

COMPANY UPDATE

Sembcorp Marine (SMM SP)

New Order Win Continues Its Positive Momentum

While SMM's new order win worth S\$200m from the Brazilian Navy was largely expected, this nevertheless underscores the company's continuing positive momentum and we expect more conventional and renewables orders in the near to medium term. SMM's robust rate of deliveries in 1Q22 has led to material balance sheet improvement 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

- New order win as expected.** Sembcorp Marine (SMM) recently won a S\$200m engineering, procurement and construction (EPC) contract from the Brazilian Navy for a newbuild ice-capable support vessel for deployment in the Antarctic. The project will be executed at SMM's Estaleiro Jurong Aracruz yard in Brazil to comply with local-content requirements, however some other work such as specialised shipbuilding design will be carried out in Singapore. The company disclosed that construction of the vessel will commence in 2022 with completion in 3Q25. SMM had earlier indicated that it was reasonably confident about this order win at its 1Q22 business update in mid-May 22, and this success reaffirms our view that the company will continue to garner further order wins as the year progresses.
- Executing well on its current orderbook.** 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 with 0.49x in end-21.
- Orderbook update.** At its 1Q22 business update, 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) consisting of S\$1.51b of projects under execution and S\$0.24b of ongoing repairs and upgrades projects. Including the Brazilian Navy order win, this would result in a net orderbook of S\$1.95b.

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.	81.3	45.9
P/B (x)	0.2	0.5	1.0	0.9	0.9
EV/EBITDA (x)	n.m.	n.m.	21.6	17.1	15.2
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	-	-	(286)	(35)	11
UOBKH/Consensus (x)	-	-	0.05	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\$0.111
Target Price	S\$0.156
Upside	+40.5%

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):	31,385.1
Market cap (S\$m):	3,483.7
Market cap (US\$m):	2,516.4
3-mth avg daily t'over (US\$m):	17.8

Price Performance (%)

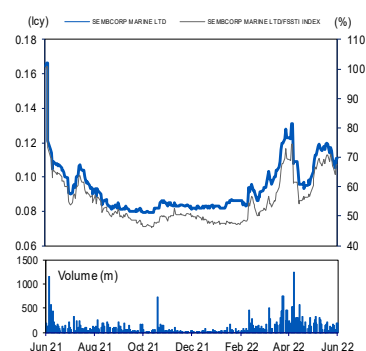
52-week high/low	S\$0.168/S\$0.079			
1mth	3mth	6mth	1yr	YTD
12.1	20.7	33.7	(33.9)	35.4

Major Shareholders

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

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Looking forward to a larger and more competitive entity.** In our view, the upcoming merger with Keppel Offshore Marine (KOM), if successful, will create a pure-play company with the depth and breadth of engineering and operational capabilities that can compete on a greater scale. In addition, the merged company should have much stronger financials and human resources to undertake the necessary R&D to compete effectively on the global stage. According to SMM, the pro forma position as at 31 Dec 21 would see the combined entity have >50 projects worth about S\$6.4b, 2021 revenue of S\$3.9b, not to mention a strong balance sheet. In addition, we highlight that previously loss-making assets such as Floatel and Dyna-Mac, as well as Keppel's legacy rigs, were left out of the combined entity, thus dodging potential integration issues in the future.
- What if the merger with KOM falls through?** We highlight that the proposed merger in its current form is locked in, for example the 44:56 equity value exchange ratio and the use of a discounted cashflow methodology in determining the enterprise value ratio. Should the merger fail to win shareholder approval, SMM and KOM could resume talks to alter some or all of the terms; however, we estimate that this would take at least another 6-12 months to complete.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with S\$0.156 target price.** 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 order thus leading 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 given the lack of spending by the global oil and gas industry, thus constraining 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. On 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 doubling again in 2023 to 7.3GW (see chart on RHS).

SHARE PRICE CATALYST

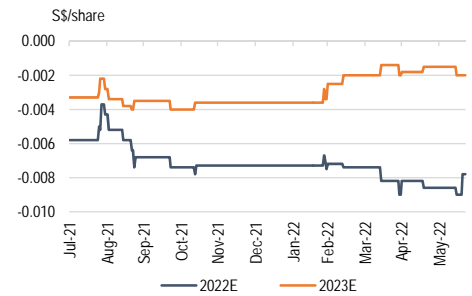
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrades work for cruise ships and other commercial vessels.

ILLUSTRATION OF THE BRAZILIAN NAVY'S RESEARCH VESSEL



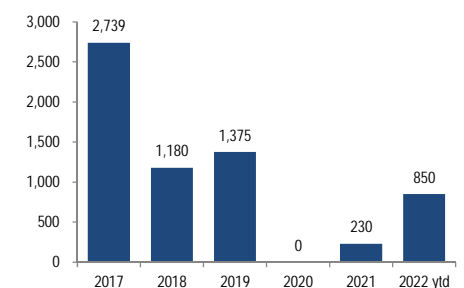
Source: SMM

EPS REVISION MOMENTUM



Source: Bloomberg

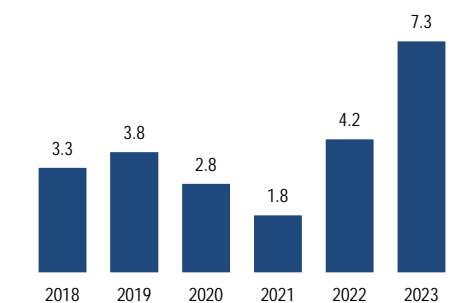
SMM'S NEW ORDER WINS BY YEAR (\$SM)



Note: Excludes order wins for the repairs and upgrades business segment

Source: SMM

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

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

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

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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