

COMPANY UPDATE

Sembcorp Marine (SMM SP)

Yard Visit Reinforces Our Positive View On SMM For 2023

It was evident from a bird's eye tour of SMM's yard that its integrated design allows the company to carry out projects more efficiently and thus save on time and cost. This was also helped by the implementation of solar and robotic initiatives. We continue to like SMM given its strong potential for new order wins in 2023, especially for production assets. In the longer term, PSA's move to Tuas will have positive spillover effects on SMM's repairs & upgrades segment. Maintain BUY. Target price: S\$0.156.

WHAT'S NEW

- **Yard visit reinforces positive view.** Sembcorp Marine's (SMM) management recently hosted a visit to its Tuas yard. We were able to get an aerial view of the yard's operations and thus were able to better appreciate its integrated, and hence efficient, yard vs other yards; this is especially in comparison to its old Tanjong Kling yard. Given that planning for this Tuas yard started in 2010 and that it is the only integrated yard of its size and type globally (not to mention its advantageous geographical location), SMM appears to have a deep and wide competitive moat that should last for a long time.
- **Of solar power and robots.** SMM completed Phase 2 of its rooftop solar panel installation in 2022. This will be able to cater to an estimated 65% of the energy needs of its steel fabrication works, which is one of the most energy intensive parts of rig building. Hence, this should lead to slightly higher margins due to the cost savings. Note that SMM has Phase 3 planned and this is likely to be carried out over the next 2-3 years as business volumes increase. SMM highlighted that its steel fabrication works (ie cutting and welding) are almost entirely carried out by roof-mounted robots, which has led to a 30% savings in time.
- **Strong potential for new order wins for production assets.** We understand that SMM may be in the running for three floating production units (FPU) in the near to medium term. Note that SMM delivered one semi-sub FPU to Shell for its Vito field in the Gulf of Mexico (GOM) in Jan 22 and is currently constructing a similar FPU for Shell's Whale field that is also in the GOM. Given its near-term experience, we believe that SMM has a high chance of securing at least one of these FPUs, which we estimate to be around S\$350m-500m in size. During the yard tour, it was evident that the size and quality of equipment, as well as their location in close proximity to each other, would naturally result in faster and easier integration of the various completed modules.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,510	1,862	1,939	2,271	2,693
EBITDA	(380)	(1,028)	8	329	371
Operating profit	(582)	(1,224)	(189)	132	174
Net profit (rep./act.)	(583)	(1,171)	(249)	50	89
Net profit (adj.)	(583)	(1,171)	(249)	50	89
EPS (S\$ cent)	(10.6)	(6.5)	(0.7)	0.1	0.2
PE (x)	n.m.	n.m.	n.m.	96.0	54.2
P/B (x)	0.2	0.5	1.2	1.2	1.2
EV/EBITDA (x)	n.m.	n.m.	811.5	19.7	17.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(38.6)	(62.9)	(12.8)	2.2	3.3
Net debt/(cash) to equity (%)	75.7	45.8	57.7	60.9	62.5
Interest cover (x)	(4.1)	(14.8)	(1.4)	1.0	1.3
ROE (%)	n.a.	n.a.	n.a.	1.2	2.2
Consensus net profit	-	-	(247)	(6)	75
UOBKH/Consensus (x)	-	-	1.01	n.m.	1.19

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

BUY

(Maintained)

Share Price	S\$0.131
Target Price	S\$0.156
Upside	+19.1%

COMPANY DESCRIPTION

Sembcorp Marine is an integrated shipyard offering one-stop engineering solutions for the offshore, marine and energy industries. It demerged from Sembcorp Industries in 3Q20.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SMM SP
Shares issued (m):	31,389.1
Market cap (S\$m):	4,112.0
Market cap (US\$m):	2,980.8
3-mth avg daily t'over (US\$m):	11.1

Price Performance (%)

52-week high/low	S\$0.136/S\$0.081			
1mth	3mth	6mth	1yr	YTD
10.1	18.0	32.3	57.8	59.8

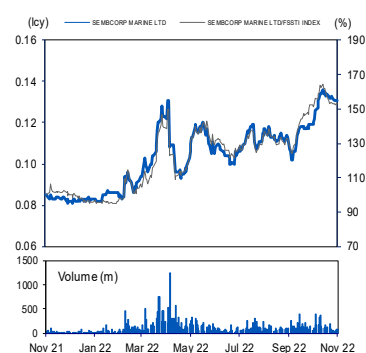
Major Shareholders

Temasek Hldgs	54.6
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FY22 NAV/Share (S\$) 0.11

FY22 Net Debt/Share (S\$) 0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Synergies with relocation of PSA.** The Port of Singapore Authority (PSA) has five container terminals in Singapore (Tanjong Pagar, Keppel, Brani, Pasir Panjang Terminal 1 and Pasir Panjang Terminal 2). However, all of these will be amalgamated into one super-sized port right behind SMM's Tuas yard over four phases. The first phase of relocation started in Dec 21 with the operation of three berths, which will be able to handle 20m TEU when all 21 berths are operational. Once the four-phase mega port construction is completed in 2040, it will be able to handle 65m TEU. In our view, this is important as ship traffic will naturally lead to a steady base of customers and revenue for SMM's repairs and upgrading segment in due course.
- Further granularity on high-cost labour issue.** SMM stated that the high-cost labour were workers from China that were brought in in 2021 due to the COVID-19 restrictions for Indian and Bangladeshi workers. The Chinese workers were supposed to be repatriated in 1H22; however, the high cost of doing so resulted in SMM deciding to deploy them to work at the yard instead. These residual costs for repatriation include the time and cost required for quarantine in China, COVID-19 testing and vaccination, as well as the high airfares prevalent in 1H22.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with S\$0.156 target price.** With the SMM/Keppel merger terms largely in place and much of the uncertainty out of the way, the focus on SMM will be: a) the date of the EGM to approve the merger with Keppel Offshore & Marine, which is expected to be in Jan 23, and b) to garner new orders over the next 12 months and add to its orderbook instead of its earnings in 2022. That said, SMM will need to start delivering profits in 1H23 in order to prove that it is able to reliably and profitably construct its projects. Our target book-value multiple for SMM of 1.2x reflects our confidence that it will garner such orders, thus leading to positive share price performance. In our view, the offshore construction cycle for both conventional oil and gas and renewables has room for growth in the next few years, especially given the lack of spending by the global oil and gas industry, thus constraining energy supply.

SHARE PRICE CATALYST

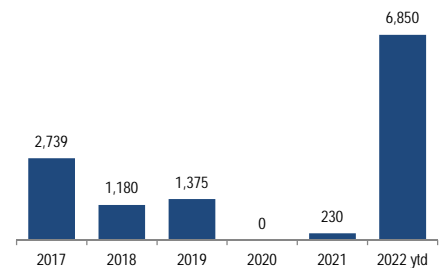
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.

SMM'S NEW ORDER WINS VS BRENT OIL PRICE



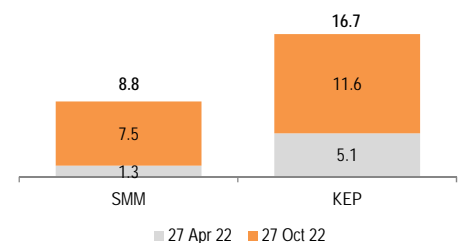
Source: SMM, Bloomberg

NEW ORDER WINS BY YEAR (\$M)



Source: Bloomberg

GROWTH IN SMM & KEP'S NET ORDERBOOK BETWEEN 1ST AND 2ND MERGER ANNOUNCEMENT (\$B)



Source: SMM

AERIAL VIEW OF SMM'S TUAS YARD



Source: Bomoon Corp

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Net turnover	1,862	1,939	2,271	2,693
EBITDA	(1,028)	8	329	371
Deprec. & amort.	197	197	197	197
EBIT	(1,224)	(189)	132	174
Total other non-operating income	0	0	0	0
Associate contributions	1	1	1	1
Net interest income/(expense)	(32)	(80)	(80)	(80)
Pre-tax profit	(1,255)	(267)	54	96
Tax	79	17	(3)	(6)
Minorities	5	1	0	0
Preferred dividends	0	0	0	0
Net profit	(1,171)	(249)	50	89
Net profit (adj.)	(1,171)	(249)	50	89

BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	3,993	3,911	3,830	3,748
Other LT assets	2,581	2,652	2,818	3,041
Cash/ST investment	1,104	661	102	78
Other current assets	1,922	1,601	1,927	2,244
Total assets	9,600	8,825	8,676	9,111
ST debt	821	800	600	600
Other current liabilities	1,713	1,231	1,431	1,677
LT debt	2,255	2,200	2,000	2,100
Other LT liabilities	486	519	519	519
Shareholders' equity	4,301	4,052	4,102	4,192
Minority interest	24	23	23	23
Total liabilities & equity	9,600	8,825	8,676	9,111

CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Operating	(589)	(315)	(138)	(102)
Pre-tax profit	(1,224)	(189)	132	174
Tax	(5)	(27)	(18)	(8)
Deprec. & amort.	197	197	197	197
Associates	0	0	0	0
Working capital changes	295	(165)	(319)	(334)
Non-cash items	30	0	0	0
Other operating cashflows	118	(130)	(130)	(130)
Investing	(44)	(85)	(21)	(21)
Capex (growth)	(46)	(100)	(100)	(100)
Capex (maintenance)	0	0	0	0
Investments	0	5	69	69
Proceeds from sale of assets	4	10	10	10
Others	(2)	0	0	0
Financing	964	(43)	(400)	100
Dividend payments	0	0	0	0
Issue of shares	1,499	0	0	0
Proceeds from borrowings	0	0	0	100
Loan repayment	(512)	(76)	(400)	0
Others/interest paid	(22)	33	0	0
Net cash inflow (outflow)	331	(443)	(559)	(23)
Beginning cash & cash equivalent	772	1,104	661	102
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	1,104	661	102	78

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	(55.2)	0.4	14.5	13.8
Pre-tax margin	(67.4)	(13.8)	2.4	3.5
Net margin	(62.9)	(12.8)	2.2	3.3
ROA	n.a.	n.a.	0.6	1.0
ROE	n.a.	n.a.	1.2	2.2
Growth				
Turnover	23.3	4.1	17.1	18.6
EBITDA	n.a.	n.a.	4,023.7	12.7
Pre-tax profit	n.a.	n.a.	n.a.	77.3
Net profit	n.a.	n.a.	n.a.	77.3
Net profit (adj.)	n.a.	n.a.	n.a.	77.3
EPS	n.a.	n.a.	n.a.	77.3
Leverage				
Debt to total capital	41.6	42.4	38.7	39.0
Debt to equity	71.5	74.0	63.4	64.4
Net debt/(cash) to equity	45.8	57.7	60.9	62.5
Interest cover (x)	(14.8)	(1.4)	1.0	1.3

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