

COMPANY UPDATE

Sembcorp Marine (SMM SP)

A Decent-sized Order Win To Kick Off The Turnaround Story

SMM announced that it had won a contract for a WTIV scheduled for delivery in early-25. We estimate that this contract win is worth approximately S\$600m and could be as large as S\$800m depending on the specifications. 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. Maintain BUY. Target price: S\$0.11.

WHAT'S NEW

- **And so it begins – SMM's first contract in a while.** Sembcorp Marine (SMM) announced yesterday that it had secured a contract for the construction of a Wind Turbine Installation Vessel (WTIV) based on its in-house design in collaboration with its as-yet-unnamed customer. Delivery of the vessel will be in 2025 with milestone payments. Our channel checks with the industry indicate that the contract value for this WTIV is in the range of S\$600m to as much as \$800m. As a point of comparison, Keppel Corp (KEP SP, BUY, Target price: S\$6.94) won a S\$600m order for a WTIV in 4Q20. 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.
- **What is a WTIV?** These assets are dedicated vessels for installing wind turbines and can either be designed as floating vessels in the shape of a ship or that of a jack-up. We understand that SMM's contract involves the latter (see sample picture of a WTIV overleaf) which is important given that SMM has extensive experience in constructing jack-up-like designs given its history in the offshore marine industry. Given their work in the renewable energy sector, the environmental footprint of these vessels is important, with high efficiency and low-carbon emissions essential attributes.
- **Recent comments from the management give us some confidence that 2022 will be strong.** During SMM's annual results briefing at end-Feb 22, management highlighted that 2022 results will be "significantly better" than 2021. In addition, the persistent labour issues in 4Q21 have been largely solved and thus the company will be able to handle the new order wins that are expected to be announced over the next 6-12 months. Note also that SMM had "kitchen-sinked" a high level of provisions in its 2021 results and thus we do not expect 2022 to be materially impacted by impairment losses.

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.	87.3	39.9
P/B (x)	0.1	0.4	0.9	0.9	0.9
EV/EBITDA (x)	n.m.	n.m.	19.1	15.6	13.4
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	-	-	(203)	(44)	38
UOBKH/Consensus (x)	-	-	0.07	n.m.	2.29

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\$0.094
Target Price	S\$0.11
Upside	+17.0%

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):	2,950.6
Market cap (US\$m):	2,172.6
3-mth avg daily t'over (US\$m):	4.0

Price Performance (%)

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

1mth	3mth	6mth	1yr	YTD
9.3	14.6	16.0	(33.4)	14.6

Major Shareholders

Temasek Hldgs 54.6%

FY22 NAV/Share (S\$) 0.11

FY22 Net Debt/Share (S\$) 0.05

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Size of the global WTIV market is small but expected to grow significantly.** Globally, there are only around 16 specialised WTIVs in operation despite the high level of demand. In order to fill the demand gap, companies have instead re-purposed jack-up rigs to either install foundations or install turbines or both. Increasingly, as the market grows in size and matures, we expect more WTIVs to be ordered in the medium term, thus expanding the addressable market for SMM. Importantly, the growing size of the wind turbines will also play a role in driving new orders. Historically, average wind turbine sizes have been relatively small at around 3MW in 2010. However, this has grown to 8MW in 2020 with industry estimates that this would grow to 25MW by 2025. Thus, larger wind turbines will require more specialised heavy-lift WTIVs to cater to the industry's demand.

EXAMPLE OF A WIND TURBINE INSTALLATION VESSEL



Source: Wärtsilä

EARNINGS REVISION/RISK

- **None.**

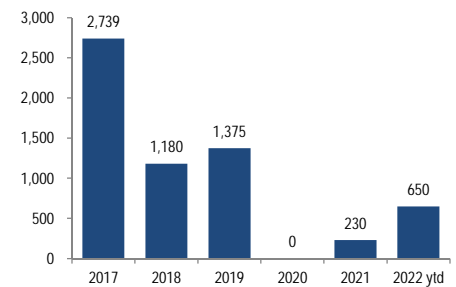
VALUATION/RECOMMENDATION

- **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.

SHARE PRICE CATALYST

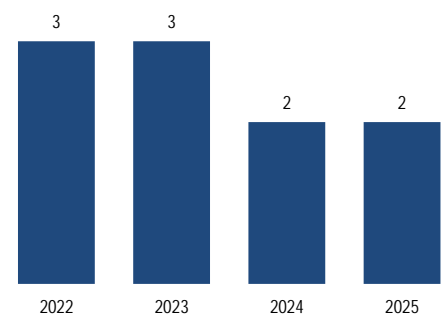
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrades work for cruise ships and other commercial vessels.
- Merger or JVs with other shipyards.

NEW ORDER WINS: 2017-2022 YTD (\$M)



Source: Bloomberg, UOB Kay Hian

NO. OF WTIV UNDER CONSTRUCTION



Note: 2025 number includes SMM's latest order win
Source: IHS Markit

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Net turnover	1,862	1,939	2,182	2,604
EBITDA	(1,028)	260	318	369
Deprec. & amort.	197	197	197	197
EBIT	(1,224)	64	121	172
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)	43	94
Tax	79	1	(3)	(6)
Minorities	5	0	(0)	(0)
Preferred dividends	0	0	0	0
Net profit	(1,171)	(14)	40	88
Net profit (adj.)	(1,171)	(14)	40	88

BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	3,993	3,911	3,830	3,748
Other LT assets	2,281	2,288	2,398	2,620
Cash/ST investment	1,104	1,017	582	465
Other current assets	1,922	1,384	1,536	1,809
Total assets	9,300	8,600	8,345	8,642
ST debt	821	800	600	600
Other current liabilities	1,713	1,102	1,208	1,417
LT debt	2,255	2,200	2,000	2,000
Other LT liabilities	486	486	486	486
Shareholders' equity	4,001	3,987	4,027	4,115
Minority interest	24	24	24	24
Total liabilities & equity	9,300	8,600	8,345	8,642

CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Operating	(589)	10	(14)	(95)
Pre-tax profit	(1,224)	64	121	172
Tax	(5)	(55)	(5)	(8)
Deprec. & amort.	197	197	197	197
Associates	0	0	0	0
Working capital changes	295	(65)	(196)	(326)
Non-cash items	30	0	0	0
Other operating cashflows	118	(130)	(130)	(130)
Investing	(44)	(21)	(21)	(21)
Capex (growth)	(46)	(100)	(100)	(100)
Capex (maintenance)	0	0	0	0
Investments	0	69	69	69
Proceeds from sale of assets	4	10	10	10
Others	(2)	0	0	0
Financing	964	(76)	(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)	0	0	0
Net cash inflow (outflow)	331	(87)	(436)	(117)
Beginning cash & cash equivalent	772	1,104	1,017	582
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	1,104	1,017	582	465

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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