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Oil&Gas/ China

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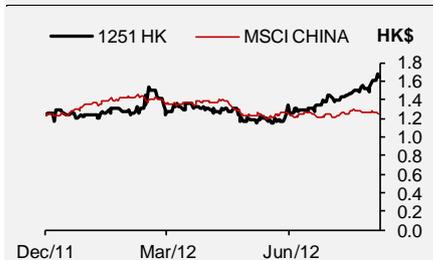
Close price: HK\$1.56

Key Data

HKEx code	1251
12 Months High (HK\$)	1.71
12 Month Low (HK\$)	1.08
3M Avg Dail Vol. (mn)	2.44
Issue Share (mn)	1,335.00
Market Cap (HK\$m)	2,082.60
Fiscal Year	12/2011
Major shareholder (s)	Mr. Wang & Mr. Wu (60%)

Source: Company data, Bloomberg, OP Research  
Closing price are as of 29/8/2012

Price Chart



	1mth	3mth	6mth
Absolute %	9.1	27.9	20.0
Rel. MSCI CHINA %	8.8	27.3	33.4

PE



Company Profile

SPT is one of China's leading non-SOE oilfield services provider. Its service ranges from reservoir research, drilling, well completion, and testing to oil and gas production related services.

# SPT Energy (1251 HK)

## 1H12 Earnings Flash

SPT released its 1H12 with net income growth at 39%YoY, thanks to the revenue growth in well completion and drilling service segments, and stable cost controls.

- 39%YoY net income growth from high revenue growth and stable operating margins.** The high net income growth in 1H12 was mainly due to enlarged revenue size by 45%YoY in 1H12. Well completion and drilling service segments showed 140.5% and 38.5%YoY growth, respectively; and the company maintained EBITDA margin at around 30% in 1H11 and 1H12.
- PRC domestic and Kazakhstan businesses continued promising.** SPT remained active in the high-end well completion services for gas wells in the Tarim Oilfield and Kazakhstan, which are main cause of the 140.5% growth in well completion services in 1H12. Besides, the US\$32mn, 33-month reservoir contract received by the company from PetroKazakhstan in April and turnkey oil and gas device maintenance service contracts are expected to generate increment to revenue from the reservoir business in 2H12.
- Stable control over operating costs.** We noted that material costs, the largest contributor, at 30%/27% of 1H11/1H12's operating expenses, had been reduced from 24% to 22%, reflected management's effectiveness in saving operating costs. On the other hand, staff costs (27%/31% of 1H11/1H12 opex) made a significant growth from 23% over sales to 26% over sales. The increment was mainly due to increase in the number of staff from June 2011's 1,775 headcounts, to December 2011's 1,900 level, to June 2012's above 3,000 headcounts. As talents is one of the main factors for business growth in oilfield services, the company had made large number of hiring in 1H12 for long-term development and incurred additional costs. However, we do see operating costs remained at 82% over sales in 1H12, similar to 1H11's level, reflected effective control over costs.
- Strengthened position in unconventional.** SPT successfully completed fracking its second shale horizontal well in Sichuan. This again proves its ability to service unconventional gas projects in China. This is an important ticket to China's second round of shale gas exploration bid expected to come out in September 2012. Apart from the three state oil companies and international leaders such as Schlumberger and Halliburton, only SPT and Antonoil, very few leaders can provide comprehensive services in the area.
- Valuation:** At HK\$1.56, SPT is currently trading at 6.6x/5.2x FY12E/FY13E P/E, a 59%/52% deep discount to Antonoil (3337 HK, NR)'s 15.9x/10.9x FY12E/FY12E P/E. We believe the discount is unjustified, and suggest to buy into SPT's (1) ability to provide integrated and comprehensive services in drilling, well completion, and reservoir services to domestic state oil companies and international leaders; (2) higher ROE at 14% compare to Antonoil's 7%, and (3) well-positioning in the unconventional gas service businesses.

**Exhibit 1: Historical financial statements**

Year to Dec (RMB mn)	FY09A	FY10A	FY11A	1H11A	1H12A
<b>Income Statement</b>					
Drilling	310	344	451	129	178
YoY%	180.5	10.9	31.1	9.9	38.5
Well completion	268	324	355	75	179
YoY%	9.5	20.6	9.6	-38.5	140.5
Reservoir	333	383	516	205	233
YoY%	8.0	15.0	34.7	33.6	13.4
<b>Total Revenue</b>	<b>912</b>	<b>1,050</b>	<b>1,321</b>	<b>408</b>	<b>590</b>
YoY%	37.3	15.2	2538	4.2	44.5
Drilling EBITDA	100	99	111	34	46
YoY%	143.9	-1.1	12.7	19.2	34.9
Well completion EBITDA	52	58	101	10	46
YoY%	104.3	11.3	75.5	-38.0	368.3
Reservoir EBITDA	134	142	187	78	83
YoY%	6.6	6.0	32.3	36.8	6.6
<b>Total EBITDA</b>	<b>285</b>	<b>298</b>	<b>400</b>	<b>122</b>	<b>175</b>
YoY%	48.8	4.5	34.2	20.2	43.7
Drilling EBITDA margin	32.2%	28.7%	24.7%	26.5%	25.9%
Well completion EBITDA margin	19.3%	17.8%	28.5%	13.2%	25.6%
Reservoir EBITDA margin	40.1%	37.0%	36.4%	38.0%	35.7%
<b>Overall EBITDA margin</b>	<b>31.3%</b>	<b>28.4%</b>	<b>30.3%</b>	<b>29.8%</b>	<b>29.6%</b>
<b>Net Income</b>	<b>85</b>	<b>120</b>	<b>182</b>	<b>47</b>	<b>66</b>
YoY%	-11.1	40.9	52.1	21.3	39.3
Net margin	9.3%	11.4%	13.8%	11.6%	11.1%
EPS	N/A	N/A	0.136	N/A	0.049
YoY%	N/A	N/A	N/A	N/A	N/A
DPS	0.00	0.00	0.01	0.00	0.00
<b>Balance Sheet</b>					
Inventories	194	211	245	266	357
Accounts receivables	340	445	577	340	639
Cash & cash equivalent	107	167	301	83	103
Other current assets	50	107	61	89	112
Non-current assets	184	236	284	266	340
<b>Total assets</b>	<b>875</b>	<b>1,166</b>	<b>1,469</b>	<b>1,045</b>	<b>1,551</b>
Accounts payables	109	269	200	189	229
Total debts	60	160	219	292	232
Other liabilities	259	135	146	59	120
<b>Total liabilities</b>	<b>428</b>	<b>564</b>	<b>565</b>	<b>540</b>	<b>581</b>
<b>Shareholders' equity</b>	<b>447</b>	<b>602</b>	<b>904</b>	<b>505</b>	<b>969</b>
ROE	18.97%	19.85%	20.89%	19.82%	14.17%
Net debt-to-equity	37%	54%	60%	79%	36%
<b>Cash Flow Statement</b>					
Operating cash flow	98	68	31	(18)	(150)
Investing cash flow	(52)	(89)	(85)	(55)	(214)
<b>Free cash flow</b>	<b>35</b>	<b>(31)</b>	<b>(58)</b>	<b>(77)</b>	<b>87</b>
Financing cash flow	(44)	83	191	(10)	15
<b>Net change in cash flow</b>	<b>2</b>	<b>62</b>	<b>128</b>	<b>(83)</b>	<b>(199)</b>

Source: Company, Oriental Patron

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
29/08/2012	Chinasoft Int'l	354	1H12 results miss	BUY	Yuji Fung
28/08/2012	Great Wall Motor	2333	1H12 Results Review	NR	Vivien Chan
28/08/2012	Uni-President China	220	Robust 1H12 results, reiterate buy	BUY	Daniel Wong
27/08/2012	Uni-President China	220	First take - 1H12 results beat estimate	BUY	Daniel Wong
27/08/2012	Sinomedia	623	1H12 results miss marginally, reiterate BUY	BUY	Yuji Fung
24/08/2012	Lijun Intl	2005	1H12 Result Takeaways	NR	Nature Chen
24/08/2012	CIMC ENRIC	3899	1H12 Earnings Release & NDR Takeaways	NR	-
24/08/2012	Prince Frog	1259	Weak sales in 1H12, but remain bright for the long run	BUY	Daniel Wong
24/08/2012	Trauson Holdings	325	Backbone of the orthopedics industry	BUY	Nature Chen
23/08/2012	Hengdeli	3389	1H12 result review	NR	Daniel Wong
23/08/2012	Prince Frog	1259	1H12 results - First take	BUY	Daniel Wong
23/08/2012	Geely Auto	175	1H12 Results review	NR	Vivien Chan
23/08/2012	Trinity	891	Conservative outlook for 2H12, but valuation becomes attractive	BUY	Daniel Wong
22/08/2012	China All Access	633	Maintain Rating on 1H12 Profit Warning	BUY	Yuji Fung
22/08/2012	Tingyi Holding	322	The worst is behind	HOLD	Daniel Wong
22/08/2012	China Wireless	2369	Downgraded on intensifying competition	HOLD	Yuji Fung
22/08/2012	Ju Teng Intl	3336	Upgraded on 1H12 results beat	BUY	Yuji Fung
20/08/2012	Chinasoft Int'l	354	First Take - 1H12 Results miss on higher than expected wage inflation	BUY	Yuji Fung
20/08/2012	Sunny Optical	2382	Upgraded on 1H12 results beat	BUY	Yuji Fung
16/08/2012	China Lilang	1234	Robust 1H results followed by sluggish 2H	BUY	Daniel Wong
10/08/2012	TCL COMM	2618	Downgraded on disappointing 1H12 results and lower FY12 sales guidance	HOLD	Yuji Fung
10/08/2012	TCL Multimedia	1070	Solid 1H12 results, reiterate BUY	BUY	Yuji Fung
08/08/2012	Lee's Pharma	950	Still Rising	NR	Nature Chen
02/08/2012	Hutchtel	215	In-line 1H12 results	HOLD	Yuji Fung
31/07/2012	RMIH	1997	Time to accumulate	NR	Yuji Fung
30/07/2012	Oriental Watch	398	Key takeaways from roadshow	BUY	Daniel Wong
27/07/2012	Stelux Holdings	84	1Q13 turnover in line with expectation	BUY	Daniel Wong

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