

## SPT Energy (01251.HK)

# Promising outlook

### Investment Highlights

- ❖ **Robust growth in 1H12 earnings reported.** SPT's strong YoY growth of 39.3% in 1H12 net profits was ahead of our expectation. Revenue surged 44.9% YoY to Rmb590mn, mainly driven by robust growth in the well completion and drilling segments. The better-than-expected results reaffirmed our view on: (i) rosy prospects on oil servicing in China and Central Asia; and (ii) SPT's leading position in both domestic and Kazakhstan markets.
- ❖ **Benefiting from dominant market position and technology.** SPT recorded significant expansion in domestic well completion market in 1H12 with revenue stemming from China up 148% YoY (to Rmb103mn), thanks to its critical share achieved in high-end servicing in Northwestern China. Utilization rate of well-drilling and workover operations in Kazakhstan improved in 1H12, supporting a 95% YoY jump in revenue of drilling (overseas). Reservoir services maintained stable growth, with revenue skewing towards domestic operations in 1H12. Moreover, SPT proved its distinct edge in unconventional natural gas development. During the period, fracturing services at the 2<sup>nd</sup> shale gas horizontal well and turnkey drilling operation in Indonesia were successfully completed.
- ❖ **Timely CN placement lessened concerns on working capital.** Through a small-scale convertible note (CN) placement, SPT raised US\$15m to strengthen its working capital for the forthcoming peak season in 2H12E. We forecast that SPT will be able to maintain a healthy balance sheet with an 11% net gearing in 2012E. Meanwhile, the introduction of China Everbright as a strategic investor is positive to overall corporate image, in our view.
- ❖ **Lifting 2012/13E earnings by ~9%.** We adjusted upwards 2012/13E net profit estimation by 9.9%/9.4%, as we factored in higher growth in the 3 segments during 2012-14E. SPT's share price was up ~25% since our last report in Jul 2012. We believe the surge in share price was a catch up to Anton Oilfield's (03337.HK) valuation. The upbeat 1H12 results have not been fully reflected in current share price, in our view. We apply the same PER multiple of 9x (~40% discount to Anton's 2012E PER) to obtain a new target price of HK\$2.28 (from HK\$2.00). Maintain BUY.

#### Investment Summary

FY-end Dec	2010	2011	2012E	2013E	2014E
Turnover (RMB mn)	1,050	1,321	1,887	2,489	3,115
Chg (%)	15.2	25.8	42.8	31.9	25.2
Net profit (RMB mn)	119	182	273	347	425
Chg (%)	40.8	52.2	49.9	27.2	22.5
EPS (RMB)	0.09	0.14	0.20	0.26	0.32
Chg (%)	40.8	52.2	49.9	27.2	22.5
PER (x)	14.2	9.3	6.2	4.9	4.0
OCF/Share (HK\$)	0.05	0.02	0.04	0.12	0.19
P/OCF (x)	25.0	53.8	30.3	10.7	6.6
EV/EBITDA (x)	8.1	5.3	3.6	2.7	2.2
DPS (HK\$)	0	0.01	0.01	0.02	0.02
Yield (%)	0	0.8	1.2	1.5	1.8

Source: SPT, CSI

**BUY** (maintain)

Share Price: HK\$1.56

Target Price: HK\$2.28

### CSI Research Department

#### Wallace Cheng

Tel: (852) 2237 9115

E-mail: wallacecheng@citics.com.hk

### Price Chart



Source: Bloomberg, CSI

### Latest Key Data

MSCI-China	5,459
FF no of shares (m)	559
FF (%)	42
FF market cap (HK\$ m)	873
52-week high/low (HK\$)	1.72/1.08
12M daily turnover (HK\$ m)	2
12M volatility (%)	NA
PEG 2011-13E (x)	0.26
RoE avg 2011-13E (%)	23
P/B 2012E (x)	1.7
Net debt/equity 2012E (%)	11

### Performance (%)

	1M	YTD	12M
Absolute	6	3	NA
Rel to MSCI-China	10	(8)	NA

### Major Shareholder (%)

Wang Guoqiang	58.1
---------------	------

### Auditor

PWC

Table 1: 2011 key financial summary

	1H12	1H11	Change	Comments
<b>Income statement (RMB mn)</b>				
<b>Revenue</b>				
Drilling	178	129	38.5%	Stable operation in Tarim Basin; utilization rate improved in Kazakhstan (workover and well-drilling rigs)
Well completion	179	75	140.5%	Surge in contracts from Kazakhstan (fracturing) and shale gas projects in China. Organic growth from Tarim Basin.
Reservoir	233	205	13.4%	Modest growth from overseas markets.
<b>Total revenue</b>	<b>590</b>	<b>408</b>	<b>44.5%</b>	
<b>EBITDA</b>				
Drilling	46	34	34.9%	
Well completion	46	10	368.3%	Margin expanded from high-end contracts
Reservoir	83	78	6.6%	
<b>Total EBITDA</b>	<b>175</b>	<b>122</b>	<b>43.7%</b>	
Share-based payments	(3)	0	NA	
Other losses, net	(0)	(5)	-91.5%	Decrease in FX loss
Unallocated overhead expenses	(38)	(29)	30.5%	
Depreciation and amortization	(29)	(19)	54.2%	
<b>EBIT</b>	<b>104</b>	<b>69</b>	<b>51.8%</b>	
Finance costs, net	(8)	(4)	113.4%	Increase in borrowings during the period
<b>Profit before income tax</b>	<b>97</b>	<b>65</b>	<b>48.5%</b>	
Income tax expense	(29)	(19)	56.6%	Higher tax rate of 30% due to higher withholding tax
Minority Interest	(2)	1	NA	
<b>Net profit</b>	<b>66</b>	<b>47</b>	<b>39.3%</b>	
<b>Ratios comparison:</b>				
EBITDA margin	29.6%	29.8%	-0.2ppt	
EBIT margin	17.6%	16.8%	+0.8ppt	
Net margin	11.1%	11.6%	-0.5ppt	

Source: SPT, CSI

## Profit &amp; Loss (Consolidated)

FY-end Dec (Rmb mn)	2010	2011	2012E	2013E	2014E
<b>Turnover</b>	<b>1,050</b>	<b>1,321</b>	<b>1,887</b>	<b>2,489</b>	<b>3,115</b>
Drilling	344	451	645	900	1,142
Well completion	324	355	627	854	1,063
Oil reservoir	383	516	615	735	910
Other gains/(losses), net	4	(8)	-	-	-
<b>Operating expenses</b>	<b>(874)</b>	<b>(1,038)</b>	<b>(1,470)</b>	<b>(1,961)</b>	<b>(2,469)</b>
Material costs	(265)	(363)	(491)	(647)	(810)
Employee benefit expenses	(209)	(253)	(361)	(477)	(596)
Operating lease expenses	(36)	(48)	(94)	(124)	(156)
Transportation expenses	(51)	(66)	(98)	(134)	(171)
Technical service expenses	(139)	(93)	(133)	(175)	(219)
Depreciation & Amortization	(32)	(44)	(47)	(92)	(127)
Others	(141)	(171)	(245)	(311)	(389)
<b>Operating Profit</b>	<b>181</b>	<b>276</b>	<b>417</b>	<b>528</b>	<b>646</b>
Finance income/(cost), net	(5)	(14)	(17)	(20)	(23)
<b>Pre-tax profit</b>	<b>176</b>	<b>262</b>	<b>400</b>	<b>508</b>	<b>623</b>
Income tax expense	(56)	(75)	(120)	(152)	(187)
Non-controlling interests	(0)	(5)	(7)	(9)	(11)
<b>Net profit</b>	<b>120</b>	<b>182</b>	<b>273</b>	<b>347</b>	<b>425</b>
EBITDA	212	319	464	620	773
EBIT	181	276	417	528	646

## Cash Flow (Consolidated)

FY-end Dec (Rmb mn)	2010	2011	2012E	2013E	2014E
<b>Profit before tax</b>	<b>176</b>	<b>262</b>	<b>400</b>	<b>508</b>	<b>623</b>
Depreciation & amortization	31	43	47	92	127
Changes in working capital	(98)	(203)	(254)	(268)	(278)
Income tax paid	(70)	(110)	(138)	(175)	(215)
Others	29	39	0	0	0
<b>Operating cash flow</b>	<b>68</b>	<b>31</b>	<b>56</b>	<b>158</b>	<b>257</b>
CAPEX	(99)	(83)	(250)	(250)	(250)
Others	10	(1)	(0)	(0)	(0)
<b>Investing cash flow</b>	<b>(89)</b>	<b>(85)</b>	<b>(250)</b>	<b>(250)</b>	<b>(250)</b>
Proceeds from share issuance	-	335	-	-	-
Change in borrowings	100	60	21	10	45
Proceeds from CN	0	0	95	0	0
Dividend paid	-	-	(13)	(20)	(25)
Others	(17)	(204)	0	-	-
<b>Financing cash flow</b>	<b>83</b>	<b>191</b>	<b>102</b>	<b>(10)</b>	<b>20</b>
Exchange effect	(2)	(3)	-	-	-
<b>Net cash flow</b>	<b>60</b>	<b>135</b>	<b>(92)</b>	<b>(103)</b>	<b>27</b>
Net cash/(debt)	17	84	(124)	(236)	(255)
Free cash flow	(31)	(52)	(194)	(92)	7

## Key assumptions

FY-end Dec	2010	2011	2012E	2013E	2014E
<b>Change in revenue (%)</b>					
Drilling	11	31	43	40	27
Well completion	21	10	77	36	25
Oil reservoir	15	35	19	20	24

Source: SPT, CSI estimates for 2012-14E figures

## Balance Sheet (Consolidated)

FY-end Dec (Rmb mn)	2010	2011	2012E	2013E	2014E
<b>Non-current asset</b>	<b>236</b>	<b>284</b>	<b>505</b>	<b>686</b>	<b>836</b>
PPE	196	215	417	575	698
Intangible assets	1	0	0	0	0
Deferred income tax assets	32	42	60	83	111
Prepayments and other receivables	7	27	27	27	27
<b>Current assets</b>	<b>930</b>	<b>1,184</b>	<b>1,454</b>	<b>1,748</b>	<b>2,187</b>
Inventories	211	245	335	442	553
Trade and notes receivables	445	577	824	1,087	1,360
Prepayments and other receivables	96	59	84	111	139
Restricted bank deposits	11	2	2	2	2
Cash & cash equivalents	167	301	209	106	133
<b>Total assets</b>	<b>1,166</b>	<b>1,469</b>	<b>1,959</b>	<b>2,433</b>	<b>3,023</b>
<b>Non-current liabilities</b>	<b>0</b>	<b>17</b>	<b>112</b>	<b>112</b>	<b>112</b>
Deferred income tax liabilities	0	8	8	8	8
Convertible notes	0	0	95	95	95
Borrowings	0	9	10	10	10
<b>Current liabilities</b>	<b>563</b>	<b>548</b>	<b>676</b>	<b>816</b>	<b>995</b>
Borrowings	160	210	230	240	285
Trade payables	269	200	273	360	451
Accruals and other payables	61	96	131	173	217
Income tax liabilities	73	42	42	42	42
<b>Total liabilities</b>	<b>564</b>	<b>565</b>	<b>789</b>	<b>928</b>	<b>1,107</b>
Share capital	298	402	402	402	402
Reserves	304	468	727	1,054	1,453
<b>Equity attri. to shareholders</b>	<b>602</b>	<b>870</b>	<b>1,129</b>	<b>1,456</b>	<b>1,856</b>
Non-controlling interests	0	34	41	50	61
<b>Total equity</b>	<b>602</b>	<b>904</b>	<b>1,170</b>	<b>1,506</b>	<b>1,917</b>
Total cap. Employed	602	920	1,282	1,618	2,029
Working capital	465	668	922	1,190	1,468
Net cash/(debt)	17	84	(124)	(236)	(255)
Net gearing (%)	NC	NC	11	16	14

## Financial Summary

FY-end Dec	2010	2011	2012E	2013E	2014E
<b>Growth (%)</b>					
EBITDA	18	50	46	34	25
EBIT	18	52	51	27	22
Net profit	41	56	50	27	23
<b>Margins (%)</b>					
EBITDA	20	24	25	25	25
EBIT	17	21	22	21	21
Net profit	11	14	15	14	14
<b>Others (%)</b>					
Effective tax rate	32	29	30	30	30
RoCE	20	20	21	21	21
RoAE	23	25	27	27	26
RoAA	12	14	16	16	16
Interest coverage (x)	40	23	27	32	34

## Disclaimer

This research report is for information purposes only and should not be construed as an offer to sell or the solicitation of an offer to buy or sell any securities in any jurisdiction. The securities referred to in this research report may not be eligible for sale in some jurisdictions. The information contained in this research report has been compiled by CITIC Securities Brokerage (HK) Limited ("CSBHK") from sources that it believes to be reliable and (subject to the next paragraph) the opinions, analysis, forecasts, projections and expectations contained in this research report are based on such information and are expressions of belief only and no representation, warranty or guarantee is made or given by CSBHK or any other person as to its accuracy or completeness. All opinions and estimates expressed in this research report are (unless otherwise indicated) entirely those of CSBHK as of the date of this research report only and are subject to change without notice. Such opinions and estimates may be different from or contrary to the opinions presented by the other business departments, units or affiliates of CSBHK, as different assumptions and standards, different views and analytical methods may be adopted in the preparation of such other materials, and CSBHK is under no obligation to bring such other materials to the attention of any recipient of this research report. Neither CSBHK nor its holding companies and affiliates accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this research report or otherwise arising in connection therewith.

Any investment referred to herein may involve significant risk, may be illiquid and may not be suitable for all investors. The value of or income from any investment referred to herein may fluctuate and be affected by changes in exchange rates. Past performance is not indicative of future results. This research report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors are expected to make their own investment decision without relying on this publication. Before entering into any transactions in any securities referred to in this research report, investors should consider their own individual investment objectives and financial situation and seek professional financial, tax and legal advice, as necessary.

If this research report is being distributed by a financial institution other than CSBHK or its affiliates, that financial institution is solely responsible for its distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this research report or if they require further information. This research report does not constitute investment advice by CSBHK to the clients of the distributing financial institution, and neither CSBHK, its holding companies, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this research report or its content.

This research report is being distributed in China (excluding Hong Kong, Macau and Taiwan) by CITIC Securities Company Limited. This report is being distributed in Hong Kong by CSBHK. This research report is strictly confidential to the recipient and is not intended for persons in places where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such places.

This research report may not be reproduced, distributed or published by any person for any purpose without the prior written consent of CSBHK. All rights are reserved.

## Regulatory disclosures

- The research analysts primarily responsible for the preparation of all or part of this research report hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.
- This research report has been produced in its entirety by CSBHK (CE Number: AAE879, regulated by the Securities and Futures Commission in Hong Kong). This research report is being distributed in the United States by CSBHK pursuant to Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934 exclusively to "major U.S. institutional investors" as defined in Rule 15a-6 and the SEC no-action letters thereunder.
- CSBHK and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities have no disclosable financial interests in the stocks reviewed in this research report.
- CSBHK and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities have received compensation from or mandates for investment banking services in the past 12 months from listed corporations whose stocks are being reviewed by CSBHK in this research report.
- CSBHK and each its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities do not have an individual employed by or associated with them serving as an officer of a listed corporation whose stocks are being reviewed by CSBHK in this research report
- CSBHK and each of its group companies that carry on a business in Hong Kong in investment banking, proprietary trading or agency broking in relation to securities are not market makers in the stocks reviewed by CSBHK in this research report.
- Further information on the securities discussed in this research report is available upon request.

## Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

地址:	香港中环 添美道1号 中信大厦26楼	Address:	26/F CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
电话:	(852) 2237 9250	Tel:	(852) 2237 9250
传真:	(852) 2104 6580	Fax:	(852) 2104 6580
电邮:	hkresearch@citics.com.hk	Email:	hkresearch@citics.com.hk
网址:	http://www.citics.com.hk	Website:	http://www.citics.com.hk