

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Sector

Offshore Marine

Outlook in 2024 remains bright – we continue to like Seatrrium and Marco Polo Marine for exposure.

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TRADERS' CORNER

Hong Fok Corp (HFC SP): Trading BUY

City Developments (CIT SP): Trading BUY

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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	36117.4	0.2	0.5	5.8	9.0
S&P 500	4585.6	0.8	0.4	4.7	19.4
FTSE 100	7513.7	(0.0)	0.8	1.4	0.8
AS30	7384.7	(0.0)	1.2	2.6	2.3
CSI 300	3391.3	(0.2)	(3.0)	(6.1)	(12.4)
FSSTI	3074.3	(0.4)	0.0	(1.8)	(5.4)
HSCEI	5615.8	(0.8)	(4.1)	(7.0)	(16.2)
HSI	16345.9	(0.7)	(4.1)	(7.0)	(17.4)
JCI	7134.6	0.7	0.8	4.9	4.1
KLCI	1442.9	(0.2)	(0.7)	(1.0)	(3.5)
KOSPI	2492.1	(0.1)	(1.7)	2.9	11.4
Nikkei 225	32858.3	(1.8)	(1.9)	2.2	25.9
SET	1378.7	(0.8)	(0.6)	(2.3)	(17.4)
TWSE	17278.7	(0.5)	(0.9)	3.2	22.2
BDI	2495	(12.4)	(15.0)	60.0	64.7
CPO (RM/mt)	3577	(2.1)	(3.8)	(1.5)	(11.6)
Brent Crude (US\$/bbl)	74	0.2	(10.1)	(8.8)	(13.4)

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
DBS Group Holdings	31.18	(1.0)	125.7
United Overseas Bank	27.19	(0.4)	61.4
Oversea-Chinese Banking Corp	12.51	(0.8)	42.8
Singapore Telecommunications	2.32	(0.4)	40.3
CapitaLand Ascendas Reit	2.83	0.4	31.0

TOP GAINERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Genting Singapore	0.96	3.2	23.4
Hour Glass Ltd/The	1.61	2.5	1.0
UMS Holdings	1.26	2.4	3.7
Golden Agri-Resources	0.27	1.9	1.7
Oue Commercial Real Estate	0.27	1.9	1.1

TOP LOSERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Yanlord Land Group	0.51	(2.9)	1.1
Singapore Land Group	2.00	(2.4)	0.0
DFI Retail Group Holdings	2.25	(2.2)	1.3
Top Glove Corp	0.24	(2.1)	0.6
iFAST Corp	8.00	(1.8)	9.0

*ADT: Average daily turnover

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	1.9	2.4	1.0
Euro Zone	3.5	0.5	0.6
Japan	0.9	1.5	1.0
Singapore	3.6	0.9	2.9
Malaysia	8.7	4.0	4.6
Thailand	2.6	2.3	3.6
Indonesia	5.3	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

SECTOR UPDATE

Offshore Marine – Singapore

2024 Outlook Remains Bright

While demand for offshore marine assets remains strong, the offshore wind sector has been beset by negative sentiment in the US East Coast whereas Europe remains strong and stable, in our view. Our positive investment thesis for STM centres around capacity constraints for quality global shipyards that can deliver offshore projects at scale, especially given the current cycle which we expect to be long in duration and resilient. Sector rating: **OVERWEIGHT**.

WHAT'S NEW

- Strong demand continues to feature across all rig types.** In particular, dayrates for deepwater semi-sub and drillships are above five-year highs while dayrates for jack-up rigs are near five-year highs. From industry sources, we note that high spec assets command a premium of between 30-70% vs aggregate rates, indicating the scarcity of such assets as well as the willingness of oil companies to spend (see charts at the end of this report). While Seatrium's (STM) management has stated its belief that a supercycle for rigbuilding will not materialise anytime soon, we believe that any new rig orders in 2024 could materially change sentiment towards the sector.
- Oil prices have remained volatile,** trading at between US\$72/bbl to US\$97/bbl in 2023. While tail risk of a further supply shock due to Middle Eastern conflict cannot be ignored, the latest OPEC+ meeting ended in a reasonable amount of confusion, causing uncertainty at least until the next meeting in Jun 24. Nevertheless, we remain bullish on the energy sector given the continued lack of discovered oil. Note that in 1H23, only 2.6 billion boe was discovered, or 42% lower than the same period last year. Longer term, this clearly has ramifications on the world's ability to supply energy for its economic growth.
- Outlook for 2024.** We retain our belief that oil prices will comfortably trade between US\$85-95/bbl in 2024. Despite weaker macro market sentiment and risks to oil demand next year, we point out that OPEC+ is still supportive of its production cuts (the cartel made three successive cuts in 2023) to maintain a relatively high oil price. In addition, the spectre of geopolitical risk remains, and a Brent oil price of US\$68/bbl for delivery in Dec 28 should see oil companies continue to spend on offshore capex.
- A bumpy ride for offshore wind.** Rystad Energy estimates that new offshore wind installations have declined 11% yoy in 2023 due to significant hurdles for project owners and contractors such as permitting obstacles and higher supply-chain costs. According to industry data, price inflation of up to 20% has been seen in the past two years in both US and Europe. Thus, countries like Finland, France, Spain, Sweden, and Poland have seen yoy declines in installed capacity with only Germany continuing to grow despite the hurdles, with an unchanged target of 30GW of offshore wind by 2030.

ACTION

- Maintain sector view at OVERWEIGHT.** 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 (Icy)		Upside	Market Cap	PE (x)		P/B (x)		EV/EBITDA (x)		ROE%	Yield (%)	
			7 Dec	Target	to TP (%)	(US\$m)	2023F	2024F	2023F	2024F	2022F	2023F	2024F	2024F	
Seatrium	STM SP	BUY	0.101	0.190	88.1	5,144	NM	43.5	0.8	0.8	35.3	18.0	1.9	0.0	
Yangzijiang	YZJSGD SP	BUY	1.47	1.92	30.6	4,336	8.9	7.9	1.2	1.0	4.7	4.1	14.6	3.2	
Marco Polo Marine*	MPM SP	BUY	0.050	0.066	32.0	142.8	7.1	6.5	1.0	0.9	3.1	2.9	15.0	2.9	
Average – Spore-listed								7.1	6.5	1	0.9	3.1	2.9	15	
Hanwha Ocean Co	042660 KS	NR	31,050	NA	NA	5,991	NM	26.7	1.9	1.7	NM	18.2	7.3	0.0	
Samsung Heavy Ind	010140 KS	NR	7900	NA	NA	5,291	48.3	19.8	1.8	1.6	21.6	13.4	8.9	0.0	
HD Korea Shipbldg	009540 KS	NR	116,300	NA	NA	5,897	27.7	8.6	0.8	0.7	11.2	4.7	8.6	1.5	
Average – Sector								23.0	18.8	1.3	1.1	15.2	10.2	9.4	1.3

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

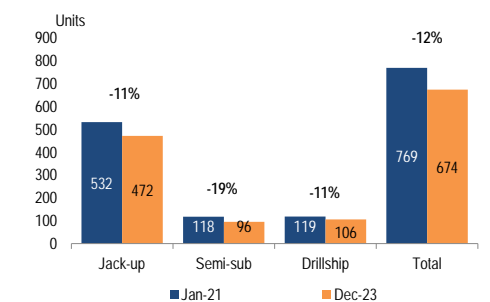
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	
			7 Dec	Target
Seatrium	STM SP	BUY	0.101	0.190
Yangzijiang	YZJSGD SP	BUY	1.47	1.92
Marco Polo Marine	MPM SP	BUY	0.050	0.066

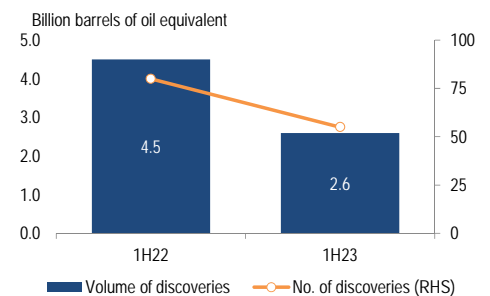
Source: UOB Kay Hian

CHANGE IN NO. OF ACTIVE OFFSHORE RIGS



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

DISCOVERED VOLUMES OF OIL AND GAS



Source: Rystad

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KEY STOCK CALLS

Seatrium (STM SP, BUY, Target: S\$0.19)

- **STM's new order pipeline appears to have decent upside potential**, especially for energy transition projects. It has a blue-chip client base and a wide range of production-centric products such as FPSOs, FLNG vessels and wind turbine installation vessels, and thus will focus on quality orders going forwards. Management believes that a repeat of a super-cycle volume of jack-up orders is unlikely.
- **Repairs & upgrades segment – Kicking goals.** Looking out into 2024 and beyond, STM highlighted that it will start to move away from pure repair and instead facilitate energy transition via vessel upgrades (eg installation of decarbonisation technology) and new technology deployment, especially given new rules and regulations from the International Maritime Organisation. In addition, this segment should see incremental demand for the reactivation of drilling rigs as utilisations exceed 90%.
- **We maintain our BUY rating on Seatrium 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. Our positive view on the stock reflects our belief that the company will benefit from bullish trends in the offshore marine space. These include: a) the tailwinds from increased construction in the renewables space, and b) the current offshore marine upcycle.

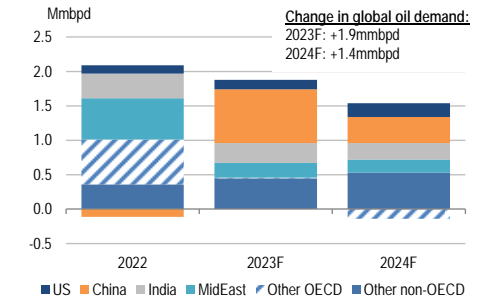
Yangzijiang Shipbuilding (YZJSGD SP, BUY, Target: S\$1.92)

- **No surprises with solid outlook intact.** Yangzijiang Shipbuilding's (YZJ) 3Q23 business update was solid, with management commenting that revenue trends thus far have been on track with no negative surprises as the company maintained its solid track record in delivering on its projects for the quarter.
- **Continues to experience strong order win momentum.** As expected, order win momentum continued in 3Q23 with US\$770m in new orders. This has resulted in ytd orders worth US\$6.54b and is well ahead of the company's admittedly conservative guidance of US\$3b and in line to possibly exceed our estimate of US\$7b. Demand for tankers surprised on the upside while containership demand remained robust.
- **Maintain BUY with a PE-based target price of S\$1.92.** Our target PE multiple of 9.9x remains at 1.5SD above the company's five-year average of 6.6x. We believe the premium to its average PE is justified given the company's earnings visibility into 2027 as well as its strong track record for deliveries. YZJ has an outstanding orderbook for 181 vessels worth USD14.7b as at end-1H23.

Marco Polo Marine (MPM SP, BUY, Target: \$0.066)

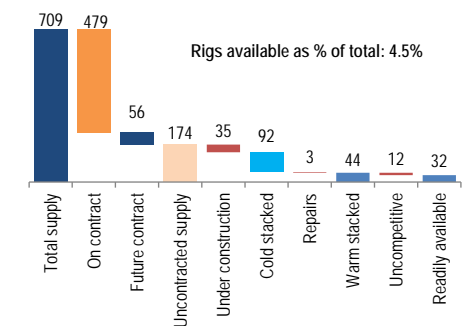
- **Results well above expectations.** In late-Oct 23, MPM reported FY23 core earnings of S\$25m (+83% yoy), 50% higher than our estimate of S\$16m due to its gross margin expanding by 4ppt as a result of higher utilisation rates and favourable charter rates for offshore supply vessels (OSVs). Revenue from its ship chartering and shipyards segments increased by 47% and 48% yoy respectively due to higher average utilisation and charter rates for its fleet of OSVs, higher contract values for repair projects and the commencement of new ship-building projects.
- **First DPS since 2012.** Reflecting its confidence, the company announced its first DPS since 2012 of S\$0.001/share. This is supported by its strong net cash position which increased by 21% yoy to S\$61m (around 30% of market cap).
- **Bullish outlook.** MPM forecasts that its OSV utilisation rate will remain relatively robust amid positive demand-supply dynamics. In addition, OSV charter rates are expected to appreciate in the coming year.
- **After its results, we raise our target price by 10% to S\$0.066** due to earnings upgrades. Maintain BUY. We value MPM at 1.3x FY24F P/B, in line with +2SD to its historical five-year average on the back of higher charter and utilisation rates.

INCREMENTAL OIL DEMAND GROWTH PER YEAR



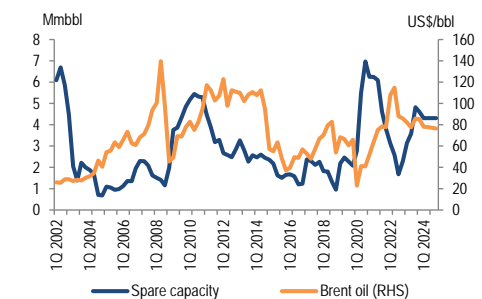
Source: US Energy Information Administration (Sep 23)

TOTAL SUPPLY OF RIGS IN THE GLOBAL MARKET



Source: Esqjan

OPEC SPARE CAPACITY VS BRENT OIL PRICE



Source: Bloomberg, US Energy Information Administration

OFFSHORE WIND CAPACITY: FORECAST GROWTH RATES

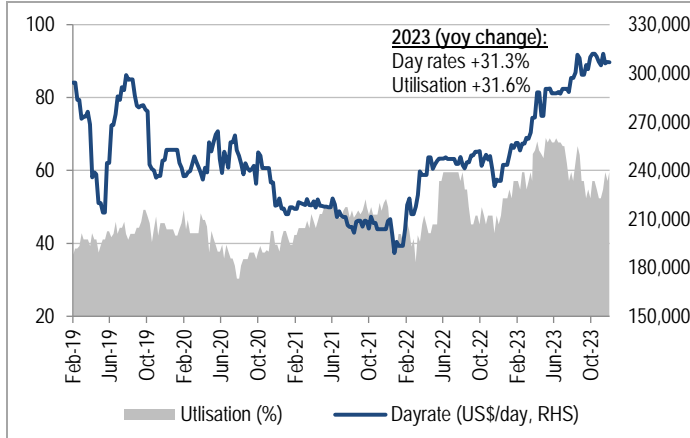
Source	Capacity (GW)	Terminal year	Implied CAGR
BloombergNEF	504	2035	16.0%
McKinsey	207	2030	14.1%
Global Wind Energy Council	316	2030	19.6%

Source: BloombergNEF, McKinsey & Co, Global Wind Energy Council

RISKS TO OUR THESIS

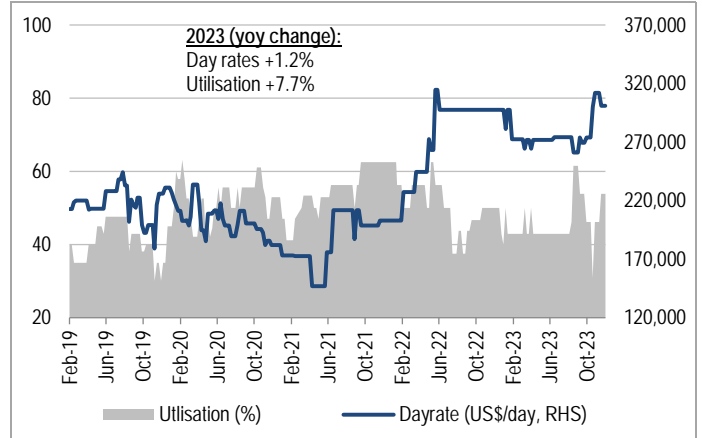
- Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; global recession leading to lower capex.

DAYRATE & UTILISATION: SEMISUB 8000'



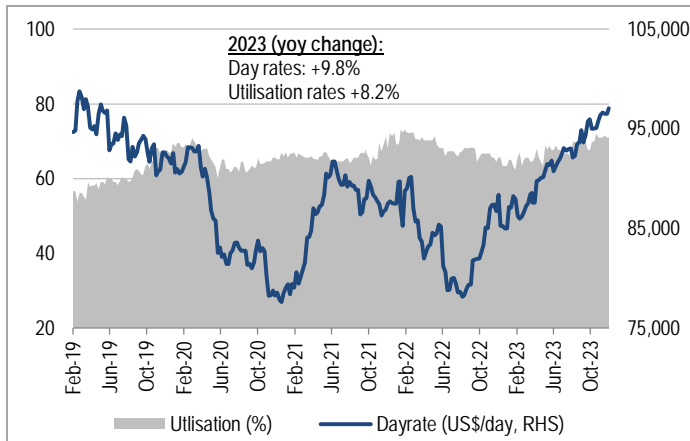
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: SEMISUB 5000-8000'



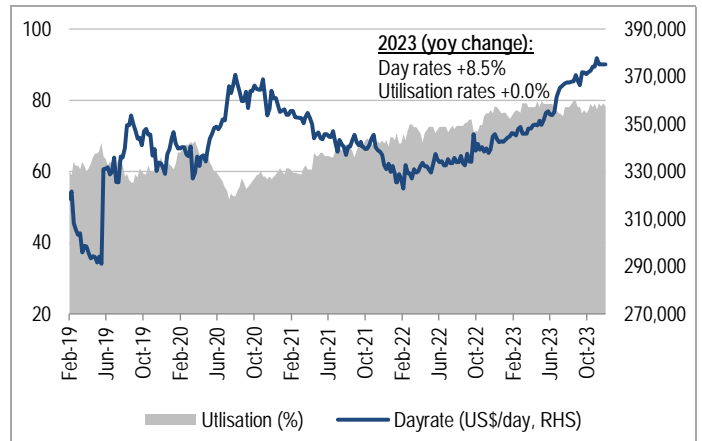
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: JACKUP 300+ INDEPENDENT CANTILEVERED



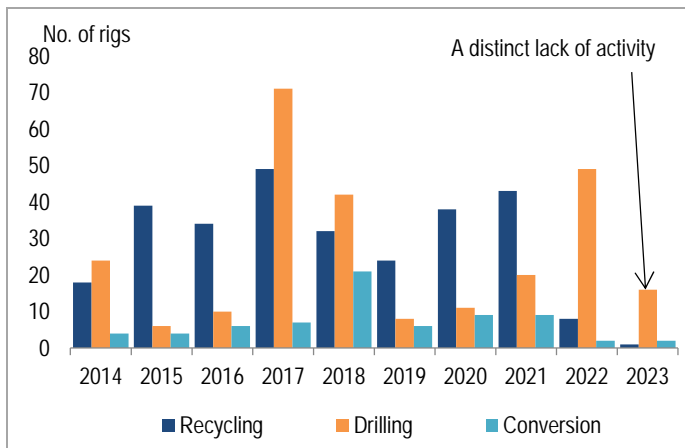
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: DRILLSHIP



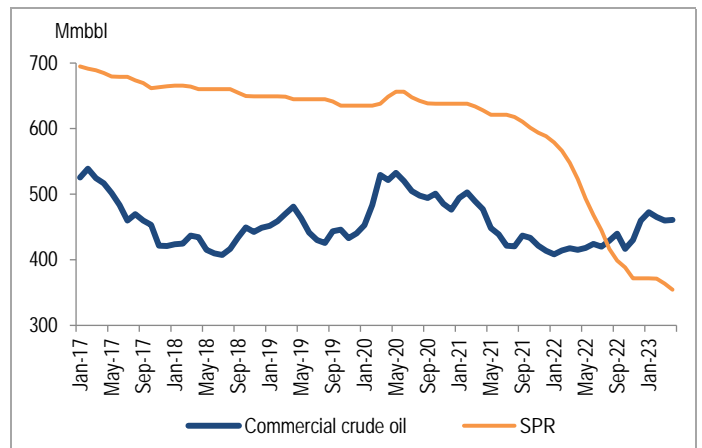
Source: Rigzone, Bloomberg

RIG SALES BY TYPE AS AT END-NOV 23



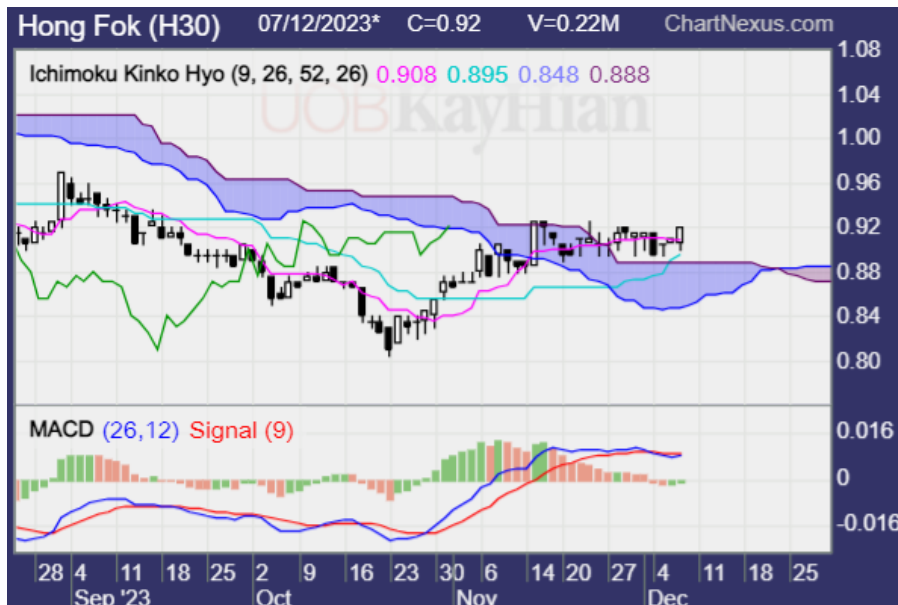
Source: Esgian

US INVENTORIES: COMMERCIAL OIL VS STRATEGIC PETROLEUM RESERVE



Source: US Energy Information Administration

TRADERS' CORNER



Hong Fok Corp (HFC SP)

Trading Buy Range: S\$0.910-0.915

Last price: S\$0.920

Target price: S\$0.985

Protective stop: S\$0.885

Price is trading above the cloud, keeping the uptrend intact. Conversion and base lines remain in a bullish crossover. The MACD remains bullish and a bullish crossover is likely. These could increase chances of the stock price moving higher.

The potential upside target is S\$0.985. Stop-loss could be placed at S\$0.885.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)



City Developments (CIT SP)

Trading Buy Range: S\$6.15-6.16

Last price: S\$6.22

Target price: S\$6.64

Protective stop: S\$6.00

Price could have formed a possible bottom at S\$5.96. The RSI is rising near the oversold region and is rising above its neutral level. These could increase chances of the stock price rebounding from this bottom to move higher.

The potential upside target is S\$6.64. Stop-loss could be placed at S\$6.00.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S\$8.00.

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