

# 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

27 Feb 2024

### BUY

Last Traded Price (26 Feb 2024): S\$0.091 (STI : 3,171.12)  
Price Target 12-mth: S\$0.15 (65% upside) (Prev S\$0.18)

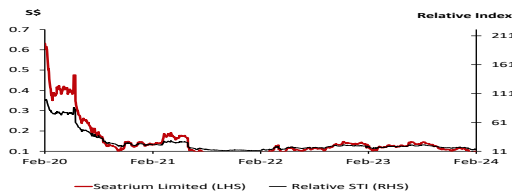
#### Analyst

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#### What's New

- 2H23 write-downs much larger than expected at S\$1.7bn; operating recovery on track, vindicated by first interim net profit since 2018 in 2H23
- Fine-tuned our FY24-25F earnings by ~11%-12%, factoring in weaker margins for old contracts and product types
- Worst is behind; remain positive on STM's turnaround though recovery path might be bumpy
- Reiterate BUY; TP adjusted to S\$0.15 to reflect higher provisions and impairment in 2023

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Revenue	1,947	7,291	7,525	8,285
EBITDA	(5.5)	(1,391)	661	971
Pre-tax Profit	(240)	(1,939)	232	592
Net Profit	(261)	(1,940)	194	496
Net Pft (Pre Ex.)	(261)	(1,940)	194	496
Net Pft Gth (Pre-ex) (%)	77.7	(643.0)	nm	155.8
EPS (S cts)	(0.8)	(3.1)	0.28	0.73
EPS Pre Ex. (S cts)	(0.8)	(3.1)	0.28	0.73
EPS Gth Pre Ex (%)	88	(276)	nm	156
Diluted EPS (S cts)	(0.8)	(3.1)	0.28	0.73
Net DPS (S cts)	0.0	0.0	0.10	0.35
BV Per Share (S cts)	12.0	9.48	9.95	10.9
PE (X)	nm	nm	32.1	12.5
PE Pre Ex. (X)	nm	nm	32.1	12.5
P/Cash Flow (X)	2.7	9.4	8.2	6.4
EV/EBITDA (X)	nm	nm	10.4	6.4
Net Div Yield (%)	0.0	0.0	1.1	3.8
P/Book Value (X)	0.8	1.0	0.9	0.8
Net Debt/Equity (X)	0.3	0.2	0.1	CASH
ROAE (%)	(6.7)	(37.9)	2.9	7.0
Earnings Rev (%):			(11)	(12)
Consensus EPS (S cts):			0.03	0.07
Other Broker Recs:		B: 8	S: 1	H: 0

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

### Despite write-downs, do not write-off

#### Investment Thesis:

**A global leader in offshore engineering.** The merger of Keppel Offshore & Marine (KOM) and Sembcorp Marine (SMM) creates 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 globally leading clean energy solutions provider.

**Earnings turnaround on track.** Current orderbook of over S\$16.2bn as of end-Feb 2024 implies revenue coverage of around two years. While potential integration hiccups and costs could pose further downside risks this year, these should be one-offs. Looking beyond this, we expect STM to reap synergies from the merger, on both the cost and revenue front; improve efficiency; and turn profitable from FY24.

**Operational improvement and order wins are key re-rating catalysts.** STM's share price has corrected from the high of ~15 Scts in Sept 2023 due to offshore wind project cancellations, write-down uncertainty, and delayed contract awards. However, the worst should be behind, with the finalisation of a massive write-down, conclusion of the Brazil *Operation Car Wash* case, and restoration of confidence, with notification to proceed with the third TeneT project. We are hopeful of operational improvements and a bright outlook for order wins, in both the conventional energy and renewables spaces.

**Reiterate BUY; TP lowered to S\$0.15** (vs. S\$0.18 previously), following the decline in the book value post the write-down, still based on 1.5x FY24F PB. We believe 40% of the re-rating could come from the earnings turnaround and 60% from an uplift in the valuation multiple from 0.9x PB towards 1.5x PB, 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 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)	6,210 / 4,623
Major Shareholders (%)	
Temasek Holdings Pte Ltd	35.5
Free Float (%)	64.5

**GIC Industry:** Industrials / Capital Goods



Watchlist the stock on Insights Direct to receive prompt updates

## WHAT'S NEW

### FY23 hit by write-downs and provisions

**Bigger-than-expected write-downs in 2H23...** STM reported a net loss of S\$1.7bn for 2H23, bringing its **full-year loss to S\$1.94bn**. This is much higher than the expectation of a S\$500-600m net loss for FY23 due to massive **non-cash write-downs of S\$1.4bn** for non-core assets and obsolete inventories arising from a strategic review; and **S\$0.6bn in provisions** for onerous contracts, legal and corporate claims (largely the Brazil in-principle settlement), and merger-related expenses.

**...but encouraging operating performance with interim profit for the first time since 2018.** If we strip out the huge one-offs, core operations achieved a **net profit of S\$33m in 2H23** (partly aided by forex gains, which is considered part and parcel of the O&M business), marking the first time it has achieved an interim profit since 2018, from a small loss in 1H23.

**Any further provision and impairment risks?** Management believes that **sufficient** provisions and impairments have been made after a thorough assessment of combined assets in the merged entity. **Goodwill resulting from the merger is also justifiable** and no impairment is required at this point.

**Slowly but surely; bottoming out from here.** 2023 is a transition year for STM. **Tremendous improvement in operations** has been achieved this year, delivering over 50% y-o-y growth from FY22 combined revenue and strong positive EBITDA of S\$628m. A more prominent earnings turnaround could be expected from 2024 onwards, with integration synergies and improved productivity. Meanwhile, the robust order pipeline and upcoming **Investor Day for sharing the Strategic Review on 15 Mar** are near-term catalysts and confidence boosters.

**Order wins of ~S\$4.5bn in FY23**, resulting in **net orderbook of S\$16.2bn**. **Legacy contracts accounted for c.10%** of the orderbook and shall mostly be delivered by end-2024.

New wins largely comprise contracts for two High Voltage Direct Current (HVDC) electrical transmission systems for TenneT with an estimated value of S\$3.3bn and the Empire offshore wind farm substation worth c.S\$500m. Management remains confident about the outlook on order wins, in both the O&G and renewable markets. We expect S\$6-7bn in new orders in FY24-25.

**The third TenneT HVDC contract received notice to proceed** in mid-Feb and will **take effect from Jun 2024**. We estimate the contract value to be S\$1.6-1.8bn. There will be more HVDC transmission platforms to come, as **TenneT has ambitious plans** to build 60GW of offshore wind capacity by 2030 (28GW awarded thus far) and 300GW by 2050.

**STM might be winning both P84 and P85 FPSOs** from Petrobras, following the withdrawal of the only other competitor COOEC, which cited a local content hurdle. In early Jan 2024, STM was reportedly in **direct negotiations** with Petrobras for both FPSOs, valued at S\$4bn each.

**Brazil settlement removes long-drawn overhang.** Together with the results, STM announced that it has reached a leniency agreement with the Brazilian authorities to make a settlement of S\$182.4m. In addition, the group has also made a provision of S\$82.4m for indemnity to Keppel Ltd. in relation to this matter. The in-principle settlement agreement relating to *Operation Car Wash* will remove the overhang of potential liabilities relating to it; the investigation has dragged on for over 10 years. It also allows STM to move forward, and guarantee its participation in future tenders in the Brazilian market, for which it has ambitious plans. Management concurs that this solution shall be the least disruptive to STM.

**STM is also proposing a 20-to-1 share consolidation** to reduce unwarranted share price volatility and improve its penny stock status, making it more appealing to institutional investors. Share price would then be adjusted from current ~S\$0.09 to S\$1.80.

**Renewable and cleaner/green solutions** form **39%** of the group's net orderbook. This is in line with the long-term target of STM. The portion of cleaner solutions could fluctuate, depending on industry cyclicality and the capex cycle.

**Net gearing is low at <0.2x**, down from 0.26x as of end-2022. 2H23 saw the early prepayment of S\$968m from Borr Drilling, leaving <S\$500m outstanding as a deferred payment from Transocean for the drillship delivered. Management stresses it will focus on projects that are cash flow neutral, at least.

**Earnings revisions.** We have lowered our FY24/25 earnings forecasts by ~11%-12%, factoring in weaker margins for legacy contracts and lower margins for first-of-its-kind projects at the initial phase.

**Time to bottom fish.** Our TP is reduced to S\$0.15 due to the decline in the book value following the big write-downs in FY23, still pegged to 1.5x PB. We believe this should mark the near-term bottom of the stock, given the improving operating profitability and removal of overhangs.

### 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.

## Interim Income Statement (\$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Revenue	852	2,886	4,406	417.0	52.7
Cost of Goods Sold	(891)	(3,036)	(4,465)	400.8	47.1
<b>Gross Profit</b>	<b>(39)</b>	<b>(150)</b>	<b>(59)</b>	<b>(50.2)</b>	<b>60.8</b>
Other Oper. (Exp)/Inc	(52)	(22)	(1,341)	2,472.0	5,934.1
<b>Operating Profit</b>	<b>(91)</b>	<b>(173)</b>	<b>(1,400)</b>	<b>1,431.9</b>	<b>711.1</b>
Other Non Opg (Exp)/Inc	0	0	(282)	nm	nm
Associates & JV Inc	1	(1)	8	nm	nm
Net Interest (Exp)/Inc	(15)	(67)	(25)	(70.7)	62.1
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>(105)</b>	<b>(241)</b>	<b>(1,699)</b>	<b>(1,510.6)</b>	<b>(606.3)</b>
Tax	(15)	(26)	12	(182.8)	(147.3)
Minority Interest	2	2	11	369.1	323.8
<b>Net Profit</b>	<b>(118)</b>	<b>(264)</b>	<b>(1,676)</b>	<b>(1,316.8)</b>	<b>533.9</b>
Net profit bef Except.	(118)	(264)	(1,676)	(1,316.8)	533.9
EBITDA	13	26	(1,417)	nm	nm
<b>Margins (%)</b>					
Gross Margins	(4.6)	(5.2)	(1.3)		
Opg Profit Margins	(10.7)	(6.0)	(31.8)		
Net Profit Margins	(13.9)	(9.2)	(38.0)		

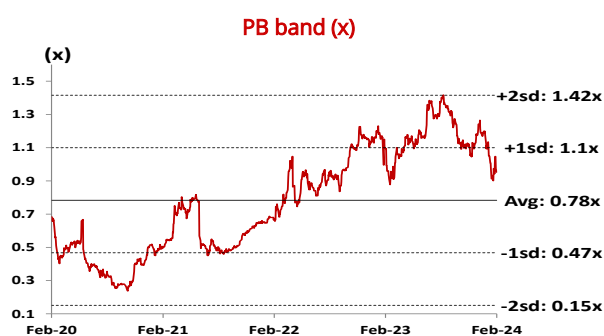
Source of all data: Company, DBS Bank Ltd

## Peer comparison

Company	Last Px	Market cap	P/E		P/B		ROE (%)			Net D/E	Div Yld (%)
	(LC)	(US\$m)	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY25F	Current	Current
<b>Singapore</b>											
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%
<b>Korea</b>											
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
<b>China</b>											
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
		<b>Average:</b>	<b>45x</b>	<b>19x</b>	<b>1.5x</b>	<b>1.3x</b>	<b>2.1%</b>	<b>9.0%</b>	<b>12.5%</b>	<b>0.7x</b>	<b>1.7%</b>
		<b>Median:</b>	<b>46x</b>	<b>18x</b>	<b>1.6x</b>	<b>1.4x</b>	<b>2.2%</b>	<b>9.2%</b>	<b>12.9%</b>	<b>0.3x</b>	<b>1.7%</b>

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

### Historical PB band



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

### Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
New order wins (S\$ m)	800	6,300	4,500	7,000	6,000

### Income Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	1,862	1,947	7,291	7,525	8,285
Cost of Goods Sold	(2,945)	(2,079)	(7,501)	(6,998)	(7,457)
<b>Gross Profit</b>	<b>(1,082)</b>	<b>(132)</b>	<b>(209)</b>	<b>527</b>	<b>829</b>
Other Opng (Exp)/Inc	(142)	(74.3)	(1,363)	(244)	(211)
<b>Operating Profit</b>	<b>(1,224)</b>	<b>(206)</b>	<b>(1,573)</b>	<b>283</b>	<b>618</b>
Other Non Opng (Exp)/Inc	0.0	0.01	(282)	0.0	0.0
Associates & JV Inc	1.17	1.13	7.05	8.32	8.73
Net Interest (Exp)/Inc	(31.8)	(34.4)	(92.0)	(59.4)	(34.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(1,255)</b>	<b>(240)</b>	<b>(1,939)</b>	<b>232</b>	<b>592</b>
Tax	79.4	(25.8)	(13.9)	(40.3)	(103)
Minority Interest	4.80	4.42	13.0	2.37	6.05
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(1,171)</b>	<b>(261)</b>	<b>(1,940)</b>	<b>194</b>	<b>496</b>
Net Profit before Except.	(1,171)	(261)	(1,940)	194	496
EBITDA	(1,026)	(5.5)	(1,391)	661	971
<b>Growth</b>					
Revenue Gth (%)	23.3	4.6	274.5	3.2	10.1
EBITDA Gth (%)	(171.0)	99.5	(25,230.0)	nm	47.0
Opg Profit Gth (%)	110.5	(83.1)	661.8	(118.0)	118.5
Net Profit Gth (Pre-ex) (%)	(101.0)	77.7	(643.0)	nm	155.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	(58.1)	(6.8)	(2.9)	7.0	10.0
Opg Profit Margin (%)	(65.7)	(10.6)	(21.6)	3.8	7.5
Net Profit Margin (%)	(62.9)	(13.4)	(26.6)	2.6	6.0
ROAE (%)	(30.5)	(6.7)	(37.9)	2.9	7.0
ROA (%)	(12.8)	(2.8)	(15.3)	1.2	2.9
ROCE (%)	(16.0)	(2.8)	(17.3)	2.1	4.4
Div Payout Ratio (%)	N/A	N/A	N/A	35.2	48.2
Net Interest Cover (x)	(38.5)	(6.0)	(17.1)	4.8	18.0

Source: Company, DBS Bank Ltd

**Interim Income Statement (\$m)**

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	1,018	1,095	852	2,886	4,406
Cost of Goods Sold	(1,512)	(1,188)	(891)	(3,036)	(4,465)
<b>Gross Profit</b>	<b>(494)</b>	<b>(92.9)</b>	<b>(39.3)</b>	<b>(150)</b>	<b>(59.0)</b>
Other Oper. (Exp)/Inc	(21.0)	(22.1)	(52.1)	(22.2)	(1,341)
<b>Operating Profit</b>	<b>(515)</b>	<b>(115)</b>	<b>(91.4)</b>	<b>(173)</b>	<b>(1,400)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.01	0.0	(282)
Associates & JV Inc	0.50	0.41	0.72	(1.3)	8.32
Net Interest (Exp)/Inc	(12.6)	(19.6)	(14.8)	(66.7)	(25.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(527)</b>	<b>(134)</b>	<b>(105)</b>	<b>(241)</b>	<b>(1,699)</b>
Tax	1.41	(10.8)	(15.1)	(26.3)	12.5
Minority Interest	2.54	2.17	2.25	2.49	10.5
<b>Net Profit</b>	<b>(523)</b>	<b>(143)</b>	<b>(118)</b>	<b>(264)</b>	<b>(1,676)</b>
Net profit bef Except.	(523)	(143)	(118)	(264)	(1,676)
EBITDA	(416)	(18.1)	12.6	26.1	(1,417)

**Growth**

Revenue Gth (%)	20.6	7.6	(22.2)	238.6	52.7
EBITDA Gth (%)	31.9	95.6	nm	107.3	nm
Opg Profit Gth (%)	(27.3)	(77.7)	(20.6)	88.9	711.1
Net Profit Gth (%)	(19.1)	(72.7)	(17.2)	123.5	533.9

**Margins**

Gross Margins (%)	(48.5)	(8.5)	(4.6)	(5.2)	(1.3)
Opg Profit Margins (%)	(50.6)	(10.5)	(10.7)	(6.0)	(31.8)
Net Profit Margins (%)	(51.4)	(13.0)	(13.9)	(9.2)	(38.0)

**Balance Sheet (\$m)**

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	3,993	3,860	4,081	4,029	4,002
Invt in Associates & JVs	16.6	17.5	180	189	197
Other LT Assets	2,265	2,091	5,646	5,646	5,646
Cash & ST Invt	1,108	2,131	2,322	2,981	3,789
Inventory	1,431	415	2,831	1,982	2,182
Debtors	471	572	1,159	1,505	1,657
Other Current Assets	16.1	14.8	8.01	8.01	8.01
<b>Total Assets</b>	<b>9,300</b>	<b>9,102</b>	<b>16,227</b>	<b>16,339</b>	<b>17,481</b>
ST Debt	842	1,695	788	788	788
Creditor	1,432	1,053	4,137	3,010	3,314
Other Current Liab	260	686	1,263	2,084	2,211
LT Debt	2,513	1,662	2,763	2,863	2,963
Other LT Liabilities	229	218	784	784	784
Shareholder's Equity	4,001	3,769	6,471	6,792	7,409
Minority Interests	23.8	19.0	20.9	18.6	12.5
<b>Total Cap. &amp; Liab.</b>	<b>9,300</b>	<b>9,102</b>	<b>16,227</b>	<b>16,339</b>	<b>17,481</b>
Non-Cash Wkg. Capital	227	(736)	(1,402)	(1,599)	(1,678)
Net Cash/(Debt)	(2,247)	(1,227)	(1,229)	(670)	37.7
Debtors Turn (avg days)	106.8	97.8	43.3	64.6	69.7
Creditors Turn (avg days)	165.0	241.2	134.4	196.8	162.3
Inventory Turn (avg days)	207.8	179.3	84.1	132.5	106.8
Asset Turnover (x)	0.2	0.2	0.6	0.5	0.5
Current Ratio (x)	1.2	0.9	1.0	1.1	1.2
Quick Ratio (x)	0.6	0.8	0.6	0.8	0.9
Net Debt/Equity (X)	0.6	0.3	0.2	0.1	CASH
Net Debt/Equity ex MI (X)	0.6	0.3	0.2	0.1	CASH
Capex to Debt (%)	1.2	0.6	3.3	5.5	5.3

Source: Company, DBS Bank Ltd

## Seatrium Limited

## Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	(1,255)	(240)	(1,939)	232	592
Dep. & Amort.	197	200	398	370	345
Tax Paid	(5.1)	(2.4)	(23.5)	(31.1)	(31.1)
Assoc. & JV Inc/(loss)	(1.2)	(1.1)	(7.1)	(8.3)	(8.7)
Chg in Wkg.Cap.	295	1,050	122	197	78.5
Other Operating CF	180	32.4	2,051	0.0	0.0
<b>Net Operating CF</b>	<b>(589)</b>	<b>1,039</b>	<b>601</b>	<b>760</b>	<b>976</b>
Capital Exp.(net)	(41.8)	(20.3)	(116)	(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	(2.4)	(5.9)	770	0.0	0.0
<b>Net Investing CF</b>	<b>(44.2)</b>	<b>(26.2)</b>	<b>654</b>	<b>(200)</b>	<b>(200)</b>
Div Paid	(0.1)	(0.3)	0.0	0.0	(68.2)
Chg in Gross Debt	(512)	(19.9)	(1,017)	100	100
Capital Issues	1,499	0.0	0.0	0.0	0.0
Other Financing CF	(22.1)	(0.5)	(54.9)	0.0	0.0
<b>Net Financing CF</b>	<b>964</b>	<b>(20.7)</b>	<b>(1,072)</b>	<b>100</b>	<b>31.8</b>
Currency Adjustments	0.84	(5.7)	(4.3)	0.0	0.0
Chg in Cash	332	987	179	660	808
Opg CFPS (S cts)	(5.1)	0.0	0.77	0.82	1.31
Free CFPS (S cts)	(3.7)	3.25	0.78	0.82	1.14

Source: Company, DBS Bank Ltd

## Target Price &amp; 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
7:	08 Nov 23	0.11	0.18	BUY

Source: DBS Bank Ltd

Analyst: Pei Hwa HO

DBS Group Research 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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