

SECTOR UPDATE

Offshore Marine – Singapore

Industry Dynamics Remain Robust – Small/Mid Caps Outperform

Despite a small blip in the jack up-rig sector, demand and supply dynamics in the O&M industry continues to tighten, thus cementing the robust utilisation and day rate trends for both rigs as well as offshore vessels. Small/mid-cap O&M stocks in Singapore have done well ytd in stark contrast to STM. Key US oil services companies' 1H24 results have shown continued strength in international segments, reinforcing our confidence in the sector. Maintain OVERWEIGHT on the sector.

WHAT'S NEW

- Still a bullish outlook.** Over the past three years, the number of active offshore rigs have declined 9-25% (see chart on RHS) as old assets have exited via scrapping, cold-stacked or undergone conversion. The lower supply, together with higher oil & gas prices and robust demand, has led to higher utilisation and day rates across almost all asset classes - from offshore support vessels to the largest drillships. Only jack-up day rates have retreated, down 7% from its 2024 peak due to contract cancellation by Saudi Aramco. Overall, most of Singapore's small/mid-cap offshore marine (O&M) names have seen a lift in their share prices ytd vs Seatrium which, while having won a number of key contracts, faces various investigations by local authorities.
- Not all about oil.** Industry reports indicate that a number of final investment decisions for Southeast Asia's offshore gas projects could see a total of US\$100b in capex spending by 2028 (see chart on RHS), particularly in Indonesia and Malaysia where a number of discoveries have been made. According to Rystad Energy, national oil companies will account for 31% of this capex while oil majors will undertake a 25% share. Key projects to note include Abadi LNG, Eni's Indonesia Deepwater Development and BP's Tangguh Ubadari Carbon Capture. These, and other projects, could have positive ramifications on Singapore's O&M sector, in our view.
- Impact of a potential Trump presidency.** Former President Trump's stated goal is to boost exploration activity in the US which could be negative for upstream companies over the longer term due to the potential for higher oil supply. However, this could be positive for oil services and offshore marine companies given higher demand for such services and assets, and thus buoy utilisation and day rates.
- Positive read-through from US earnings season.** With two of the three major US oilfield services companies (Halliburton and SLB) having reported their 2Q24 results, it was clear that their respective international markets were key growth drivers while North America saw revenue decline and margin compression. In its 2Q24 briefing, SLB - which beat market expectation - stated that it expects to see "ongoing momentum in the international markets" while Halliburton commented that its international business is "experiencing solid demand and high activity levels".

PEER COMPARISON

Company	Ticker	Rec	Price (Icy)		Upside to TP (%)	Market Cap (US\$m)	PE (x)		P/B (x)		EV/EBITDA (x)		ROE%	Yield (%)
			22 Jul	Target			2024F	2025F	2024F	2025F	2024F	2025F		
Seatrium	STM SP	BUY	1.45	2.35	62.1%	3,697	34.4	15.0	0.8	0.7	9.1	7.3	2.2	0.0
Yangzijiang Shipbldg	YZJSGD SP	BUY	2.30	2.86	24.3%	6,785	9.8	8.2	1.9	1.5	6.0	5.0	21.2	3.0
Marco Polo Marine*	MPM SP	BUY	0.057	0.086	50.9%	162	7.4	6.8	1.1	1.0	3.0	2.7	16.3	2.6
Average – Spore-listed							17.2	10.0	1.3	1.1	6.0	5.0	13.2	1.9
Hanwha Ocean Co	042660 KS	NR	30,400	33,758	11.0%	6,708	39.2	20.3	2.1	1.9	24.7	15.1	5.4	0.0
Samsung Heavy Ind	010140 KS	NR	10,600	12,393	16.9%	6,718	35.5	17.4	2.1	1.9	17.1	11.7	7.2	0.0
HD Korea Shipbldg	009540 KS	NR	186,600	175,444	-6.0%	9,512	16.5	9.5	1.2	1.1	9.0	5.4	7.8	1.0
Average – Sector							23.8	12.9	1.5	1.4	11.5	7.9	10.0	1.1

Note: NR = Not Rated, based on Bloomberg consensus
Source: Bloomberg, UOB Kay Hian

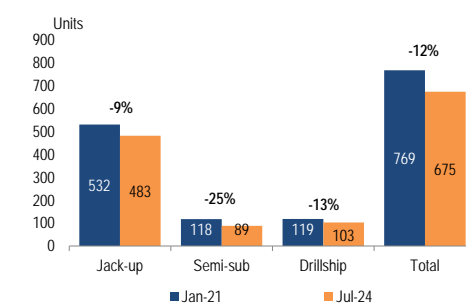
OVERWEIGHT
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	
			22 Jul	Target
Keppel	KEP SP	BUY	6.57	8.89
Seatrium	STM SP	BUY	1.45	2.35
Semb Industries	SCI SP	BUY	4.62	7.49
Yangzijiang	YZJSGD SP	BUY	2.30	2.86
Marco Polo Marine	MPM SP	BUY	0.057	0.086

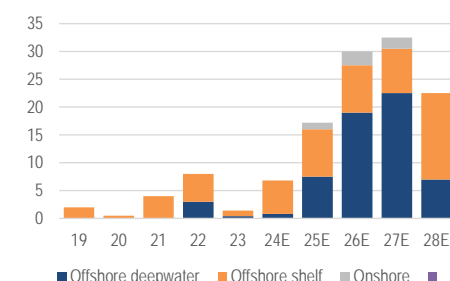
Source: UOB Kay Hian

CHANGE IN NO. OF ACTIVE OFFSHORE RIGS



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

SANCTIONED GAS INVESTMENTS IN SOUTHEAST ASIA (US\$B)



Source: Rystad Energy

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ACTION

- **Maintain sector view at OVERWEIGHT.** Our conviction levels for STM has moderated due to a lack of transparency from Singaporean authorities regarding continued investigations for its exposure to 2014's Operation Car Wash. 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.

ESSENTIALS

- **Cost inflation could pose a risk.** From our channel checks, it appears that costs have continued to rise due to inflation, arguably fuelled by higher geopolitical risks. While global upstream capex has not been cut yet, a more careful selection process for projects could result in them either being delayed or cancelled, if not deemed viable. However, with oil and LNG prices remaining firm ytd, we view this as a less likely outcome.

EARNINGS PREVIEW

- **Potential earnings upgrades.** In the table below, we present our 1H24 revenue and profit forecasts vs Bloomberg consensus. In our view, Yangzijiang Shipbuilding could see earnings upgrades should it guide for higher order wins and maintenance of its shipbuilding margins in the 18-20% levels for the next few quarters.

UOB KAY HIAN ESTIMATES VS CONSENSUS

Company	Currency	Revenue		Profit		UOBKH vs consensus 2024F
		1H23	1H24F	1H23	1H24F	
KEP	S\$m	3,716	4,050	463	491	4.1%
SCI	S\$m	3,658	3,585	530	519	10.6%
STM	S\$m	2,886	3,300	-264	60	-29.6%
YZJ	Rmb m	11,321	13,585	1,725	2,156	-0.4%

Source: UOB Kay Hian estimates, Bloomberg

SINGAPORE LARGE-CAP INDUSTRIAL COMPANIES' REPORTING DATES AND KEY POINTS

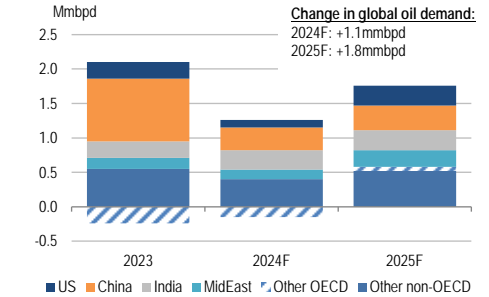
Company	Reporting Date	Three key things to look for:
KEP	1 Aug	<ul style="list-style-type: none"> • Potential sale of rigs within AssetCo • Guidance on asset recycling for 2024 • Integration of Aermont into the overall KEP business
SCI	6 Aug	<ul style="list-style-type: none"> • Update on organic and inorganic growth in its renewables segment • Guidance for stability of earnings for conventional energy • Continued growth in dividends
STM	2 Aug	<ul style="list-style-type: none"> • Margin achieved for 1H24 and thus ability to generate a profit in 2024 • Strength in repairs & upgrades segment after signing of multiple favoured-customer contracts • Guidance on pipeline of projects in offshore marine and renewables sectors
YZJ	12 Aug	<ul style="list-style-type: none"> • Evidence that strong shipbuilding margins can be maintained • More details on recently announced capacity expansion • Any new guidance on order win expectations for 2024

Source: UOB Kay Hian

STOCK RECOMMENDATIONS

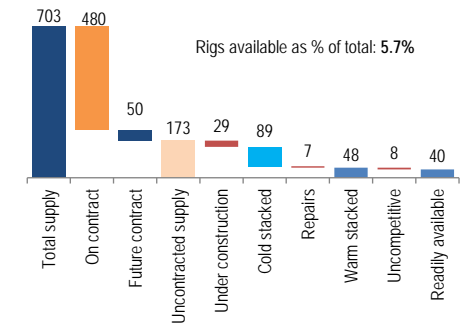
- **Keppel (KEP):** We rate Keppel as a BUY with an SOTP-based target price of S\$8.89. In the near to medium term, earnings from its infrastructure segment will be underpinned by the fact that 60% of its contracted generation capacity in Singapore is locked in for three years or more. KEP currently trades at 2024F PE of 12.6x and P/B of 1.1x 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.
- **Sembcorp Industries (SCI):** We have a BUY rating on the company with a PE-based target price of S\$7.49 based on a target PE multiple of 13.6x. This is 1.5SD above the company's 2018-24 average PE of 8.8x (excluding 2020 where the company reported impairment-related losses). We believe that the company's 1H24 results will present the market with incrementally better visibility on this front and should assuage investors' near-term concerns. Our analysis indicates that SCI's current 2024E PE of 8.8x is at the low end of its global peers within the renewables, integrated urban solutions and conventional business segments. Given that net earnings are often distorted by differing tax rates globally, we have also looked at the EV/EBITDA metric where we note that SCI also

INCREMENTAL OIL DEMAND GROWTH PER YEAR



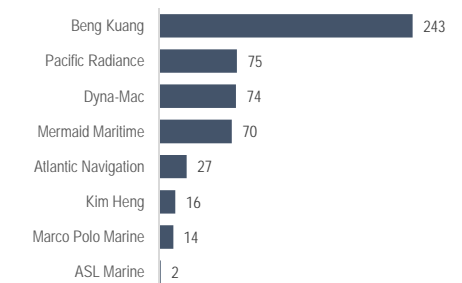
Source: US Energy Information Administration (Jul 24)

% OF RIGS UTILISED AND AVAILABLE GLOBALLY



Source: Bassoe Analytics

YTD SHARE PRICE PERFORMANCE OF SMALL/MID-CAP OFFSHORE MARINE STOCKS (%)



Source: Bloomberg

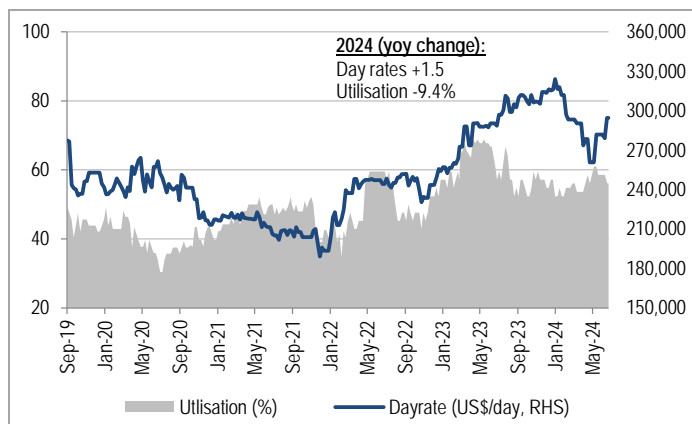
appears inexpensive especially versus its emerging market and global peers but appears to be trading in-line with its developed market and China peers.

- Seatrium (STM):** We have a BUY recommendation on the stock with a P/B-based target price of S\$2.35. Our target P/B multiple of 1.2x is pegged to the company's five-year average and applied to its 2025 book value of S\$2.04. While Seatrium is exposed to the offshore marine and offshore renewables upcycle, we are cognizant that the recent negative news flow regarding the latest investigation by the MAS/CAD, and the lack of transparency as to whether there are any further investigations in the offing, will cause share price volatility in the near term. We note that the stock is trading at 1SD below its five-year average P/B which we view as inexpensive.
- Yangzijiang Shipbuilding (YZJ):** We have a BUY recommendation on the stock with a PE-based target price of S\$2.86. We use a target PE multiple of 9.0x which is 2SD above the company's five-year average of 6.0x and believe that this premium to its average PE multiple is justified given its earnings visibility that now extends into 2028 as well as its strong track record of safe and efficient shipbuilding for its international customer base. We note that YZJ remains inexpensive relative to its regional peers, trading at 2024F P/B of 1.9x and generating an ROE of over 21% while its Korean peers trade at similar P/B levels albeit with much lower ROEs of 5-8%.

RISKS TO OUR THESIS

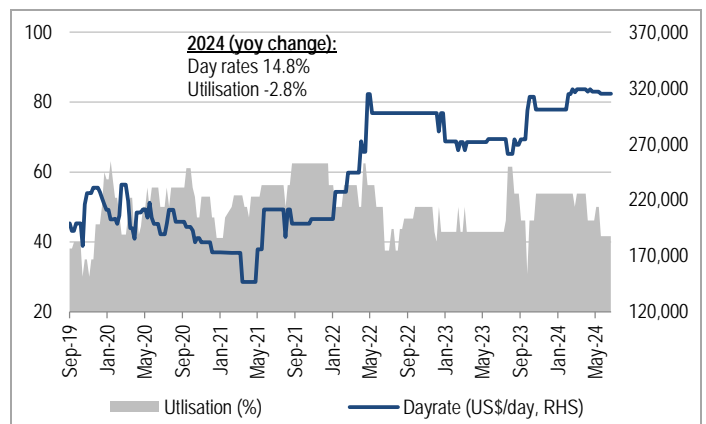
- Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; global recession leading to lower capex

DAYRATE & UTILISATION: SEMISUB 8000'



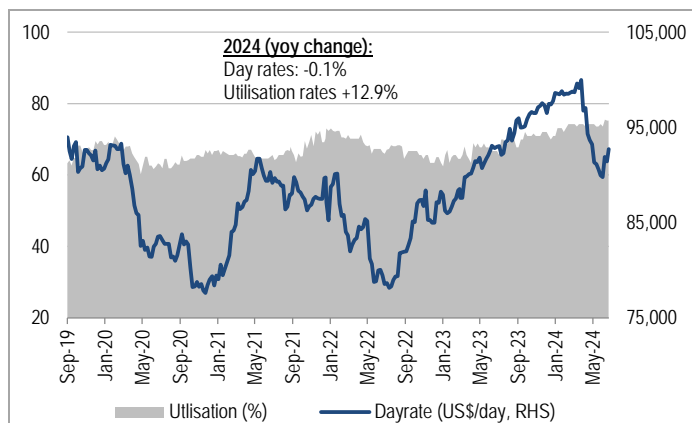
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: SEMISUB 5000-8000'



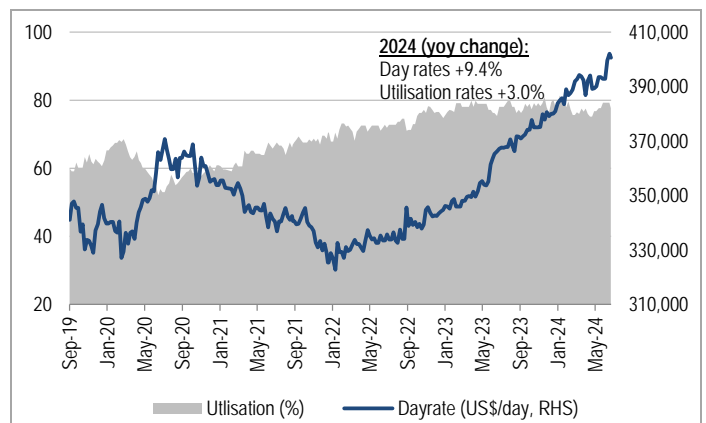
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: JACKUP 300+ INDEPENDENT CANTILEVERED



Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: DRILLSHIP



Source: Rigzone, Bloomberg

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