

Singapore

June 29, 2022 - 10:16 AM

**HOLD** (no change)

Consensus ratings\*: Buy 1 Hold 3 Sell 4

Current price:	S\$0.11
Target price:	S\$0.09
Previous target:	S\$0.09
Up/downside:	-18.2%
CGS-CIMB / Consensus:	-7.8%
Reuters:	SCMN.SI
Bloomberg:	SMM SP
Market cap:	US\$2,488m
	S\$3,452m
Average daily turnover:	US\$16.93m
	S\$23.26m
Current shares o/s	31,388m
Free float:	45.4%

\*Source: Bloomberg

Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (S\$m)	(389.4)	(106.0)	(81.0)
Core EPS (S\$)	(0.012)	(0.003)	(0.003)
Core EPS Growth	(85.2%)	(72.8%)	(23.6%)
FD Core P/E (x)	NA	NA	NA
Recurring ROE	(10.2%)	(3.0%)	(2.3%)
P/BV (x)	0.96	0.98	1.01
DPS (S\$)	-	-	-
Dividend Yield	0%	0%	0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.7	6.8	-5
Relative (%)	0.1	15.3	-5.4

Major shareholders	% held
Temasek	54.6

Analyst(s)

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# Sembcorp Marine

## More reprieve for balance sheet to come

- We expect little help for SMM's cashflow with the US\$50m from Transocean for delivering drillship Atlas. Net gearing as of 1Q22 stood at 0.38x.
- The delivery of the second drillship, Titan (scheduled for 2H22), could help relieve SMM's cashflow with a delivery payment of US\$350m.
- Reiterate Hold and TP of S\$0.09 based on 0.8x FY22F P/BV (3-year historical average).

### Cashflow to see more reprieve from the second rig

- SMM successfully delivered drillship Deepwater Atlas for Transocean to be chartered to Beacon Offshore on the Shenandoah project in the US Gulf of Mexico, scheduled to begin in 3Q22. With this, SMM will receive US\$50m of delivery payment and the remaining US\$370m will be paid over 5 years from delivery.
- This is one of the two drillships originally contracted in 2014 for US\$1.04bn (US\$540m each) for delivery in 2017 and 2018 but which have been delayed multiple times with deferral of payment as well as variation orders made to the contract value.
- The second drillship, Deepwater Titan, could be delivered by 2H22 with delivery payment of US\$350m and US\$90m to be spread over 5 years from delivery. The rig has secured a drilling contract with Chevron, slated to begin in 1Q23. Assuming no further delays, we expect the final payment for Titan to have a positive impact on SMM's cashflow. Net gearing stood at 0.38x as of 1Q22.

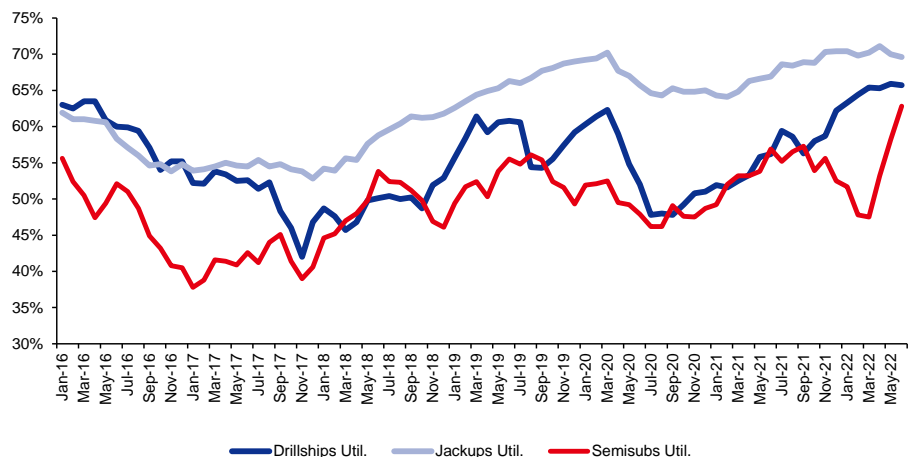
### Rigs utilisation up but day rates unchanged yoy

- According to Riglogix, for the month of Jun 22, global drillship utilisation improved to c.67% from 58% in Jun 21. However, average day rates are stagnant at around US\$260k/day. Semi subs utilisation also improved to 63% in Jun 22 (Jun 21: 57%), with average day rates of c.US\$257k/day. Jack-up utilisation is better at c.70% (Jun 21: 67%) but the day rate is US\$72k/day in Jun 22 vs. US\$78k/day in Jun 21. This is significantly lower compared to the trough period post GFC in 2011 at c.US\$94k/day. We believe a competitive market and the sustained over-supply situation could be reasons for the stagnant rates for now.

### Reiterate Hold and TP of S\$0.09

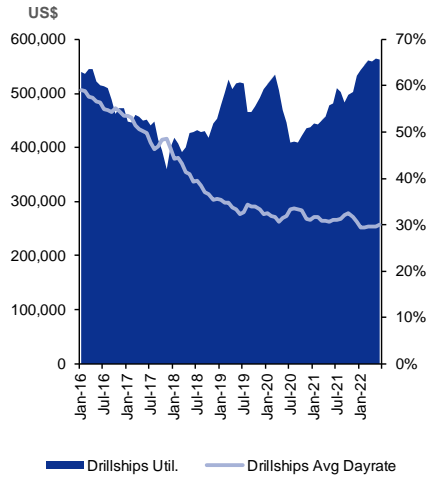
- The cash to be received from the upcoming delivery of Titan will be positive for SMM but we gather that order momentum and narrowing losses could be re-rating catalysts rather than strength in the balance sheet given the already low net gearing position.
- We estimate YTD order wins to be S\$800m-915m and order book of c.S\$1.95bn YTD, keeping our order win assumptions at S\$2bn. Key risks: cost overruns.

Figure 1: Utilisation rates for drillships, jackups, and semisubs have been increasing

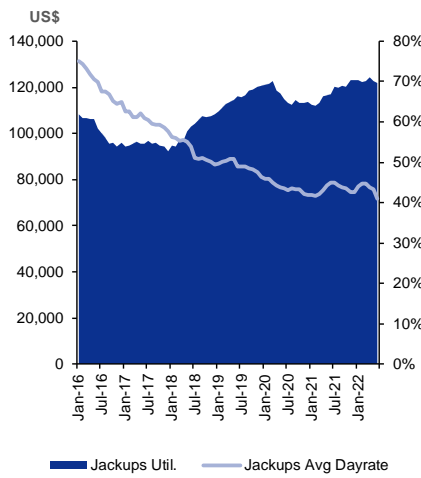


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

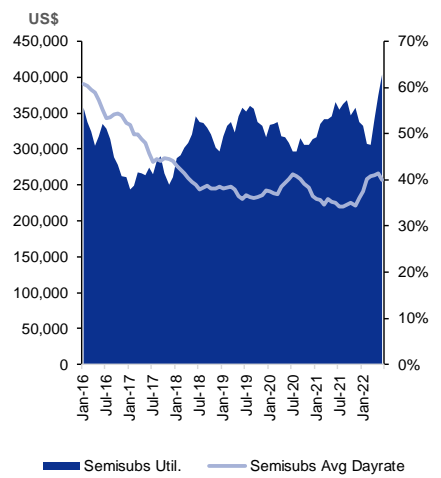
**Figure 2: Drillships utilisation rates improved to 66% but dayrates declined to US\$257k/day**



**Figure 3: Jackups utilisation rates improved to 70% but dayrates declined to US\$72k/day in Jun 22**



**Figure 4: Semisubs utilisation rates improved to 63% while average dayrates remained at US\$257k/day in Jun 22**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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**Figure 5: Sector / Peers Comparison**

Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY22F	P/E (x) CY23F	P/E (x) CY24F	2-year EPS CAGR (%)	P/BV (x) CY22F	P/BV (x) CY23F	Recurring ROE (%) CY22F	Dividend Yield (%) CY22F
Keppel Corporation	KEP SP	Add	6.57	7.20	8,385	13.9	14.5	14.9	-10.5%	0.96	0.94	7.0%	4.0%
Sembcorp Marine	SMM SP	Hold	0.11	0.09	2,488	na	na	na	na	0.96	0.98	-13.0%	0.0%
<b>Singapore offshore - big cap simple average</b>						<b>13.9</b>	<b>14.5</b>	<b>14.9</b>	<b>-10.5%</b>	<b>0.96</b>	<b>0.96</b>	<b>-3.0%</b>	<b>2.0%</b>
COSCO SHIPPING International S	COS SP	NR	0.19	na	308	32.2	32.2	na	-33.1%	0.71	0.71	4.1%	31.4%
Yangzijiang Shipbuilding	YZJSGD SP	Add	0.95	1.63	2,691	7.4	5.9	5.3	17.3%	1.03	0.94	14.6%	5.3%
<b>Chinese Shipbuilder simple average</b>						<b>19.8</b>	<b>19.1</b>	<b>5.3</b>	<b>-7.9%</b>	<b>0.87</b>	<b>0.82</b>	<b>9.3%</b>	<b>18.4%</b>
CSE Global	CSE SP	Add	0.47	0.54	172	13.4	10.3	8.8	22.2%	1.23	1.17	9.4%	5.9%
SATS Ltd	SATS SP	Add	3.98	4.88	3,219	63.5	24.5	17.0	na	2.75	2.69	4.4%	1.1%
Sembcorp Industries	SCI SP	Add	2.87	3.66	3,693	10.0	9.9	9.2	33.9%	1.21	1.08	13.0%	3.0%
ST Engineering	STE SP	Add	4.09	4.70	9,186	21.7	18.6	17.1	7.7%	5.10	4.75	24.3%	3.9%
SIA Engineering	SIE SP	Add	2.41	2.92	1,950	43.0	31.8	23.8	31.4%	1.63	1.59	3.9%	1.6%
<b>Industrial/conglomerate / airport services simple average</b>						<b>30.3</b>	<b>19.0</b>	<b>15.2</b>	<b>23.8%</b>	<b>2.38</b>	<b>2.26</b>	<b>11.0%</b>	<b>3.1%</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS

Profit & Loss				
(\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>1,862</b>	<b>1,135</b>	<b>1,622</b>	<b>2,083</b>
<b>Gross Profit</b>	<b>(1,082)</b>	<b>(397)</b>	<b>(49)</b>	<b>0</b>
<b>Operating EBITDA</b>	<b>(1,396)</b>	<b>(236)</b>	<b>101</b>	<b>126</b>
Depreciation And Amortisation	(172)	(186)	(182)	(178)
<b>Operating EBIT</b>	<b>(1,567)</b>	<b>(422)</b>	<b>(81)</b>	<b>(52)</b>
Financial Income/(Expense)	(32)	(49)	(49)	(49)
Pretax Income/(Loss) from Assoc.	1	2	2	3
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>(1,598)</b>	<b>(469)</b>	<b>(128)</b>	<b>(98)</b>
Exceptional Items	0	0	0	0
<b>Pre-tax Profit</b>	<b>(1,598)</b>	<b>(469)</b>	<b>(128)</b>	<b>(98)</b>
Taxation	79	70	19	15
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>(1,518)</b>	<b>(399)</b>	<b>(109)</b>	<b>(83)</b>
Minority Interests	5	9	3	2
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>(1,514)</b>	<b>(389)</b>	<b>(106)</b>	<b>(81)</b>
Recurring Net Profit	(1,514)	(389)	(106)	(81)
<b>Fully Diluted Recurring Net Profit</b>	<b>(1,514)</b>	<b>(389)</b>	<b>(106)</b>	<b>(81)</b>

Balance Sheet				
(\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,104	1,146	473	154
Total Debtors	471	315	451	579
Inventories	67	95	135	174
Total Other Current Assets	1,384	965	1,372	1,756
<b>Total Current Assets</b>	<b>3,026</b>	<b>2,521</b>	<b>2,430</b>	<b>2,662</b>
Fixed Assets	3,993	3,857	3,775	3,696
Total Investments	256	256	256	256
Intangible Assets	198	198	198	198
Total Other Non-Current Assets	1,827	1,364	1,364	1,364
<b>Total Non-current Assets</b>	<b>6,274</b>	<b>5,674</b>	<b>5,592</b>	<b>5,514</b>
Short-term Debt	842	842	842	842
Current Portion of Long-Term Debt				
Total Creditors	1,514	870	758	950
Other Current Liabilities	178	116	164	209
<b>Total Current Liabilities</b>	<b>2,533</b>	<b>1,828</b>	<b>1,763</b>	<b>2,000</b>
Total Long-term Debt	2,513	2,513	2,513	2,513
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	210	210	210	210
<b>Total Non-current Liabilities</b>	<b>2,722</b>	<b>2,722</b>	<b>2,722</b>	<b>2,722</b>
Total Provisions	19	19	19	19
<b>Total Liabilities</b>	<b>5,275</b>	<b>4,569</b>	<b>4,505</b>	<b>4,742</b>
Shareholders' Equity	4,001	3,612	3,506	3,425
Minority Interests	24	14	12	10
<b>Total Equity</b>	<b>4,025</b>	<b>3,626</b>	<b>3,518</b>	<b>3,435</b>

Cash Flow				
(\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(1,396)	(236)	101	126
Cash Flow from Invnt. & Assoc.				
Change In Working Capital	295	305	(647)	(314)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(54)	(49)	(49)	(49)
Tax Paid	(5)	70	19	15
<b>Cashflow From Operations</b>	<b>(1,159)</b>	<b>91</b>	<b>(576)</b>	<b>(222)</b>
Capex	(46)	(50)	(100)	(100)
Disposals Of FAs/subsidiaries	4	0	0	0
Acq. Of Subsidiaries/Investments	(2)	0	0	0
Other Investing Cashflow	0	0	0	0
<b>Cash Flow From Investing</b>	<b>(44)</b>	<b>(50)</b>	<b>(100)</b>	<b>(100)</b>
Debt Raised/(repaid)	(512)	0	0	0
Proceeds From Issue Of Shares	1,499	0	0	0
Shares Repurchased	(0)	0	0	0
Dividends Paid	(0)	0	0	0
Preferred Dividends				
Other Financing Cashflow				
<b>Cash Flow From Financing</b>	<b>986</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Cash Generated	(217)	41	(676)	(322)
<b>Free Cashflow To Equity</b>	<b>(1,715)</b>	<b>41</b>	<b>(676)</b>	<b>(322)</b>
<b>Free Cashflow To Firm</b>	<b>(1,140)</b>	<b>141</b>	<b>(575)</b>	<b>(221)</b>

Key Ratios				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	23.3%	(39.1%)	43.0%	28.4%
Operating EBITDA Growth	259%	(83%)	N/A	25%
Operating EBITDA Margin	(74.9%)	(20.8%)	6.2%	6.1%
Net Cash Per Share (\$)	(0.12)	(0.07)	(0.09)	(0.10)
BVPS (\$)	0.22	0.12	0.11	0.11
Gross Interest Cover	(18.97)	(4.19)	(0.81)	(0.52)
Effective Tax Rate	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	106.8	126.5	86.1	90.4
Inventory Days	10.00	19.24	25.09	27.13
Accounts Payables Days	154.0	264.5	159.9	135.6
ROIC (%)	(23.5%)	(6.7%)	(1.4%)	(0.8%)
ROCE (%)	(20.3%)	(5.1%)	(0.4%)	(0.0%)
Return On Average Assets	(16.3%)	(4.0%)	(0.7%)	(0.4%)

Key Drivers				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Order win (\$bn)	1.0	2.0	2.5	-

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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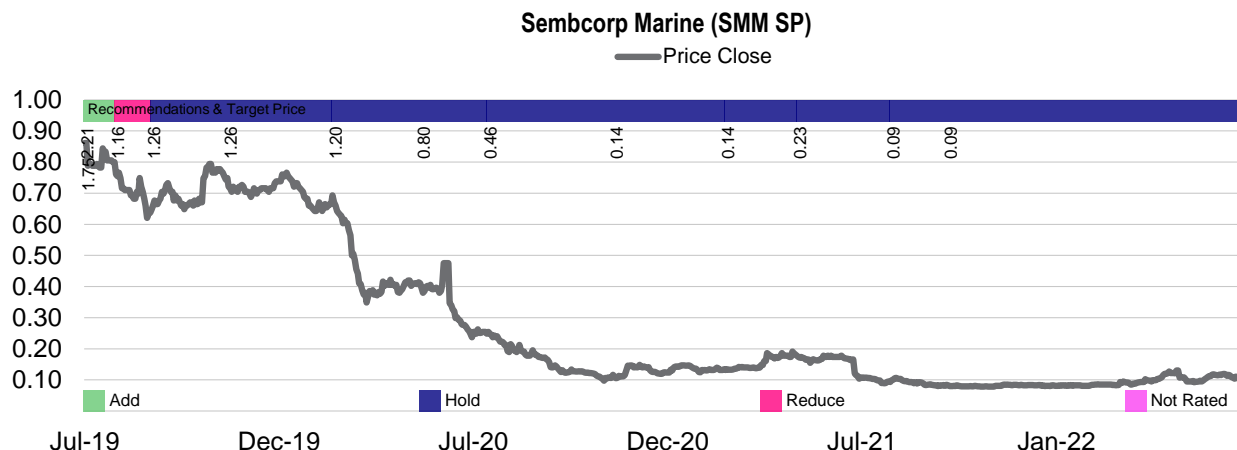
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%



Spitzer Chart for stock being researched ( 2 year data )



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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