



Rating
Sell

Asia
China

Energy
Oil & Gas

Company
SPT Energy Alert

| | | | |
|--------------------|----------------------|-----------------|----------------|
| Reuters 1251.HK | Bloomberg 1251 HK | Exchange HSI | Ticker 1251 |
|--------------------|----------------------|-----------------|----------------|

Date
24 March 2015

Results

| | |
|----------------------------|-------------|
| Price at 23 Mar 2015 (HKD) | 1.22 |
| Price target - 12mth (HKD) | 1.04 |
| 52-week range (HKD) | 4.85 - 1.21 |
| HANG SENG INDEX | 24,375 |

| | |
|--|---|
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No surprises...FY14 results in line with "Profit Warning" announcement

Bottom line down by 61% yoy, in line with "profit warning" announcements

SPT announced its FY14 results after the market close on March 23 with NPAT of RMB116mn or EPS of RMB0.08/sh, down 61.3% yoy, roughly in line with "profit warning" announcements in Jan 14 (down 55% to 60%). NPAT was in line with DBE but lower than consensus estimates of RMB0.09/sh. Excluding the impact of share option and FX, the company's core NPAT declined by 51% yoy in FY14. Top line for SPT fallen by 9% yoy to RMB 2,187mn due to weakness in domestic and overseas market coupled with KZT devaluation impact. The highlights of the results are 1) devaluation of Tenge impacted net profit by RMB21.5mn 2) no dividend payment in lieu of challenges ahead (vs.25% payout in FY13); 3) gearing ratio increased to 27% in FY14 vs. 15% in FY13 and 4) Operating CF down by 136% yoy to RMB91mn on stretched WC.

Deteriorating market environment taking a toll on margin and WC

SPT EBITDA margin shrank by 700bps yoy in FY14 to 13% on rising operating costs on lower revenue base. Among its three business segment, drilling services and well completion remained the under performer with 14% yoy and 13% yoy decline in revenue in FY14, respectively, on lower spending by E&P companies. The reservoir segment remains resilient with 1% yoy revenue on lower dependency on E&P Capex. The company witnessed decline in both domestic (9.5% yoy) and overseas (8.6% yoy) revenue in FY14. The overseas revenue is largely affected by KZT devaluation as Kazakhstan operations contribute c.73% of total overseas revenue. We noted AR days increased to 221 days vs. 175 days in FY13, likely due to delayed payments of domestic oil majors as a result of anti-corruption probes.

Outlook for FY2015

We remain cautious on SPT's FY15 outlook. SPT has announced a profit warning on 19 Jan with FY14 NPAT down by 55-60% yoy. The decline was due to delay/cancellation of orders, the Kazakhstan Tenge's devaluation and an increase in operating costs. SPT will likely face similar risks in FY15, in our view. SPT's Kazakhstan business may remain resilient in FY15 as 50% of its work is related to production activity, which is less affected by the upstream capex reduction. However, the uncertainty of the Ruble devaluation as Russia faces further sanctions casts concern over the outlook for Kazakhstan's economy, and the issue of whether the Tenge will face further devaluation remains as a concern.

What to do with the stock?

Over the past three months, SPT's stock has underperformed industry peers by 8% (down 21% versus the industry decline of 13%). We see more challenges ahead so we maintain our SELL rating with TP of HKD1.04.

SPT Energy will host an analyst briefing on March 24 at 10:00am in Novotel Century. We intend to will revisit our model post the briefing.

Stock data

| | |
|-------------------------------|---------|
| Market cap (HKDm) | 1,507 |
| Market cap (USDm) | 194 |
| Shares outstanding (m) | 1,235.0 |
| Major shareholders | - |
| Free float (%) | 52 |
| Avg daily value traded (USDm) | 1.4 |

Source: Deutsche Bank

Key data

| FYE 12/31 | 2013A | 2014E | 2015E |
|-------------------|-------|-------|-------|
| Sales (CNYm) | 2,403 | 2,247 | 2,244 |
| Net Profit (CNYm) | 300.4 | 129.3 | 115.4 |
| DB EPS (CNY) | 0.19 | 0.08 | 0.07 |
| PER (x) | 17.9 | 12.2 | 13.7 |
| Yield (net) (%) | 1.5 | 2.2 | 1.9 |

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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