

# Singapore Company Update

## Sembcorp Marine

Bloomberg: SMM SP | Reuters: SCMN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

### HOLD

Last Traded Price (25 Feb 2022): S\$0.085 (STI : 3,294.47)  
Price Target 12-mth: S\$0.09 (6% upside) (Prev S\$0.08)

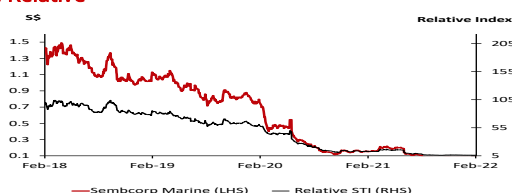
#### Analyst

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#### What's New

- 2H21 net loss smaller than guidance; operating losses also narrowed
- Expect continuous operational improvements in 2022; order visibility is improving
- Yard merger's definitive agreement to be concluded by end-1Q22
- Maintain HOLD; TP adjusted slightly to S\$0.09

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	1,510	1,862	1,382	2,294
EBITDA	(379)	(1,026)	36.4	305
Pre-tax Profit	(671)	(1,255)	(228)	16.6
Net Profit	(583)	(1,171)	(197)	14.4
Net Pft (Pre Ex.)	(583)	(1,171)	(197)	14.4
Net Pft Gth (Pre-ex) (%)	(324.7)	(101.0)	83.2	nm
EPS (S cts)	(1.9)	(0.4)	(0.6)	0.05
EPS Pre Ex. (S cts)	(1.9)	(0.4)	(0.6)	0.05
EPS Gth Pre Ex (%)	(324)	80	(68)	nm
Diluted EPS (S cts)	(1.9)	(3.7)	(0.6)	0.05
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	11.7	1.27	12.0	12.1
PE (X)	nm	nm	nm	186.0
PE Pre Ex. (X)	nm	nm	nm	186.0
P/Cash Flow (X)	nm	nm	nm	nm
EV/EBITDA (X)	nm	nm	145.1	18.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.7	6.7	0.7	0.7
Net Debt/Equity (X)	0.8	0.6	0.7	0.7
ROAE (%)	(19.9)	(30.5)	(5.1)	0.4
Earnings Rev (%)			59	-
Consensus EPS (S cts)			(0.7)	(0.3)
Other Broker Recs:		B: 1	S: 2	H: 5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Awaiting contract wins

#### Investment Thesis:

**Order wins is critical.** Sembcorp Marine (SMM)'s order backlog is running very low at c.S\$1.1bn, far from an estimated breakeven annual revenue of S\$2bn. We are seeing positive signs with new orders picking up from nil in 2020 to c.S\$800m in FY21. Rising oil prices bode well for capex increase by oil majors, leading to potentially stronger order flows for production facilities. Growing offshore renewable orders is a strategic move for long-term growth.

**Next key event: Yard merger.** Following the signing of a non-binding MOU in Jun-2021, SMM and Keppel O&M are expected to release more details on a proposed merger by the end of 1Q21. We believe the merger is a long-term positive for SMM, creating revenue and cost synergies. However, in the near term, some uncertainties hover around the valuation of yards and potential integration hiccups.

#### Valuation:

**Maintain HOLD; TP lifted slightly to S\$ 0.09**, due to smaller than expected losses in FY21, still pegged to 0.7x P/BV or 1.5SD below its mean valuation since 2014. We could raise SMM's target valuation multiple on more signs of a firm recovery in orders, operational improvement, and a successful yard merger with synergy creation.

#### Where we differ:

We believe the merger of SMM and Keppel O&M will create synergies that would strengthen the competitiveness of Singapore yards in the long run.

#### Key Risks to Our View:

Sustained low oil prices, which would affect capex, and new building activities and execution risks in new product types.

#### At A Glance

Issued Capital (m shrs)	31,389
Mkt. Cap (S\$m/US\$m)	2,668 / 1,972
Major Shareholders (%)	
Temasek Holdings Pte Ltd	54.5
Free Float (%)	45.5
3m Avg. Daily Val (US\$m)	2.0
GIC Industry :	Industrials / Capital Goods



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## WHAT'S NEW

### Losses to narrow in 2022

**Hefty losses in FY21.** SMM reported net loss of S\$1.17bn in FY21. On a positive note, losses in 2H was smaller than earlier guidance of similar losses as 1H, but this turned out to post 19% h-o-h decline. Stripping out the impairment and provisions totaling S\$839m, net losses would have been S\$331.6m, 24% contraction in losses relative to a year ago.

Overall, interim losses have been narrowing, from S\$200-250m half yearly in 2020 to S\$150-175m half yearly in 2021. Management has guided for improvements in 2022 as workforce issues that hit 2021 has also stabilised.

### Impairment & Provisions in FY21:

Impairment & Provisions (\$m)	1H21	2H21
Provisions for cost to be incurred over next 6-18 months:		
- Additional labour & other costs to complete projects	361	335
Yards' reinstatement costs	65	10
Asset impairment loss	46	22
<b>Total impairment &amp; provisions (post-tax)</b>	<b>472</b>	<b>367</b>

Source: Company

**Successful delivery of first EPC newbuild FPSO project.** Despite the challenging operating environment, SMM successfully delivered several key projects, including its first EPC newbuild FPSO – the Johan Castberg - marking a significant milestone. It has also completed fabrication works for 15 wind turbine jacket foundations for Jan De Nul's Formosa 2 Offshore Wind Farm, adding SMM's credentials in renewable space.

**Net orderbook is low at S\$1.1 bn (excl S\$0.2bn repair orders) as of end 2021.** SMM secured c.S\$800m new orders in 2021, based on our estimate. While it is an improvement from nil orders in 2020, it remains a far cry from breakeven revenue of S\$2bn. Current orderbook is running very low at S\$1.1bn (excl repair orders of S\$0.2bn). It is worth noting that 43% of its orderbook is made up of renewable or green solutions.

**Improving order visibility.** Management is seeing improving industry outlook on the back of rising oil prices, providing impetus for oil and gas companies to review plans for those deferred projects nearing Final Investment Decisions (FID). SMM is actively pursuing multiple projects covering FPSOs, FSOs, and FPU's with tenders in progress.

SMM has commenced work on the FEED contract awarded by [Altera](#) in Sept-2021 for the development of an FPSO facility for the Dorado FPSO project. The Group remains hopeful in securing the EPC contract for the project.

Negotiations are also in progress with the [Brazilian Navy](#) on the construction of the Antarctic Support Vessel "NapAnt", which is part of the Brazil Navy Research Vessel Project, with contract award expected in 1H2022

**Strengthened balance sheet.** Successful completion of SMM's S\$2.1bn rights issue in Sept-2020 and subsequent S\$1.5bn rights issue in Sept-2021 have strengthened its liquidity position and recapitalized its balance sheet, to meet its ongoing operational funding requirements. Post issuance and impairment, BVPS stood at 12Scts and net gearing dropped from 1.9x as of end 2019 to 0.5x as of end 2021.

### Company Background

Sembcorp Marine (SMM) is a pure play in the offshore and marine sector. Its principal activities are rig building and offshore engineering, ship conversion, ship repair, and building of specialised vessels.

## Sembcorp Marine

## Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	604	844	1,018	68.5	20.6
Cost of Goods Sold	(900)	(1,432)	(1,512)	68.0	5.6
<b>Gross Profit</b>	<b>(296)</b>	<b>(588)</b>	<b>(494)</b>	<b>(67.0)</b>	<b>16.0</b>
Other Oper. (Exp)/Inc	(113)	(121)	(21)	(81.4)	(82.6)
<b>Operating Profit</b>	<b>(409)</b>	<b>(709)</b>	<b>(515)</b>	<b>26.0</b>	<b>(27.3)</b>
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	1	1	nm	(24.1)
Net Interest (Exp)/Inc	(41)	(19)	(13)	69.4	34.7
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>(450)</b>	<b>(728)</b>	<b>(527)</b>	<b>(17.2)</b>	<b>27.5</b>
Tax	57	78	1	(97.5)	(98.2)
Minority Interest	3	2	3	1.1	11.9
<b>Net Profit</b>	<b>(390)</b>	<b>0</b>	<b>0</b>	<b>nm</b>	<b>-</b>
Net profit bef Except.	(390)	(647)	(523)	nm	nm
EBITDA	(308)	(611)	(416)	(35.1)	31.9
<b>Margins (%)</b>					
Gross Margins	(49.0)	(69.7)	(48.5)		
Opg Profit Margins	(67.7)	(84.0)	(50.6)		
Net Profit Margins	(64.6)	0.0	0.0		

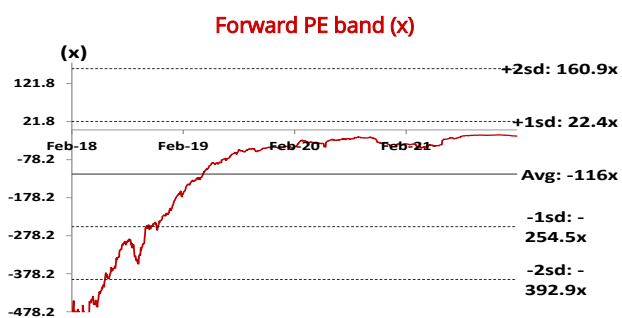
Source of all data: Company, DBS Bank

## Peer comparison

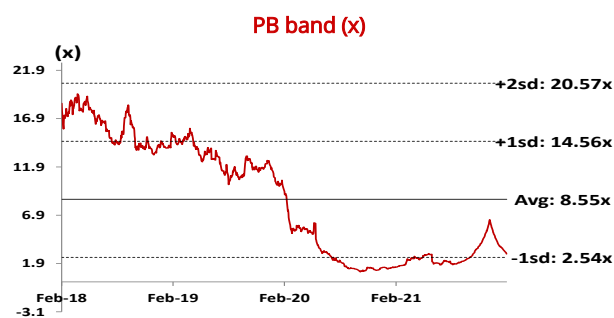
Company	Last Px (LC)	Market cap (US\$m)	P/E FY21F	P/E FY22F	P/B Current	ROE (%) FY21F	ROE (%) FY22F	Net D/E Current	Div Yld (%) Current
<b>Singapore</b>									
Keppel Corp	5.96	7,951	12.3	11.6	0.9	7.2%	7.6%	0.7	3.2%
Sembcorp Marine	0.085	1,970	nm	nm	0.8	nm	nm	0.8	na
Yangzijiang	1.4	4,045	8.5	6.8	0.8	9.4%	10.6%	CASH	3.2%
<b>China</b>									
China Shipbuilding Industry Co (CSIC)	4.08	14,727	nm	nm	1.1	nm	nm	CASH	na
Shanghai Zhenhua Heavy Industries	3.55	2,386	nm	nm	1.3	nm	nm	2.2	na
China CSSC	21.2	15,009	179.7	83.8	2.0	1.2%	nm	CASH	0.2%
<b>Korea</b>									
Korea Shipbuilding & Offshore	87,400	5,153	30.4	13.0	0.6	1.9%	4.1%	0.1	na
Samsung Heavy Industries	5,750	4,216	nm	195.6	1.2	nm	nm	0.9	na
Daewoo Shipbuilding	25,800	2,306	na	na	1.1	-44.1%	-7.2%	0.4	na
		<b>Average:</b>	57.7	62.2	1.1	-5.1%	2.3%	0.8	
		<b>Median:</b>	21.4	13.0	1.0	1.2%	2.6%	0.8	

Source: Bloomberg Finance L.P., DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Sembcorp Marine

New order wins (\$\$ m)      1,487      0.0      800      2,500      2,500

### Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (\$\$m)</b>					
Rigs & Floaters	2,069	675	803	441	856
Offshore Platforms	131	310	574	367	698
Repairs & Upgrades	605	425	396	495	659
Specialised Shipbuilding	0.0	0.0	0.0	0.0	0.0
Others	77.5	100	89.0	80.0	80.0
<b>Total</b>	<b>2,883</b>	<b>1,510</b>	<b>1,862</b>	<b>1,382</b>	<b>2,294</b>

### Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	2,883	1,510	1,862	1,382	2,294
Cost of Goods Sold	(2,974)	(2,001)	(2,945)	(1,444)	(2,086)
<b>Gross Profit</b>	<b>(91.8)</b>	<b>(490)</b>	<b>(1,082)</b>	<b>(62.0)</b>	<b>207</b>
Other Opng (Exp)/Inc	(47.0)	(91.1)	(142)	(96.8)	(103)
<b>Operating Profit</b>	<b>(139)</b>	<b>(582)</b>	<b>(1,224)</b>	<b>(159)</b>	<b>104</b>
Other Non Opng (Exp)/Inc	0.19	0.50	0.0	0.0	0.0
Associates & JV Inc	(1.6)	0.51	1.17	(0.5)	(0.5)
Net Interest (Exp)/Inc	(36.8)	(90.2)	(31.8)	(68.9)	(87.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(177)</b>	<b>(671)</b>	<b>(1,255)</b>	<b>(228)</b>	<b>16.6</b>
Tax	36.8	83.5	79.4	22.8	(1.7)
Minority Interest	3.01	4.70	4.80	8.21	(0.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(137)</b>	<b>(583)</b>	<b>(1,171)</b>	<b>(197)</b>	<b>14.4</b>
Net Profit before Except.	(137)	(583)	(1,171)	(197)	14.4
EBITDA	102	(379)	(1,026)	36.4	305
<b>Growth</b>					
Revenue Gth (%)	(41.0)	(47.6)	23.3	(25.8)	65.9
EBITDA Gth (%)	(27.4)	nm	(171.0)	nm	739.3
Opg Profit Gth (%)	165.3	319.0	110.5	(87.0)	(165.6)
Net Profit Gth (Pre-ex) (%)	(85.0)	(324.7)	(101.0)	83.2	nm
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	(3.2)	(32.5)	(58.1)	(4.5)	9.0
Opg Profit Margin (%)	(4.8)	(38.5)	(65.7)	(11.5)	4.5
Net Profit Margin (%)	(4.8)	(38.6)	(62.9)	(14.3)	0.6
ROAE (%)	(6.1)	(19.9)	(30.5)	(5.1)	0.4
ROA (%)	(1.6)	(6.7)	(12.8)	(2.3)	0.2
ROCE (%)	(2.0)	(7.9)	(16.0)	(2.2)	1.3
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	0.0
Net Interest Cover (x)	(3.8)	(6.4)	(38.5)	(2.3)	1.2

Source: Company, DBS Bank

## Sembcorp Marine

## Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,341	906	604	844	1,018
Cost of Goods Sold	(1,459)	(1,101)	(900)	(1,432)	(1,512)
<b>Gross Profit</b>	<b>(118)</b>	<b>(195)</b>	<b>(296)</b>	<b>(588)</b>	<b>(494)</b>
Other Oper. (Exp)/Inc	(23.2)	21.8	(113)	(121)	(21.0)
<b>Operating Profit</b>	<b>(141)</b>	<b>(173)</b>	<b>(409)</b>	<b>(709)</b>	<b>(515)</b>
Other Non Opg (Exp)/Inc	0.19	0.50	0.0	0.0	0.0
Associates & JV Inc	(0.4)	0.55	0.0	0.66	0.50
Net Interest (Exp)/Inc	(18.9)	(49.1)	(41.1)	(19.3)	(12.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(161)</b>	<b>(221)</b>	<b>(450)</b>	<b>(728)</b>	<b>(527)</b>
Tax	29.2	26.5	57.0	78.0	1.41
Minority Interest	1.07	2.19	2.51	2.27	2.54
<b>Net Profit</b>	<b>(130)</b>	<b>(192)</b>	<b>(390)</b>	<b>0.0</b>	<b>0.0</b>
Net profit bef Except.	(130)	(192)	(390)	0.0	0.0
EBITDA	(21.6)	(71.1)	(308)	(611)	(416)

## Growth

Revenue Gth (%)	(13.0)	(32.4)	(33.3)	39.7	20.6
EBITDA Gth (%)	nm	(229.0)	(332.6)	(98.4)	31.9
Opg Profit Gth (%)	(5,398.1)	22.1	136.6	73.4	(27.3)
Net Profit Gth (%)	1,808.4	47.4	103.2	(100.0)	nm

## Margins

Gross Margins (%)	(8.8)	(21.5)	(49.0)	(69.7)	(48.5)
Opg Profit Margins (%)	(10.6)	(19.1)	(67.7)	(84.0)	(50.6)
Net Profit Margins (%)	(9.7)	(21.2)	(64.6)	0.0	0.0

## Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	4,251	4,115	3,993	4,022	4,046
Invts in Associates & JVs	14.9	15.4	16.6	16.1	15.6
Other LT Assets	1,628	1,699	2,265	2,265	2,265
Cash & ST Invts	405	806	1,108	463	306
Inventory	1,664	1,699	1,431	864	1,433
Debtors	483	618	471	276	459
Other Current Assets	12.6	17.1	16.1	16.1	16.1
<b>Total Assets</b>	<b>8,459</b>	<b>8,970</b>	<b>9,300</b>	<b>7,922</b>	<b>8,540</b>
ST Debt	1,446	2,143	842	842	842
Creditor	1,341	1,052	1,432	691	1,147
Other Current Liab	88.1	204	260	151	197
LT Debt	3,233	1,698	2,513	2,213	2,313
Other LT Liabilities	144	176	229	229	229
Shareholder's Equity	2,173	3,667	4,001	3,781	3,797
Minority Interests	33.5	28.8	23.8	15.6	16.2
<b>Total Cap. &amp; Liab.</b>	<b>8,459</b>	<b>8,970</b>	<b>9,300</b>	<b>7,922</b>	<b>8,540</b>
Non-Cash Wkg. Capital	731	1,078	227	314	565
Net Cash/(Debt)	(4,274)	(3,035)	(2,247)	(2,592)	(2,849)
Debtors Turn (avg days)	74.3	133.1	106.8	98.7	58.5
Creditors Turn (avg days)	192.0	242.8	165.0	310.3	178.0
Inventory Turn (avg days)	205.2	341.2	207.8	335.4	222.5
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.3
Current Ratio (x)	0.9	0.9	1.2	1.0	1.0
Quick Ratio (x)	0.3	0.4	0.6	0.4	0.3
Net Debt/Equity (X)	1.9	0.8	0.6	0.7	0.7
Net Debt/Equity ex MI (X)	2.0	0.8	0.6	0.7	0.8
Capex to Debt (%)	6.7	2.3	1.2	6.5	6.3
Z-Score (X)	0.8	0.9	0.9	0.9	0.9

Source: Company, DBS Bank

## Sembcorp Marine

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	(177)	(671)	(1,255)	(228)	16.6
Dep. & Amort.	242	202	197	171	177
Tax Paid	(1.4)	(7.9)	(5.1)	(6.1)	0.0
Assoc. & JV Inc/(loss)	1.60	(0.5)	(1.2)	0.50	0.50
Chg in Wkg.Cap.	(359)	(821)	295	(81.7)	(251)
Other Operating CF	(3.4)	549	180	0.0	0.0
<b>Net Operating CF</b>	<b>(296)</b>	<b>(750)</b>	<b>(589)</b>	<b>(145)</b>	<b>(57.0)</b>
Capital Exp.(net)	(314)	(87.2)	(41.8)	(200)	(200)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.06	0.0	0.0	0.0	0.0
Div from Assoc & JV	2.56	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(0.9)	(2.4)	0.0	0.0
<b>Net Investing CF</b>	<b>(312)</b>	<b>(88.1)</b>	<b>(44.2)</b>	<b>(200)</b>	<b>(200)</b>
Div Paid	(0.1)	(0.1)	(0.1)	0.0	0.0
Chg in Gross Debt	185	639	(512)	(300)	100
Capital Issues	0.0	587	1,499	0.0	0.0
Other Financing CF	(21.3)	0.0	(22.1)	0.0	0.0
<b>Net Financing CF</b>	<b>164</b>	<b>1,226</b>	<b>964</b>	<b>(300)</b>	<b>100</b>
Currency Adjustments	(4.1)	(4.4)	0.84	0.0	0.0
Chg in Cash	(448)	383	332	(645)	(157)
Opg CFPS (S cts)	0.20	0.23	(0.3)	(0.2)	0.62
Free CFPS (S cts)	(1.9)	(2.7)	(0.2)	(1.1)	(0.8)

Source: Company, DBS Bank

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 May 21	0.20	0.20	HOLD
2:	23 Sep 21	0.08	0.10	HOLD
3:	20 Oct 21	0.08	0.10	HOLD

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 28 Feb 2022 07:50:44 (SGT)

Dissemination Date: 28 Feb 2022 08:50:56 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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