

Singapore

HOLD (no change)

Consensus ratings*: Buy 1 Hold 3 Sell 4

Current price:	S\$0.111
Target price:	S\$0.11
Previous target:	S\$0.09
Up/downside:	-0.9%
CGS-CIMB / Consensus:	13.2%
Reuters:	SCMN.SI
Bloomberg:	SMM SP
Market cap:	US\$2,547m
	S\$3,484m
Average daily turnover:	US\$9.13m
	S\$12.93m
Current shares o/s:	31,388m
Free float:	45.4%

*Source: Bloomberg

Key changes in this note

- FY22F EPS up 41%.
- FY23F EPS up 6%.
- FY24F EPS up 102%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.8	19.4	14.9
Relative (%)	2.8	15.1	11.2

Major shareholders	% held
Temasek	54.6

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Sembcorp Marine

Towards EBITDA positive

- SMM showed a narrower-than-expected losses of S\$143m in 1H22 on stronger-than-expected order execution. No major impairment/cost overruns.
- EBITDA losses narrowed to S\$31m in 1H22 vs. S\$442m in 2H21 as business volume picked up. YTD order win of S\$1.9bn with order book at S\$2.5bn.
- We think the combined entity could reach profitability by FY24F on the back of expanded order book of S\$6.9bn (excluding Petrobras P-80: S\$4bn).
- Reiterate Hold. We lift TP to S\$0.11, or 0.9x CY22F P/BV (0.7x previously) on gradual confidence in the company as execution and orders improve.

Revenue beat, although still below break-even volumes

1H22 net loss of S\$143m is narrower than our annualised 1H22F loss of c.S\$190m. The beat came from stronger-than expected revenue of S\$1.1bn, driven mainly by the floaters and rigs sector (+34% hoh, +166% yoy). There were project renegotiations and variation orders, as well as pre-FID work done for some projects. SMM expects FY22 to still be in a loss but 2H22 to be better than 1H22 with less residual costs from Covid-19.

Almost towards positive EBITDA

Gross loss margins narrowed to -8% in 1H22 vs. -49% in 2H21 while EBITDA losses dip to S\$31m in 1H22 vs. S\$422m in 2H21, on the absence of provisions for additional labour costs and impairment. On the back of 1H22, we narrow our loss estimates for FY22F-23F by 6-41% to factor in higher margins and order wins. We also expect net profits by FY24F. We raise FY22F order wins to S\$2.5bn (previously S\$1.5bn).

Order win at S\$1.9bn and hopeful on combined entity order book

We estimate the order win of S\$1.9bn to comprise c.S\$300m ship repair, c.S\$650m wind turbine vessel installation from Maersk, S\$200m support vessel for Brazilian navy and c.S\$750m of gas topside for the Australian gas project. Accordingly, order book rose to S\$2.5bn (1Q22: S\$1.75bn). Note that combined order book for both KEP and SMM now would be c.S\$6.9bn, pending Petrobras P-80 contract of S\$4bn. If we assume P-80 is clinched by 2022, combined order book by FY23F of S\$11bn could lead to profitability by FY24F. Excluding integration costs, we expect a run-rate of S\$4bn p.a. revenue and net margin of 3-5% in FY24F. Downside risks: cost overrun, impairment derailing profitability.

Cashflow improved on projects and receipt from Transocean

Operating cashflow turned positive to S\$307m (1H21: -\$2m) thanks to increased project receipts, including the delivery of Transocean Atlas. Net gearing stood at 0.44x as of 1H22. The second drillship for Transocean, Titan is on track for delivery in Oct 22 with a further US\$350m delivery receipt scheduled, strengthening the balance sheet.

Hold with higher TP of S\$0.11 (0.9x CY22F P/BV) on 3-year average

Our higher TP reflects improved execution and order wins YTD, as well as more confidence in path towards profitability. Upside risks: stronger margins and orders.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	1,510	1,862	1,987	1,957	2,513
Operating EBITDA (S\$m)	(389)	(1,396)	3	123	216
Net Profit (S\$m)	(582)	(1,514)	(231)	(100)	1
Core EPS (S\$)	(0.11)	(0.08)	(0.01)	(0.00)	0.00
Core EPS Growth	324%	(23%)	(91%)	(57%)	
FD Core P/E (x)	NA	NA	NA	NA	2,572
DPS (S\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	2,350	52	31
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	83.0%	55.9%	63.0%	79.7%	87.8%
P/BV (x)	0.16	0.50	0.92	0.95	0.95
ROE	(19.9%)	(39.5%)	(5.9%)	(2.7%)	0.0%
% Change In Core EPS Estimates			41%	6%	102%
CGS-CIMB/Consensus EPS (x)			0.92	1.60	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (\$\$ m)	1HFY22	1HFY21	yoy %	2HFY21	hoh%	Prev.	
	chg			chg			FY20F Comments
Revenue	1,095.0	844.2	29.7	1,018.0	7.6	1,134.5	Above; driven mainly by the floaters and rigs sector (+34% hoh, +166% yoy). There were project renegotiations and variation orders as well as pre-FID work done for some projects.
Operating costs	(1,125.7)	(1,455.4)	(22.7)	(1,459.4)	(22.9)	(1,370.1)	Gross loss margins narrowed to -8% in 1H22 vs. -49% in 2H21 while EBITDA losses narrowed to S\$31m in 1H22 vs S\$422m in 2H21, mainly from the absence of provisions for additional labour costs and impairment.
EBITDA	(30.7)	(611.2)	(95.0)	(441.4)	(93.0)	(235.6)	
EBITDA margin (%)	(2.8)	(72.4)	(96.1)	(43.4)	(93.5)	(20.8)	
Depn & amort.	(84.3)	(97.7)	(13.7)	(73.8)	14.3	(186.0)	In line
EBIT	(115.1)	(708.9)	(83.8)	(515.2)	(77.7)	(421.6)	Better than expected
Interest expense	(54.6)	(42.1)	29.7	(40.5)	35.0	(100.5)	
Interest & invt inc	35.0	22.9	53.0	27.9	25.6	51.3	
Associates' contrib	0.4	0.7	(38.0)	0.5	(18.3)	1.6	
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	
Pretax profit	(134.3)	(727.5)	(81.5)	(527.3)	(74.5)	70.4	Better than expected
Tax	(10.8)	78.0	(113.8)	1.4	(864.1)	70.4	Above
Tax rate (%)	(8.0)	10.7	(174.8)	0.3	(3,100.6)	15.0	
Minority interests	2.2	2.3	(4.0)	2.5	(14.2)	(389.4)	
Net profit	(142.9)	(647.2)	(77.9)	(523.3)	(72.7)	(389.4)	Better than expected
EPS (cts)	(0.5)	(5.2)	(91.1)	(2.3)	(79.7)	(1.2)	
Core Net Profit	(142.9)	(647.2)	(77.9)	(523.3)	(72.7)	(389.4)	
Core EPS (cts)	(0.5)	(5.2)	(91.1)	(2.3)	(79.7)	(1.2)	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Revenue by segment

Segment (\$\$m)	1H20	2H20	1H21	2H21	1H22	% yoy	% hoh	Comments 1H22
	chg		chg		chg		chg	
Ship repair	258	167	238	158	204	-14%	29%	Serviced 96 ships vs. pre-Covid of c. 140 in 1H19
Offshore platforms	130	180	296	278	142	-52%	-49%	More projects completed in 1H22, with current orders remained for RWE Renewables Sofia Offshore Wind Farm, Gas Topsides for Shell Australia, Bechtel – Pluto Train 2 Project and NOC Gallaf Batch 2: Wellhead Platform
Rigs & Floaters	459	215	269	534	715	166%	34%	Stronger than expected due to VO, renegotiation of projects, and pre-FID work
Specialised shipbuilding & others	59	43	41	48	34	-17%	-29%	
Total	906	604	844	1,018	1,095	30%	8%	
Number of ship repaired	74	72	not disclosed	not disclosed	96			
Average value / vessel (\$\$m)	3.49	2.31	n/a	n/a	2.13			

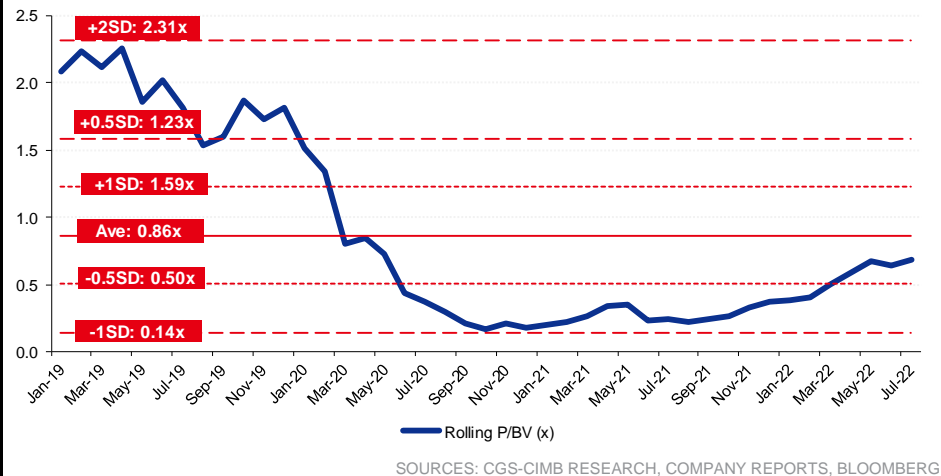
SOURCES: CGS-CIMB Research, COMPANY REPORTS


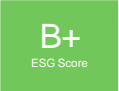

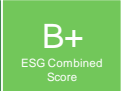



Figure 3: Earnings revision

	New			Old			% change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY23F
Revenue (\$\$m)	1,987	1,957	2,513	1,135	1,622	2,083	75%	21%	21%
EBIT margin	-9.2%	-3.0%	1.5%	-37%	-5%	-3%			
Net profit (\$\$m)	(231.0)	(100.2)	1.4	(389.4)	(106.0)	(81.0)	41%	6%	102%

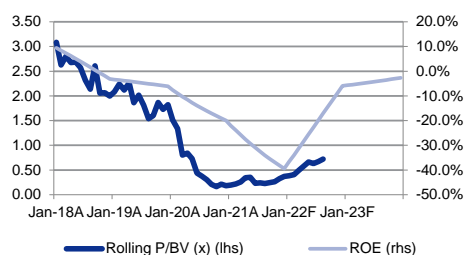
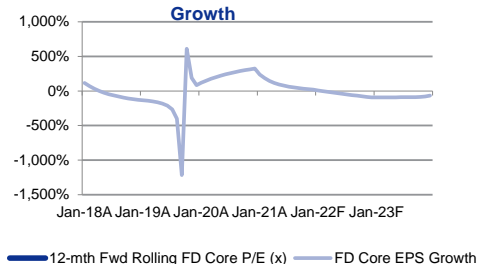
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Sembcorp Marine P/BV (x) could trade towards 3-year average



Refinitiv ESG Scores	
	
     	
<p>ESG in a nutshell</p> <p>SMM scored a C+ in its ESG combined score by Refinitiv in FY20 – environmental: B- (weightage: 34.18%); social: A- (weightage 37.34%); and governance: A (weightage 28.48%). We think its weak ESG controversies score of C- (as a result of negative newsflow regarding fraud controversies related to its Brazilian yard) pulled down its otherwise relatively stronger performances of its E, S, and G components. As a result, SMM's ESG combined score fell from B+ in FY19 to C+ in FY20. SMM has 2025 ESG targets of: (1) achieving 30% of annual company turnover generated from sustainable product solutions; (2) achieving 100% compliance with product safety and health requirements; (3) maintaining above 95% customer satisfaction in all projects; (4) zero harm to the environment; and (5) 100% contracted procurement spend in compliance with SMM's Code of Business Conduct and Supplier Code of Conduct.</p>	
<p>Keep your eye on</p> <p>In 2019, SMM reported that authorities had searched its shipyard in Brazil as part of a graft investigation. In 2020, the Federal Justice Court of Curitiba accepted the complaint against ex-employee Mr Martin Cheah Kok Choon for money laundering and corruption, in relation to certain drilling rig construction contracts entered into by subsidiaries of the Company with Sete Brasil in 2012. Martin Cheah is the former President of Estaleiro Jurong Aracruz Ltda ("EJA"), SMM's Brazilian subsidiary. No charges were filed against EJA.</p>	<p>Implications</p> <p>While no charges were filed against SMM, negative press reports pulled the Group's ESG controversies score down to a C+ in FY20. As there is no resolution, this Brazilian case is likely to impact SMM's ESG controversies score moving forward, until the case is closed for good. Unlike KEP SP where a fine was paid for global resolution from a similar fraud investigation in Brazil, no charges were brought against SMM. We would keep an eye on the development of this, should there be any potential negative outcome.</p>
<p>ESG highlights</p> <p>According to Refinitiv, SMM fares strongly against peers in all E, S, and G pillars. In particular, SMM leads in the Social and Governance categories. On its Social aspect, SMM clinched 24 awards at the national Work Safety and Health (WSH) Awards on 29 July 2021. SMM also has an audited Health, Safety and Environment (HSE) integrated management system aimed at the elimination of harm to people, property, and the environment. As for Governance, SMM successfully completed surveillance audit for ISO 37001, an Anti-bribery Management System certification. There were also no material incidents of non-compliance, as well as zero legal actions for anti-competitive behaviours, anti-trust, and monopolistic practices.</p>	<p>Implications</p> <p>Accordingly, Community, Workforce, and Management are SMM's 3 best performing categories in FY20. We believe that the group stands to gain from its strong workplace safety policies through workforce productivity and cost minimisation.</p>
<p>Trends</p> <p>SMM scores remained constant yoy at a B+ for Environment, A- for Social, and A for Governance. The Group has put in place concrete goals for its Environmental pillar. With a target to avoid 15,000 tCO₂e annually by 2025, SMM has since avoided 6,235 tCO₂e per year through the installation of solar roofs and LED lighting.</p>	<p>Implications</p> <p>We believe that SMM's continued investments in its Climate Programmes, coupled with its strong Social and Governance aspects, will attract investors who are conscious about E, S, and G performances.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	1,510	1,862	1,987	1,957	2,513
Gross Profit	(490)	(1,082)	(159)	(39)	75
Operating EBITDA	(389)	(1,396)	3	123	216
Depreciation And Amortisation	(192)	(172)	(186)	(182)	(178)
Operating EBIT	(581)	(1,567)	(183)	(59)	38
Financial Income/(Expense)	(90)	(32)	(40)	(40)	(40)
Pretax Income/(Loss) from Assoc.	1	1	2	2	3
Non-Operating Income/(Expense)	1	0	0	0	0
Profit Before Tax (pre-EI)	(670)	(1,598)	(221)	(96)	1
Exceptional Items	0	0	0	0	0
Pre-tax Profit	(670)	(1,598)	(221)	(96)	1
Taxation	84	79	(14)	(6)	0
Exceptional Income - post-tax					
Profit After Tax	(587)	(1,518)	(235)	(102)	1
Minority Interests	5	5	4	2	(0)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(582)	(1,514)	(231)	(100)	1
Recurring Net Profit	(582)	(1,514)	(231)	(100)	1
Fully Diluted Recurring Net Profit	(582)	(1,514)	(231)	(100)	1

Cash Flow

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	(389)	(1,396)	3	123	216
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(356)	295	(38)	(532)	(378)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(153)	(54)	(40)	(40)	(40)
Tax Paid	(8)	(5)	(14)	(6)	0
Cashflow From Operations	(906)	(1,159)	(89)	(454)	(202)
Capex	(89)	(46)	(50)	(100)	(100)
Disposals Of FAs/subsidiaries	3	4	0	0	0
Acq. Of Subsidiaries/investments	(2)	(2)	0	0	0
Other Investing Cashflow	0	0	0	0	0
Cash Flow From Investing	(88)	(44)	(50)	(100)	(100)
Debt Raised/(repaid)	661	(512)	0	0	0
Proceeds From Issue Of Shares	587	1,499	0	0	0
Shares Repurchased	0	(0)	0	0	0
Dividends Paid	(0)	(0)	0	0	0
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,247	986	0	0	0
Total Cash Generated	253	(217)	(139)	(554)	(302)
Free Cashflow To Equity	(333)	(1,715)	(139)	(554)	(302)
Free Cashflow To Firm	(832)	(1,140)	(39)	(454)	(201)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	772	1,104	966	414	116
Total Debtors	618	471	552	544	698
Inventories	94	67	166	163	209
Total Other Current Assets	1,656	1,384	1,676	1,651	2,114
Total Current Assets	3,140	3,026	3,359	2,772	3,137
Fixed Assets	4,115	3,993	3,857	3,775	3,696
Total Investments	271	256	256	256	256
Intangible Assets	221	198	198	198	198
Total Other Non-Current Assets	1,223	1,827	1,364	1,364	1,364
Total Non-current Assets	5,830	6,274	5,674	5,592	5,514
Short-term Debt	2,143	842	842	842	842
Current Portion of Long-Term Debt					
Total Creditors	1,095	1,514	1,462	897	1,129
Other Current Liabilities	161	178	199	196	250
Total Current Liabilities	3,400	2,533	2,503	1,935	2,221
Total Long-term Debt	1,698	2,513	2,513	2,513	2,513
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	150	210	210	210	210
Total Non-current Liabilities	1,847	2,722	2,722	2,722	2,722
Total Provisions	27	19	19	19	19
Total Liabilities	5,274	5,275	5,244	4,677	4,963
Shareholders' Equity	3,667	4,001	3,770	3,670	3,671
Minority Interests	29	24	19	17	17
Total Equity	3,696	4,025	3,790	3,688	3,689

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(47.6%)	23.3%	6.7%	(1.5%)	28.4%
Operating EBITDA Growth	(557%)	259%	N/A	4832%	75%
Operating EBITDA Margin	(25.7%)	(74.9%)	0.1%	6.3%	8.6%
Net Cash Per Share (\$\$)	(0.57)	(0.12)	(0.08)	(0.09)	(0.10)
BVPS (\$\$)	0.69	0.22	0.12	0.12	0.12
Gross Interest Cover	(4.10)	(18.97)	(1.83)	(0.58)	0.37
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	133.5	106.8	94.0	102.2	90.4
Inventory Days	18.98	10.00	19.78	30.05	27.97
Accounts Payables Days	218.9	154.0	239.1	200.7	139.8
ROIC (%)	(9.1%)	(23.5%)	(2.9%)	(1.0%)	0.6%
ROCE (%)	(7.3%)	(20.3%)	(1.7%)	0.0%	1.4%
Return On Average Assets	(5.7%)	(16.3%)	(2.1%)	(0.7%)	0.5%

Key Drivers

	Dec-20A	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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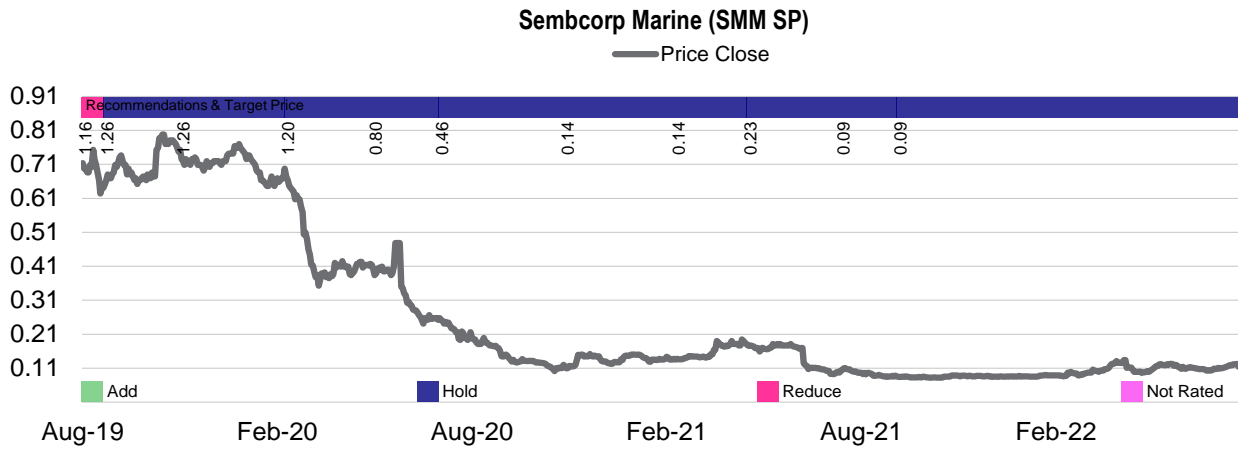
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
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Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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