

## COMPANY UPDATE

## Seatrium (STM SP)

### Wind In Its Sails

STM provided a 1Q24 business update that was qualitative in nature and continues to strongly underline its exposure to large-scale offshore projects globally. These include both production of oil & gas as well as offshore wind power. In addition, its repairs & upgrades segment continues to do well, notably signing a number of long-term favoured-customer contracts with blue-chip clients. Maintain BUY. Target price: S\$3.23.

### WHAT'S NEW

- **Wind in its sails.** Seatrium (STM) provided a business update that did not disclose any revenue or profit figures; however, the highlight was clearly around the two Floating Production Storage and Offloading (FPSO) vessel construction contracts that the company won from Petrobras worth S\$11b. Ytd the company has won S\$11.4b worth of projects. The other highlight from its business update relates to STM looking to bid for Petrobras' next seven FPSO projects.
- **Larger-than-expected contract value from Petrobras.** The recently-won P-84 and P-85 FPSO projects were larger in value than market expectations of S\$8b-9b. However, the company commented that margins remain the same, which we estimate to be in the 8-11% range. These are Petrobras' new generation of FPSO platforms with higher specifications to ensure better fuel economy, and also include a number of "greener" technologies such as non-flaring and decarbonisation solutions.
- **Large wind orders still in play.** The contract allocation for TenneT's third 2GW High Voltage Direct Current (HVDC) project is expected to close soon and STM does not expect any delays. Note that while the US has seen some order cancellations (particularly on the US East Coast), the same cannot be said of the EU which has continued to expand its offshore wind capacity. Recall that TenneT's second HVDC was worth EUR6b.
- **Repairs & upgrades segment should continue to provide long-term sustainable revenues.** Over the course of the past 6-12 months, the company has signed a number of long-term favoured-customer contracts with blue-chip clients, thus ensuring that its repairs & upgrades segment continues to provide a strong base load of revenues over the next 12 months and beyond. Ytd, the company has secured S\$350m of contracts in this segment.

### KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,947	7,291	7,351	7,277	6,746
EBITDA	(7)	(1,116)	647	805	808
Operating profit	(206)	(1,573)	191	337	364
Net profit (rep./act.)	(261)	(1,940)	145	332	339
Net profit (adj.)	(261)	(1,940)	145	331	338
EPS (\$ cent)	(0.8)	(2.8)	4.2	9.7	9.9
PE (x)	n.m.	n.m.	41.2	18.0	17.6
P/B (x)	14.6	16.8	0.9	0.9	0.8
EV/EBITDA (x)	n.m.	n.m.	10.6	8.5	8.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(13.4)	(26.6)	2.0	4.6	5.0
Net debt/(cash) to equity (%)	26.5	11.5	13.5	(13.9)	(23.7)
Interest cover (x)	(1.5)	(5.5)	1.3	n.a.	3.0
ROE (%)	n.a.	n.a.	2.2	4.9	4.8
Consensus net profit	-	-	174	438	581
UOBKH/Consensus (x)	-	-	0.84	0.76	0.58

Source: Seatrium, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

### (Maintained)

Share Price	S\$1.75
Target Price	S\$3.23
Upside	+84.6%
(Previous TP)	S\$3.02

### COMPANY DESCRIPTION

Seatrium is an integrated shipyard offering one-stop engineering solutions for the offshore oil & gas and renewables industries. It merged with Keppel Offshore Marine in 1Q23.

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	STM SP
Shares issued (m):	3,410.9
Market cap (\$m):	5,969.0
Market cap (US\$m):	4,428.4
3-mth avg daily t'over (US\$m):	41.1

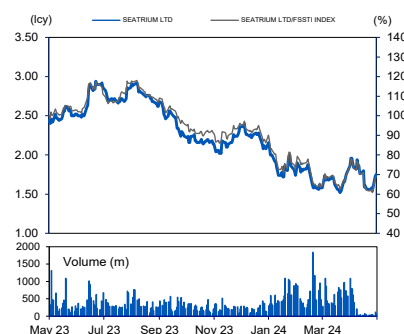
### Price Performance (%)

52-week high/low				S\$2.94/S\$1.52
1mth	3mth	6mth	1yr	YTD
(1.7)	0.6	(18.2)	(30.0)	(25.8)

### Major Shareholders

	%
Temasek Hldgs	37.9
FY24 NAV/Share (\$)	1.94
FY24 Net Debt/Share (\$)	0.26

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Outlook remains bullish in our view.** Management notably commented that it has seen an uptick in the numbers of jobs for drilling rigs as well as for its repairs & upgrades segment. While the industry has not seen any orders for new drilling rigs, the higher day rates and utilisation rates across all assets in the industry should lead to new orders in 2025 or 2026, in our view. We note that higher spec jack-ups, despite uncertainty created by Saudi Aramco's contract cancellations in the Middle East, have exceeded US\$200,000 per day in a number of recent contracts. Apart from drilling assets, production assets still remain in demand due to the stable and relatively high oil prices, with management singling out the Gulf of Mexico as having opportunities.
- **Balance sheet - Incrementally better.** In 1Q24, STM secured a S\$400m committed Green Revolving Loan Facility to support its business growth in the offshore renewables space, adding to >S\$2b in sustainability-linked loans and green financing from last year. During 1Q24, STM completed the early redemption of its high-interest S\$500m floating rate bonds due in 2026.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- **We maintain our BUY rating on STM with a P/B-based target price of S\$3.23** which has been adjusted for its 20-for-1 share consolidation. Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.1x and is pegged to its 2025 book value of S\$2.04. Given the company's exposure to the offshore marine upcycle, we strongly believe that STM is inexpensive, trading at -1SD below its mean.
- **Maintain sector view at OVERWEIGHT.** We continue to like STM as we believe that the company will benefit from stronger offshore marine dynamics as well as demand for offshore vessels and structures related to the renewables industry. In addition, the normalisation of economic activity should result in a greater volume of shipping activities, thus positively impacting its repairs/upgrades segment. While 40% of STM's current orderbook is in the renewable energy space (with the remainder related to oil & gas projects), its addressable market is arguably much larger when taking into account carbon capture usage and storage, floating LNG, and ammonia storage and transport which feeds into the hydrogen energy chain.

### SHARE PRICE CATALYST

- New orders for rigs (especially for the Brazilian FPSOs which are likely to be due in the next few months), offshore renewable installations or fabrication works, repairs and upgrade works for cruise ships and other commercial vessels.

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	7,291.5	7,350.9	7,276.7	6,746.5
EBITDA	(1,116.4)	647.3	805.0	807.9
Deprec. & amort.	456.3	456.3	467.9	444.1
EBIT	(1,572.6)	191.0	337.0	363.9
Total other non-operating income	(281.8)	0.0	0.0	0.0
Associate contributions	7.1	7.1	7.1	7.1
Net interest income/(expense)	(91.9)	(53.4)	7.7	(9.9)
<b>Pre-tax profit</b>	<b>(1,939.4)</b>	<b>144.7</b>	<b>351.8</b>	<b>361.0</b>
Tax	(13.9)	(14.5)	(35.2)	(36.1)
Minorities	13.0	14.7	14.6	13.5
Preferred dividends	0.0	0.0	1.0	1.0
<b>Net profit</b>	<b>(1,940.2)</b>	<b>144.9</b>	<b>332.2</b>	<b>339.4</b>
Net profit (adj.)	(1,940.2)	144.9	331.2	338.4

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>600.8</b>	<b>(171.9)</b>	<b>1,803.8</b>	<b>719.7</b>
Pre-tax profit	(1,572.6)	191.0	337.0	363.9
Tax	(23.5)	19.4	1,133.5	15.7
Deprec. & amort.	456.3	456.3	467.9	444.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	122.1	(687.7)	(14.0)	16.8
Non-cash items	25.6	0.0	0.0	0.0
Other operating cashflows	1,593.0	(150.9)	(120.7)	(120.7)
<b>Investing</b>	<b>654.4</b>	<b>25.5</b>	<b>56.4</b>	<b>38.7</b>
Capex (growth)	(115.9)	(100.0)	(100.0)	(100.0)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	755.4	115.5	146.4	128.7
Proceeds from sale of assets	14.5	10.0	10.0	10.0
Others	0.3	0.0	0.0	0.0
<b>Financing</b>	<b>(1,071.5)</b>	<b>(173.8)</b>	<b>(600.0)</b>	<b>(1,200.0)</b>
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	(2.8)	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(1,016.6)	(173.8)	(600.0)	(1,200.0)
Others/interest paid	(52.0)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>183.6</b>	<b>(320.2)</b>	<b>1,260.2</b>	<b>(441.6)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,090.8</b>	<b>2,270.2</b>	<b>1,950.0</b>	<b>3,210.2</b>
Changes due to forex impact	(4.3)	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>2,270.2</b>	<b>1,950.0</b>	<b>3,210.2</b>	<b>2,768.7</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	4,081.0	3,855.2	3,617.8	3,404.2
Other LT assets	5,826.0	5,678.4	5,522.2	5,336.8
Cash/ST investment	2,270.2	1,950.0	3,210.2	2,768.7
Other current assets	4,049.7	3,941.8	3,853.3	3,579.0
<b>Total assets</b>	<b>16,227.0</b>	<b>15,425.5</b>	<b>16,203.5</b>	<b>15,088.7</b>
ST debt	743.4	743.4	743.4	743.4
Other current liabilities	5,445.5	4,687.5	5,748.9	5,509.2
LT debt	2,273.8	2,100.0	1,500.0	300.0
Other LT liabilities	1,272.3	1,272.3	1,272.3	1,272.3
Shareholders' equity	6,471.1	6,616.0	6,947.2	7,285.6
Minority interest	20.9	6.2	(8.3)	(21.8)
<b>Total liabilities &amp; equity</b>	<b>16,227.0</b>	<b>15,425.5</b>	<b>16,203.5</b>	<b>15,088.7</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	(15.3)	8.8	11.1	12.0
Pre-tax margin	(26.6)	2.0	4.8	5.4
Net margin	(26.6)	2.0	4.6	5.0
ROA	n.a.	0.9	2.1	2.2
ROE	n.a.	2.2	4.9	4.8
<b>Growth</b>				
Turnover	274.5	0.8	(1.0)	(7.3)
EBITDA	n.a.	n.a.	24.4	0.4
Pre-tax profit	n.a.	n.a.	143.2	2.6
Net profit	n.a.	n.a.	129.2	2.2
Net profit (adj.)	n.a.	n.a.	128.5	2.2
EPS	n.a.	n.a.	129.2	2.2
<b>Leverage</b>				
Debt to total capital	31.7	30.0	24.4	12.6
Debt to equity	46.6	43.0	32.3	14.3
Net debt/(cash) to equity	11.5	13.5	(13.9)	(23.7)
Interest cover (x)	(5.5)	1.3	n.a.	3.0

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