

Singapore

October 13, 2023 - 5:14 PM

ADD (no change)

Consensus ratings*: Buy 7 Hold 0 Sell 2

Current price:	S\$0.127
Target price:	S\$0.19
Previous target:	S\$0.19
Up/downside:	49.6%
CGS-CIMB / Consensus:	10.9%
Reuters:	SEAT.SI
Bloomberg:	STM SP
Market cap:	US\$6,347m
	S\$8,664m
Average daily turnover:	US\$34.46m
	S\$46.49m
Current shares o/s	68,237m
Free float:	64.5%

*Source: Bloomberg

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (S\$m)	(250.8)	256.0	659.7
Core EPS (S\$)	(0.004)	0.004	0.010
Core EPS Growth	(92%)		158%
FD Core P/E (x)	NA	33.85	13.14
Recurring ROE	(4.16%)	3.04%	7.44%
P/BV (x)	1.05	1.01	0.94
DPS (S\$)	-	-	-
Dividend Yield	0%	0%	0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-8	-9.9	7.6
Relative (%)	-8.1	-11.3	3.2

Major shareholders	% held
Temasek	35.5

Analyst(s)

LIM Siew Khee

T (65) 6210 8664

E siewkhee.lim@cgs-cimb.com

Seatrium Ltd

Empire Wind timeline remains on track

- New York PSC rejected RE developers' petitions for power sale contract price increases to incorporate inflation and supply chain impact.
- STM does not see an impact on timeline for EPC contract work on Equinor and BP's Empire Wind farms. Other offshore projects are progressing well.
- We reiterate our Add call with a TP of S\$0.19, based on 1.5x CY24F P/BV.

New York utilities body denies financial relief to RE developers

- Orsted (ORSTED, NR, CP: DKK359), Equinor (EQNR, NR, CP: NOK368.65), BP (BP, NR, CP: 536.10 £p) and other renewable energy developers requested the New York Public Service Commission (PSC) to adjust prices in its power purchase agreements to incorporate inflation and other supply chain impact to 4 proposed offshore wind projects, including Empire Wind 1 and 2 that STM has EPC contracts for, and 86 land-based renewable projects.
- On 12 Oct 2023, the PSC denied these requests to maintain a competitive bidding process and protect ratepayers as the adjustments would have led to 6.7-10.5% higher monthly electricity bills for residential and commercial/industrial customers (totalling ~US\$12bn in additional costs). According to the US Energy Information Administration, the average price of electricity across all end-customers in New York was 19.44 UScts/kWh, c.47% higher than the national average of 13.19 UScts/kWh, as of Jul 2023.

No impact on STM contract timeline

- Empire Offshore Wind, a JV between Equinor and BP, awarded STM ~S\$500mn worth of contracts for 2 offshore wind farm substations in May 2023. The EPC, offshore hook-up and commission work on Empire Wind 1 and 2 are scheduled to commence in 4Q23 and 2H24, respectively. With a total installed capacity of ~2.1GW, the Empire Offshore Wind projects will power more than 1m New York homes.
- Equinor and BP have yet to assess the impact of not receiving their desired 54% price increases for the Empire and Beacon wind projects to recoup costs as the PPAs were secured in 2019 (EW1) and 2021 (EW2, Beacon) before supply chain disruptions caused by Covid-19 and the Russia-Ukraine war.
- We understand from STM that there has been no change in the timelines for EW 1 and 2, and the scheduled starting date for EW 1 is on track. Our ground checks on other ongoing offshore substations include Orsted's Greater Changhua 2b and 4 offshore wind farm in Taiwan (clinched by Keppel Offshore and Marine in Jan 2023), which struck steel in Aug 2023. The project is due for delivery in 2025.

Reiterate Add with a TP of S\$0.19

- We keep our Add call as STM is the largest listed yard in ASEAN with capabilities in offshore and marine, energy transition and offshore structures engineering and construction capability. Our TP is based on 1.5x CY24F P/BV (average trading range from Jan 15 to May 23). Downside risks: cost overruns in projects delaying turnaround in profits. Re-rating catalysts: stronger-than-expected margins and a faster-than-expected turnaround from net loss to net profit.

Figure 1: STM offshore wind projects in order book

Project	Client	Contract Value	Due Date
DolWin 5	TenneT	S\$560m	2024
Offshore Substation 1	Unnamed client		2024
Offshore Substation 2	Unnamed client	S\$110m	2024
Sofia	RWE Renewables	£600m	2025
Greater Changhua 2b and 4	Orsted	S\$130m	2025
Empire Wind 1	Empire Wind (JV between BP and Equinor)		2026
Empire Wind 2	Empire Wind (JV between BP and Equinor)	S\$500m	2026
IJmuiden Ver Beta	TenneT	€2bn	2029-2031
IJmuiden Ver Gamma	TenneT	€2bn	2029-2031

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Peers Comparison

Company	Bbg Ticker	Recom.	Price	Target Price	Market Cap	P/E (x)			2-year EPS	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
			(lcl curr)	(lcl curr)	(US\$ m)	CY23F	CY24F	CY25F	CAGR (%)	CY23F	CY24F	CY23F	CY23F
Keppel Corporation	KEP SP	Add	6.66	8.70	8,598	12.0	10.7	10.0	11.8%	0.99	0.96	8.4%	5.3%
Capitaland Investment	CLI SP	Add	3.11	4.30	11,658	20.6	17.2	16.0	37.8%	0.97	0.94	4.9%	3.9%
Integrated global asset management - big cap simple average						16.3	14.0	13.0	24.8%	0.98	0.95	6.6%	4.6%
Seatrium Ltd	STM SP	Add	0.13	0.19	6,297	na	33.6	13.0	na	1.04	1.01	-7.8%	0.0%
Singapore offshore - big cap simple average						na	33.6	13.0	na	1.04	1.01	-7.8%	0.0%
COSCO SHIPPING International S	COS SP	NR	0.11	na	186	na	na	na	na	na	na	na	na
China CSSC Holdings Ltd	600150 CH	NR	26.80	na	16,403	46.0	18.0	13.0	509.7%	2.47	2.18	5.4%	0.6%
China Shipbuilding Industry Co	601989 CH	NR	4.13	na	12,887	68.8	19.7	12.5	na	1.11	1.06	1.5%	0.5%
CSSC Offshore and Marine Engin	600685 CH	NR	23.86	na	3,388	na	na	na	na	na	na	na	na
Yangzijiang Shipbuilding	YZJSGD SP	Add	1.63	1.96	4,718	9.5	8.3	7.7	20.8%	1.74	1.54	19.8%	4.0%
Chinese Shipbuilder simple average						41.4	15.3	11.1	265.2%	1.77	1.59	8.9%	1.7%
Korea Shipbuilding & Offshore	009540 KS	Add	99,900	119,000	5,283	26.8	9.3	5.8	na	0.70	0.64	2.7%	0.0%
Hyundai Mipo Dockyard	010620 KS	Reduce	74,000	83,000	2,209	na	17.7	12.7	na	1.39	1.29	-0.2%	0.0%
Samsung Heavy Industries	010140 KS	Add	7,700	10,900	5,063	104.2	24.4	14.1	na	1.85	1.72	1.8%	0.0%
Hanwha Ocean	042660 KS	Hold	27,700	35,300	4,880	na	27.3	15.4	na	1.84	1.72	-8.0%	0.0%
Sejin Heavy Industries Co Ltd	075580 KS	NR	5,000	na	210	16.4	13.0	11.2	34.8%	1.57	1.45	10.3%	3.0%
Korean Shipbuilder simple average						49.1	18.3	11.9	34.8%	1.47	1.36	1.3%	0.6%
Mitsui E&S Co Ltd	7003 JP	NR	451.0	na	296	2.5	2.4	na	68.0%	0.41	0.37	15.1%	0.2%
Japan Shipbuilder simple average						3.8	2.4	na	68.0%	0.41	0.37	15.1%	0.2%
Brookfield Corp	BN US	NR	32.51	na	53,260	18.9	14.4	na	36.1%	1.20	1.19	9.6%	0.9%
US Shipbuilder simple average						18.9	14.4	na	36.1%	1.20	1.19	9.6%	0.9%
CSE Global	CSE SP	Add	0.44	0.54	196	12.0	9.7	8.8	78.8%	1.24	1.18	10.4%	6.3%
SATS Ltd	SATS SP	Hold	2.59	2.86	2,828	419.0	62.2	26.6	na	1.80	1.83	0.4%	0.2%
Sembcorp Industries	SCI SP	Add	4.76	6.85	6,208	8.6	9.3	9.2	12.0%	1.81	1.60	23.1%	3.2%
ST Engineering	STE SP	Add	3.97	4.27	9,062	21.2	17.6	15.1	24.9%	4.99	4.61	23.9%	4.0%
SIA Engineering	SIE SP	Hold	2.39	2.46	1,967	26.1	21.3	19.1	39.3%	1.57	1.54	6.1%	3.4%
Industrial/conglomerate / airport services simple average						97.4	24.0	15.8	38.8%	2.28	2.15	12.8%	3.4%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
Note: Forecasts for Not rated companies are based on Bloomberg consensus estimates
DATA AS AT 13 OCT 2023

BY THE NUMBERS

Profit & Loss				
(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	1,947	5,595	6,887	8,624
Gross Profit	(132)	(169)	551	1,121
Operating EBITDA	(36)	334	866	1,354
Depreciation And Amortisation	(170)	(406)	(383)	(362)
Operating EBIT	(206)	(73)	482	992
Financial Income/(Expense)	(34)	(157)	(198)	(259)
Pretax Income/(Loss) from Assoc.	1	(5)	0	0
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	(240)	(234)	284	733
Exceptional Items	0	0	0	0
Pre-tax Profit	(240)	(234)	284	733
Taxation	(26)	(21)	(23)	(59)
Exceptional Income - post-tax				
Profit After Tax	(266)	(255)	262	674
Minority Interests	4	5	(6)	(15)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	(261)	(251)	256	660
Recurring Net Profit	(261)	(251)	256	660
Fully Diluted Recurring Net Profit	(261)	(251)	256	660

Cash Flow				
(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	(36)	334	866	1,354
Cash Flow from Invt. & Assoc.				
Change In Working Capital	1,050	(282)	179	241
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	19	(157)	(198)	(259)
Tax Paid	(2)	(21)	(23)	(59)
Cashflow From Operations	1,031	(126)	825	1,278
Capex	(23)	(100)	(100)	(100)
Disposals Of FAs/subsidiaries	3	0	0	0
Acq. Of Subsidiaries/investments	(6)	0	0	0
Other Investing Cashflow	0	0	0	0
Cash Flow From Investing	(26)	(100)	(100)	(100)
Debt Raised/(repaid)	0	(500)	(500)	(500)
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	(0)	0	0	0
Dividends Paid	(0)	0	0	0
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	(1)	(500)	(500)	(500)
Total Cash Generated	1,005	(726)	225	678
Free Cashflow To Equity	1,005	(726)	225	678
Free Cashflow To Firm	1,103	110	1,100	1,566

Key Ratios				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	5%	187%	23%	25%
Operating EBITDA Growth	(97%)	N/A	159%	56%
Operating EBITDA Margin	(1.8%)	6.0%	12.6%	15.7%
Net Cash Per Share (\$)	(0.24)	(0.03)	(0.02)	(0.00)
BVPS (\$)	0.70	0.12	0.13	0.13
Gross Interest Cover	(1.51)	(0.22)	1.28	2.56
Effective Tax Rate	0.00%	0.00%	8.00%	8.00%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	97.8	69.3	92.1	91.2
Inventory Days	12.11	17.01	30.04	31.44
Accounts Payables Days	218.1	156.3	250.3	262.0
ROIC (%)	(3.3%)	(1.5%)	4.7%	9.9%
ROCE (%)	(1.4%)	1.1%	5.5%	9.3%
Return On Average Assets	(2.5%)	(0.7%)	2.5%	4.7%

Balance Sheet				
(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	2,091	1,861	1,997	2,675
Total Debtors	572	1,554	1,913	2,396
Inventories	71	466	574	719
Total Other Current Assets	399	2,989	3,528	4,251
Total Current Assets	3,133	6,870	8,012	10,041
Fixed Assets	3,860	5,012	4,729	4,467
Total Investments	257	462	462	462
Intangible Assets	175	3,881	3,881	3,881
Total Other Non-Current Assets	1,677	1,810	1,810	1,810
Total Non-current Assets	5,969	11,165	10,882	10,619
Short-term Debt	1,695	2,051	2,051	2,051
Current Portion of Long-Term Debt				
Total Creditors	1,144	3,976	4,874	6,080
Other Current Liabilities	595	1,377	1,576	1,962
Total Current Liabilities	3,434	7,404	8,501	10,093
Total Long-term Debt	1,662	1,743	1,243	743
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	202	504	504	504
Total Non-current Liabilities	1,864	2,246	1,746	1,246
Total Provisions	16	62	62	62
Total Liabilities	5,313	9,712	10,309	11,401
Shareholders' Equity	3,769	8,287	8,543	9,203
Minority Interests	19	36	42	56
Total Equity	3,788	8,323	8,585	9,259

Key Drivers				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Order win (\$bn)	15.1	7.1	7.0	6.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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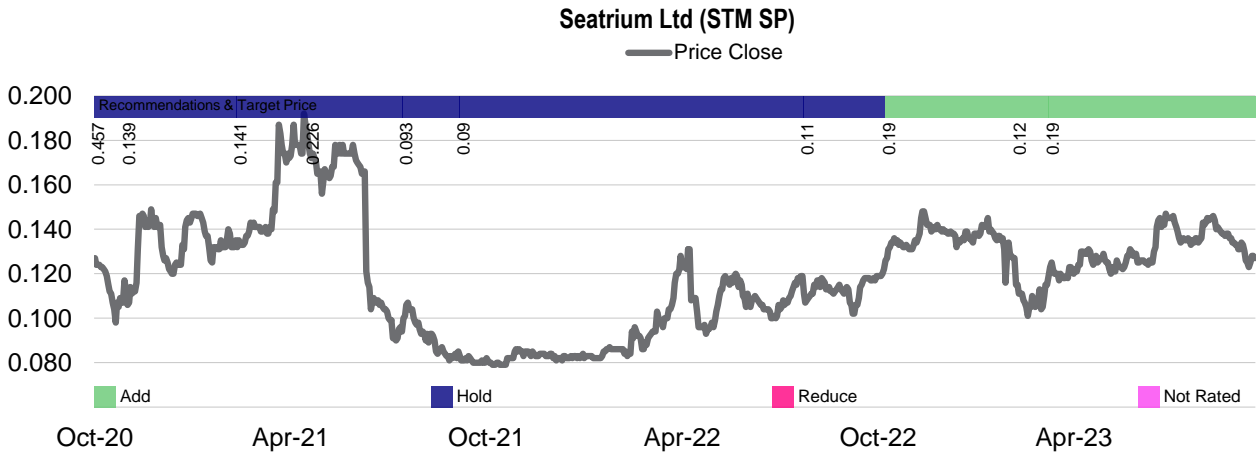
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework	
Stock Ratings	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.
<i>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.</i>	
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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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