

2 September 2019

Industrials | Offshore & Marine

Sembcorp Marine (SMM SP)

Buy (Maintained)

Early Signs Of Order Win Recovery

Target Price (Return) SGD1.63 (+43%)
 Price: SGD1.14
 Market Cap: USD1,744.5m
 Avg Daily Turnover (SGD/USD) 8.4m/6m

- **Maintain BUY with lower P/BV-based SGD1.63 TP, from SGD1.80, 43% upside.** SMM announced it has won a raft of new projects valued at SGD400m, including engineering solutions for offshore gas and wind farm developments, and upgrades for cruise ships. Including SGD175m of new contracts secured in 1H19, we believe our assumption of SGD1bn new orders in FY19 is achievable. We forecast FY20 contract wins of SGD2.5bn, which should catalyse the share price higher.
- **FPSO conversion project with Shapoorji Pallonji and Bumi Armada.** SMM has signed agreements with JV companies of Shapoorji Pallonji and Bumi Armada to convert *Ariake*, a very large crude carrier (VLCC) into a floating production, storage and offloading (FPSO) unit. The work will be done at its flagship Tuas Boulevard Yard, with delivery scheduled in 2H21.
- **FSRU and FSU conversions, and FSRU upgrades.** Three new gas projects have been added: conversion of LNG tanker *Dwiputra* into a floating storage and regasification unit (FSRU); conversion of former gas carrier *LNG Flora* into a floating storage unit (FSU); upgrades on FSRU *BW Magna*. All three are for delivery between end-2019 and Feb 2020.
- **Makeover of cruise ship and fabricating jacket foundations for wind farm.** SMM will spearhead the makeover of *Asuka II* – Japan's largest cruise ship – for NYK Cruises. This will be executed over 45 days from Jan 2020. Separately, SMM has a contract with Jan De Nul NV to fabricate 15 jacket foundations for the Formosa 2 Offshore Wind Farm (Taiwan's largest offshore wind farm) – delivery by Dec 2020.
- **Contract wins positive for future earnings, but global concerns led to 9% cut in TP.** Whilst the above-mentioned contracts will not have material impact on SMM's FY19 earnings, they reflect improving order wins, which are a positive for FY20F earnings recovery. Factoring in concerns on the US-China trade war, which could slow global economic growth, we lowered SMM's target FY20F P/BV to 1.48x (0.3SD below 1.6x 5-year mean), from 1.64x previously.

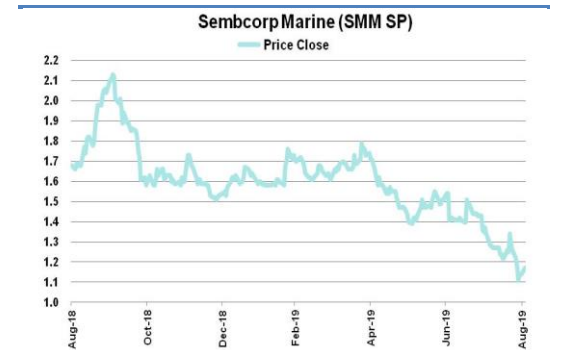
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.0)	(12.7)	(16.4)	(31.2)	(30.4)
Relative	(24.7)	(7.5)	(15.6)	(27.1)	(26.5)
52-wk Price low/high (SGD)	1.08 – 2.15				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	3,035	4,888	2,615	2,824	3,251
Recurring net profit (SGDm)	260	(74)	(67)	46	80
Recurring net profit gr (%)	148.8	(128.5)	(9.7)	(168.5)	73.5
Recurring P/E (x)	9.2	(32.1)	(35.6)	52.0	30.0
P/BV (x)	1.0	1.0	1.1	1.0	1.0
P/CF (x)	48.0	(14.0)	(76.9)	21.8	10.1
Dividend Yield (%)	1.8	-	-	-	-
EV/EBITDA (x)	10.5	41.1	31.2	21.2	18.5
ROE (%)	11.1	(3.1)	(2.9)	2.0	3.4
Net debt to equity (%)	114.8	146.7	163.0	165.5	157.3
Interest coverage (x)	3.2	(0.5)	(0.4)	0.9	1.3

Source: Company data, RHB

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Financial Exhibits

Financial model updated on: 2019-09-02

	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Asia						
Singapore	Recurring EPS (SGD)	0.12	(0.04)	(0.03)	0.02	0.04
Industrial	DPS (SGD)	0.02	0.00	0.00	0.00	0.00
Sembcorp Marine Ltd	BVPS (SGD)	1.17	1.11	1.07	1.10	1.13
SMM SP	ROE (%)	11.10	(3.10)	(2.94)	2.02	3.41
BUY						
	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Valuation basis	Recurring P/E (x)	9.2	(32.1)	(35.6)	52.0	30.0
P/BV	P/B (x)	1.0	1.0	1.1	1.0	1.0
	FCF Yield (%)	(5.3)	(21.2)	(11.6)	(6.1)	1.9
Key drivers	Dividend yield (%)	1.8	0.0	0.0	0.0	0.0
i. Stronger orderbook replenishment;	EV/EBITDA (x)	10.5	41.1	31.2	21.2	18.5
ii. Yard consolidation exercise.	EV/EBIT (x)	16.9	(110.4)	(131.0)	55.6	41.9
Key risks						
i. Margin compression in offshore contracts;						
ii. Plunge in oil prices.						
Company Profile						
Operates shipyards in Singapore, Indonesia, United Kingdom and Brazil, with capabilities covering rigs & floaters, repair and upgrades and offshore platforms.						
	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total turnover	3,035	4,888	2,615	2,824	3,251
	Gross profit	346	3	19	184	234
	EBITDA (adj.)	495	141	194	291	331
	Depreciation & amortisation	(189)	(193)	(240)	(180)	(185)
	Operating profit	306	(52)	(46)	111	146
	Net interest	(73)	(46)	(34)	(50)	(44)
	Pre-tax profit	281	(101)	(83)	57	99
	Taxation	(25)	23	14	(10)	(17)
	Net profit	260	(74)	(67)	46	80
	Recurring net profit	260	(74)	(67)	46	80
	Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Change in working capital	(345)	(278)	(210)	(130)	(45)
	Cash flow from operations	50	(170)	(31)	109	237
	Capex	(178)	(343)	(250)	(260)	(200)
	Cash flow from investing activities	65	(382)	(235)	(241)	(176)
	Dividends paid	(42)	(21)	0	0	0
	Cash flow from financing activities	(24)	89	280	182	416
	Cash at beginning of period	1,217	1,301	837	851	901
	Net change in cash	91	(464)	14	50	477
	Ending balance cash	1,301	837	851	901	1,378
	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	1,301	838	851	901	1,378
	Tangible fixed assets	3,995	4,179	4,189	4,269	4,284
	Total investments	68	67	64	60	57
	Total assets	9,692	8,577	8,698	8,884	9,382
	Short-term debt	853	1,056	1,196	1,287	1,495
	Total long-term debt	3,247	3,173	3,313	3,404	3,612
	Total liabilities	7,212	6,229	6,416	6,554	6,971
	Total equity	2,480	2,348	2,282	2,330	2,411
	Total liabilities & equity	9,692	8,577	8,698	8,884	9,382
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	(14.4)	61.1	(46.5)	8.0	15.1
	Recurrent EPS growth (%)	148.8	NM	(9.7)	NM	73.5
	Gross margin (%)	11.4	0.1	0.7	6.5	7.2
	Operating EBITDA margin (%)	16.3	2.9	7.4	10.3	10.2
	Net profit margin (%)	8.6	(1.5)	(2.6)	1.6	2.4
	Capex/sales (%)	5.9	7.0	9.6	9.2	6.2
	Interest cover (x)	3.2	(0.5)	(0.4)	0.9	1.3

Source: Company data, RHB

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