RHB

Singapore Sector Update

7 July 2020

Energy & Petrochemicals | Offshore & Marine

Offshore & Marine

Overweight (Maintained)

Watch Out For More Restructuring; Stay O/W

Stocks Covered	3
Rating (Buy/Neutral/Sell):	3 / 0 / 0
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
Keppel Corp (KEP SP) – BUY	SGD7.30
Sembcorp Industries (SCI SP) – BUY	SGD2.11

- **Keep OVERWEIGHT,** as expectations of further restructuring will catalyse all three offshore & marine (O&M)-related stocks' prices. Top Pick: Keppel Corp (KEP), with Temasek's partial share offer as a precursor to restructuring and catalyst to share price upside. While KEP's O&M business should be weak over the next few quarters, the property wing could still drive profitability. Our next preference: Sembcorp Industries (SCI), which should emerge from the de-merger with Sembcorp Marine (SMM) without an O&M business and, thereafter, enjoy more stable earnings.
- **Expect KEP to see a restructuring if the partial offer goes through.** In Oct 2019, KEP announced Temasek's pre-conditional partial offer. The latter offered SGD7.35/share to acquire an additional 30.55% stake in the former – taking its stake to 51%. The aim: To do a comprehensive strategic review and create value for shareholders. We note the inclusion of pre-conditions in the offer, one of which being a "No Material Adverse Change" (MAC). Whilst COVID-19 and the oil price fall has increased the probability of a MAC – more colour should be seen post 1H20's results release on 30 Jul) – the Oct 2019 announcement also stated: "…Offer will be subject to the satisfaction and/or waiver (at the discretion of the Offeror) of the pre-conditions…". This suggests that Temasek can waive the pre-conditions.
- **KEP is likely to see respectable contributions from its non-O&M segments.** In April, the company said China land sales showed promise. The infrastructure unit saw a recurring 1Q20 YoY doubling in earnings when excluding the one-time gain from Keppel Infrastructure Trust's reclassification to investment from associate. We believe these segments could support 2Q20 earnings.
- **SCI and SMM to gain from the restructuring…** In June, SCI and SMM announced a proposal for the latter's recapitalisation via a rights issuance and subsequent demerger of the two firms. Upon completion, SCI will no longer be exposed to the O&M business – a positive development. We forecast SMM's FY20 net gearing falling to 48% from FY19's 194%, which should help it secure business in the tough O&M space. Further ahead, we believe more restructuring could occur between SMM and KEP's O&M business.
- **…but expect a lacklustre 1H20 for SCI and SMM's earnings.** In May, both companies said the short-term outlook was not positive. SCI said COVID-19 lockdowns had reduced energy demand and prices in multiple markets, while SMM expects the losses trend to continue in the foreseeable quarters.
- **Valuation.** We used SOP to obtain a SGD7.30 TP for KEP, based on the O&M division being valued at 1.3x FY20F P/BV – a discount to SMM's 5-year P/BV average mean of 1.4x. KEP's infrastructure wing is valued at 10x FY20F P/E, while the property business is valued at a 40% discount to RNAV. SCI's SGD2.11 TP assumes the demerger with SMM going through. Post demerger, its TP should fall to SGD1.30.

Analyst

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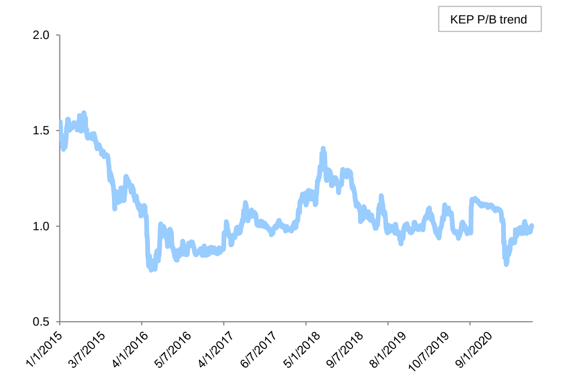
KEP trades at close to book value



Source: Bloomberg

Company Name	Rating	Target Price(SGD)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Keppel Corp	BUY	SGD7.30	18.5	16.2	1.0	2.8
Sembcorp Industries	BUY	SGD2.11	12.6	10.6	0.9	1.9
Sembcorp Marine	BUY	SGD1.13	140.4	na	0.2	-

Source: Company data, RHB

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