

COMPANY RESULTS

Sembcorp Marine (SMM SP)

1H22: A Loss For 1H22 But Financials Should Materially Strengthen In 2H22

SMM reported a loss of S\$143m which was a material improvement from the S\$1.2b loss in 1H21. Project completions and work on new orders should lead to material financial improvement in 2H22. New order wins to date of S\$1.9b has been impressive and we expect more in the near term. Maintain BUY. Target price: S\$0.156.

1H22 RESULTS

6M to 30 Jun (S\$m)	1H21	1H22	% yoy	Remarks
Revenue	844	1,095	29.7%	- Driven by project completion and new project contribution
Gross profit	(588)	(93)	-84.2%	
Operating loss	(709)	(115)	-83.8%	
Net loss	(647)	(143)	-77.9%	- Lower breakeven activity volume and one-off provisions
Free cash flow	(24)	297	NM	- Due to increased project receipts
Net debt	1,972	1,712	-13.2%	
Net gearing	0.49	0.44	-10.2%	

Source: Sembcorp Marine Limited, UOB Kay Hian

RESULTS

- Loss for 1H22 but financials should strengthen in 2H22.** Sembcorp Marine (SMM) reported a 1H22 loss of S\$143m which was significantly better than the S\$1.2b loss in 1H21. We assess the results as being largely in line with our expectations. Although 1H22 revenue was strong, rising 38% yoy to S\$1.1b, we believe that the company's financials will witness sequential strength in 2H22 given its higher order wins ytd. As the new orders move from their initial engineering work towards execution of fabrication and construction work, SMM should see improved revenue and profit recognition. In addition, we highlight that the company is on track to deliver Transocean's Deepwater Titan which would then enable it to collect \$350m in revenue in 2H22. Importantly, the company stated that there are no significant delays for current and new projects.
- New order wins in 1H22 bode well.** SMM disclosed that ytd order wins total S\$1.9b with around S\$300m of this being repair and upgrading works. Given that order wins for the wind turbine installation vessel and Brazilian Navy total S\$850m, it would imply that the recent order win for gas topsides from an oil major is worth around S\$750m. During the analyst briefing, SMM's management stated that it was unable to disclose any details on neither the project nor the client at present. The company's current net orderbook is >S\$2.5b.

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.	82.1	46.3
P/B (x)	0.2	0.5	1.0	1.0	0.9
EV/EBITDA (x)	n.m.	n.m.	21.7	17.2	15.3
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	-	-	(192)	(35)	11
UOBKH/Consensus (x)	-	-	0.07	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):	31,389.1
Market cap (S\$m):	3,515.6
Market cap (US\$m):	2,547.9
3-mth avg daily t'over (US\$m):	10.2

Price Performance (%)

52-week high/low S\$0.131/S\$0.079

1mth	3mth	6mth	1yr	YTD
4.7	2.8	36.6	10.9	36.6

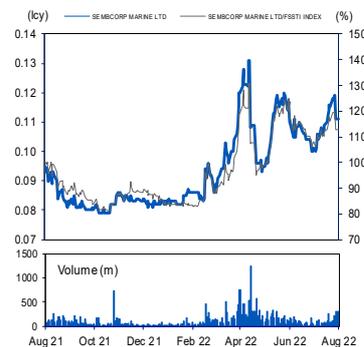
Major Shareholders

	%
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

- Revenue growth in 1H22 was driven by floaters and rigs**, offsetting weakness from offshore platforms and specialised shipbuilding (see table on RHS). In the floaters segment, SMM delivered two newbuild Floating Production Storage and Offloading (FPSO) vessels Equinor and Technip in 1H22 while in the rigs segment, it delivered Transocean's Deepwater Atlas. During the analyst call, management guided for much stronger revenue recognition in 2H22 as it completes several key projects.
- Manpower less of an issue at present.** While manpower levels have not returned to pre COVID-19 levels, mainly as a result of relatively lower work volume levels, SMM noted that has started to recruit more manpower given its recent new order wins. At present, it is engaged in initial engineering works but once it starts construction and fabrication works, the shipyard will need to review the types of skillset that it needs and replenish its workers.
- A reduction in COVID-19 challenges.** While SMM suffered from various COVID-19-related challenges in 2021, these supply chain issues and labour movement restrictions at its shipyard are very much in the past. Going forward, it should see a less onerous business environment. While inflation has been a general concern for many businesses, with input costs such as steel and copper seeing higher prices on a yoy basis, SMM stated that its customers have been able to absorb such higher costs.
- Repairs & upgrading segment.** SMM stated that this part of the market has seen an overall sequential improvement in volume of activity, not just for itself but for the entire industry. The company noted that its repairs & upgrades performance in 1Q22 was weaker on a yoy basis as customers could not berth their vessels in Singapore given COVID-19 restrictions. However, given that such restrictions have been lifted from 2Q22 onwards, it thus expects sequential improvement in 2H22. Of note in the upgrading sub-segment is the overall macro environment for natural gas which continues to be very significant as a fuel in the energy transition away from oil and coal. Gas prices have also been extremely bullish because of the Russian invasion of Ukraine and thus upgrading business volume in the LNG carrier space which appears very strong in the near to medium term.

EARNINGS REVISION/RISK

- No changes to earnings estimates.

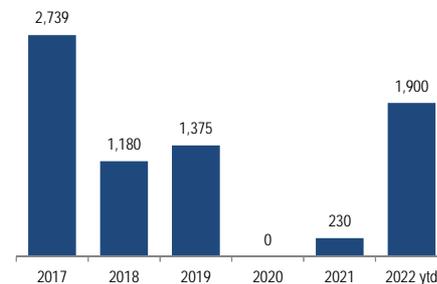
VALUATION/RECOMMENDATION

- 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.

SHARE PRICE CATALYST

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

NEW ORDER WINS BY YEAR (\$M)



Source: Bloomberg

1H22 SEGMENTAL REVENUE

\$M	1H21	1H22	Change
Offshore platforms	296	142	-52.0%
Repairs/upgrades	238	204	-14.3%
Floaters	209	603	188.5%
Rigs	60	112	86.7%
Specialised shipbuilding	14	4	-71.4%
Others	27	30	11.1%
Total	844	1,095	29.7%

Source: SMM

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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