

Singapore Company Update

Seatrium Limited

Bloomberg: STM SP | Reuters: SEAT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Nov 2023

BUY

Last Traded Price (7 Nov 2023): S\$0.113 (STI: 3,173.81)

Price Target 12-mth: S\$0.18 (59% upside)

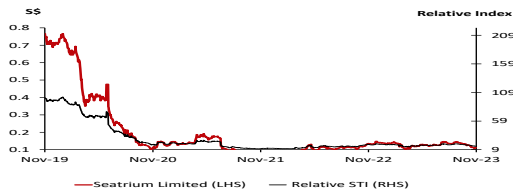
Analyst

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What's New

- 3Q revenue surged to >\$2bn, beating expectations; a positive indicator for margin recovery
- Offshore renewable projects on orderbook intact while US offshore renewables hit roadblocks; European seems to be progressing well
- Strategic review to be concluded year-end but released in 1H24; contract wins remain key catalysts
- Attractive risk-reward; reiterate BUY with TP S\$0.18

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	1,862	1,947	5,439	6,943
EBITDA	(1,026)	(5.5)	151	588
Pre-tax Profit	(1,255)	(240)	(265)	260
Net Profit	(1,171)	(261)	(254)	218
Net Pft (Pre Ex.)	(1,171)	(261)	(254)	218
Net Pft Gth (Pre-ex) (%)	(101.0)	77.7	2.6	nm
EPS (S cts)	(6.8)	(0.8)	(0.4)	0.32
EPS Pre Ex. (S cts)	(6.8)	(0.8)	(0.4)	0.32
EPS Gth Pre Ex (%)	45	88	51	nm
Diluted EPS (S cts)	(6.8)	(0.8)	(0.4)	0.32
Net DPS (S cts)	0.0	0.0	0.0	0.10
BV Per Share (S cts)	12.7	12.0	11.4	11.8
PE (X)	nm	nm	nm	35.4
PE Pre Ex. (X)	nm	nm	nm	35.4
P/Cash Flow (X)	nm	3.4	87.5	16.5
EV/EBITDA (X)	nm	nm	53.4	14.4
Net Div Yield (%)	0.0	0.0	0.0	0.9
P/Book Value (X)	0.9	0.9	1.0	1.0
Net Debt/Equity (X)	0.6	0.3	0.1	0.1
ROAE (%)	(30.5)	(6.7)	(4.4)	2.7
Earnings Rev (%)			0	0
Consensus EPS (S cts):			(0.1)	0.0
Other Broker Recs:		B: 5	S: 2	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Charting a Growth Course

Investment Thesis:

A global leader in offshore engineering. The acquisition of Keppel Offshore & Marine (KOM) by Sembcorp Marine (SMM) created a global champion with world-class yard facilities and offshore engineering capabilities – Seatrium Limited (STM). Combining their strengths, STM is set to emerge as a global leading clean energy solutions provider.

Earnings turnaround in sight. The spectacular order wins since 2H22 have led to the combined orderbook tripling to over S\$17.7bn as of Sep 2023. As yard activities increased in FY23, losses should have narrowed. While potential integration hiccups and costs could still pose some downside risks this year, these should be one-offs. Looking beyond, we expect STM to reap synergies from the merger on both the cost and revenue front and turn profitable by FY24.

Operational improvement and order wins are key re-rating catalysts.

STM's share price has tumbled >90% from a five-year high of ~S\$1.50 in early 2018, on the back of huge losses, a depleting orderbook, and skyrocketing gearing levels. However, the tide is turning now – the balance sheet has strengthened following two rounds of rights issues and the orderbook has climbed from <1x revenue coverage to c.3x. We are hopeful of operational improvements post-yard merger, translating to positive profits by FY24F, with a brighter outlook for order wins in both the conventional energy and renewables spaces.

Reiterate BUY; TP unchanged at S\$0.18, based on a 1.5x FY24F P/BV, in line with peers' median. This points to a 59% upside potential. We believe 40% of the re-rating could come from an earnings turnaround and 60% from an upliftment in the valuation multiple from 1.1x P/BV towards 1.5x P/BV, on the back of the robust order momentum, integration synergies, and solid management execution.

Key Risks

An unexpected plunge in oil prices could dampen the momentum of order wins, while integration hiccups and expenses could delay earnings recovery. The ongoing investigations into its Brazil yard remain an overhang as well.

At A Glance

Issued Capital (m shrs)	68,237
Mkt. Cap (S\$m/US\$m)	7,711 / 5,693
Major Shareholders (%)	
Temasek Holdings Pte	54.6
Free Float (%)	45.4
3m Avg. Daily Val (US\$m)	24.3
GIC Industry : Industrials / Capital Goods	

WHAT'S NEW

3Q business update alleviates concerns

Revenue in 3Q beat expectations, a positive indicator for margin recovery. STM generated over S\$2bn revenue in 3Q23, taking a cue from the orderbook decline to S\$17.7bn (from S\$19.7bn last quarter). This is significantly higher than market expectations and the average quarterly revenue of over S\$1.4bn in 1H23. Management attributes this to good progress of yard integration combined with project execution. We see the higher yard activity level as a positive indicator of margin recovery 2H23 onwards.

Encouraging order wins YTD amounting to S\$4.3bn. While there haven't been any new orders secured in 3Q, STM won S\$4.3bn worth projects in 1H23. New wins comprise largely of contracts for two High Voltage Direct Current (HVDC) electrical transmission systems for TenneT – a leading European grid operator – estimated at S\$3.3bn, and an Empire offshore wind farm substation worth c.S\$500m.

Enquiry level and order pipeline remain buoyant. STM is well positioned to benefit from the robust demand for FPSOs and European offshore wind assets. STM has distinctive value propositions – engineering capability, cost efficiency, access to financing, track record, and with headquarters in Singapore.

The third **TenneT HVDC contract**, which we estimate to be worth S\$1.6-1.8bn, stands a good chance to become effective in the next few months, following good progress at yard for the first two units. In addition, there is more to come as TenneT has ambitious plans to build 60GW of offshore wind capacities by 2030 (28GW awarded thus far) and 300GW by 2050.

STM is one of two front-runners for **Petrobras' P84 & P85 FPSOs**, valued at approx. S\$4bn each for the Atapu and Sépia fields, which are the sixth and fifth-largest in Brazil. The other bidder is China Offshore Oil Engineering Corporation (COOEC). STM is widely expected to win at least one FPSO order. The tender is going well and was expected to be awarded by year-end, but due to the complexity of the project, is still currently undergoing technical clarification. Prospects for FPSO remains bright. From 2023 to 2030, Rystad had forecasted 48 FPSO deals for new greenfield developments.

STM is also pursuing projects for **Floating LNG (FLNG)** and **Wind Turbine installation Vessels (WTIV)**, which typically cost S\$500m-1bn. There are also increased inquiries for **reactivations / upgrade of jack up rigs** given the spike in utilisation and day rates.

Offshore wind supply issues to not derail the energy transition trend. Energy transition is here to stay, though sailing is not smooth at times. The highly publicized offshore wind supply chain issues are predominantly hitting the US East Coast, exacerbated by high interest rate and cost inflation. STM's Empire Wind I project with global leader in offshore wind – Orsted, which was hit by a

huge impairment in 3Q – is proceeding as planned, and is in negotiation with the customer on the plan for Empire Wind II. So far, European offshore wind outlook remains promising.

Net gearing improved slightly to 0.15x (from 0.17x a quarter ago), likely attributable to improvement in operating cash flow. Following the early prepayment of S\$968m from Borr Drilling in Nov '23, net gearing will likely be significantly reduced to near-zero.

Recall that as of end Jun '2023, STM has cash on hand of c.S\$2.4bn, while total debt amounted to S\$4.25bn, of which c. S\$1.6bn or c.38% is associated with interest-bearing receivables from Borr Drilling (repayment by 2025) and Transocean (repayment by 2027) under the deferred payment scheme on delivered rigs. Stripping out Borr Drilling's, outstanding receivables under deferred payment scheme would be just the S\$580m from Transocean.

Strategic Review to be concluded by year-end and shared be during Capital Market Day in 1H24. While the strategic review should be concluded by year-end, as previously guided, the communication with investment community will slip into 1H24. We expect more details on **integration and strategy**, though management has been communicating with the investment community in the past few months on STM's broad direction. Integration **synergies, streamlining operations, and resultant cost savings** are other considerations. We understand that there should be minimal workforce redundancies given the rising activity level. Finally, relooking into the **capital structure and lowering cost of capital** plays a vital role for the group's longer-term growth. While not a top priority, **share consolidation** to reduce share price volatility remains a possibility under consideration.

Recent pullback a buying opportunity. The stock has tumbled c.25% from its high of 15 Scts in early-Sept. Apart from broad market weakness amidst economic uncertainty, investors might also be concerned about the potential asset write down post-merger and the slowdown in offshore wind installation in Europe dampening order win momentum. We remain optimistic on STM's prospects. Earnings turnaround are intact and order wins outlook remains buoyant from both O&G and renewable markets.

Company Background

Seatrium (STM) is a pure play in the offshore and marine sector. Its principal activities are rig building and offshore engineering, ship conversion, ship repair, and the building of specialised vessels.

Seatrium Limited

Peer comparison

Company	Last Px (LC)	Market cap (US\$m)	P/E		P/B		ROE (%)			Net D/E Current	Div Yld (%) Current
			FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY25F		
Singapore											
Seatrium	0.11	5,499	na	37x	0.9x	0.9x	-3.7%	2.9%	6.4%	0.3x	na
Yangzijiang	1.51	4,371	9x	8x	1.6x	1.4x	18.6%	18.0%	17.1%	CASH	3.3%
Korea											
HD Korea Shipbuilding & Offshore	94,300	5,006	25x	7x	0.7x	0.6x	2.7%	9.2%	12.8%	0.0x	na
HD Hyundai Heavy Industries	109,100	7,264	80x	18x	1.8x	1.6x	2.2%	9.7%	13.5%	0.3x	na
Hyundai Mipo	72,800	2,181	na	19x	1.4x	1.3x	-1.3%	7.0%	11.9%	CASH	na
Samsung Heavy Industries	7,160	4,726	48x	17x	1.6x	1.4x	nm	nm	nm	0.6x	na
Hanwha Ocean	23,500	3,861	na	26x	1.7x	1.6x	-10.6%	6.7%	12.9%	2.2x	na
China											
China CSSC	25.57	15,635	44x	17x	2.4x	2.1x	5.4%	12.7%	15.2%	CASH	0.1%
China Shipbuilding Industry Co (CSIC)	4.00	12,470	67x	19x	1.1x	1.0x	1.5%	5.3%	8.6%	CASH	na
Average:			45x	19x	1.5x	1.3x	2.1%	9.0%	12.5%	0.7x	1.7%
Median:			46x	18x	1.6x	1.4x	2.2%	9.2%	12.9%	0.3x	1.7%

Source: DBS Bank, Company, Bloomberg Finance L.P.

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

Seatrium Limited

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
New order wins (\$ m)	0.0	800	6,300	7,000	7,000

Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Rigs & Floaters	675	803	1,073	3,206	4,186
Offshore Platforms	310	574	283	1,294	1,714
Repairs & Upgrades	425	396	506	859	963
Specialised Shipbuilding	0.0	0.0	0.0	0.0	0.0
Others	100	89.0	85.0	80.0	80.0
Total	1,510	1,862	1,947	5,439	6,943

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	1,510	1,862	1,947	5,439	6,943
Cost of Goods Sold	(2,001)	(2,945)	(2,079)	(5,548)	(6,373)
Gross Profit	(490)	(1,082)	(132)	(109)	569
Other Opng (Exp)/Inc	(91.1)	(142)	(74.3)	(46.4)	(258)
Operating Profit	(582)	(1,224)	(206)	(155)	312
Other Non Opng (Exp)/Inc	0.50	0.0	0.01	0.0	0.0
Associates & JV Inc	0.51	1.17	1.13	7.92	8.32
Net Interest (Exp)/Inc	(90.2)	(31.8)	(34.4)	(118)	(59.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(671)	(1,255)	(240)	(265)	260
Tax	83.5	79.4	(25.8)	13.4	(45.3)
Minority Interest	4.70	4.80	4.42	(2.7)	2.67
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(583)	(1,171)	(261)	(254)	218
Net Profit before Except.	(583)	(1,171)	(261)	(254)	218
EBITDA	(379)	(1,026)	(5.5)	151	588
Growth					
Revenue Gth (%)	(47.6)	23.3	4.6	179.3	27.6
EBITDA Gth (%)	nm	(171.0)	99.5	nm	289.4
Opg Profit Gth (%)	319.0	110.5	(83.1)	(24.9)	(300.8)
Net Profit Gth (Pre-ex) (%)	(324.7)	(101.0)	77.7	2.6	nm
Margins & Ratio					
Gross Margins (%)	(32.5)	(58.1)	(6.8)	(2.0)	8.2
Opg Profit Margin (%)	(38.5)	(65.7)	(10.6)	(2.9)	4.5
Net Profit Margin (%)	(38.6)	(62.9)	(13.4)	(4.7)	3.1
ROAE (%)	(19.9)	(30.5)	(6.7)	(4.4)	2.7
ROA (%)	(6.7)	(12.8)	(2.8)	(2.1)	1.4
ROCE (%)	(7.9)	(16.0)	(2.8)	(1.6)	2.1
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	31.3
Net Interest Cover (x)	(6.4)	(38.5)	(6.0)	(1.3)	5.2

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	844	1,018	1,095	852	2,886
Cost of Goods Sold	(1,432)	(1,512)	(1,188)	(891)	(3,036)
Gross Profit	(588)	(494)	(92.9)	(39.3)	(150)
Other Oper. (Exp)/Inc	(121)	(21.0)	(22.1)	(52.1)	(22.2)
Operating Profit	(709)	(515)	(115)	(91.4)	(173)
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.01	0.0
Associates & JV Inc	0.66	0.50	0.41	0.72	(1.3)
Net Interest (Exp)/Inc	(19.3)	(12.6)	(19.6)	(14.8)	(66.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(728)	(527)	(134)	(105)	(241)
Tax	78.0	1.41	(10.8)	(15.1)	(26.3)
Minority Interest	2.27	2.54	2.17	2.25	2.49
Net Profit	(647)	(523)	(143)	(118)	(264)
Net profit bef Except.	(647)	(523)	(143)	(118)	(264)
EBITDA	(611)	(416)	(18.1)	(90.7)	(174)

Growth

Revenue Gth (%)	39.7	20.6	7.6	(22.2)	238.6
EBITDA Gth (%)	(98.4)	31.9	95.6	(400.9)	(91.8)
Opg Profit Gth (%)	73.4	(27.3)	(77.7)	(20.6)	88.9
Net Profit Gth (%)	65.8	(19.1)	(72.7)	(17.2)	123.5

Margins

Gross Margins (%)	(69.7)	(48.5)	(8.5)	(4.6)	
Opg Profit Margins (%)	(84.0)	(50.6)	(10.5)	(10.7)	(6.0)
Net Profit Margins (%)	(76.7)	(51.4)	(13.0)	(13.9)	(9.2)

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	4,115	3,993	3,860	4,862	4,793
Invts in Associates & JVs	15.4	16.6	17.5	25.5	33.8
Other LT Assets	1,699	2,265	2,091	4,965	4,965
Cash & ST Invts	806	1,108	2,131	2,732	3,100
Inventory	1,699	1,431	415	1,452	1,854
Debtors	618	471	572	1,209	1,543
Other Current Assets	17.1	16.1	14.8	14.8	14.8
Total Assets	8,970	9,300	9,102	15,261	16,304
ST Debt	2,143	842	1,695	1,795	1,795
Creditor	1,052	1,432	1,053	1,813	2,314
Other Current Liab	204	260	686	1,654	1,836
LT Debt	1,698	2,513	1,662	1,962	2,062
Other LT Liabilities	176	229	218	218	218
Shareholder's Equity	3,667	4,001	3,769	7,797	8,060
Minority Interests	28.8	23.8	19.0	21.7	19.1
Total Cap. & Liab.	8,970	9,300	9,102	15,261	16,304
Non-Cash Wkg. Capital	1,078	227	(736)	(791)	(738)
Net Cash/(Debt)	(3,035)	(2,247)	(1,227)	(1,025)	(757)
Debtors Turn (avg days)	133.1	106.8	97.8	59.7	72.3
Creditors Turn (avg days)	242.8	165.0	241.2	99.6	123.4
Inventory Turn (avg days)	341.2	207.8	179.3	64.9	98.8
Asset Turnover (x)	0.2	0.2	0.2	0.4	0.4
Current Ratio (x)	0.9	1.2	0.9	1.0	1.1
Quick Ratio (x)	0.4	0.6	0.8	0.7	0.8
Net Debt/Equity (X)	0.8	0.6	0.3	0.1	0.1
Net Debt/Equity ex MI (X)	0.8	0.6	0.3	0.1	0.1
Capex to Debt (%)	2.3	1.2	0.6	5.3	5.2

Source: Company, DBS Bank

Seatrium Limited

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	(671)	(1,255)	(240)	(265)	260
Dep. & Amort.	202	197	200	298	268
Tax Paid	(7.9)	(5.1)	(2.4)	0.0	0.0
Assoc. & JV Inc/(loss)	(0.5)	(1.2)	(1.1)	(7.9)	(8.3)
Chg in Wkg.Cap.	(821)	295	1,050	54.9	(52.8)
Other Operating CF	549	180	32.4	0.0	0.0
Net Operating CF	(750)	(589)	1,039	80.2	468
Capital Exp.(net)	(87.2)	(41.8)	(20.3)	(200)	(200)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.9)	(2.4)	(5.9)	(4,674)	0.0
Net Investing CF	(88.1)	(44.2)	(26.2)	(4,874)	(200)
Div Paid	(0.1)	(0.1)	0.0	0.0	0.0
Chg in Gross Debt	639	(512)	(19.9)	400	100
Capital Issues	587	1,499	0.0	4,495	0.0
Other Financing CF	0.0	(22.1)	(0.8)	500	0.0
Net Financing CF	1,226	964	(20.7)	5,395	100
Currency Adjustments	(4.4)	0.84	(5.7)	0.0	0.0
Chg in Cash	383	332	987	602	368
Opg CFPS (S cts)	1.52	(5.1)	0.0	0.04	0.76
Free CFPS (S cts)	(17.8)	(3.7)	3.25	(0.2)	0.39

Source: Company, DBS Bank

Target Price & Ratings 12-mth History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Mar 23	0.11	0.14	BUY
2:	16 May 23	0.13	0.18	BUY
3:	07 Jul 23	0.13	0.18	BUY
4:	19 Jul 23	0.14	0.18	BUY
5:	31 Jul 23	0.14	0.18	BUY
6:	22 Sep 23	0.13	0.18	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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