

COMPANY UPDATE

Seatrium (STM SP)

Sailing Into A Sea Of Opportunity

Seatrium's 1Q23 business update displayed strong cashflow generation, as evidenced by its materially lower gearing levels. However, it is the company's potential to continue to grow its orderbook in the oil & gas and renewables space that is exciting in our view. We estimate another S\$10b upside to its current orderbook of S\$20b with the company targeting an EBITDA margin of 15%. Maintain BUY with an upgraded target price of S\$0.17.

WHAT'S NEW

- Investor meetings after its 1Q23 business results underlined an ocean of potential growth for the company, in our view.** After its 1Q23 business update, Seatrium attended a group meeting with investors where the company outlined its path towards sustainable growth and profitability, with the key being retention of people and talent in order to take advantage of the multitude of opportunities in the offshore marine space.
- We estimate another S\$10b upside to current orderbook of S\$20b.** On top of the current four FPSOs that it has from Petrobras, Seatrium will look to bid for another two with each priced at c.US\$3b as well as a few other floating production units at US\$1b each and highly likely to be from repeat customers such as ExxonMobil. The company also foreshadowed easy cost synergies from bringing these four FPSOs under one roof. In addition, offshore wind in developed markets like the US and Europe remains highly promising. Management affirmed that it has the capacity to accept more projects – and looking to fill its 2028/29 production schedule – but given the shortage of global yard capacity strong level of enquiries it will not “sell slots”.
- Margins and returns on new projects.** Contrary to some market expectations, recent wind projects won by the company have comparable margins and returns vs the ‘traditional’ oil & gas-related projects with management guiding for an overall long-term target of 15% EBITDA margin. Furthermore, it aims to garner c.S\$4b-5b p.a. of orders, however we believe that the company could comfortably accept S\$8b p.a.
- To recap, Seatrium announced its 1Q23 business update on 12 May 23** which is the company's first since merging with Keppel Offshore Marine. While no financials were provided, it was evident that Seatrium has generated significant cashflow in 1Q23 given its disclosed net debt/equity ratio of 0.18x as at end-1Q23 which is a material decline from the 0.26x seen at the end of 2022. In our view, this huge improvement was due to the completion of several major projects in 1Q23 thus leading to final delivery payments from Seatrium's clients.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,862	1,947	4,621	5,353	6,942
EBITDA	(1,028)	(7)	256	502	839
Operating profit	(1,224)	(206)	(35)	211	501
Net profit (rep./act.)	(1,171)	(261)	30	158	353
Net profit (adj.)	(1,171)	(261)	30	158	352
EPS (S\$ cent)	(6.5)	(0.8)	0.0	0.2	0.5
PE (x)	n.m.	n.m.	288.8	54.3	24.4
P/B (x)	0.5	1.0	1.0	1.0	1.0
EV/EBITDA (x)	n.m.	n.m.	41.9	21.4	12.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(62.9)	(13.4)	0.6	3.0	5.1
Net debt/(cash) to equity (%)	45.8	26.5	25.2	19.1	9.1
Interest cover (x)	(14.8)	(1.5)	(0.2)	n.a.	n.a.
ROE (%)	n.a.	n.a.	0.5	1.9	4.1
Consensus net profit	-	-	(89)	184	449
UOBKH/Consensus (x)	-	-	n.m.	0.86	0.78

Source: Seatrium, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as “n.m.”

BUY

(Maintained)

Share Price	S\$0.128
Target Price	S\$0.170
Upside	+32.8%
(Previous TP)	S\$0.156)

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

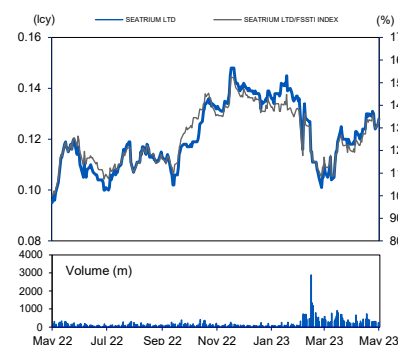
GICS sector	Industrials
Bloomberg ticker:	STM SP
Shares issued (m):	68,237.2
Market cap (S\$m):	8,734.4
Market cap (US\$m):	6,525.5
3-mth avg daily t'over (US\$m):	40.7
Price Performance (%)	

52-week high/low S\$0.148/S\$0.093

1mth	3mth	6mth	1yr	YTD
6.8	(6.7)	(4.5)	32.6	(8.7)

Major Shareholders	%
Temasek	54.6
-	-
-	-
FY23 NAV/Share (S\$)	0.12
FY23 Net Debt/Share (S\$)	0.03

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Still a lot of cash in the bank.** In its 1Q23 business update, Seatrrium also disclosed that there were no further disbursements of proceeds from the Sep 21 S\$1.5b rights issue with balance of net proceeds at \$600m.
- **Win-win processes and projects emphasised.** Management stated that its recent trip to the Offshore Technology Conference in Houston showed that customers were keen on understanding the new opportunities presented by Seatrrium. Importantly it was evident that oil majors prized the company's ability to construct in Singapore (vs other more politically-sensitive locations), and to build and integrate components, modules and projects out of one location only. Furthermore, customers have become more open and understanding of supply chain issues and are more willing to share risk.
- **Rig market will eventually revive but still at least 2-3 years away.** Management highlighted that three of the company's jack-up designs (Le Tourneau, BMC and Keppel B Class) make up >60% of the assets presently at work. While high-specification jack-up rigs are already at multi-year highs of >US\$130,000/day and utilisation rates at >90%, there are still a number of cold and warm stacked rigs which overhang the market. In Seatrrium's view, drilling rigs should undergo a replacement cycle in the next few years and we believe that the company is well placed to take advantage of this, once asset owners have repaired their balance sheets.
- **Potential monetisation of Gravifloat.** Management highlighted that its LNG solution could be re-purposed for ammonia given its potential use within the hydrogen-as-energy value chain. As ammonia is toxic, requires adequate fire safety measures, is corrosive to certain metals and is typically stored under pressure as a liquid or in a pressurised system, the use of the Gravifloat system offshore Singapore would be ideal instead of storing ammonia on Jurong Island or on the Singapore mainland.

EARNINGS REVISION/RISK

- We have updated our earnings, balance sheet and cashflow to reflect the merger.
- **Goodwill unlikely to be impaired.** After the merger, some investors were concerned about a potential impairment in the large amount of goodwill totalling S\$3.84b or S\$0.056/share. However management appears sanguine stating that this value can be sustained given projects that it is winning and where we are in the offshore marine cycle.

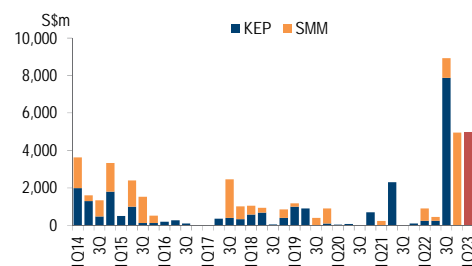
VALUATION/RECOMMENDATION

- **We maintain our BUY rating on Seatrrium with a slightly higher P/B-based target price of S\$0.17 (previously S\$0.156).** Our new target P/B multiple of 1.4x reflects our belief that the company will benefit from: a) the tailwinds from increased construction in the renewables space, and b) the current offshore marine upcycle. We believe that in an offshore marine upcycle, stocks like Seatrrium should not trade at around 1.0x P/B but instead at 1.2-1.5x P/B, which equates to S\$0.148-0.185/share.
- **It's not just oil and gas and renewables.** While 39% of the company's current net orderbook of over S\$20b is in the renewable energy space (and the remainder related to oil and gas projects), its addressable market is arguably much larger when taking into account carbon capture usage and storage, floating LNG and ammonia which feeds into the hydrogen energy chain.

SHARE PRICE CATALYST

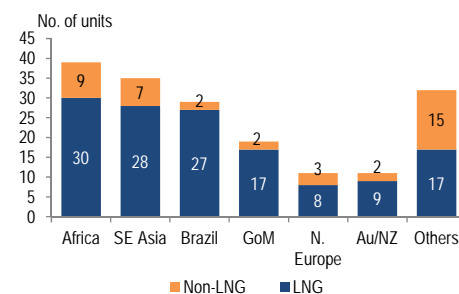
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.

HISTORICAL NEW ORDER WINS



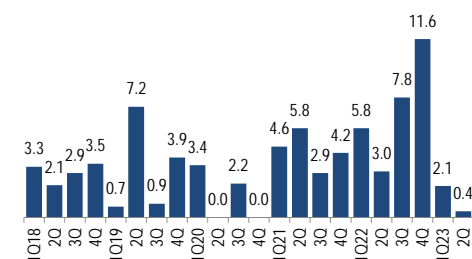
Source: Keppel, Sembcorp Marine, Seatrrium

FPSO PROJECTS IN THE PLANNING PIPELINE BY REGION



Source: Energy Maritime Associates - Apr 2023

FLOATING UNITS AWARDED BY CAPEX (US\$B)



Source: Energy Maritime Associates - Apr 2023

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	1,947	4,621	5,353	6,942
EBITDA	(7)	256	502	839
Deprec. & amort.	200	291	291	337
EBIT	(206)	(35)	211	501
Total other non-operating income	0	80	0	0
Associate contributions	1	16	16	16
Net interest income/(expense)	(34)	(17)	11	11
Pre-tax profit	(240)	45	238	528
Tax	(26)	(9)	(48)	(106)
Minorities	4	(6)	(32)	(71)
Preferred dividends	0	0	0	0
Net profit	(261)	30	158	353
Net profit (adj.)	(261)	30	158	352

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	3,860	5,020	4,844	4,622
Other LT assets	2,109	6,558	6,803	7,366
Cash/ST investment	2,091	1,916	1,674	1,887
Other current assets	1,042	3,838	4,277	5,216
Total assets	9,102	17,333	17,598	19,092
ST debt	1,669	1,197	1,197	1,197
Other current liabilities	1,765	4,067	4,871	6,543
LT debt	1,420	2,829	2,100	1,500
Other LT liabilities	460	838	838	838
Shareholders' equity	3,769	8,359	8,517	8,869
Minority interest	19	43	75	146
Total liabilities & equity	9,102	17,333	17,598	19,092

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	1,039	(474)	418	745
Pre-tax profit	(206)	(35)	211	501
Tax	(2)	19	337	472
Deprec. & amort.	200	291	291	337
Associates	0	0	0	0
Working capital changes	1,050	145	(290)	(436)
Non-cash items	(36)	(60)	0	0
Other operating cashflows	34	(835)	(130)	(130)
Investing	(26)	13	69	69
Capex (growth)	(23)	(40)	(100)	(100)
Capex (maintenance)	0	0	0	0
Investments	0	(101)	159	159
Proceeds from sale of assets	3	10	10	10
Others	(6)	144	0	0
Financing	(21)	286	(729)	(600)
Dividend payments	(0)	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	938	0	0
Loan repayment	0	0	(729)	(600)
Others/interest paid	(20)	(652)	0	0
Net cash inflow (outflow)	992	(175)	(243)	214
Beginning cash & cash equivalent	1,104	2,091	1,916	1,674
Changes due to forex impact	(6)	0	0	0
Ending cash & cash equivalent	2,091	1,916	1,674	1,887

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(0.3)	5.5	9.4	12.1
Pre-tax margin	(12.3)	1.0	4.4	7.6
Net margin	(13.4)	0.6	3.0	5.1
ROA	n.a.	0.2	0.9	1.9
ROE	n.a.	0.5	1.9	4.1
Growth				
Turnover	4.6	137.3	15.8	29.7
EBITDA	n.a.	n.a.	95.8	67.1
Pre-tax profit	n.a.	n.a.	431.9	122.1
Net profit	n.a.	n.a.	431.9	122.7
Net profit (adj.)	n.a.	n.a.	431.9	122.1
EPS	n.a.	n.a.	431.9	122.7
Leverage				
Debt to total capital	44.9	32.4	27.7	23.0
Debt to equity	81.9	48.2	38.7	30.4
Net debt/(cash) to equity	26.5	25.2	19.1	9.1
Interest cover (x)	(1.5)	(0.2)	n.a.	n.a.

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