

COMPANY UPDATE

Sembcorp Marine (SMM SP)

Positive Guidance For 1H22 Results And Better Order Visibility

SMM's 1Q22 business update was reasonably bullish with management commenting that 1H22 results should be significantly better yoy. In addition, it expects new order wins to come through given that both conventional energy and renewables are bolstered by strong industry tailwinds. SMM's robust rate of deliveries in 1Q22 has led to a material improvement in its balance sheet, with its net debt/equity declining to 0.38x at end-1Q22 from 0.49x at end-4Q21. Maintain BUY. Target price: S\$0.156.

WHAT'S NEW

- **A strong qualitative update.** Sembcorp Marine (SMM) issued a 1Q22 business update which, while lacking in revenue or profit numbers, contained bullish comments around potential order wins and better yoy results for 1H22 (likely at end-Jul 22). In our view, the tone of the comments are the most positive that we have seen from management in the past three years.
- **Executing its current orderbook well.** Out of the 17 projects that it is currently working on, SMM is slated to deliver 12 of these in 2022; however with six of these already delivered to its clients (see table below), we should expect better operating cash flow and a meaningful narrowing of losses vs 1H21. Indeed in its announcement, the company guided for 1H22 results to be "significantly better" yoy. SMM highlighted that as at end-1Q22, its net debt/equity had improved to 0.38x compared to 0.49x just three months ago in end-21.

PROJECTS DELIVERED BY SMM IN 1Q22

Asset built	Project name	Client name
6 x production topsides, 4 x bridges	Tyra Redevelopment Project	TotalEnergies EP
FPSO Johan Castberg	Barents Sea oil field	Equinor
15 x wind turbine jacket foundations	Formosa 2 offshore wind farm	Jan De Nul
Offshore substation and reactive compensation station	Hornsea 2 offshore wind farm	Orsted
FSRU conversion	Offshore Brazil	KARMOL
Full battery roll-on/roll-off passenger ferry	Norway	NA

Source: SMM

- **Orderbook update.** In 1Q22, SMM disclosed that it had won various repairs and upgrades contracts, including three vessels for the US Navy as well as nine containerships from Maersk. As at end 1Q22, SMM had a net orderbook of S\$1.75b (which includes repairs and upgrades contracts).

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.	71.8	40.5
P/B (x)	0.1	0.4	0.8	0.8	0.8
EV/EBITDA (x)	n.m.	n.m.	20.0	15.8	14.1
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	-	-	(231)	(35)	11
UOBKH/Consensus (x)	-	-	0.06	n.m.	8.39

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\$0.100
Target Price	S\$0.156
Upside	+59.2%

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):	3,076.1
Market cap (US\$m):	2,217.2
3-mth avg daily t'over (US\$m):	15.6

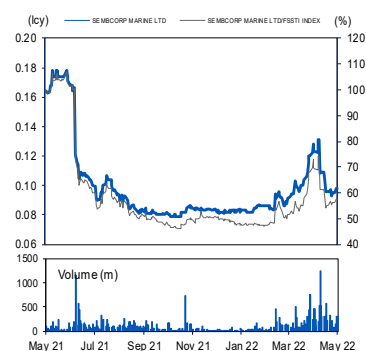
Price Performance (%)

52-week high/low	S\$0.178/S\$0.079			
1mth	3mth	6mth	1yr	YTD
(19.7)	14.0	15.3	(41.4)	19.5

Major Shareholders

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

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Muted inflationary impact thus far.** On the analyst call, SMM stated that a number of its projects are close to completion and thus with all the necessary equipment and material having been purchased much earlier, there is no inflationary impact. In the meantime, its other projects that are about to start have included appropriate escalation clauses within the contracts to take into account inflation. For new tenders, those contracts should allow for inflation adjustments and will be looked at closely by the company to ensure that cost increases are passed onto the customer.
- Orderbook outlook.** SMM reiterated its belief that the industry outlook for the offshore marine sector has improved markedly in the past six months and thus it is seeing increased order visibility from this year onwards. Some of the broad areas that the company will focus on are jack-up and floating versions of Wind Turbine Installation Vessels, offshore assets to cater to carbon capture, oil and gas production platforms, and various conversion works including FPSOs, FLNGs as well as conversion works from offshore drilling to wind turbine assets. Given the global push towards alternative (ie non-fossil fuel) sources of energy, we should witness increased demand for renewables and thus construction in this area should increase. Interestingly, SMM noted that it is in initial discussions for drilling rigs; however instead of using the traditional drilling system, the new design will have a significantly lower carbon footprint with a higher level of electrification of the whole platform.
- Repairs and upgrading business.** Management stated that the overall repairs and upgrading business has returned to a much firmer footing vs the year ago period and it has seen a higher level of enquiries across the board. It expects that as higher levels of economic activity return, there should be a similar increase in demand for repairs and upgrades with key vessels being LNG carriers, bulk carriers, naval vessels, offshore support vessels and rigs being the likely customers for repairs. On the upgrading front, SMM stated that demand remains strong with ballast water cleaning and pollution controls being the key items for its clients.

EARNINGS REVISION/RISK

- None.

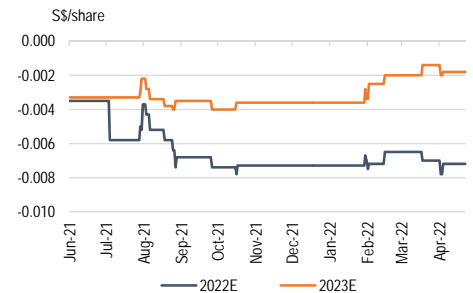
VALUATION/RECOMMENDATION

- Maintain BUY with target price of S\$0.156.** With the SMM/Keppel merger terms largely in place and the uncertainty out of the way, the focus on SMM will be to garner new orders in 2022 and add to its orderbook. Our target book-value multiple for SMM of 1.2x reflects our confidence that it will garner such orders, which will lead to positive share price performance.
- We expect higher rates of capex spending in both conventional offshore energy and renewables.** In our view, the offshore construction cycle for both conventional oil and gas and renewables has room for growth in the next few years, especially since the lack of spending by the global oil and gas industry will constrain energy supply. In addition the war in Ukraine appears to have led to a re-focus by majors such as BP, Eni, Equinor, Shell, ExxonMobil and Equinor towards further investment in offshore Africa. For the offshore wind sector, Europe continues to add capacity and is projected by Rystad to add 4.2GW in capacity in 2022 and then almost double again in 2023 to 7.3GW.

SHARE PRICE CATALYST

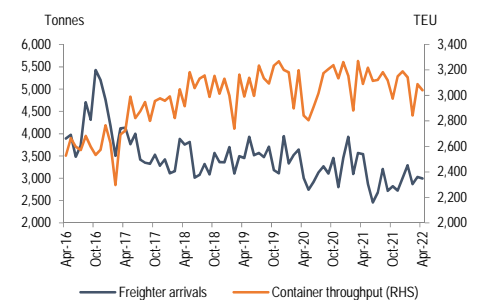
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrades work for cruise ships and other commercial vessels.

EPS REVISION MOMENTUM



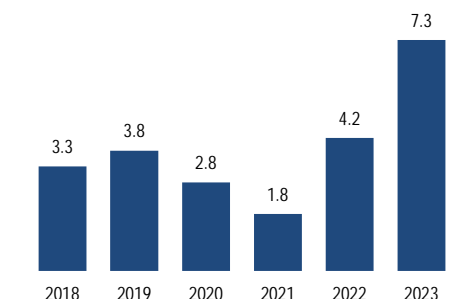
Source: Bloomberg

SINGAPORE PORT ACTIVITY



Source: Maritime and Port Authority of Singapore

ANNUAL OFFSHORE WIND CAPACITY ADDITIONS IN EUROPE (GW)



Source: Rystad

PROFIT & LOSS

Year to 31 Dec (\$m)	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

BALANCE SHEET

Year to 31 Dec (\$m)	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

CASH FLOW

Year to 31 Dec (\$m)	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

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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