SPT Energy Group (1251.HK)

Very competitive private oil and gas service provider

Phillip Securities (Hong Kong)
Phillip Securities Research

Bloomberg | Reuters | POEMS
1251.HK | 1251.HK | 1251.HK
Sector: Oil and gas service

28 August, 2012

Performance Analysis

Rating：Buy Closing Price：1.68 TP：2.10

Company profile

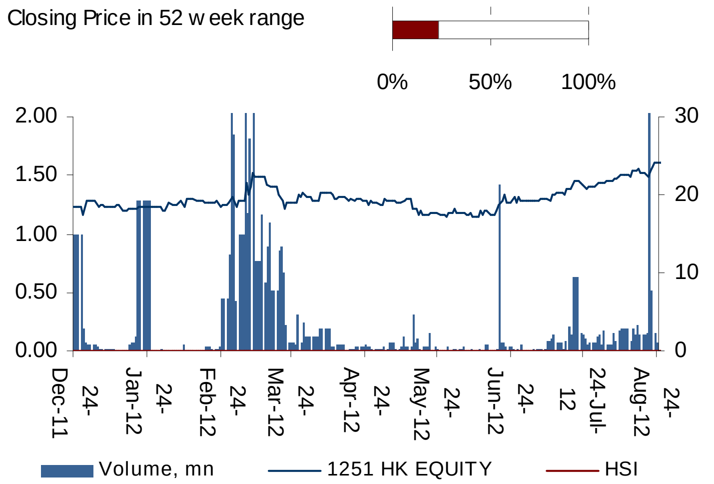
SPT Energy Group is one of China's leading private integrated oilfield service providers and also one of the few non State-owned oilfield service providers able to provide integrated oilfield services in China. Its service area covers reservoir research, drilling, well completion, well testing and oil and gas production increase, well work over and other relevant services. The Company operates in Tarim, Changqing, Daqing, Jilin, Jidong, Dagang oilfields and other major oilfields. In addition, the Company has successfully expanded services to Central Asia, North America, Southeast Asia and Middle East. SPT Energy Group focuses on improving the productivity of oil and gas fields and extending oilfield life in geological conditions with high technical requirements. The Company is committed to becoming the most competitive oilfield technical service company of the industry.

Investment overview

Three business segments of SPT Energy - reservoir service, drilling service and well completion services - account for 39%, 34% and 27% of gross revenue. With revenue sources evenly distributed, SPT Energy gross revenue maintained a 25.8% compound annual growth in the past four financial years. Drilling business is a business segment of the fastest compound annual growth of revenue in the Company's three business segments. Accumulative growth of drilling business revenue stood at 306% in 2008-2011 and compound growth rate reached 59.6%. It can be expected that drilling business will be core drive for SPT Energy's performance growth in future.

In regional distribution of revenue, SPT Energy displays its uniqueness. Overseas business income reached RMB890 million in 2011 and accounted for 67.1% of the Company's gross revenue, overseas market revenue increased by 45.7% year-on-year and continued to maintain the leading scale advantage.

SPT		
Rating	**1.00**	**Buy**
- Previous Rating	*n.a.*	*Not Rated*
Target Price (HKD)	**2.1**	
- Previous Target Price (HKD)	*n.a.*	
Closing Price (HKD)	1.68	
Expected Capital Gains (%)	25.0%	
Expected Dividend Yield (%)	1.4%	
Expected Total Return (%)	**26.4%**	
Raw Beta (Past 2yrs weekly data)	0.50	
Market Cap. (HKD mn)	2,242	
Enterprise Value (HKD mn)	1,790	
52 week range (HKD)	1.08-1.71	
Closing Price in 52 week range		



Key Financial Summary

FYE	**10A**	**11A**	**12E**	**13E**
Revenue (RMB mn)	1,050	1,321	1,717	2,192
Net Profit, adj. (RMB mn)	119	182	245	307
EPS, adj. (RMB)	n.a.	0.18	0.20	0.24
P/E (X),adj.	n.a.	5.78	6.80	5.67
BVPS (RMB)	n.a.	0.65	0.72	0.80
P/B (X)	n.a.	1.60	1.89	1.70
DPS (RMB)	n.a.	0.01	0.02	0.02
Div. Yield (%)	n.a.	0.96%	1.47%	1.47%

Source: Bloomberg, SPT

*All multiples & yields based on current market price

Valuation Method

P/E

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Providing competitive non-conventional natural gas service sector is the Company's business highlight and competitive advantage in future and the Company will compete with Anton Oilfield Services in the sector. Since the sector is in the stage of demand outbreak and technical threshold is fairly high, lack of high-end oil and gas service provides limited competition for SPT Energy and Anton Oilfield Services, and the two companies will be able to realize leaps and bounds with the explosive growth of the sector in the next five years.

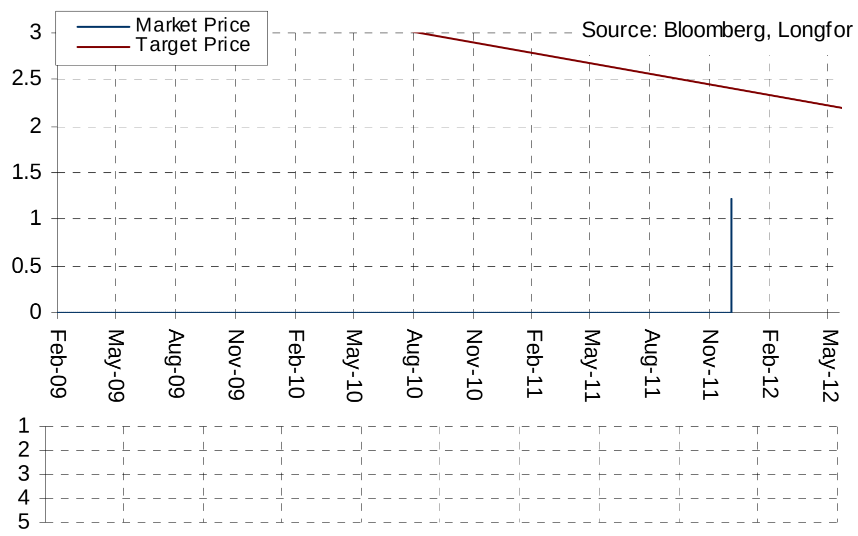
With the explosive growth of the non-conventional natural gas services sector and the Company's strong competitive advantages, such private high-end oil and gas service providers as SPT Energy and Anton Oilfield Services will enjoy high valuation in the coming few years. We believe certainty of industrial growth, high growth in the Company performance and its competitive advantages enable investors to afford high valuation premium to the two companies provided that performance growth will continuously meet and be beyond market expectations.

We believe SPT Energy is on the rising pass way of performance and valuation. Despite effect of lower-than-Anton performance growth on valuation, we are confident in SPT Energy valuation increase. Anton Oilfield's recent beyond-expectation mid-2012 performance has positive influence on the Company's valuation increase. We for the first time afford SPT Energy "Buy" rating, 12-month target price is HKD 2.10, equivalent to 8.5-time 2012 expected P/E ratio.

FYE	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	n.a.	n.a.	5.78	6.80	5.67
P/B (X)	n.a.	n.a.	1.60	1.89	1.70
EV/EBITDA (X), adj.	n.a.	n.a.	4.04	4.19	3.24
Dividend Yield (%)	n.a.	n.a.	0.96%	1.47%	1.47%
Per share data (RMB)					
EPS, reported	n.a.	n.a.	0.18	0.20	0.24
EPS, adj.	n.a.	n.a.	0.18	0.20	0.24
DPS	n.a.	n.a.	0.01	0.02	0.02
BVPS	n.a.	n.a.	0.65	0.72	0.80
Growth & Margins (%)					
Growth					
Revenue	37.35%	15.13%	25.81%	29.98%	27.66%
Operating profit	4.08%	18.30%	52.49%	32.97%	24.80%
EBT	4.96%	18.92%	48.86%	37.79%	26.59%
Net Income, adj.	-10.53%	40.00%	52.94%	34.62%	25.31%
Margins					
Operating margin	16.78%	17.24%	20.89%	21.37%	20.89%
EBT margin	16.23%	16.76%	19.83%	21.03%	20.85%
Net profit margin	9.32%	11.33%	14.16%	14.59%	14.35%
Key Ratios					
ROE (%)	21.81%	22.78%	24.70%	24.90%	25.20%
ROA (%)	10.24%	11.71%	13.80%	14.50%	14.80%
Net Debt/(Cash)	net cash	net cash	net cash	net cash	52
Net Gearing (X)	net cash	net cash	net cash	net cash	5.00%
Income Statement (RMB mn)					
Revenue	912	1,050	1,321	1,717	2,192
Cost of sales	(714)	(874)	(1,038)	(1,350)	(1,734)
Operating profit	153	181	276	367	458
EBT	148	176	262	361	457
Tax	(46)	(63)	(75)	(111)	(142)
Tax rate	31.08%	35.80%	28.63%	30.62%	31.15%
Profit for the year	85	119	187	250	315
Minority interests	0	0	(5)	(5)	(8)
Net profit	85	119	182	245	307

Source: BLOOMBERG, SPT and Phillip Securities

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20%upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20%downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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