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Local funds mop up SapKen

They take up most of 8.2% block of shares sold by Seadrill

By DANIEL KHOO

danielkhoo@thestar.com.my

PETALING JAYA: Local institutional funds took up most of the shares in the sale of an 8.2% block of SapuraKencana Petroleum Bhd (SapKen) shares by Norway-based Seadrill Ltd, indicating a decent appetite for oil and gas firms despite the weak market.

The Employees Provident Fund, Lembaga Tabung Haji and Great Eastern Holdings Ltd were the main local institutions that participated in the SapKen stake sale, sources said. Local institutions took up around 60% of the shares on sale, with the balance acquired by foreign funds, including some hedge funds.

To recap, a book-building process of the 8.2% block of SapKen shares at a price range of RM1.56 to RM1.66 apiece began after the market closed on Wednesday evening. By late that night, the process ended with the price being fixed at RM1.58 apiece. Morgan Stanley and Malayan Banking Bhd had acted as co-book runners for the deal.

That price tag was close to a 11% discount from SapKen's closing price of RM1.77 on Wednesday.

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SapKen's share price drop weighs on FBM KLCI

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The stake sale sent SapKen's shares down by 13.5 sen to close yesterday at RM1.64. Notably, the volume traded yesterday was more than 100 million shares, a big jump from the average daily trading volume and an indication that some takers of the Seadrill block of SapKen shares may have taken profit on the same day of receiving their shares from the block sale.

SapKen's share price decline of 7.3% at its close yesterday had a weighting on the FTSE Bursa Malaysia KL Composite Index by 1.333 points. The index fell by 17.6 points.

Meanwhile, Seadrill said that the stake sale had a total market value of US\$195mil (RM759.52mil) and that was 14.47% below its carried book value of US\$228mil (RM888.05mil) of the SapKen shares.

It should be noted, though, that back in 2014, Seadrill had recorded gains of some

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RM282.8mil when it decided to sell a portion of its stake. Recall that in 2013, SapKen had completed the acquisition of Seadrill's Asian tender rig business, which also saw the placement of 587 million new SapKen shares at an issue price of RM2.80 per share to partially fund the RM8.63bil transaction. The stake sale had pared down Seadrill's stake in SapKen to 8.2% from 12% previously.

The stake sale, which took place on April 9, 2014, saw Seadrill selling 230 million shares of SapKen, raising about US\$300mil (RM968.85mil). On net terms, Seadrill progressively impaired its investments to account for the US\$993mil book value on March 31, 2014 to account for the depreciation of the ringgit and the fall in oil prices down to US\$228mil as of Dec 31, 2015.

In a report yesterday, Kenanga Research

said the sale by Seadrill was a "slight negative" to SapKen at this juncture, given that Seadrill has always been considered a strategic partner to SapKen.

Kenanga, which has a target price of RM1.93 for SapKen, did not make any changes to its forecast on the stock for now, pending guidance from its management on the impact of Seadrill's exit.

"We believe margin erosion is a concern in all three segments in the near term, even with oil prices recovering to US\$50 per barrel, as most oil majors are still in aggressive cost optimisation mode," it said.

Seadrill was at one point SapKen's second-largest shareholder prior to selling off part of its stake following the merger between SapuraCrest Petroleum Bhd and Kencana Petroleum Bhd back in 2012.