Higher cost base expected

PENB started off the year looking promising for a turnaround, however circumstances have changed with higher operating cost anticipated in 2H17. 1H17 reported revenue of RM170.8m achieved 45% of our full-year forecasts, however core net profit missed our estimates, accounting for only 21% of full year estimates. In view of this, we now expect the company to register a loss in 2017E due to the reason mentioned above. We lower our TP to RM1.03 and downgrade the stock a HOLD.

Better 1H17 performance, but not so optimistic 2H17

PENB reported a 2Q17 revenue of RM101.2m, bringing 1H17 revenue to RM170.8m (-12.8% yoy) due to lack in spillover works from prior year as compared to 2016. Cumulative 1H17 earnings swung from a RM0.7m loss to a profit RM4.9m, supported by lower interest expenses and higher associate contribution as a result of higher oil prices.

QoQ – higher revenue, but core earnings narrowed

Sequentially, 2Q17 revenue rose 45.4% to RM101.2m on higher work activities which also resulted in better overall vessels utilisation. Gross loss narrowed from RM5.6m to RM2m. However, operating losses widened from RM7.9m in 1Q17 to RM12.4m due to a one-off claim recognised for a job completed. As a result, core net profit declined from RM4.7m to a mere RM0.2m. Kapal, Banam and Meranti (KBM) associate profit fell 3% qoq to RM14.7m.

Revising our earnings forecast

We now expect PENB to register a RM9m loss in 2017E as compared to a RM23.6m profit previously on the back of a higher cost base moving into 2H17. We cut our 2018-19E earnings estimate by 27–30%, respectively as we lower our margin assumption.

Tactical downgrade until clearer turnaround indication

Our SOTP-derived TP is lowered to RM1.03 (previous TP: RM1.55) post earnings downgrade and as we roll forward to 2018E. In view of the challenging O&G services business, we also downgrade our EV/EBITDA multiple from 8x to 5x, slightly under -1SD its forward 5-years mean. We downgrade the stock to a **HOLD** ahead of a weaker 2H17. Key upside risks include higher work orders, award of MCM contract, and higher oil prices. Downside risks include decline in oil prices leading to lower RSC contribution and delay in existing HuC work orders.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	654.8	332.1	361.9	450.5	510.8
EBITDA (RMm)	54.6	(38.6)	(8.6)	43.1	48.2
Pretax profit (RMm)	62.0	(124.5)	(8.9)	37.0	44.8
Net profit (RMm)	47.2	(114.2)	(8.9)	37.0	44.2
EPS (sen)	14.7	(35.6)	(2.8)	11.5	13.8
PER (x)	6.5	n.m	n.m	8.3	7.0
Core net profit (RMm)	38.1	(31.7)	(8.9)	37.0	44.2
Core EPS (sen)	11.9	(9.9)	(2.8)	11.5	13.8
Core EPS growth (%)	11.0	(183.4)	(72.1)	517.6	19.3
Core PER (x)	8.1	n.m	n.m	8.3	7.0
Net DPS (sen)	10.0	5.0	5.0	5.0	5.0
Dividend Yield (%)	10.4	5.2	5.2	5.2	5.2
EV/EBITDA (x)	4.1	35.2	8.6	3.5	2.6
Chg in EPS (%)			n.m	(26.9)	(30.1)
Affin/Consensus (%)			n.m	0.8	0.8

Source: Company, Affin Hwang estimates

Results Note

Petra Energy

PENB MK
Sector: Oil & Gas

RM0.96 @ 25 August 2017

HOLD (downgrade)

Upside: +7.6%

Price Target: RM1.03

Previous Target: RM1.55

Price Performance

	1M	3M	12M
Absolute	-5.0%	-20.0%	-11.1%
Rel to KLCI	-5.3%	-19.8%	-15.6%

Stock Data

Issued shares (m)	320.9
Mkt cap (RMm)/(US$m)	308.1/72.1
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	0.91-1.27
Est free float	18.6%
BV per share (RM)	1.32
P/BV (x)	0.73
Net cash/(debt) (RMm)	(1.4)
ROE (2018E)	9.2%
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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Fig 1: Results comparison

FYE 31 Dec (RM m)	2Q17	*qoq % chg*	*yoy % chg*	1H17	*yoy % chg*	Comment
Revenue	101.2	*45.4*	*22.4*	170.8	*(12.8)*	Revenue declined 13% yoy due to the lack of spillover work from prior year as compared to 2016.
Op costs	(105.3)	*52.5*	*31.0*	(174.4)	*(9.0)*	
EBITDA	(4.1)	*(843.0)*	*(283.3)*	(3.6)	*(183.4)*	
EBITDA margin (%)	*(4.1)*	*-4.9ppt*	*-6.8ppt*	*(2.1)*	*-4.3ppt*	
Depn and amort	(8.3)	*(2.1)*	*0.9*	(16.7)	*(14.1)*	
EBIT	(12.4)	*57.0*	*108.6*	(20.2)	*33.7*	
EBIT margin (%)	*(12.2)*	*-0.9ppt*	*-5ppt*	*(11.9)*	*-4.1ppt*	
Int expense	(2.3)	*(34.5)*	*(48.9)*	(5.8)	*(35.5)*	Lower finance cost due to settlement of debt
Int and other inc	0.2	*(78.5)*	*(72.1)*	1.2	*(22.9)*	
Associates	14.7	*(3.0)*	*21.1*	29.8	*34.8*	Associate contribution increased 35% yoy lifted by higher oil prices
EI	2.9	*389.7*	*125.5*	3.5	*(122.6)*	
Pretax profit	**3.1**	*(41.7)*	*135.1*	8.4	*153.0*	
Core pretax	**0.2**	*(95.3)*	*(90.8)*	**4.9**	*1028.2*	
Tax	0.0	*n.m*	*n.m*	0.0	*n.m*	
Tax rate (%)	*0.0*	*0ppt*	*1.2ppt*	*0.0*	*1.1ppt*	
MI	0.0	*n.m*	*n.m*	0.0	*n.m*	
Net profit	**3.1**	*(41.7)*	*134.6*	**8.4**	*152.4*	
EPS (sen)	1.0	*(41.7)*	*134.6*	2.6	*152.4*	
Core net profit	**0.2**	*(95.3)*	*(90.4)*	**4.9**	*792.3*	Core earnings swung from RM0.7m loss in 1H16 to RM4.9m profit. However, this missed our expectations, accounting for only 21% of our full-year estimates.

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)	215.4	0.67	5x 2018E EV/EBITDA
30% stake in Kapal, Banang, Meranti cluster RSC	98.1	0.31	DCF of FCF (10.2% WACC, RM4.10/USD)
Enterprise Value	**313.6**	**0.98**	
Net Debt	18.0	0.06	Net cash in 2018E
Equity Value	**331.6**	**1.03**	

**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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