered by 11.7% due to the carry over impact of the lower FY07 contribution.

### Key Stock Statistics

FY Jan.	2006	2007F
EPS (sen)	7.3	5.1
PER (x)	10.6	15.2
Dividend/Share (sen)	2.7	2.4
NTA/Share (MYR)	0.39	0.44
Book Value/Share (MYR)	0.54	0.59
Issued Capital (mln shares)	885.8	
52-week Share Price Range (MYR)	0.60 – 1.01	
Major Shareholders:	%	
Sapura Holdings Sdn Bhd	60.3	
EPF	5.1	

## Recommendation & Investment Risks

- While our earnings are revised lower, our 12-month target price is unchanged at MYR0.95 as our post FY07 expectations are largely unchanged. We retain a Buy call given our expectations for SapCres to continue to benefit from ongoing positive outlook for oil & gas drilling and marine services demand. We believe the disappointing IPF earnings are already discounted and believe that downside risk is relatively limited at current levels.
- Our target price is based on a combination of the company's estimated Discounted Cash Flow (DCF) and relative values, and takes into account its forecast 3-year EPS CAGR of 21%.
- SapCres' strong earnings growth in FY08 is driven mainly by its drilling division due to the addition of a new tender rig T-10 and a 12% YoY rise in estimated average day rates. We expect IPF margins to recover and rise with additions of HLVs to its assets is to help reduce reliance on chartered vessels.
- Risks to our recommendation and target price include delays in the delivery of new assets and projects that could lower capacity utilization and raise costs. In addition, its relatively high net gearing at almost 2x reduces financial flexibility, in our view.

### Per Share Data

FY Jan.	2004	2005	2006	2007F
Book Value (MYR)	2.54	0.46	0.54	0.59
Cash Flow (sen)	-26.5	16.6	16.8	15.1
Earnings (sen)	-57.6	8.5	7.3	5.1
Dividend (sen)	0.0	0.0	2.7	2.4
Payout Ratio (%)	0.0	0.0	31.1	44.3
PER (x)	NM	NM	10.6	15.2
P/Cash Flow (x)	NM	NM	4.6	5.1
P/Book Value (x)	0.3	1.7	1.4	1.3
Dividend Yield (%)	0.0	0.0	3.5	3.1
ROE (%)	NM	24.9	16.7	9.6
Net Gearing (%)	113.7	93.3	190.1	141.6

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## Sapura Crest Petroleum

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FY Jan. / MYR mln	2QFY07	2QFY06	% Change
Revenue	369.2	490.3	-24.7
Operating Profit (EBIT)	47.4	43.1	10.1
Depreciation	NA	-19.4	-62.2
Net Interest Income / (Expense)	-21.7	-8.2	164.6
Pre-tax Profit	24.6	35.2	-30.0
Net Profit	7.9	21.1	-62.5
Operating Margin (%)	12.9	8.8	-
Pre-tax Margin (%)	6.7	7.2	-
Net Margin (%)	2.1	4.3	-

Source: Company data

**Profit & Loss**

FY Jan. / MYR mln	2005	2006	2007F	2008F
Revenue	1,034.8	1,793.7	1,548.9	1,817.1
Operating Profit (EBIT)	92.1	151.6	158.7	206.6
Depreciation	-68.2	-74.1	-68.6	-59.7
Net Interest Income / (Expense)	-22.3	-43.7	-61.7	-66.3
Pre-tax Profit	72.2	109.8	96.0	158.6
Effective Tax Rate (%)	nm	2.2	10.0	15.0
Net Profit	74.9	74.0	47.9	98.0
Operating Margin (%)	8.9	8.4	10.2	11.4
Pre-tax Margin (%)	7.0	6.1	6.2	8.7
Net Margin (%)	7.2	4.1	3.1	5.4

Source: Company data, S&amp;P Equity Research

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**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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