Dark clouds dispersing

Petra Energy (PENB) returns to the black after posting 4 consecutive quarters of headline losses. The turnaround was driven by the higher remuneration fee recognised from Kapal, Banam and Meranti (KBM) RSC and higher other operating income in this quarter. In the latest edition of *The Edge Weekly*, it was reported that PENB is one of the shortlisted companies for the upcoming maintenance, construction and modification (MCM) contract which is expected to be awarded by early 3Q17. This will likely be a near-term catalyst for the stock. We upgrade our target price to RM1.66 (from RM1.25) on a strong conviction that the company is on track to turn around its business in 2017 as work orders on the Pan Malaysia hook-up commissioning (HuC) and topside major maintenance (TMM) contract looks to improve. Maintain BUY.

Headline profit returned to black

Despite reporting a 38.5% yoy lower revenue, PENB delivered a turnaround in headline profit of RM5.3m. After adjusting for a RM0.6m unrealised forex gain, PENB booked a core net profit of RM4.7m (vs a loss of RM3m in 1Q16), in line with our full-year expectation. One of the main reasons behind the positive result was the higher remuneration fee recognised as a result of higher lifting prices and a spillover effect in terms of production offtake. Besides that, other operating income increased from RM0.8m in 1Q16 to RM8m in 1Q17 due to an insurance claim received for a repair work completed back in 2016.

Sequential improvement

Sequentially, revenue increased 14.1% while core net profit went into positive territory versus a loss of RM28m in 4Q16. KBM's RSC profit increased 91.7% qoq to RM15.1m supported by higher lifting prices and a spillover effect from the previous quarter in terms of production offtake. As mentioned above, other operating income also resulted in a qoq improvement in core net profit.

On track to turning around

While we deem the results broadly in line with our expectation, we tweak our 2017-19E earnings slightly by -RM1.5m/-RM4m/+RM4m as we mainly fine-tune the capital spending assumptions in our RSC model. Due to the low bases, the changes in percentage terms are 5% and 7% lower respectively for 2017E and 2018E, but 7% higher for 2019E. Our RSC forecasts are premised on the assumption of a crude price of US$55/bbl in 2017E and USD60/bbl from 2018E onwards.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	654.8	332.1	421.7	468.4	524.2
EBITDA (RMm)	54.6	(38.6)	38.6	42.9	48.2
Pretax profit (RMm)	62.0	(124.5)	32.2	54.9	66.1
Net profit (RMm)	47.2	(114.2)	29.8	53.5	66.1
EPS (sen)	14.7	(35.6)	9.3	16.7	20.6
PER (x)	8.4	(3.5)	13.3	7.4	6.0
Core net profit (RMm)	38.1	(31.7)	29.8	53.5	66.1
Core EPS (sen)	11.9	(9.9)	9.3	16.7	20.6
Core EPS growth (%)	11.0	(183.4)	194.1	79.2	23.5
Core PER (x)	10.5	(12.5)	13.3	7.4	6.0
Net DPS (sen)	10.0	5.0	5.0	5.0	5.0
Dividend Yield (%)	8.1	4.0	4.0	4.0	4.0
EV/EBITDA (x)	5.0	45.3	5.0	3.2	2.2
Chg in EPS (%)			-4.9	-6.8	+7.0
Affin/Consensus (%)			0.9	1.0	1.2

Source: Company, Affin Hwang estimates

Results Note

Petra Energy

PENB MK
Sector: Oil & Gas

RM1.24 @ 17 May 2017

BUY (maintain)

Upside: 34%

Price Target: RM1.66

Previous Target: RM1.25

Price Performance

	1M	3M	12M
Absolute	0.8%	19.2%	-3.1%
Rel to KLCI	-1.6%	14.7%	-10.9%

Stock Data

Issued shares (m)	320.9
Mkt cap (RMm)/(US$m)	398/92
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	0.91-1.28
Est free float	20.6%
BV per share (RM)	1.55
P/BV (x)	0.80
Net cash/(debt) (RMm)	3.4
ROE (2017E)	7.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Shorefield Resources	27.5%
Wah Seong	27.0%
Lembaga Tabung Haji	9.9%

Source: Affin Hwang, Bloomberg

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Small cap top pick; reiterate BUY with higher TP

We reiterate our BUY call and revise our SOTP-derived 12-month TP to RM1.66 (from RM1.25) as we raise our EV/EBITDA valuation multiple on the O&G services segment to 9x (from 5x), which is in line with its 5-year forward mean. We believe a re-rating of PENB is justified as its valuation will revert closer to mean as its services business turns around. We also believe that operating conditions are returning to normal, thereby justifying a mean valuation.

Risks to our call

Decline in oil prices leading to lower RSC contribution, and delay in existing HuC work orders.

Fig 1: Results comparison

FYE 31 Dec (RM m)	1Q16	4Q16	1Q17	*qoq % chg*	*yoy % chg*	Comment
Revenue	113.2	61.0	69.6	*14.1*	*(38.5)*	1Q17 revenue increased by 14.1% qoq due to onshore work performed on an EOR project.
Op costs	(111.2)	(97.9)	(69.1)	*(29.5)*	*(37.9)*	
EBITDA	2.0	(36.9)	0.6	*101.5*	*(72.6)*	
EBITDA margin (%)	*1.8*	*(60.6)*	*0.8*	*+61.4ppt*	*-1ppt*	
Depn and amort	(11.2)	(7.0)	(8.4)	*20.6*	*(25.0)*	
EBIT	(9.2)	(43.9)	(7.9)	*82.1*	*14.5*	
EBIT margin (%)	(8.1)	(72.0)	(11.3)	*+60.7ppt*	*-3.2ppt*	
Int expense	(4.5)	(2.5)	(3.5)	*38.8*	*(22.0)*	
Int and other inc	0.8	2.5	1.0	*(61.9)*	*24.3*	
Associates	10.0	7.9	15.1	*91.7*	*51.4*	Remuneration fee from KBM RSC was higher qoq due to better lifting prices and spillover effect from previous quarter in terms of production offtake.
EI	(4.0)	(52.4)	0.6	*(101.1)*	*114.5*	1Q17 figure consists of the RM0.6m unrealised forex gain
Pretax profit	**(7.0)**	**(88.4)**	**5.3**	***n.m.***	***n.m.***	
Core pretax	**(3.0)**	**(36.0)**	**4.7**	***n.m.***	***n.m.***	
Tax	(0.1)	8.1	0.0	*(100.0)*	*n.m.*	
Tax rate (%)	(1.1)	9.1	0.0	*-9.1ppts*	*1.1ppt*	
MI	0.0	0.0	0.0	*n.m*	*n.m*	
Net profit	**(7.1)**	**(80.3)**	**5.3**	***n.m.***	***n.m.***	
EPS (sen)	(2.2)	(25.0)	1.6	*n.m.*	*n.m.*	
Core net profit	**(3.0)**	**(28.0)**	**4.7**	***n.m.***	***n.m.***	Results are deemed in line with our expectation as 1Q is generally a weak quarter for Petra Energy. Work activities will gradually ramp up from 2Q onwards after the monsoon season.

Source: Affin Hwang, company

Fig 2: PENB's SOTP valuation

Sum of parts valuation	Value (RMm)	Value per share (RM)	Remarks
OES businesses (services and marine assets segment)	347.3	1.08	9x 2017E EV/EBITDA
30% stake in Kapal, Banang, Meranti cluster RSC	188.5	0.59	DCF of FCF (10.2% WACC, RM4.10/USD)
Enterprise Value	**535.9**	**1.67**	
Net Debt	(3.5)	(0.01)	
Equity Value	**532.3**	**1.66**	

**Based on share base of 320.9m*

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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