

COMPANY UPDATE

Sembcorp Marine (SMM SP)

Share Price Catalysts Still In Play; Increase Target Price To S\$0.13

SMM's share price has seen stellar performance this year, rising 42% ytd. We believe that there remain catalysts for the stock to continue its re-rating, with disclosure of merger terms with Keppel Offshore Marine and new order wins being the main near-term ones. In our view, SMM is a turnaround story with its recent large order win possibly presaging more positives on the new order win front, especially in the renewables sector. Maintain BUY. Raise target price to S\$0.13 (S\$0.11 previously).

WHAT'S NEW

- Near- and medium-term share price catalysts.** Despite Sembcorp Marine's (SMM) 42% share price increase ytd that easily outperforms the STI's rise of 8%, we believe that the stock continues to present near- to medium-term upside. In our view, this would be driven primarily by: a) the disclosure of the merger terms with Keppel Offshore Marine by 30 Apr 22, and b) new order wins for oil & gas production assets and/or renewable industry assets. From a top-down perspective, a merger will create a more competitive and larger scale offshore construction company that could be on the cusp of a turnaround in profitability.
- Quantifying the upside.** Our estimates continue to project a slight loss for SMM in 2022, and while Bloomberg consensus currently forecasts much larger losses for the company, we highlight that some of these loss forecasts for 2022 and 2023 have been scaled back in the past two months (see chart overleaf). However, should the company win more orders, the earnings turnaround story for 2023 could become more compelling over the next six months. In the meantime, we note that SMM's past five-year average P/B (excluding peak in 2019) of 1.1x implies a valuation of S\$0.143/share, while its past 10-year average of 1.5x would translate to a valuation of S\$0.189/share.
- Recent announcement of SMM's first new order win is a step in the right direction.** On 23 Mar 22, SMM announced that it had won a construction contract for a Wind Turbine Installation Vessel (WTIV) from Maersk Supply Services which we conservatively estimate is worth around S\$650m. Construction will start in 4Q22 with delivery of the vessel slated for 2025 with payments dependent on milestones. Note that this is SMM's first contract win since its announcement of modification work for a Floating Production Storage and Offloading vessel in Brazil in Jun 21.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,510	1,862	1,939	2,271	2,693
EBITDA	(380)	(1,028)	260	329	371
Operating profit	(582)	(1,224)	64	132	174
Net profit (rep./act.)	(583)	(1,171)	(14)	50	89
Net profit (adj.)	(583)	(1,171)	(14)	50	89
EPS (S\$ cent)	(10.6)	(6.5)	(0.0)	0.1	0.2
PE (x)	n.m.	n.m.	n.m.	85.0	48.0
P/B (x)	0.2	0.5	0.9	0.9	0.9
EV/EBITDA (x)	n.m.	n.m.	22.2	17.6	15.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(38.6)	(62.9)	(0.7)	2.2	3.3
Net debt/(cash) to equity (%)	75.7	45.8	49.3	52.1	53.9
Interest cover (x)	(4.1)	(14.8)	0.5	1.0	1.3
ROE (%)	n.a.	n.a.	n.a.	1.2	2.0
Consensus net profit	-	-	(194)	(6)	38
UOBKH/Consensus (x)	-	-	0.07	n.m.	2.33

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\$0.116
Target Price	S\$0.130
Upside	+12.1%
(Previous TP)	S\$0.110)

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):	3,641.1
Market cap (US\$m):	2,669.5
3-mth avg daily t'over (US\$m):	6.8

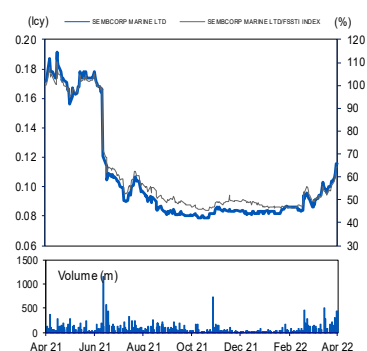
Price Performance (%)

52-week high/low	S\$0.192/S\$0.079			
1mth	3mth	6mth	1yr	YTD
27.5	41.5	43.2	(33.4)	41.5

Major Shareholders

	%
Temasek Hldgs	54.6
FY22 NAV/Share (S\$)	0.12
FY22 Net Debt/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- **Wind turbines will get larger...** According to Rystad Energy, wind turbine sizes have risen from an average of 3MW in 2010 to 6.5MW today, with the largest currently being 10MW. As can be seen in the RHS chart, turbines larger than 8MW accounted for around 3% of global installations during 2010-21; however, Rystad forecasts that this will surge to >50% by 2030.
- **...but the industry appears to be playing catch-up to this demand.** According to Rystad, vessels built as recent as a few years ago are already becoming outdated as turbines grow. This has made vessel owners reluctant to commit capex to building new vessels that could face lower-than-expected demand once they come out of the yard, especially considering that costs for the larger-sized vessels are now in excess of US\$300m-500m. At present, the industry estimates that there are around 11 vessels under construction with cranes capable of lifting more than 2,000 tonnes for >14MW turbines, which does not appear to be enough considering the explosive growth forecast in the chart on the RHS.
- **Spending on fossil fuels will increase in 2022** with recent industry estimates forecasting a 16% yoy increase in capital and operational expenditure to US\$1.1t for the upstream oil & gas sector. However, this is still short of the previous peak of nearly US\$1.4t in 2014. Part of this increase stems from increased project costs which, compared to 2020 levels, have risen by 10-20%, due largely to steel prices and a tight market for equipment and labour according to Rystad. Nevertheless, with higher observed utilisation and day rates for offshore assets globally, we believe this should benefit SMM in the medium term, especially for production assets.

EARNINGS REVISION/RISK

- No changes to earnings.

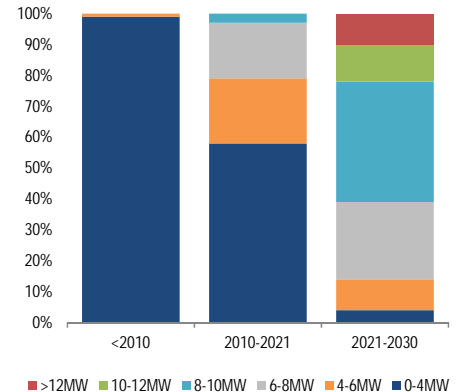
VALUATION/RECOMMENDATION

- **Maintain BUY with an increased target price of S\$0.13.** This is based on a target multiple of 1.0x, pegged to our aggregate 2022 and 2023 estimated book value per share. 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.
- **Is SMM a beneficiary of recent oil price strength?** In our view, SMM is a second derivative beneficiary of stronger oil prices as it needs upstream oil & gas companies to respond to the higher oil prices by placing orders for either exploration or production assets (preferably both). Given that the forward Brent oil price for delivery in Dec 27 is currently at US\$75.20/bbl, we should expect upstream capex to resume in the near term. On a 10-year basis (see chart on RHS), there was a close correlation between the Brent oil price and SMM's share price up until 2018. However that correlation appears to have broken down as new order wins dried up from 2018 onwards with SMM's share price languishing until recently. We also highlight that going forwards, we should expect less correlation between oil price and SMM's share price as the company becomes increasingly geared towards the renewables segment.

SHARE PRICE CATALYST

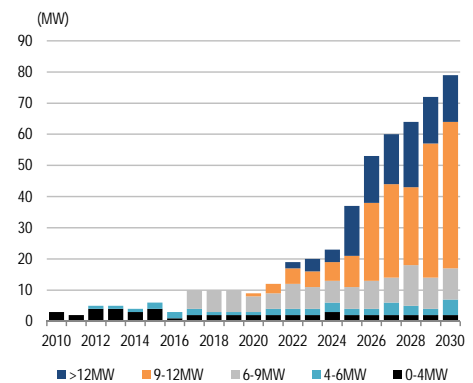
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrades work for cruise ships and other commercial vessels.

SHARE OF INSTALLED TURBINES BY SIZE (MW, % OF INSTALLATIONS)



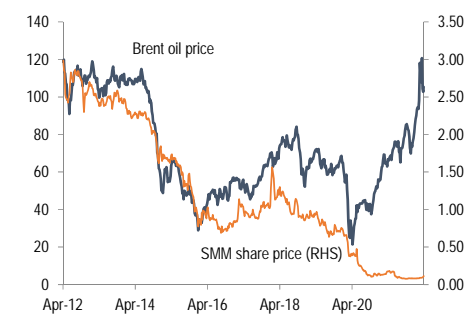
Source: Rystad Energy

TURBINE VESSEL INSTALLATION DEMAND (MW)



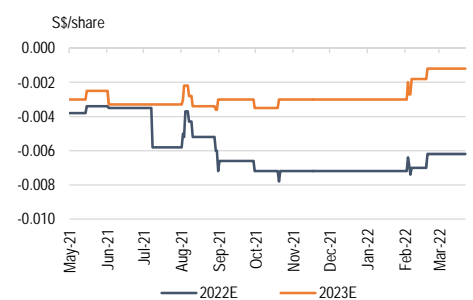
Source: Rystad Energy

SMM SHARE PRICE VS BRENT OIL PRICE



Note: Correlation 2012-2018 = 0.91; 2012-present = 0.70
Source: Bloomberg

EPS REVISION MOMENTUM



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Net turnover	1,862	1,939	2,271	2,693
EBITDA	(1,028)	260	329	371
Deprec. & amort.	197	197	197	197
EBIT	(1,224)	64	132	174
Total other non-operating income	0	0	0	0
Associate contributions	1	1	1	1
Net interest income/(expense)	(32)	(80)	(80)	(80)
Pre-tax profit	(1,255)	(15)	54	96
Tax	79	1	(3)	(6)
Minorities	5	0	(0)	(0)
Preferred dividends	0	0	0	0
Net profit	(1,171)	(14)	50	89
Net profit (adj.)	(1,171)	(14)	50	89

CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Operating	(589)	(90)	(126)	(102)
Pre-tax profit	(1,224)	64	132	174
Tax	(5)	(55)	(7)	(8)
Deprec. & amort.	197	197	197	197
Associates	0	0	0	0
Working capital changes	295	(165)	(319)	(334)
Non-cash items	30	0	0	0
Other operating cashflows	118	(130)	(130)	(130)
Investing	(44)	(85)	(21)	(21)
Capex (growth)	(46)	(100)	(100)	(100)
Capex (maintenance)	0	0	0	0
Investments	0	5	69	69
Proceeds from sale of assets	4	10	10	10
Others	(2)	0	0	0
Financing	964	(43)	(400)	0
Dividend payments	(0)	0	0	0
Issue of shares	1,499	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(512)	(76)	(400)	0
Others/interest paid	(22)	33	0	0
Net cash inflow (outflow)	331	(218)	(548)	(123)
Beginning cash & cash equivalent	772	1,104	886	338
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	1,104	886	338	215

BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	3,993	3,911	3,830	3,748
Other LT assets	2,581	2,652	2,818	3,041
Cash/ST investment	1,104	886	338	215
Other current assets	1,922	1,484	1,927	2,244
Total assets	9,600	8,933	8,912	9,247
ST debt	821	800	600	600
Other current liabilities	1,713	1,102	1,431	1,677
LT debt	2,255	2,200	2,000	2,000
Other LT liabilities	486	519	519	519
Shareholders' equity	4,301	4,287	4,338	4,427
Minority interest	24	24	24	24
Total liabilities & equity	9,600	8,933	8,912	9,247

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	(55.2)	13.4	14.5	13.8
Pre-tax margin	(67.4)	(0.8)	2.4	3.5
Net margin	(62.9)	(0.7)	2.2	3.3
ROA	n.a.	n.a.	0.6	1.0
ROE	n.a.	n.a.	1.2	2.0
Growth				
Turnover	23.3	4.1	17.1	18.6
EBITDA	n.a.	n.a.	26.5	12.7
Pre-tax profit	n.a.	n.a.	n.a.	77.3
Net profit	n.a.	n.a.	n.a.	77.3
Net profit (adj.)	n.a.	n.a.	n.a.	77.3
EPS	n.a.	n.a.	n.a.	77.3
Leverage				
Debt to total capital	41.6	41.0	37.3	36.9
Debt to equity	71.5	70.0	59.9	58.7
Net debt/(cash) to equity	45.8	49.3	52.1	53.9
Interest cover (x)	(14.8)	0.5	1.0	1.3

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