

SECTOR UPDATE

Offshore Marine – Singapore

Bullish View Remains Despite Recent Volatility In The Middle East

Termination of jack-up contracts in the Middle East has injected some uncertainty into the market, however dayrates and utilisation rates appear to be holding up well. Despite geopolitical tensions in that region, oil prices have not spiked to elevated levels while global oil demand has been robust. Recent US oil services companies' 1Q24 results have been bullish, reinforcing our confidence in the sector. Sector rating: **OVERWEIGHT**.

WHAT'S NEW

- **Saudi actions injecting uncertainty into jack-up rigs but deepwater demand remains robust.** Since Mar 24, a shift in Saudi Aramco's strategy has led to the suspension of 18 jack-up contracts across six owners in the Middle East region as it re-prioritises its key onshore and offshore oil & gas developments. As a result, industry sources forecast that jack-up rates should soften in the near to medium term. Note that the jack-up segment has been one of the better performers this year, with dayrates and utilisation rates up 11% and 15% yoy respectively. At present, deepwater demand remains robust with deepwater semi-sub and drillships seeing stable to higher utilisation, and dayrates having risen 17% and 12% yoy respectively.
- **Markets seem nonplussed about Middle East tensions.** Although oil prices had spiked post an exchange of rockets between Iran and Israel, the oil markets have since taken it in stride with Brent retreating back below US\$90/bbl. In early-Mar 24, Saudi Arabia and OPEC+ agreed to keep roughly 2mmbpd offline until mid-year, a move that should balance global markets and buoy futures above US\$80/bbl. The next OPEC ministerial meeting is scheduled for 1 June in Vienna, Austria.
- **Bullish US reporting season.** The three major US oilfield services companies (Baker Hughes, Halliburton and SLB) reported 1Q24 results that beat expectations. Importantly, both Halliburton and SLB experienced growth in their international markets while North America saw revenue decline and margin compression. Recall that in early-23, all three companies had issued bullish guidance for the sector in 2024 and into 2025. In its 1Q24 release, SLB reiterated that "the dynamics of this cycle remain intact, with international and offshore growth taking place across all geographies" and that the oil and gas industry continues to be "driven by a growing demand outlook".
- **The majority of Singapore's small/mid-cap offshore marine companies have outperformed in the past 12 months.** At two recent company meetings with Mermaid Maritime and ASL Marine, both were bullish about their respective business outlooks over the next 12-24 months with the key growth hurdle being access to financing. This underscores our positive view on Marco Polo Marine (MPM SP/BUY/Target: S\$0.086) which recently secured financing from Bank Sinopac Taiwan for its commissioning service operation vessel which is due to start operations in 2H24.

ACTION

- **Maintain sector view at OVERWEIGHT.** While we continue to like STM for its exposure to stronger demand from the offshore oil & gas and renewables industry, its share price will likely experience volatility in the next 2-3 weeks after its 20-for-1 share consolidation. In the small/mid-cap space, we like Marco Polo Marine for its earnings growth in 2024 due to higher charter and utilisation rates for its assets.

PEER COMPARISON - SHIPYARDS

Company	Ticker	Rec	Price (1cy)		Upside	Market Cap	PE (x)		P/B (x)		EV/EBITDA (x)		ROE%	Yield (%)
			6 May	Target	to TP (%)	(US\$m)	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2024F
Seatrium ¹	STM SP	BUY	1.82	3.02	66.2	4,595	42.8	18.7	0.9	0.9	11.0	8.8	2.2	0.0
Yangzijiang Shipbldg	YZJSGD SP	BUY	1.71	2.19	28.0	4,997	7.9	7.2	1.4	1.2	4.3	3.9	19.5	3.7
Marco Polo Marine ²	MPM SP	BUY	0.068	0.086	24.2	192	8.9	8.0	1.3	1.2	2.8	3.5	16.3	2.2
Average – Spore-listed							19.9	11.3	1.2	1.1	6.0	5.4	12.7	2.0
Hanwha Ocean Co	042660 KS	NR	31,000	NA	NA	7,007	33.7	18.7	2.1	1.9	21.4	13.2	5.8	0.0
Samsung Heavy Ind	010140 KS	NR	9,390	NA	NA	6,093	31.8	15.4	2.1	1.8	17.4	11.6	7.1	0.0
HD Korea Shipbldg	009540 KS	NR	128,300	NA	NA	6,693	14.0	7.6	0.9	0.8	7.3	4.4	6.3	1.3
Average – Sector							23.2	12.6	1.5	1.3	10.7	7.6	9.5	1.2

Note: NR = Not Rated, based on Bloomberg consensus; ¹reflects 20-for-1 share consolidation; ²FY23 and FY24 refer to fiscal year ending Sep 2024 and Sep 2025 respectively
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

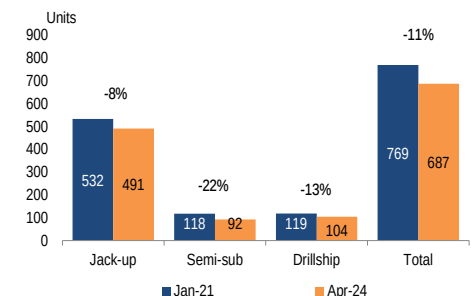
SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	Target
Keppel	KEP SP	BUY	6.82	8.89
Seatrium*	STM SP	BUY	1.82	3.02
Semb Industries	SCI SP	BUY	5.31	7.49
Yangzijiang	YZJSGD SP	BUY	1.71	2.19
Marco Polo Marine	MPM SP	BUY	0.068	0.086

Note: Updated to reflect 20-for-1 share consolidation

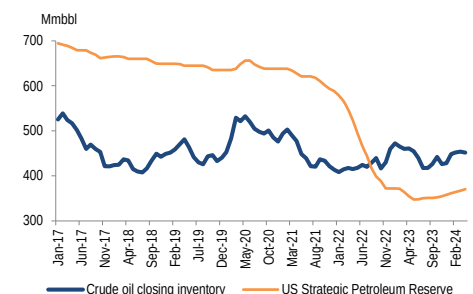
Source: Bloomberg, UOB Kay Hian

CHANGE IN NO. OF ACTIVE OFFSHORE RIGS



Note: Excludes rigs in repair/special survey which number c.2-3 per year
Source: Esgian

U.S. CRUDE OIL INVENTORIES: COMMERCIAL VS STRATEGIC PETROLEUM RESERVES



Source: US Energy Information Administration

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COMPANY VISIT NOTES

Mermaid Maritime (MMT SP, Not Rated, market cap: S\$189.4m)

• **Mermaid Maritime (MMT)** provides drilling and sub-sea engineering services for the offshore oil and gas industry. Historically, it has served the Asian subsea and offshore services market; however it has successfully expanded into the Middle East, West Africa and the North Sea in the past few years. In 2H23 alone, the company doubled its orderbook to finish 2023 at US\$734m.

• **Improving margins due to higher utilisation.** MMT saw a 4.4ppt yoy increase in 2023 EBITDA margin to 13.8% which it attributed to higher vessel utilisation and better cost control. During 2019-23, MMT's revenue grew at a 27% CAGR with strong contribution from all business segments. Management appears very confident that EBITDA margin can continue to expand in 2024, helped by higher charter rates, continued high vessel utilisation rates and supported by a robust orderbook. In addition, the company noted that its low-margin contracts from 2021 and 2022 have been completed as at end-23, and all new contracts from 2024 onwards should experience higher dayrates.

• **Solid balance sheet with support from major shareholder.** In Feb 24, MMT secured a US\$55m shareholder loan from its major shareholder Thoresen Thai Agencies at below market rates. As a result, the company estimates that its present net debt to equity is 0.6x.

ASL Marine (ASL SP/Not Rated/Market cap: S\$46.8m)

• **ASL Marine (ASL)** provides shipbuilding, shiprepair and conversion, and marine vessel chartering services in Asia, Australia and Europe. In its latest 1HFY24 results (six months ending 31 Dec), the company saw: a) revenue growth of 31% yoy to S\$177m, b) adjusted EBITDA nearly doubling yoy to S\$42m, and c) a net profit of S\$1.7m vs a net loss in the year-ago period. For the half year to 31 Dec 23, 49% of revenue came from repair, conversion and engineering, 32% from chartering and 19% from shipbuilding. Geographically, the three largest contributors were Singapore at 38%, Asia excluding Indonesia 21%, and Indo 19%.

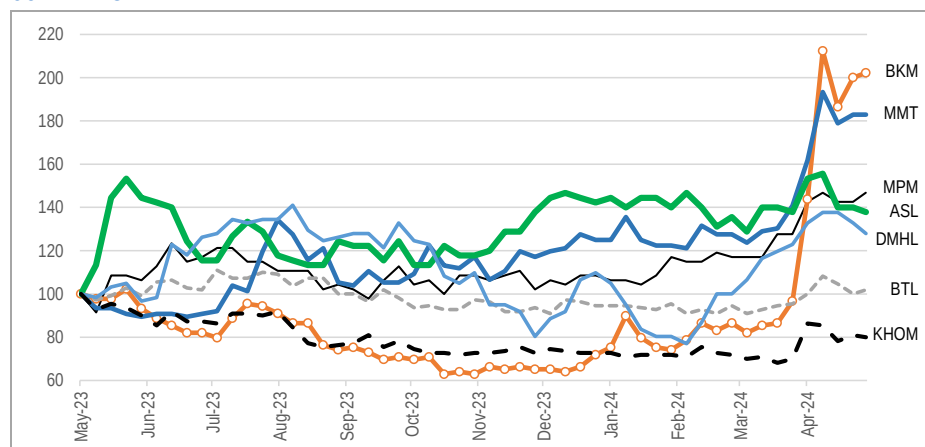
• **Stretched balance sheet.** The company's total debt at end-23 was S\$217m vs its market capitalisation of just over S\$43m. Thus its net debt/equity was high at 2.7x. ASL has a few medium-term notes outstanding, with the following maturity: a) S\$80m in Mar 25, and b) S\$36m in Oct 26. The company has stated that it will look to divest some offshore marine assets to repay these notes.

• **Strong shareholder support.** Key shareholders had provided S\$6.6m in unsecured and interest-free loan in 2017 and to date, this debt has not been repaid.

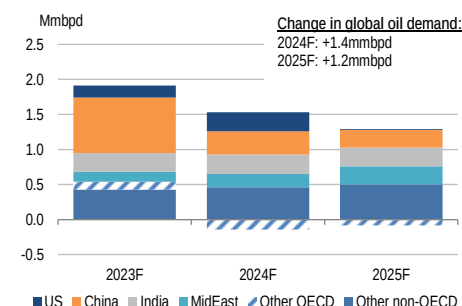
RISKS TO OUR THESIS

• Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; global recession leading to lower capex.

ONE-YEAR SHARE PRICE PERFORMANCE: SINGAPORE SMALL/MID-CAP OFFSHORE MARINE COMPANIES

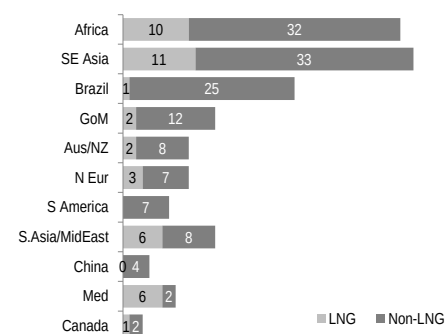


INCREMENTAL OIL DEMAND GROWTH PER YEAR



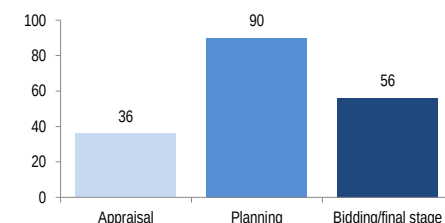
Source: US Energy Information Administration (Jan 24)

MATERIAL NUMBER OF OFFSHORE PROJECTS IN PLANNING PIPELINE – BY REGION



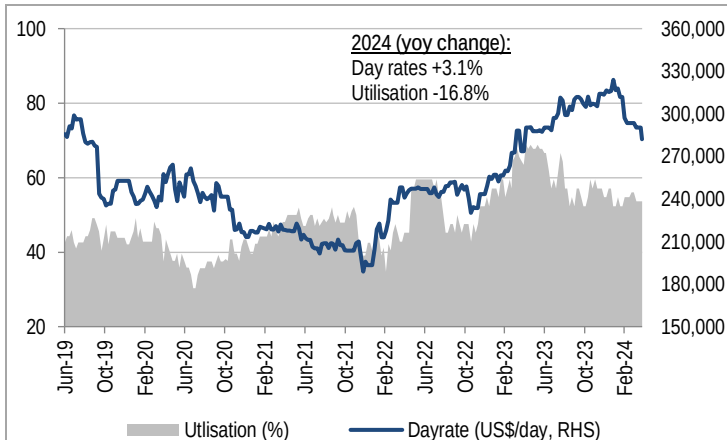
Source: Energy Maritime Associates

NUMBER OF FLOATING PRODUCTION PROJECTS IN THE GLOBAL PIPELINE (NO. OF UNITS)



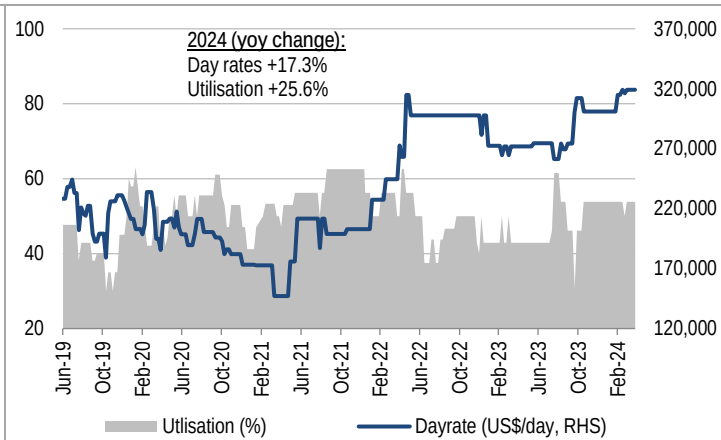
Source: Energy Maritime Associates

DAYRATE & UTILISATION: SEMISUB 8000'



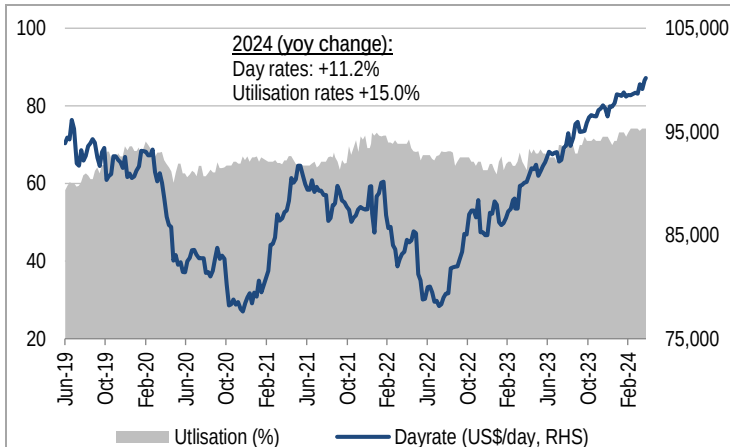
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: SEMISUB 5000-8000'



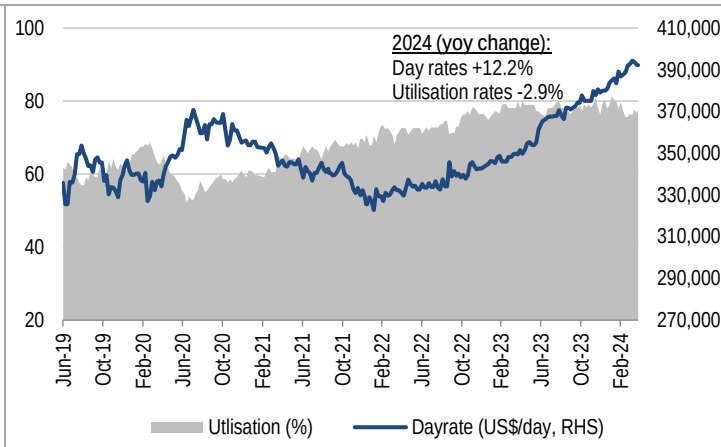
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: JACKUP 300+ INDEPENDENT CANTILEVERED



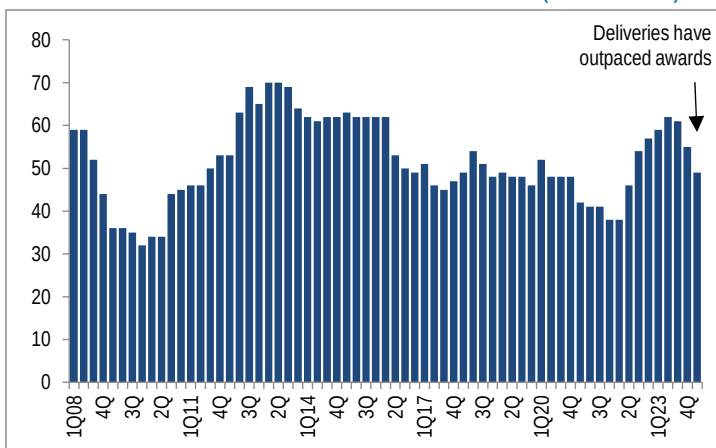
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: DRILLSHIP



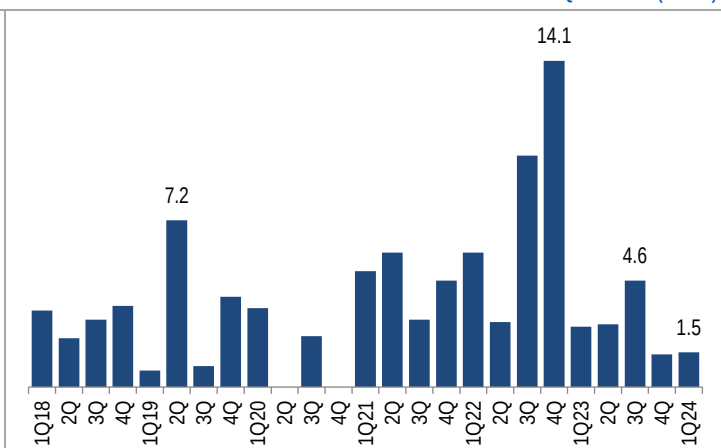
Source: Rigzone, Bloomberg

HISTORICAL FLOATING PRODUCTION BACKLOG: 2008-24 (NO. OF UNITS)



Source: Energy Maritime Associates

CAPEX AWARDED FOR FLOATING PRODUCTION UNITS – BY QUARTER (US\$B)



Source: Energy Maritime Associates

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