Small Cap Asean Research

# Singapore Results Review

16 July 2020

Energy & Petrochemicals | Oil & Gas Services

# Sembcorp Marine (SMM SP)

**Buy** (Maintained)

## COVID-19 Losses, But Projects Not Cancelled; BUY

| | |
|---|---|
| Target Price (Return): | SGD0.55 (19.6%) |
| Price: | SGD0.46 |
| Market Cap: | USD686m |
| Avg Daily Turnover (SGD/USD) | 4.42m/3.16m |

- **Keep BUY with a new P/BV-based SGD0.55 TP from SGD1.13, 20% upside.** 1H20**'s** SGD192m net loss compares with our and consensus pre-results FY20F loss of SGD60m and SGD85m – worse than expectations. Management guided for losses to continue into the foreseeable quarters. We raise our FY20F losses, as we cut our full-year contract wins to SGD600m vs FY19's SGD1.49bn. Whilst the share price could react negatively in the near term, we view the rights issue as a positive that will strengthen Sembcorp Marine's balance sheet and help raise orderbook.
- **1H20 revenue plunge due to rigs & floaters segment.** 1H20**'s** revenue of SGD906m was down 41% YoY. The rigs & floaters segment's 1H20 topline of SGD459m was down 62% YoY on lower production activities from COVID-19 stand downs. On a positive note, repairs & upgrades recorded a 1H20 revenue rise of 5% YoY to SGD258m. This was due to higher revenues per vessel on recognition of several upgrade projects for floating storage & regasification vessels or FSRUs and cruise ships.
- **No significant new contracts secured in 1H20, but orderbook remains respectable.** SMM's net orderbook as at end June was SGD1.91bn (Dec 2019: SGD2.44bn). In addition, the repairs & upgrades business has outstanding orders for execution of SGD280m. We have assumed 2H20 new contracts secured of SGD600m.
- **We forecast an FY20 net loss of SGD290m** vs our previous SGD60m loss estimation. This assumes a 2H20 loss of SGD98m, ie half that of 1H20. Management said COVID-19 led to the unavailability of workers to work on projects during this period due to the lockdowns. However, SMM has a list of projects awaiting execution. Hence, as workers are now allowed to commence work, revenue should improve. The company also said that none of its projects have been cancelled.
- **The impending rights issue should strengthen SMM's balance sheet.** 1H20 capex of SGD58m was less than a third of 1H19's. The company aims to keep capex low and only incur maintenance capex for the safety and operability of yard facilities. At end June, net gearing stood at 1.35x, excluding the SGD1.5bn subordinated loan from Sembcorp Industries (SCI SP, BUY, TP: SGD2.11). The proposed rights issue should lower net gearing to a *proforma* 0.45x.
- **Our TP assumes the rights issue's completion.** We lower our TP to SGD0.55, which is calculated backwards based on the TP post completion of the rights issue. After the latter, SMM's FY20F BV/share will fall to SGD0.32 from FY20F's SGD1.90 pre-rights, while our post-rights TP is SGD0.26, ie 0.82x BV, 1.5x SD below the 5-year average of 1.36x.


**Analyst**

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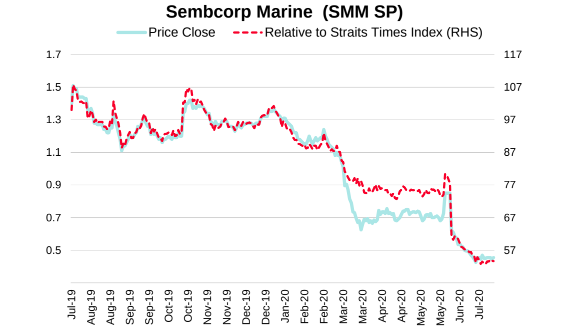
**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (65.5) | (15.0) | (37.3) | (65.3) | (67.5) |
| Relative | (47.7) | (16.3) | (39.0) | (46.6) | (46.6) |
| 52-wk Price low/high (SGD) | | | | | 0.43 – 1.51 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 4,888 | 2,883 | 2,020 | 2,491 | 3,725 |
| Recurring net profit (SGDm) | (74) | (137) | (290) | (61) | 121 |
| Recurring net profit growth (%) | (135.6) | 84.9 | 110.9 | (79.0) | - |
| Recurring P/E (x) | na | na | na | na | 7.89 |
| P/B (x) | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 |
| P/CF (x) | na | na | na | na | 31.30 |
| Dividend Yield (%) | na | na | na | na | na |
| EV/EBITDA (x) | 22.17 | 37.66 | na | 21.11 | 7.77 |
| Return on average equity (%) | (3.1) | (6.1) | (9.4) | (1.5) | 3.0 |
| Net debt to equity (%) | 144.4 | 194.4 | 56.3 | 66.7 | 71.2 |

*Source: Company data, RHB*

**Note:**
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

# Financial Exhibits

**Asia**
Singapore
Energy & Petrochemicals
**Sembcorp Marine**
SMM SP
Buy

**Valuation basis**

P/BV.

**Key drivers**

Higher orderbook wins for its non-drilling segments.

**Key risks**

Unexpected deferral of projects.

**Company Profile**

SMM is a leading marine & offshore engineering group and is renowned for its rig building and offshore conversions.

| Financial summary (SGD) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | (0.04) | (0.07) | (0.14) | (0.03) | 0.06 |
| BVPS | 1.11 | 1.04 | 1.90 | 1.88 | 1.93 |
| Return on average equity (%) | (3.1) | (6.1) | (9.4) | (1.5) | 3.0 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | na | na | na | na | 7.89 |
| P/B (x) | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 |
| FCF Yield (%) | (54.0) | (64.1) | (50.6) | (41.0) | (29.9) |
| EV/EBITDA (x) | 22.17 | 37.66 | na | 21.11 | 7.77 |
| EV/EBIT (x) | na | na | na | na | 18.25 |

| Income statement (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 4,888 | 2,883 | 2,020 | 2,491 | 3,725 |
| Gross profit | 3 | (92) | (283) | (67) | 177 |
| EBITDA | 143 | 104 | (92) | 113 | 345 |
| Depreciation and amortisation | (195) | (242) | (192) | (193) | (198) |
| Operating profit | (52) | (139) | (284) | (80) | 147 |
| Net interest | (46) | (37) | (44) | 7 | 8 |
| Pre-tax profit | (101) | (177) | (330) | (76) | 150 |
| Taxation | 23 | 37 | 36 | 13 | (25) |
| Reported net profit | (74) | (137) | (290) | (61) | 121 |
| Recurring net profit | (74) | (137) | (290) | (61) | 121 |

| Cash flow (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | 599 | (327) | (113) | (244) | (325) |
| Cash flow from operations | (170) | (294) | (322) | (120) | 30 |
| Capex | (343) | (316) | (160) | (270) | (315) |
| Cash flow from investing activities | (383) | (314) | (152) | (259) | (300) |
| Dividends paid | (21) | 0 | 0 | 0 | 0 |
| Cash flow from financing activities | (95) | 39 | 782 | 516 | 416 |
| Cash at beginning of period | 1,301 | 838 | 389 | 697 | 835 |
| Net change in cash | (648) | (569) | 308 | 137 | 146 |
| Ending balance cash | 653 | 265 | 697 | 835 | 982 |

| Balance sheet (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 838 | 389 | 697 | 835 | 982 |
| Tangible fixed assets | 4,179 | 4,251 | 4,219 | 4,296 | 4,413 |
| Total investments | 1,206 | 1,367 | 1,266 | 1,243 | 1,227 |
| Total assets | 8,577 | 8,459 | 8,697 | 9,041 | 9,448 |
| Short-term debt | 1,056 | 1,446 | 487 | 745 | 953 |
| Total long-term debt | 3,173 | 3,233 | 2,474 | 2,732 | 2,940 |
| Total liabilities | 6,229 | 6,252 | 4,674 | 5,077 | 5,359 |
| Total equity | 2,348 | 2,207 | 4,023 | 3,964 | 4,088 |
| Total liabilities & equity | 8,577 | 8,459 | 8,697 | 9,041 | 9,448 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 61.1 | (41.0) | (29.9) | 23.3 | 49.5 |
| Recurrent EPS growth (%) | (135.6) | 84.8 | 110.7 | (79.0) | 0.0 |
| Gross margin (%) | 0.1 | (3.2) | (14.0) | (2.7) | 4.7 |
| Operating EBITDA margin (%) | 2.9 | 3.6 | (4.6) | 4.5 | 9.3 |
| Net profit margin (%) | (1.5) | (4.8) | (14.3) | (2.4) | 3.2 |
| Capex/sales (%) | 7.0 | 11.0 | 7.9 | 10.8 | 8.5 |
| Interest cover (x) | (0.52) | (1.07) | (2.47) | (1.23) | 2.16 |

*Source: Company data, RHB*

**Figure 1: Results review**

| FYE : Dec (SGDm) | 1H19 | 2H19 | 1H20 | YoY% | Comments |
|---|---|---|---|---|---|
| Revenue | 1,542 | 1,341 | 906 | (41.2) | 1H20 sharp YoY revenue decline was due to rigs & floaters projects. |
| -Ship repair & upgrades | 245 | 361 | 258 | 5.3 | |
| -Offshore contracts | 1,222 | 847 | 459 | (62.4) | Lower production activities from COVID-19 production stand downs. |
| i. Rig building | 537 | 285 | 141 | (73.8) | |
| ii. Floaters | 685 | 562 | 318 | (53.6) | |
| -Ship conversion and offshore | 49 | 81 | 130 | 164.8 | |
| -Others/shipbuilding | 26 | 52 | 59 | 129.6 | |
| Operating EBIT | 3 | (141) | (173) | (6,508.5) | |
| Net profit | (7) | (130) | (192) | 2,724.0 | 1H20 net loss of SGD192m compares with our and consensus pre-results 2020F losses of SGD60m and SGD85m. |
| EBIT margin (%) | 0.2 | (10.6) | (19.1) | | |

*Source: Company data*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-06-09 | Buy | 1.13 | 0.62 |
| 2020-05-13 | Buy | 1.28 | 0.71 |
| 2020-02-20 | Buy | 1.45 | 1.20 |
| 2019-11-13 | Buy | 1.60 | 1.29 |
| 2019-09-02 | Buy | 1.63 | 1.16 |
| 2019-07-31 | Buy | 1.80 | 1.35 |
| 2019-06-04 | Buy | 1.99 | 1.42 |
| 2017-04-28 | Neutral | 1.65 | 1.63 |

*Source: RHB, Bloomberg*

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| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| **Neutral:** | Share price may fall within the range of +/- 10% over the next 12 months |
| **Take Profit:** | Target price has been attained. Look to accumulate at lower levels |
| **Sell:** | Share price may fall by more than 10% over the next 12 months |
| **Not Rated:** | Stock is not within regular research coverage |

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