

SECTOR UPDATE

Offshore Marine – Singapore

A New Year And A Rehash Of An Old Mantra

The new Trump presidency and its rehashed mantra of “drill baby drill” should benefit the Asian O&M sector, assuming that higher levels of global offshore activity lead to tightness in the market that thus push up rig and OSV day rates. In our stock universe, we highlight that Seatrrium has shipyard assets in the US and thus could see better-than-expected order wins given the pro-America sentiment in the US at present. Maintain OVERWEIGHT on the sector. Top picks are Seatrrium and Marco Polo Marine.

WHAT'S NEW

- **Positive industry dynamics with Trump presidency.** Unlike 2024 which started off with negative news surrounding Saudi Aramco's cancellation of multiple jack-up contracts, 2025 has seen a better start with the new Trump presidency's rehashed “drill baby drill” mantra providing positive sentiment support to the offshore & marine (O&M) sector. Increasingly, it appears that ‘fossil fuels’ could become less of a bad phrase in the next four years.
- **2024 proved to be a strong year for jack-ups and drillships** as both saw continued increases in day rates and utilisation rates. Looking ahead, we take comfort from the fact that Brent oil for delivery in Dec 31 is above US\$68/bbl, and thus oil companies will likely continue to green light offshore production projects. Industry estimates point to a lack of new rig supply which will be supportive of day rates and utilisation rates. Seatrrium (STM) has stated its belief that newbuild interest will be absent for the next 2-3 years, and this should benefit Keppel's (KEP) efforts to sell its 13 legacy rigs.
- **Anaemic capacity growth in the O&M fleet should push rates higher.** According to Clarksons Research, the global offshore support vessel (OSV) fleet, comprising of tugs, supply vessels and offshore drilling units, saw a 1.1% yoy growth in 2024. While growth is projected to be stronger in 2025 at 1.7% yoy, half of this forecast is from mobile drilling units, and thus the likely anaemic capacity growth in vessels should underpin a better earnings outlook for the sector. When applying a broad definition to offshore vessels and including vessel demand derived from the offshore wind industry, Fearnley Offshore believes that 2025 should see “the highest vessel activity level ever”.
- **Brazil and FPSOs will be key growth drivers for Seatrrium.** STM is currently building eight of Petrobras' 11 FPSOs that will be deployed offshore Brazil between 2H24 and 2028. Apart from these, we highlight that there are another seven to 11 new FPSO requirements offshore Brazil that Petrobras has planned to come on-stream after 2029 but has yet to contract out. Assuming medium-sized FPSOs, these projects could be worth US\$20b-30b and will need to be awarded in the next 12-24 months if production timelines are to be met.

ACTION

- **Maintain sector view at OVERWEIGHT.** We like Seatrrium (STM SP/BUY/Target: S\$2.80) as we believe that the company will benefit from stronger offshore marine dynamics in 2025 as well as demand for offshore vessels and structures related to the renewables industry. We also like Marco Polo Marine (MPM SP/BUY/Target: S\$0.072) as its vessels are exposed to potential upside in charter rates in 2025 and beyond.

PEER COMPARISON - SHIPYARDS

Company	Ticker	Rec	Price (Icy)		Upside to TP (%)	Market Cap (US\$m)	PE (x)		P/B (x)		EV/EBITDA (x)		ROE% 2025F	Yield (%) 2025F
			31 Jan	Target			2024F	2025F	2024F	2025F	2024F	2025F		
Seatrrium	STM SP	BUY	2.23	2.80	25.6	5,591	72.3	25.7	1.2	1.1	13.1	9.6	4.4	0.0
Yangzijiang Shipbldg	YZJSGD SP	BUY	3.05	3.60	18.0	8,925	9.9	8.2	2.9	2.7	3.2	3.8	24.9	3.6
Marco Polo Marine*	MPM SP	BUY	0.055	0.072	30.9	153	9.5	7.2	1.1	1.0	3.7	5.4	14.6	3.6
Average – Spore-listed							30.6	13.7	1.7	1.6	6.7	6.3	14.6	2.4
Hanwha Ocean Co	042660 KS	NR^	57,200	54,467	-4.8	12,025	52.0	38.5	3.8	3.5	57.9	26.0	9.6	0.0
Samsung Heavy Ind	010140 KS	NR^	13,010	16,823	29.3	7,854	42.4	20.6	2.9	2.5	19.3	13.6	13.0	0.4
HD Korea Shipbldg	009540 KS	NR^	232,000	284,917	22.8	11,264	6.0	9.7	1.5	1.3	8.7	5.5	14.3	2.5
Average – Sector							32.0	18.3	2.2	2.0	17.7	10.7	13.5	1.7

* Fiscal year ending 30 Sep

^ NR = Not Rated, based on Bloomberg consensus

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

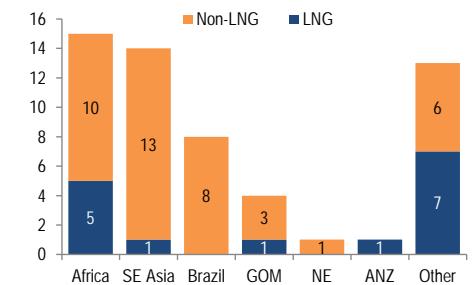
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	
			31 Jan	Target
Keppel	KEP SP	BUY	6.78	9.25
Semb Industries	SCI SP	BUY	5.58	7.47
Seatrrium	STM SP	BUY	2.23	2.80
Yangzijiang	YZJSGD SP	BUY	3.05	3.60
Marco Polo Marine	MPM SP	BUY	0.06	0.07

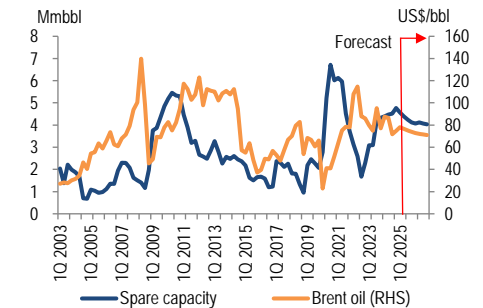
Source: Bloomberg, UOB Kay Hian

NO. OF FLOATING PRODUCTION PROJECTS IN THE BIDDING AND FINAL STAGE, BY REGION



Source: EMA

OPEC SPARE CAPACITY VS BRENT OIL PRICE



Source: US Energy Information Administration, Bloomberg

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2024 RESULTS PREVIEW

- **Potential earnings upgrades.** In the table below, we present our 2024 revenue and profit forecasts vs Bloomberg consensus. Both KEP and Sembcorp Industries could see earnings upgrades for 2025 and 2026 due to potentially higher-for-longer conventional energy earnings while STM could surprise on the upside with better-than-expected guidance for margins.

2024 RESULTS PREVIEW: UOBKH ESTIMATES VS CONSENSUS

	Revenue (S\$m)		Profit (S\$m)		UOB vs consensus
	2023	2024F	2023	2024F	2024F
KEP	6,967	6,792	4,067	905	5.1%
SCI	7,042	6,919	940	1,005	4.5%
STM	7,291	8,343	-1,940	105	-29.6%
YZJ*	24,112	27,309	4,102	6,430	2.2%

* Rmbm
Source: Respective companies, UOB Kay Hian

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

Company	Reporting Date	Three key things to look for
KEP	5 Feb	<ul style="list-style-type: none"> • Timeline for sale of 13 legacy rigs & use of c.S\$840m in cash; M1 sale • Guidance on asset recycling for 2025 • Higher-than-expected dividends and potential special dividends
STM	21 Feb	<ul style="list-style-type: none"> • Profitability in 2024 and guidance for 2025; EBITDA trend • Guidance on pipeline of projects in offshore marine and renewables sectors • Management comments on likelihood of a dividend in 2025
SCI	27 Feb	<ul style="list-style-type: none"> • Reiteration of 2023 Investor Day targets for growth in renewables capacity • Guidance for stability of earnings for conventional energy • Continued growth in dividends
YZJ	27 Feb	<ul style="list-style-type: none"> • Continued expansion of shipbuilding margins • Higher guidance on order win expectations for 2025 • Higher-than-expected dividends and outlook for 2H25/2025

Source: UOB Kay Hian

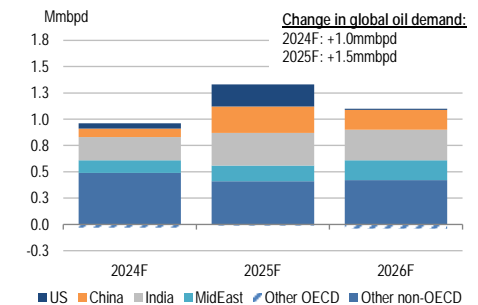
STOCK RECOMMENDATIONS

- **Keppel Ltd.** Maintain BUY on the stock with a SOTP-based target price of S\$9.25/share. In our view, the medium-term valuation upside in the stock comes from KEP's data centre and Bifrost assets, while in the near to medium term, earnings from its infrastructure segment will be underpinned by the fact that more than 70% of its contracted generation capacity in Singapore is locked in for three years or more.
- **Sembcorp Industries.** We rate SCI with a BUY rating and a target price of S\$7.20 based on a target PE multiple of 13.6x. Our target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x, excluding 2020 where the company reported impairment-related losses. We like the stock for its renewables capacity growth as well as the stability of its earnings from conventional energy.
- **Seatrium.** We have a BUY rating on the stock with a P/B-based target price of S\$2.80. Our target P/B multiple of 1.4x is 1SD above the company's five-year average and applied to its 2025 book value of S\$2.04. In our view, this P/B multiple appears reasonable considering the company's strong competitive position globally as many of its peers have shuttered over the past decade. In the near term, the key re-rating catalyst is the completion of the investigation by the MAS/CAD.
- **Yangzijiang Shipbuilding.** Maintain our BUY rating on the stock with a PE-based target price of S\$3.60. We use a target PE multiple of 9.7x which is 1SD above the company's 10-year average of 6.9x and believe that this premium to its average PE multiple is justified given its earnings visibility that now extends into 2029 as well as its strong track record of safe and efficient shipbuilding for its international customer base.

RISKS TO OUR THESIS

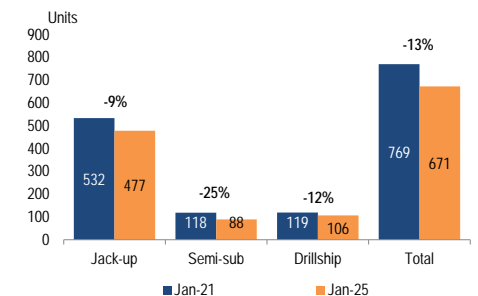
- Risks include: a) Delays in project sanctioning due to supply chain issues; b) lack of financing for fossil fuel-related industries; and c) a global recession leading to lower oil prices and lower capex spending.

INCREMENTAL OIL DEMAND GROWTH PER YEAR



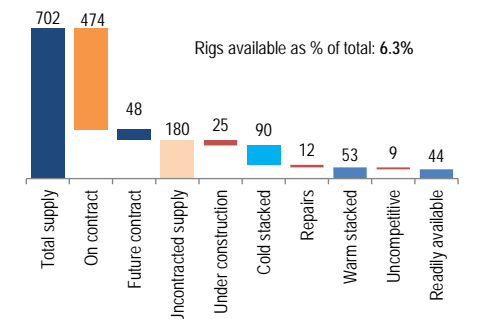
Source: US Energy Information Administration (Jan 25)

CHANGE IN TOTAL NUMBER OF OFFSHORE ASSETS GLOBALLY: JAN 25 VS JAN 21



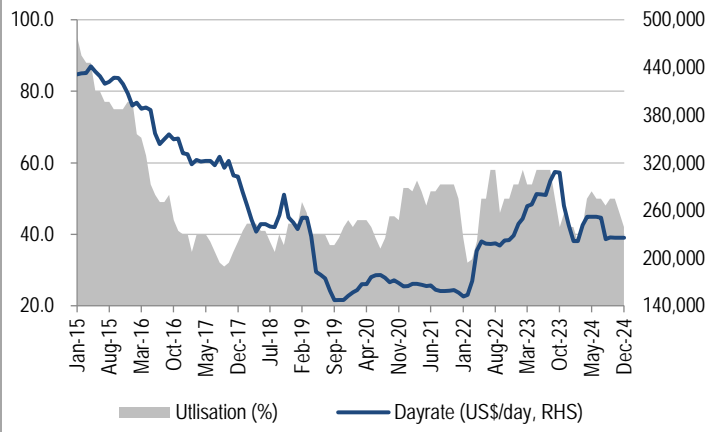
Source: Bassoe Analytics

% OF RIGS UTILISED AND AVAILABLE GLOBALLY



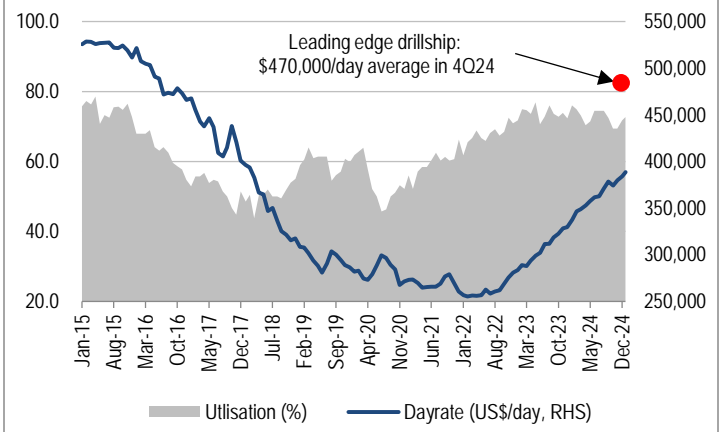
Source: Bassoe Analytics

DAY RATE & UTILISATION: SEMISUB >7,500'



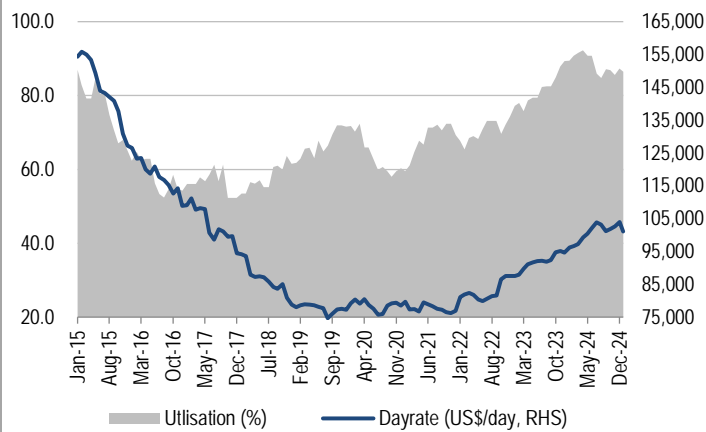
Source: Rigzone, Bloomberg

DAY RATE & UTILISATION: DRILLSHIP >7,500'



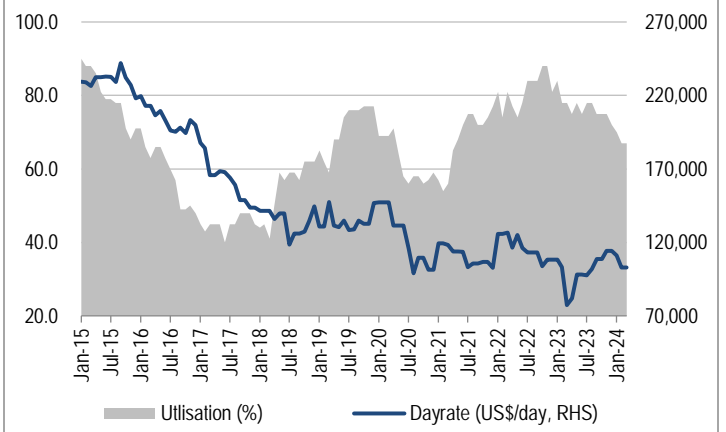
Source: Rigzone, Bloomberg

DAY RATE & UTILISATION: JACKUP 361-400' INDEPENDENT CANTILEVERED



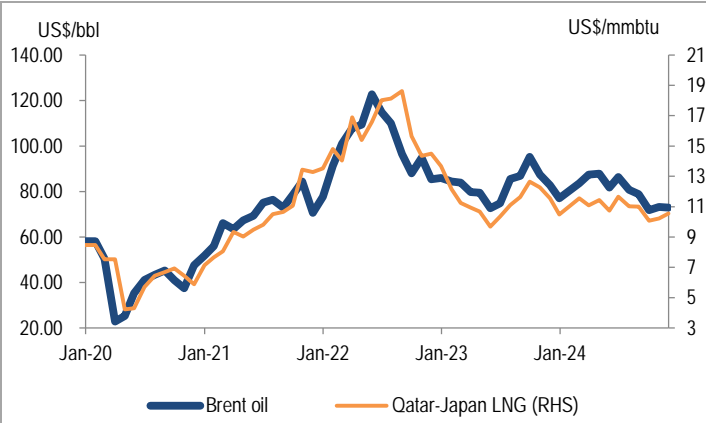
Source: Rigzone, Bloomberg

DAY RATE & UTILISATION: JACKUP HARSH STANDARD



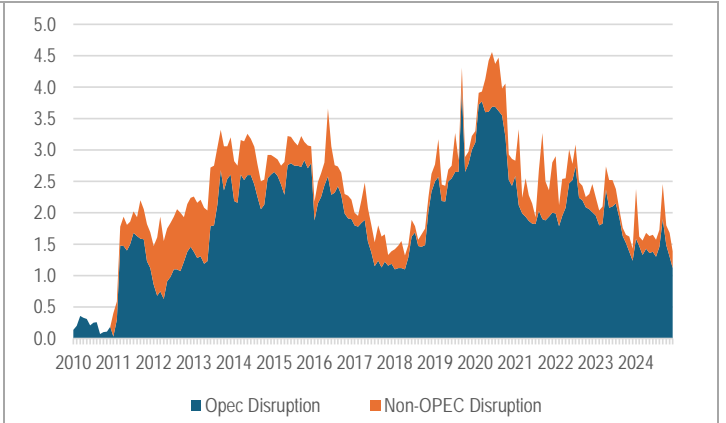
Source: Rigzone, Bloomberg

BRENT OIL PRICE VS QATAR-JAPAN LNG PRICE



Source: Bloomberg

DISRUPTIONS TO GLOBAL OIL PRODUCTION: OPEC VS NON-OPEC (MMBL)



Source: US Energy Information Agency

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