

SECTOR UPDATE

Offshore Marine – Singapore

Unalloyed Optimism For The Sector

Our bullish outlook for the offshore marine sector remains unchanged with both shallow and deepwater assets marching well past 5–8-year highs, supported by a high oil price. After struggling with instability in 2023, the outlook for offshore wind in 2024 appears much better with policy support providing further impetus for growth. We remain optimistic that the industrials and shipyard sectors in Singapore can repeat their share price outperformance in 2024. Sector rating: **OVERWEIGHT**.

WHAT'S NEW

- **Strong demand continues to feature across all rig types.** Since our Dec 23 update, only dayrates for midwater semi-sub subs have stagnated while jack-up and deepwater assets have continued their march well past five-year highs. We expect dayrates and utilisation rates to remain on an uptrend given that only 6% of competitive rigs are available globally, and the number of active offshore rigs have declined by 12% yoy.
- **Despite the mild Northern Hemisphere winter, oil prices have strengthened,** trading at between US\$73/bbl to US\$87/bbl in the past three months. In our view, the oil price environment appears highly favourable for the upstream sector, and thus the offshore marine industry, given that Brent for delivery in Jan 29 is currently around US\$71/bbl and averaging US\$70.50/bbl in 2029.
- **Bullish US reporting season.** The three major US oilfield services companies, Baker Hughes, Halliburton and SLB, reported stronger-than-expected results for 4Q23 and declared higher yoy dividends. Importantly, all three gave bullish guidance for the sector in 2024 and into 2025. SLB stated that offshore oil and gas remains “another distinct attribute of this growth cycle” with strong activity in many key offshore producing regions, while Baker Hughes commented that the multi-year growth upcycle will continue with offshore activity remaining “robust”.
- **A more stable environment for offshore wind in 2024.** Although a myriad of issues beset the offshore wind sector in 2023, it was nevertheless a record year with 12.3GW of projects reaching Final Investment Decision (FID), a material increase over the 0.8GW seen in 2022. In 2024, it appears that the industry will continue to experience growth with the industry expecting around 13GW of projects to reach FID. In Wood Mackenzie’s view, stronger policy frameworks for the offshore wind sector should provide tailwinds in 2024. Importantly, we note that global offshore wind auctions will total around 56GW (see chart on RHS), an increase of around 17% yoy. In our view, this presents a large opportunity set for Seatrium (STM) to continue expanding its orderbook in the offshore renewables space.

ACTION

- **Maintain OVERWEIGHT on sector.** We continue to like STM as we believe that the company will benefit from stronger demand from the offshore oil & gas and renewables industry. 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

Company	Ticker	Rec	Price (1cy)		Upside to TP (%)	Market Cap (US\$m)	PE (x)		P/B (x)		EV/EBITDA (x)		ROE%	Yield (%)
			29 Jan	Target			2023F	2024F	2023F	2024F	2022F	2023F		
Seatrium	STM SP	BUY	0.108	0.190	75.9	5,711	NA	46.5	0.9	0.9	35.4	18.1	1.9	NA
Yangzijiang	YZJSGD SP	BUY	1.68	1.92	14.3	4,981	10.2	9.1	1.4	1.2	5.3	4.7	14.6	2.8
Marco Polo Marine*	MPM SP	BUY	0.05	0.066	32.0	143	7.1	6.5	1.0	0.9	3.1	2.9	15.0	2.9
Average – Spore-listed							8.7	20.7	1.1	1.0	14.6	8.6	10.5	2.9
Hanwha Ocean Co	042660 KS	NR	22,000	NA	NA	5,041	NA	24.8	1.6	1.5	NA	17.3	6.7	NA
Samsung Heavy Ind	010140 KS	NR	7,450	NA	NA	4,904	NM	22.4	1.7	1.6	20.8	13.8	7.6	NA
HD Korea Shipldg	009540 KS	NR	113,500	NA	NA	6,008	28.4	9.9	0.8	0.7	12.6	5.2	7.9	1.4
Average – Sector							15.2	19.9	1.2	1.1	15.4	10.3	9.0	2.4

Note: NR = Not Rated, based on Bloomberg consensus; *FY23 and FY24 refer to fiscal year ending Sep 2024 and Sep 2025 respectively
Source: Bloomberg, UOB Kay Hian

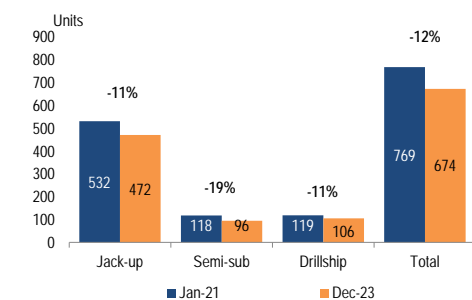
OVERWEIGHT
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	
			29 Jan	Target
Keppel	KEP SP	BUY	6.85	9.09
Seatrium	STM SP	BUY	0.108	0.190
Semb Industries	SCI SP	BUY	5.41	7.20
Yangzijiang	YZJSGD SP	BUY	1.68	1.92
Marco Polo Marine	MPM SP	BUY	0.05	0.066

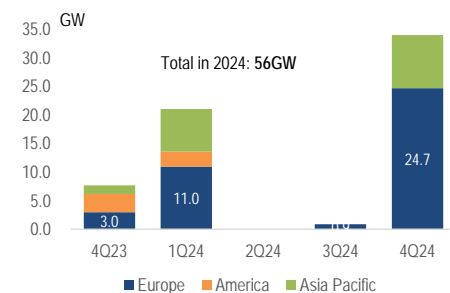
Source: UOB Kay Hian

CHANGE IN NO. OF ACTIVE OFFSHORE RIGS



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

GLOBAL OFFSHORE WIND AUCTIONS BY REGION



Source: Aegir

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EARNINGS PREVIEW

• **Potential earnings upgrades.** In the table below, we present our 2023 revenue and profit forecasts vs Bloomberg consensus. In our view, the two stocks with the highest likelihood of earnings upgrades for 2024 and 2025 are Sembcorp Industries (SCI) and Yangzijiang (YZJ), with the former potentially seeing higher-for-longer conventional energy earnings and the latter guiding for higher order wins, shipbuilding margins and freight rates.

UOB KAY HIAN ESTIMATES VERSUS CONSENSUS

Company	Currency	Revenue		Profit		UOBKH vs consensus 2023F
		2022	2023F	2022	2023F	
KEP	S\$m	6,620	7,061	688	958	5.1%
SCI	S\$m	7,825	7,350	685	988	5.2%
SMM	S\$m	1,947	4,621	-309	-270	14.1%
YZJ	Rmb m	20,705	24,231	2,503	3,496	-7.8%

Source: UOB Kay Hian estimates, Bloomberg

SINGAPORE LARGE CAP INDUSTRIAL COMPANIES' REPORTING DATES AND KEY POINTS

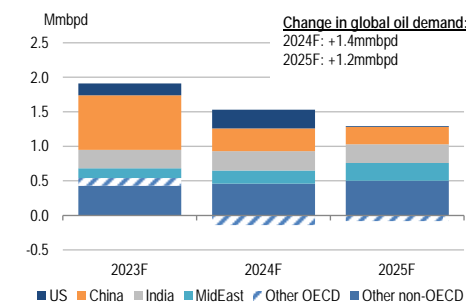
Company	Reporting Date	Three key things to look for
KEP	1 Feb	<ul style="list-style-type: none"> Potential sale of rigs within AssetCo Guidance on asset recycling for 2024 Higher-than-expected dividends and potential special dividend
SCI	20 Feb	<ul style="list-style-type: none"> Reiteration of Nov 23 Investor Day targets Guidance for stability of earnings for conventional energy Continued growth in dividends
SMM	Late Feb	<ul style="list-style-type: none"> Margins and thus ability to generate a profit in 2024 Guidance on pipeline of projects in offshore marine and renewables sectors Date of its much-anticipated Capital Markets Day
YZJ	28 Feb	<ul style="list-style-type: none"> Continued expansion of shipbuilding margins & potential positive impact of Red Sea disruptions on its shipping arm Higher-than-expected dividends and outlook for 2H24/2025 Any new guidance on order win expectations for 2024

Source: UOB Kay Hian

STOCK RECOMMENDATIONS

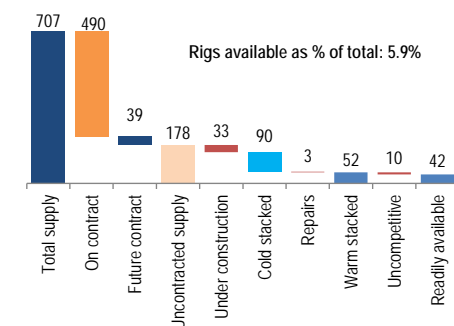
- **Keppel (KEP):** We have a BUY rating on KEP with a SOTP-based target price of S\$9.09. The asset-light, fee-related earnings acquisition of Aermont announced in Nov 23 arguably positions KEP as a global asset manager with a real-estate focus. KEP currently trades at 2024F PE of 11.9x and P/B of 0.9x which we view as far from being egregious, especially considering the company's more stable earnings stream given the divestment of its offshore marine business. Nevertheless, the company has some remaining exposure to the offshore marine industry via its suite of rigs within its AssetCo.
- **Sembcorp Industries (SCI):** We have a BUY rating on SCI and a target price of S\$7.20 based on a target PE multiple of 13.6x. Our target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 when the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's "normalised" earnings compared to 2022's earnings. SCI remains one of our top stock picks in Singapore.
- **Seatrium (STM):** We have a BUY rating on STM with a P/B-based target price of S\$0.19. Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x and is pegged to its 2024 book value of S\$0.125. Given the company's exposure to the offshore marine upcycle, we strongly believe that Seatrium's 2024F P/B valuation of 0.9x is inexpensive.
- **Yangzijiang Shipbuilding (YZJ):** We have a BUY recommendation with a PE-based target price of S\$1.92 that is pegged to a target PE multiple of 10.1x (+1.5SD above the company's five-year average of 6.8x). We believe the premium to its average PE multiple is justified given the company's earnings visibility into 2027 as well as its strong track record of safe and efficient shipbuilding for its international customer base. As at end-3Q23, YZJ had an orderbook for 184 vessels worth US\$14.8b with clean energy vessels accounting for around 58% of this.

INCREMENTAL OIL DEMAND GROWTH PER YEAR



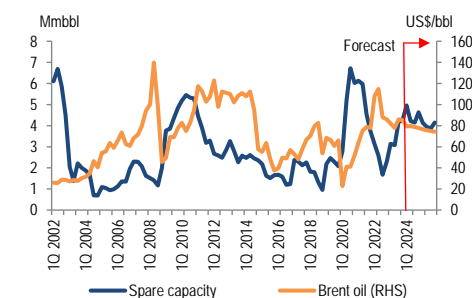
Source: US Energy Information Administration (Jan 24)

TOTAL SUPPLY OF RIGS IN THE GLOBAL MARKET



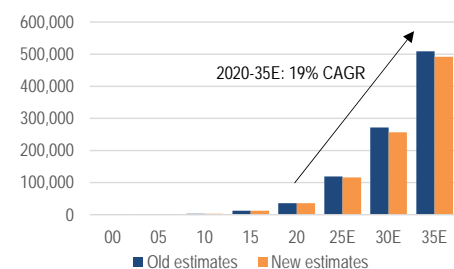
Source: Esqian

OPEC SPARE CAPACITY VS BRENT OIL PRICE



Source: Bloomberg, US Energy Information Administration

OFFSHORE WIND CAPACITY FORECAST (MW)

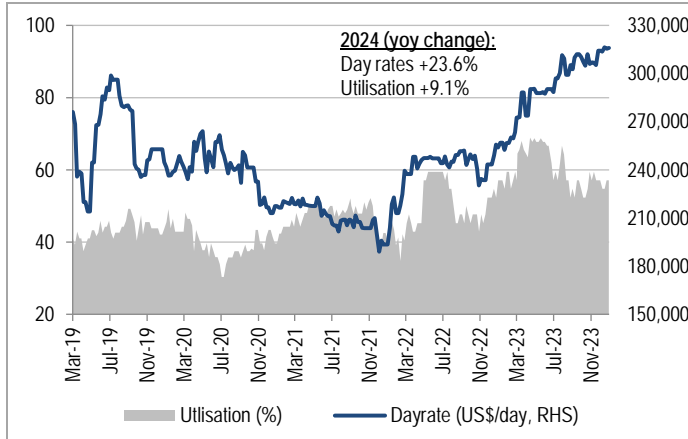


Source: Bloomberg, NEF

RISKS TO OUR THESIS

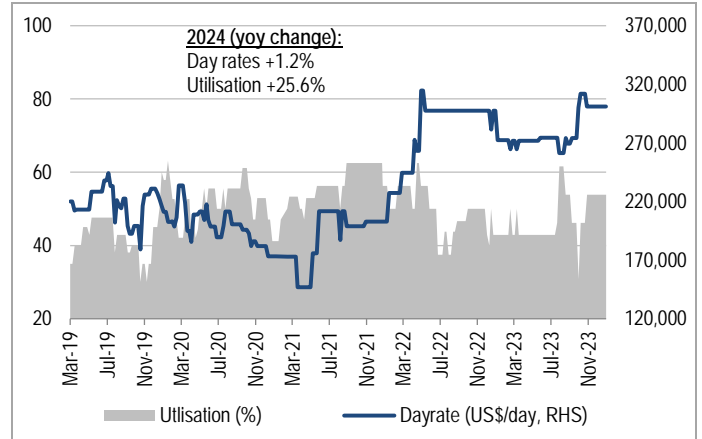
- Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; and global recession leading to lower capex spending.

DAYRATE & UTILISATION: SEMISUB 8000'



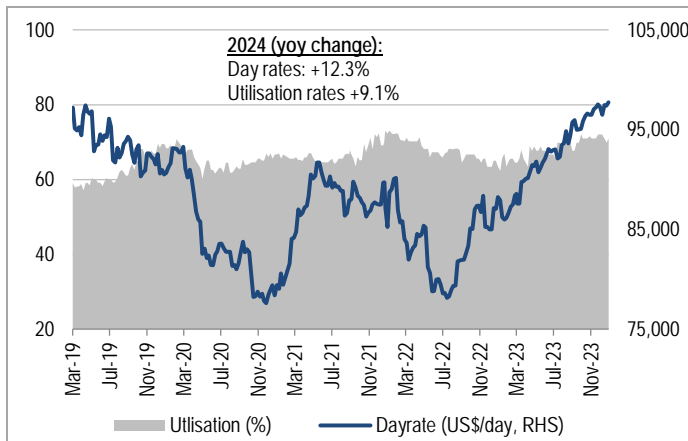
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: SEMISUB 5000-8000'



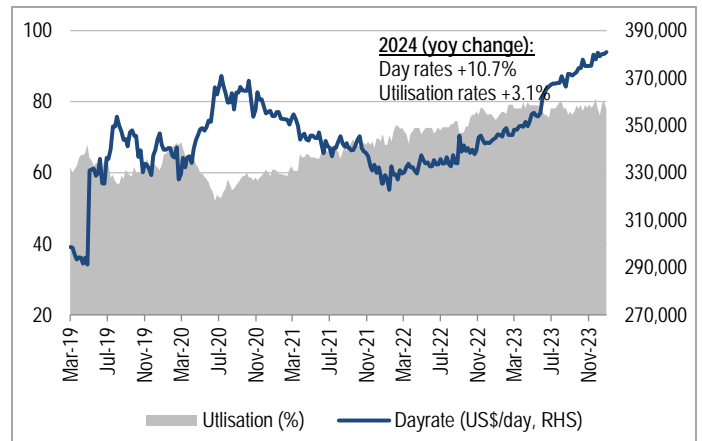
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: JACKUP 300+ INDEPENDENT CANTILEVERED



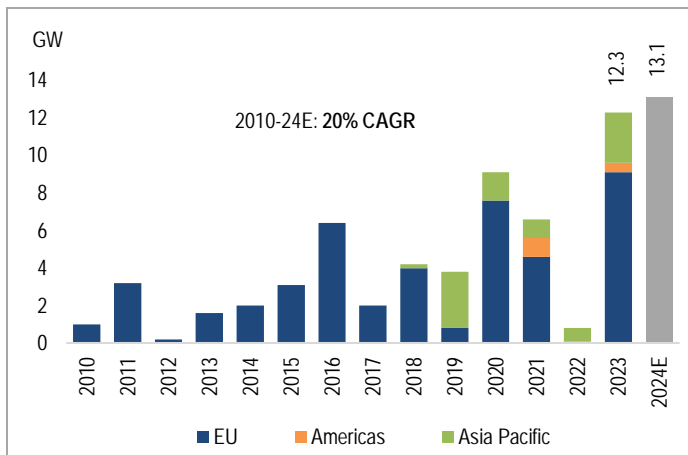
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: DRILLSHIP



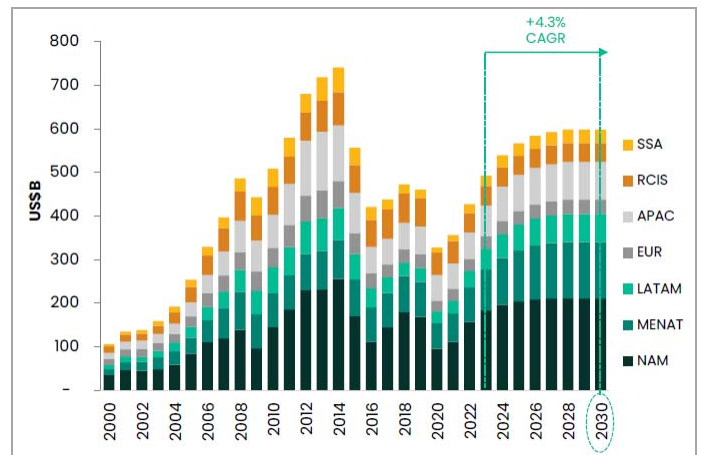
Source: Rigzone, Bloomberg

GLOBAL OFFSHORE WIND: FINAL INVESTMENT DECISIONS BY YEAR



Note: Excludes China and cancelled projects
Source: Norwegian Offshore Wind

UPSTREAM CAPEX OUTLOOK



Source: Baker Hughes

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