

COMPANY RESULTS

Sembcorp Marine (SMM SP)

2021: A Turnaround Is In Sight; Reiterate BUY

While SMM's loss for 2021 was a larger-than-expected S\$1.2b due to a high level of provisions, the investment thesis centres around a turnaround story – note the company's sequential improvement on a hoh basis with revenue up 21% and narrowing of losses at the gross and operating levels. SMM believes that 2022's results will be significantly better yoy and it remains cautiously optimistic that it will be able to win a few major contracts over the next 6-12 months. Maintain BUY. Target price: S\$0.11.

2021 RESULTS

Year to 31 Dec (S\$m)	1H21	2H21	% HoH	2020	2021	% YoY
Revenue	844.2	1,018.0	20.6%	1,510.3	1,862.2	23.3%
COGS	(1,432.4)	(1,512.2)	5.6%	(2,000.7)	(2,944.6)	47.2%
Gross profit	(588.2)	(494.1)	16.0%	(490.5)	(1,082.4)	-120.7%
Operating profit	(708.9)	(515.2)	27.3%	(581.5)	(1,224.1)	-110.5%
Financial expenses	(42.1)	(40.5)	-4.0%	(141.8)	(82.6)	-41.8%
Pre-tax profit	(727.5)	(527.3)	-27.5%	(670.7)	(1,254.8)	-87.1%
Tax credit/(expense)	78.0	1.4	-98.2%	83.5	79.4	-4.9%
NPAT	(647.2)	(523.3)	19.1%	(582.5)	(1,170.6)	-100.9%

Source: Sembcorp Marine, UOB Kay Hian

RESULTS

- **A big loss as expected, however a turnaround is in sight, in our view.** Sembcorp Marine (SMM) announced a 23% yoy increase in revenue to S\$1.9b which was slightly ahead of our estimates; however, its loss of S\$1.17b was larger than expected due to higher-than-expected provisions. In addition, it was heartening to note that on a sequential basis, 2H21 showed much better performance despite the shortage of labour: revenue rose 21% hoh while losses at the gross profit and operating profit levels narrowed.
- **Two key highlights from the results** were: a) management's comment that 2022 will be "significantly better" than 2021, and b) the labour issues that were prevailed in 4Q21 have been largely solved.
- **An improved financial position post S\$1.5b capital raising.** Management reiterated that it has a relatively strong liquidity position with its gearing at 0.49x as at end-21 vs 0.75x at end-20. Importantly, the capital raising proceeds can be used more ably to execute and complete the projects as well as for working capital needs for new orders and projects.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,510	1,862	1,939	2,182	2,604
EBITDA	(380)	(1,028)	260	318	369
Operating profit	(582)	(1,224)	64	121	172
Net profit (rep./act.)	(583)	(1,171)	(14)	40	88
Net profit (adj.)	(583)	(1,171)	(14)	40	88
EPS (S\$ cent)	(10.9)	(6.5)	(0.0)	0.1	0.2
PE (x)	n.m.	n.m.	n.m.	79.0	36.1
P/B (x)	0.1	0.4	0.8	0.8	0.8
EV/EBITDA (x)	n.m.	n.m.	18.0	14.7	12.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(38.6)	(62.9)	(0.7)	1.8	3.4
Net debt/(cash) to equity (%)	75.7	49.3	49.7	50.1	51.9
Interest cover (x)	(4.1)	(14.8)	0.5	0.9	1.3
ROE (%)	n.a.	n.a.	n.a.	1.0	2.2
Consensus net profit	-	-	(1,039)	(136)	22
UOBKH/Consensus (x)	-	-	0.01	n.m.	3.91

Source: Sembcorp Marine Limited, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$0.085
Target Price	S\$0.11
Upside	+29.4%

COMPANY DESCRIPTION

Sembcorp Marine is an integrated shipyard offering one-stop engineering solutions for the offshore, marine and energy industries. It demerged from Sembcorp Industries in 3Q20.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SMM SP
Shares issued (m):	31,389.1
Market cap (S\$m):	2,668.1
Market cap (US\$m):	1,969.5
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

52-week high/low S\$0.192/S\$0.079

1mth	3mth	6mth	1yr	YTD
2.4	0.0	(8.6)	(37.0)	3.7

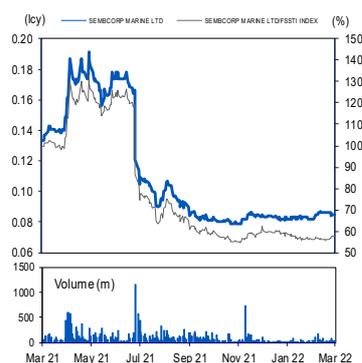
Major Shareholders

	%
Temasek Hldgs	54.6

FY21 NAV/Share (S\$) 0.37

FY21 Net Debt/Share (S\$) 0.12

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Update on merger process with Keppel Corp (KEP SP/BUY/Target: S\$6.94).** Management stated that the due diligence process has continued and expects an agreement to be reached by end-1Q22. It said that both it and KEP are working towards the combination with the intention to complete the merger "sooner rather than later".
- Cautiously optimistic on new orders.** SMM's net orderbook stood at S\$1.3b at end-21, with S\$1.1b of its orderbook undergoing construction at present while another S\$0.2b relates to ongoing repairs and upgrading projects. During the analyst briefing, management commented that it is working on >S\$10b worth of orders and that demand from its addressable market has improved tremendously. It was evident during the results call that SMM is keenly aware that it needs to focus on clinching new orders, and it highlighted that there are a handful of large projects worth between S\$500m-1b that could be announced in the next 6-12 months. More concretely, it pointed out that a contract to construct a research vessel for the Brazilian navy is in an advanced stage of negotiations and a result should be expected at the beginning of 2H22.
- Challenges at the shipyard appear to have dissipated.** While Singapore has seen COVID-19 cases numbers at >25,000 per day, there appears to be progress towards endemic living and thus we believe that the worse is behind SMM in terms of access to labour and that we will not see any shutdowns of its shipyards nor a material increase in costs and negative effects on productivity. Management commented that its labour shortage situation stabilised in 4Q21 and thus enabled it to progress towards the completion of its projects. Note that of its 12 projects slated for delivery in 2022, three have already been completed and thus SMM will be able to recognise revenue from these projects in 1H22.
- Manpower planning.** SMM stated that its manpower situation has materially improved compared with Sep/Oct 21 and it does not foresee any labour shortage going forward. With its current workforce, the company believes that it is sufficient to complete its projects in 2022; however it did concede that it will need to replenish its temporary workers that were employed last year, while its subcontractors will also be required to replace certain parts of its skilled workforce. Nevertheless, management does not believe that it will face any challenges if it wins new orders given that its manpower planning started last year in anticipation of new orders in 2022.
- Carbon taxes.** We do not expect the materially higher carbon taxes, announced in the recent Budget 2022, to have a major impact on SMM. For its offshore marine customers, there may be a significant increase in taxes and thus project economics need to increase to cater for this. On the other hand, we note that renewables projects which have no carbon taxes then become more attractive to SMM's customers.

EARNINGS REVISION/RISK

- We have upgraded our net profit numbers for 2022 and 2023** as we now expect a breakeven year for SMM on the back of better guidance from the company.

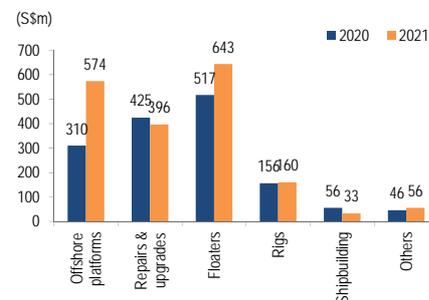
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$0.11** which is based on a target multiple of 0.88x, pegged to our 2022 estimated book value per share of S\$0.13. Our target P/B multiple is a 20% discount to the company's past-five-year average P/B of 1.1x. Note that we had previously applied a 30% discount but we now view a lower discount as more reasonable given the expected turnaround in the company's fortunes. With its S\$1.5b rights issue completed, and Temasek's mandatory general offer at S\$0.08/share having lapsed in early-Nov 21, we believe that much of the corporate-level risk has dissipated.

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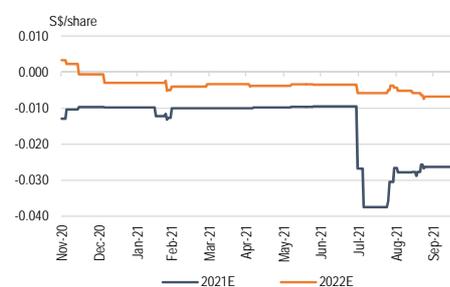
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrades work for cruise ships and other commercial vessels.
- Merger or JVs with other shipyards.

REVENUE RECOVERY IN ALMOST ALL KEY BUSINESS SEGMENTS



Source: SMM

EPS REVISION MOMENTUM



Source: Bloomberg

PROVISIONS FOR 2021

Item	S\$m	% of total
Additional labour and other costs to complete projects	696	83%
Yard reinstatement costs	75	9%
Asset impairment & project stock write-down	68	8%
Total	839	100%

Source: SMM

CHANGES TO EARNINGS FORECASTS

Item	2022E	2023E
Net profit/(loss) – was	(117)	(52)
Net profit/(loss) – is	(14)	40
Change	88%	177%
Gross profit margin – was	-1%	2%
Gross profit margin – is	1%	3%
Change	+2ppt	+1ppt

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Net turnover	1,862.2	1,939.4	2,182.2	2,603.9
EBITDA	(1,027.5)	260.1	317.8	369.0
Deprec. & amort.	196.6	196.6	196.6	196.6
EBIT	(1,224.1)	63.5	121.2	172.5
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	1.2	1.2	1.2	1.2
Net interest income/(expense)	(31.8)	(79.6)	(79.6)	(79.6)
Pre-tax profit	(1,254.8)	(14.9)	42.7	94.0
Tax	79.4	0.9	(2.7)	(5.9)
Minorities	4.8	0.1	(0.2)	(0.4)
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	(1,170.6)	(13.9)	39.9	87.7
Net profit (adj.)	(1,170.6)	(13.9)	39.9	87.7

CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Operating	(589.1)	10.0	(14.4)	(95.3)
Pre-tax profit	(1,224.1)	63.5	121.2	172.5
Tax	(5.1)	(54.8)	(5.3)	(8.3)
Deprec. & amort.	196.6	196.6	196.6	196.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	295.4	(64.9)	(196.5)	(325.7)
Non-cash items	30.1	0.0	0.0	0.0
Other operating cashflows	118.0	(130.4)	(130.4)	(130.4)
Investing	(44.2)	(21.2)	(21.2)	(21.2)
Capex (growth)	(45.7)	(100.0)	(100.0)	(100.0)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	0.0	68.8	68.8	68.8
Proceeds from sale of assets	3.9	10.0	10.0	10.0
Others	(2.4)	0.0	0.0	0.0
Financing	964.2	(75.8)	(400.0)	0.0
Dividend payments	(0.1)	0.0	0.0	0.0
Issue of shares	1,498.8	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(512.1)	(75.8)	(400.0)	0.0
Others/interest paid	(22.4)	0.0	0.0	0.0
Net cash inflow (outflow)	330.8	(87.0)	(435.6)	(116.6)
Beginning cash & cash equivalent	772.4	1,104.1	1,017.1	581.5
Changes due to forex impact	0.8	0.0	0.0	0.0
Ending cash & cash equivalent	1,104.1	1,017.1	581.5	464.9

BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	3,992.7	3,911.2	3,829.6	3,748.1
Other LT assets	2,281.2	2,287.7	2,398.0	2,620.5
Cash/ST investment	1,104.1	1,017.1	581.5	464.9
Other current assets	1,921.9	1,383.9	1,536.4	1,808.5
Total assets	9,299.9	8,599.8	8,345.5	8,642.0
ST debt	820.6	800.0	600.0	600.0
Other current liabilities	1,712.7	1,102.4	1,208.1	1,416.5
LT debt	2,255.2	2,200.0	2,000.0	2,000.0
Other LT liabilities	486.3	486.3	486.3	486.3
Shareholders' equity	4,001.3	3,987.3	4,027.2	4,114.9
Minority interest	23.8	23.7	23.9	24.3
Total liabilities & equity	9,299.9	8,599.8	8,345.5	8,642.0

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	(55.2)	13.4	14.6	14.2
Pre-tax margin	(67.4)	(0.8)	2.0	3.6
Net margin	(62.9)	(0.7)	1.8	3.4
ROA	n.a.	n.a.	0.5	1.0
ROE	n.a.	n.a.	1.0	2.2
Growth				
Turnover	23.3	4.1	12.5	19.3
EBITDA	n.a.	n.a.	22.2	16.1
Pre-tax profit	n.a.	n.a.	n.a.	119.9
Net profit	n.a.	n.a.	n.a.	119.9
Net profit (adj.)	n.a.	n.a.	n.a.	119.9
EPS	n.a.	n.a.	n.a.	118.8
Leverage				
Debt to total capital	43.3	42.8	39.1	38.6
Debt to equity	76.9	75.2	64.6	63.2
Net debt/(cash) to equity	49.3	49.7	50.1	51.9
Interest cover (x)	(14.8)	0.5	0.9	1.3

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