

COMPANY RESULTS

Seatrium (STM SP)

2023: Underlying EBITDA And Profit Are Encouraging

Material one-off non-cash write-downs led to the attention-grabbing loss of S\$1.9b for 2023; however, we highlight that the company's underlying EBITDA rose fivefold to S\$628m with a positive trend since 1H22. Importantly, STM made a net profit of S\$33m in 2H23 indicating that profitability is around the corner. The company has proposed a 20-for-1 share consolidation to be approved at its upcoming AGM. Maintain BUY. Target price lowered to S\$0.151.

2023 RESULTS

Year to 31 Dec (S\$m)	1H23	2H23	% hoh	2022	2023	% yoy
Revenue	2,886	4,406	52.7%	1,947	7,291	274.5%
COGS	(3,036)	(4,465)	47.1%	(2,079)	(7,501)	260.7%
Gross profit/(loss)	(150)	(59)	-60.8%	(132)	(209)	58.4%
Operating profit/(loss)	(173)	(1,400)	NM	(206)	(1,573)	NM
Financial expenses	(159)	(129)	-18.4%	(137)	(288)	110.8%
Pre-tax loss	(241)	(1,699)	NM	(240)	(1,939)	NM
Tax credit/(expense)	(26)	12	-147.3%	(26)	(14)	-46.3%
Net loss	(264)	(1,676)	NM	(261)	(1,940)	NM

Source: Seatrium, UOB Kay Hian

RESULTS

- **Underlying results were better than expected.** Seatrium (STM) reported a net loss of S\$1.9b which included one-off non-cash write-downs of S\$2b. Excluding these exceptional items, the results were better than expected with underlying 2023 EBITDA, which excludes exceptional items, rising fivefold to S\$628m while underlying net loss was S\$28m vs S\$141m in 2022. Importantly, the company generated an underlying net profit of S\$33m in 2H23 (2H22: loss of S\$85m).
- **Composition of the write-downs.** These write-downs include S\$1.4b for surplus and non-core assets and excess/obsolete inventories identified during its strategic review as well as S\$0.6b of provisions for onerous contracts, legal and corporate claims, and merger expenses (see table overleaf for greater detail). Included in the one-off items was a provision for S\$182m regarding an in-principle settlement with the Brazilian authorities for Operation Car Wash.
- **Share consolidation unveiled.** Separately, STM also announced that it will propose a 20-for-1 consolidation of its shares which will be put to a vote at its upcoming AGM (date to be determined). The company has also scheduled an Investor Day for 15 Mar 24.

KEY FINANCIALS

Year to 31 Dec (S\$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 (S\$ cent)	(0.8)	(2.8)	0.2	0.5	0.5
PE (x)	n.m.	n.m.	43.8	19.1	18.7
P/B (x)	0.8	0.9	1.0	0.9	0.9
EV/EBITDA (x)	n.m.	n.m.	11.2	9.0	9.0
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	-	-	(434)	167	485
UOBKH/Consensus (x)	-	-	n.m.	1.98	0.70

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

BUY

(Maintained)

Share Price	S\$0.091
Target Price	S\$0.151
Upside	+65.9%
(Previous TP)	S\$0.19

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):	68,217.1
Market cap (S\$m):	6,207.8
Market cap (US\$m):	4,616.5
3-mth avg daily t'over (US\$m):	23.3

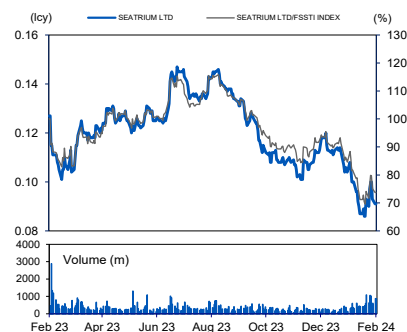
Price Performance (%)

52-week high/low	S\$0.147/S\$0.086			
1mth	3mth	6mth	1yr	YTD
(12.5)	(15.7)	(35.9)	(28.9)	(22.9)

Major Shareholders

Temasek Hldgs	38.1
FY24 NAV/Share (S\$)	0.10
FY24 Net Debt/Share (S\$)	0.01

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Outlook for 2024 appears bullish.** With commercial negotiations underway for Petrobras' two FPSOs (P84 and P85), STM remains in the running to get at least one or potentially both orders. Management commented that STM is actively working on multiple tenders at present, and it remains keenly aware that quality of the orderbook is important so that it does not run into issues in the future. While management did not provide any guidance regarding a potential return to profitability in 2024, STM's CEO emphasised that its risk-adjusted return discipline is in place and it is "working towards improved financial performance".
- More impairments unlikely.** On the results call, management stated its belief that it has undertaken a very thorough and in-depth strategic review of its operations and assets and thus does not believe that STM will need to impair its assets in 2024. Importantly, its new contracts have been secured based on risk sharing and progress payments, thus provisions for higher costs will not occur again. The company noted that the bulk of the impairments is for surplus non-core assets and thus highlighted that going forward, it should experience an increase in productivity, see reduced depreciation and operating expenses and monetise these assets when they are divested.
- Closing out Operation Car Wash in Brazil; Singapore remains an overhang.** STM has reached an in-principle settlement agreement with the authorities in Brazil in relation to the Operation Car Wash investigations which involves a settlement payment totalling S\$182m. Importantly, the agreement guarantees that the company can participate in tenders and other bidding projects in Brazil. However, the timing of the completion of the Singapore authorities' investigation on Operation Car Wash remains uncertain at present.

EARNINGS REVISION/RISK

- Lowered earnings.** We have downgraded our net profit estimates by 8% and 6% for 2024 and 2025 respectively to take into account slightly lower gross profit margins and higher interest costs.

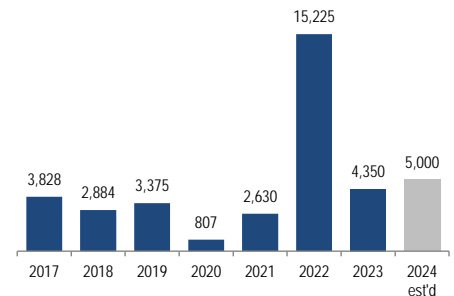
VALUATION/RECOMMENDATION

- We maintain our BUY rating on Seatrium with a lower P/B-based target price of S\$0.151.** Our target P/B multiple of 1.5x remains unchanged at 2SD above the company's five-year average of 1.1x and is pegged to its 2025 book value of S\$0.097. Given the company's exposure to the offshore marine upcycle, we strongly believe that Seatrium is inexpensive trading at -1SD below its mean (see chart on RHS). Risks include negative news flow regarding its Corrupt Practices Investigation Bureau case in Singapore and volatile oil prices.
- Maintain sector view at OVERWEIGHT.** We continue to like Seatrium 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 Seatrium's current orderbook is in the renewable energy space (with 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 storage and transport which feeds into the hydrogen energy chain.

SHARE PRICE CATALYST

- New orders for rigs (especially for the Brazilian FPSOs), offshore renewable installations or fabrication works, repairs and upgrade works for cruise ships and other commercial vessels.

NEW ORDER WINS BY YEAR (\$M)



Note: data relates to the combined Keppel and Semb Marine/ Seatrium order wins

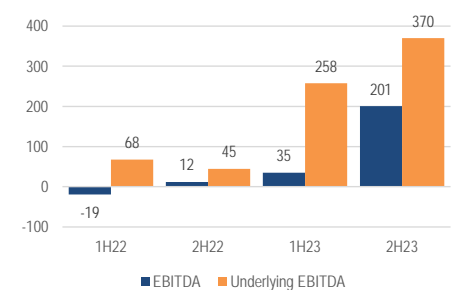
Source: Keppel, Seatrium

P/B SINCE 2021



Source: Bloomberg

POSITIVE EBITDA MOMENTUM (\$M)



Note: 1H23 only includes three months of contribution from KOM

Source: Bloomberg

EXCEPTIONAL ITEMS IN 2023

Item	S\$m
Writedown of property, plant, equipment	867
Writedown of right-of-use assets	278
Provision for onerous contracts	209
Writedown of associates	182
Writedown of inventories	121
Writedown of intangibles	88
Provision for legal claims	82
Provision for corporate claims	17
Provision for restoration costs	9
Total	1,853

Source: STM

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	7,291	7,351	7,277	6,746
EBITDA	(1,116)	647	805	808
Deprec. & amort.	456	456	468	444
EBIT	(1,573)	191	337	364
Total other non-operating income	(282)	0	0	0
Associate contributions	7	7	7	7
Net interest income/(expense)	(92)	(53)	8	(10)
Pre-tax profit	(1,939)	145	352	361
Tax	(14)	(14)	(35)	(36)
Minorities	13	15	15	13
Preferred dividends	0	0	1	1
Net profit	(1,940)	145	332	339
Net profit (adj.)	(1,940)	145	331	338

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	601	(172)	1,804	720
Pre-tax profit	(1,573)	191	337	364
Tax	(24)	19	1,133	16
Deprec. & amort.	456	456	468	444
Associates	0	0	0	0
Working capital changes	122	(688)	(14)	17
Non-cash items	26	0	0	0
Other operating cashflows	1,593	(151)	(121)	(121)
Investing	654	26	56	39
Capex (growth)	(116)	(100)	(100)	(100)
Capex (maintenance)	0	0	0	0
Investments	755	116	146	129
Proceeds from sale of assets	14	10	10	10
Others	0	0	0	0
Financing	(1,072)	(174)	(600)	(1,200)
Dividend payments	0	0	0	0
Issue of shares	(3)	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(1,017)	(174)	(600)	(1,200)
Others/interest paid	(52)	0	0	0
Net cash inflow (outflow)	184	(320)	1,260	(442)
Beginning cash & cash equivalent	2,091	2,270	1,950	3,210
Changes due to forex impact	(4)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	2,270	1,950	3,210	2,769

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Total assets	16,227	15,425	16,204	15,089
Fixed assets	4,081	3,855	3,618	3,404
Other LT assets	5,826	5,678	5,522	5,337
Cash/ST investment	2,270	1,950	3,210	2,769
Other current assets	4,050	3,942	3,853	3,579
ST debt	743	743	743	743
Other current liabilities	5,445	4,687	5,749	5,509
LT debt	2,274	2,100	1,500	300
Other LT liabilities	1,272	1,272	1,272	1,272
Shareholders' equity	6,471	6,616	6,947	7,286
Minority interest	21	6	(8)	(22)
Total liabilities & equity	16,227	15,425	16,204	15,089

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
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
Profitability				
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
Leverage				
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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