

Report type: 3Q13 Results

Company Overview

Sembcorp Marine is a leading global marine and offshore engineering group, specializing in a full spectrum of integrated solutions in ship repair, shipbuilding, ship conversion, rig building and offshore engineering & construction.

- 3Q13 net profit up 12.3% yoy to S\$130mn
- High-than-expected revenue offset by low margins
- Robust O&M fundamentals

What is the news?

Sembcorp Marine's 3Q13 revenue jumped 85.9% yoy (+47.5% qoq) to S\$1.7bn, while net profit grew 12.3% yoy (+3.8% qoq) to S\$130mn due to lower-than-expected margin. In 9M13, the group's net profit (excluding exceptional items) of S\$370mn (-1% yoy) represents 68%/66% of PSR/consensus FY13E forecast.

Figure 1. Results summary

Income statement (Extract)	3Q13	3Q12	y-y	2Q13	q-q
(S\$mn)					
Revenue	1,659	892	85.9%	1,124	47.5%
EBIT	167	126	32.4%	146	14.1%
Profit before tax	171	139	22.8%	156	9.5%
PATMI	130	116	12.3%	125	3.8%

Source: Company, Phillip Securities Research

How do we view this?

3Q13 revenue of S\$1.7bn was above market expectation of S\$1.3bn. Management attributed the rise to the initial recognition 5 rigs. However, operating margins trended downwards from 13.0% in 2Q13 to 10.1% in 3Q13, due to more conservative recognition of new design rigs (Helix well intervention and North Atlantic Drilling harsh environment semi). We believe margins may continue to be under pressure as the company undergoes the learning curve for executing its new design rig contracts (such as drillship, well-intervention and harsh environment semi).

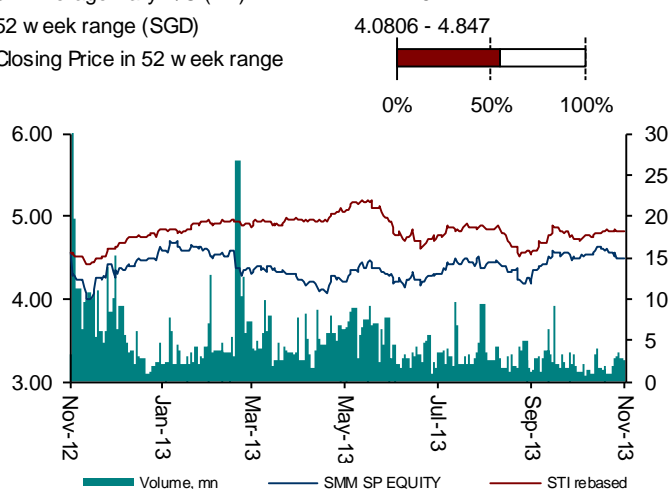
Investment Actions?

Sembcorp Marine has secured S\$3.9bn in new order wins YTD, taking order backlog to S\$13.5bn with deliveries stretching till 2019. Long-term O&M prospects remain robust as demand for high specification and ultra-deepwater rigs with advanced technical features are expected to remain strong.

We trim our FY13E/14E earnings estimates by 3%/2% on lower margin assumptions. As such, our target price is lowered from S\$4.42 to S\$4.33, still based on FY14E P/E of 14.0x. Maintain NEUTRAL.

Sembcorp Marine Ltd

Rating	3	Neutral
- Previous Rating	3	Neutral
Target Price (SGD)	4.33	
- Previous Target Price (SGD)	4.42	
Closing Price (SGD)	4.50	
Expected Capital Gains (%)	-3.8%	
Expected Dividend Yield (%)	3.3%	
Expected Total Return (%)	-0.4%	
Raw Beta (Past 2yrs weekly data)	1.42	
Market Cap. (USD mn)	7,578	
Enterprise Value (USD mn)	6,698	
3M Average Daily T/O (mn)	2.5	
52 week range (SGD)	4.0806 - 4.847	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Sembcorp Industries	60.6
3. Franklin Resources	1.5
3. Schroder Investment	1.0

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	3,960	4,430	5,168	6,232
Net Profit, adj. (SGD mn)	752	538	523	647
EPS, adj. (SGD)	0.34	0.24	0.25	0.31
P/E (X),adj.	13.4	18.8	17.9	14.5
BVPS (SGD)	1.16	1.17	1.29	1.45
P/B (X)	3.9	3.9	3.5	3.1
DPS (SGD)	0.25	0.13	0.14	0.15
Div. Yield (%)	5.6%	2.9%	3.1%	3.3%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E Multiple (14x eFY14 EPS)

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3Q13 results slightly below expectations

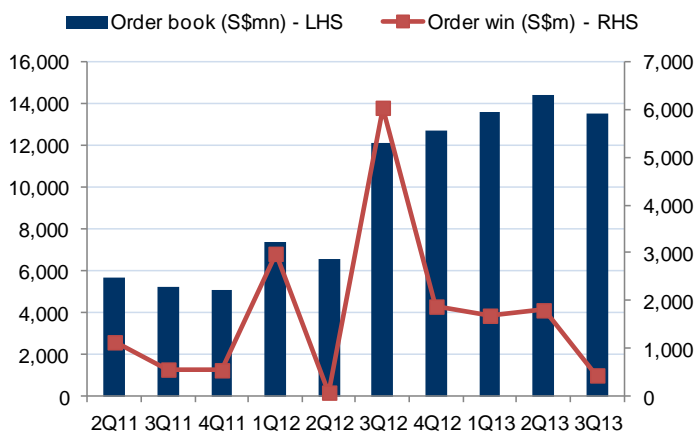
Sembcorp Marine's 3Q13 revenue jumped 85.9% yoy (+47.5% qoq) to S\$1.7bn, while net profit grew 12.3% yoy (+3.8% qoq) to S\$130mn due to lower-than-expected margin. In 9M13, the group's net profit (excluding exceptional items) of S\$370mn (-1% yoy) represents 68%/66% of PSR/consensus FY13E forecast. 9M12 revenue of S\$3.8bn was 74% of both PSR and consensus FY13E estimate, as 3Q13 revenue of S\$1.7bn was above market expectation of S\$1.3bn.

Fig 2: Results Comparison

S\$mil	3Q13	3Q12	YoY	2Q13	QoQ
Revenue	1,659	892	85.9%	1,124	47.5%
EBITDA	193	149	29.6%	171	13.2%
Operating profit	167	126	32.4%	146	14.1%
Net interest	0	1	-86.3%	2	-95.8%
Profit before tax	171	139	22.8%	156	9.5%
PATMI	130	116	12.3%	125	3.8%
Exceptionals	0	0	n.a.	-3	n.a.
Core profit	130	116	12.3%	122	6.2%
Core EPS (S\$)	6.20	5.53	12.2%	5.98	3.8%

Source: Company, Phillip Securities Research

Fig 3: SMM order book & order wins

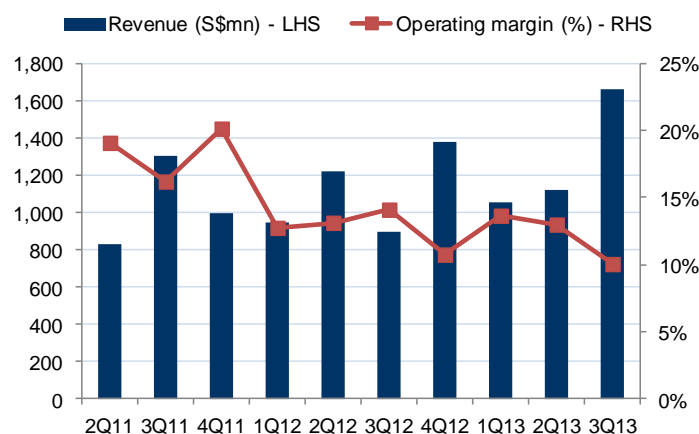


Source: Company, Phillip Securities Research

Margin likely to remain under pressure

Management attributed the rise to the initial recognition 5 rigs. However, operating margins trended downwards from 13.0% in 2Q13 to 10.1% in 3Q13, due to more conservative recognition of new design rigs (Helix well intervention and North Atlantic Drilling harsh environment semi). We believe margins may continue to be under pressure as the company undergoes the learning curve for executing its new design rig contracts (such as drillship, well-intervention semi).

Fig 4: SMM revenue & margin trend



Source: Company, Phillip Securities Research

Fig 5: Revenue by segment

S\$mil	3Q13	3Q12	YoY	2Q13	QoQ
Revenue	1,659	892	85.9%	1,124	47.5%
- Offshore & marine	1,142	428	166.5%	628	81.8%
- Infrastructure	271	300	-9.7%	328	-17.4%
- Property	204	153	33.5%	158	28.9%
- Investments	42	11	276.9%	10	320.7%
EBITDA	193	149	29.6%	171	13.2%
- Margins	11.7%	16.7%	-5.1 ppt	15.2%	-3.5 ppt
EBIT	167	126	32.4%	146	14.1%
- Margins	10.1%	14.1%	-4.1 ppt	13.0%	-2.9 ppt
PBT	171	139	22.8%	156	9.5%
Core profit	130	116	12.3%	122	6.2%

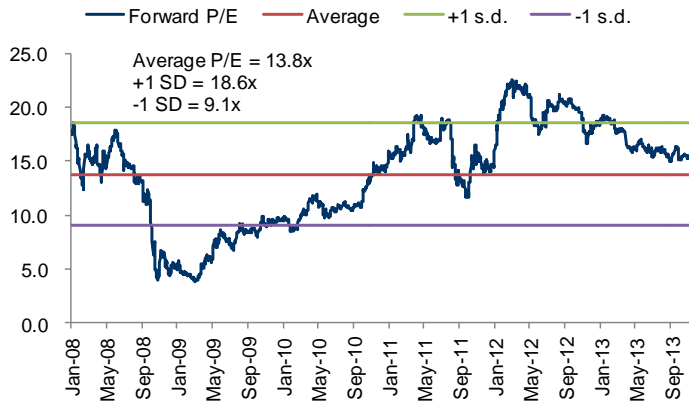
Source: Company, Phillip Securities Research

Maintain Neutral

Sembcorp Marine has secured S\$3.9bn in new order wins YTD, representing 83% of our FY13E estimate of S\$4.7bn. This brings its order backlog to S\$13.5bn with deliveries stretching till 2019. Long-term O&M prospects remain robust as demand for high specification and ultra-deepwater rigs with advanced technical features are expected to remain strong.

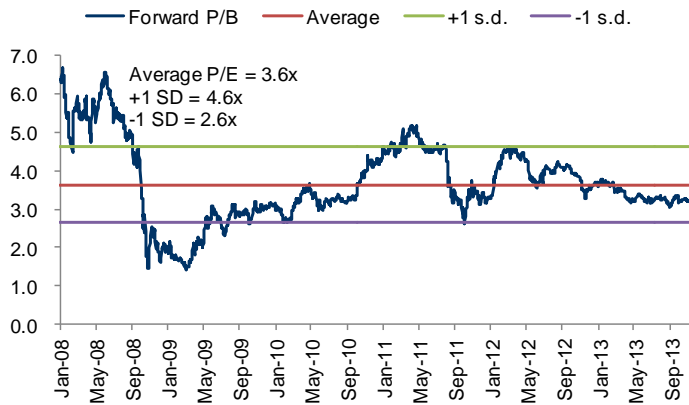
We trim our FY13E/14E earnings estimates by 3%/2% on lower margin assumptions. As such, our target price is lowered from S\$4.42 to S\$4.33, still based on FY14E P/E of 14.0x. Maintain NEUTRAL. Downside risks: a prolonged drop in oil prices, greater-than-expected S\$ appreciation against US\$, and project execution. Upside risks: a significant rise in oil prices, greater-than-expected US\$ appreciation against S\$, and better-than-expected execution of contracts.

Fig 6: SMM 12-month forward P/E



Source: Company, Phillip Securities Research

Fig 7: SMM 12-month forward P/B



Source: Company, Phillip Securities Research

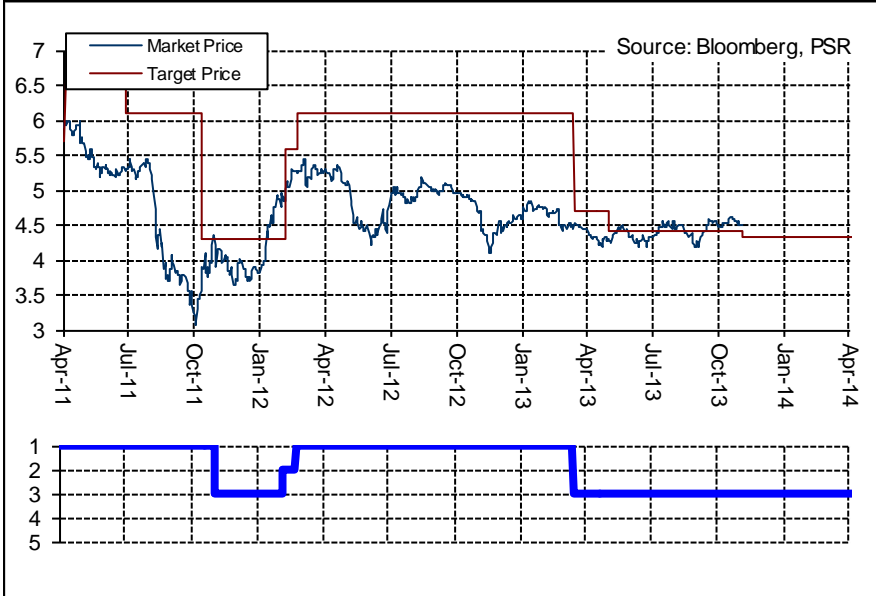
FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratios					
P/E (X), adj.	11.5	13.4	18.8	17.9	14.5
P/B (X)	3.6	3.9	3.9	3.5	3.1
EV/EBITDA (X), adj.	8.1	10.1	12.8	11.4	9.5
Dividend Yield (%)	8.0%	5.6%	2.9%	3.1%	3.3%
Per share data (SGD)					
EPS, reported	0.39	0.34	0.24	0.25	0.31
EPS, adj.	0.39	0.34	0.24	0.25	0.31
DPS	0.36	0.25	0.13	0.14	0.15
BVPS	1.25	1.16	1.17	1.29	1.45
Growth & Margins (%)					
Growth					
Revenue	-20.4%	-13.1%	11.9%	16.6%	20.6%
EBITDA	9.4%	-20.0%	-21.4%	12.6%	20.1%
EBIT	9.3%	-21.8%	-24.8%	9.7%	20.9%
Net Income, adj.	15.4%	-13.4%	-28.5%	4.6%	23.7%
Margins					
EBITDA margin	22.5%	20.7%	14.6%	14.1%	14.0%
EBIT margin	20.7%	18.6%	12.5%	11.8%	11.8%
Net Profit Margin	17.7%	17.7%	11.3%	10.1%	10.4%
Key Ratios					
ROE (%)	36.0%	27.9%	20.6%	20.4%	22.7%
ROA (%)	17.9%	14.9%	10.5%	8.8%	9.6%
Net cash	2,907	1,955	1,076	752	581
Net debt / equity	-108.2%	-78.0%	-42.2%	-26.7%	-18.2%
Income Statement (SGD mn)					
Revenue	4,555	3,960	4,430	5,168	6,232
EBITDA	1,026	823	648	726	872
Depreciation & Amortisation	(83)	(86)	(94)	(118)	(137)
EBIT	943	737	554	608	735
Net Finance (Expense)/Income	(7)	(2)	(3)	(17)	(19)
Other items	32	10	(16)	18	17
Associates	58	63	56	31	58
Exceptionals	53	52	38	0	0
Profit Before Tax	1,078	860	630	640	792
Taxation	(184)	(91)	(62)	(91)	(113)
Profit After Tax	894	769	567	549	679
Non-controlling Interest	34	17	29	26	32
Net Income, reported	860	752	538	523	647
Net Income, adj.	808	700	500	523	647

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	682	1,034	1,476	1,953	2,321
Intangibles	6	37	34	34	34
Associates	307	380	417	448	506
Other LT investments	287	127	154	154	154
Others	97	74	64	64	64
Total non-current assets	1,379	1,653	2,146	2,653	3,080
Inventories	751	926	1,731	2,032	2,450
Accounts Receivables	194	480	468	546	659
Cash and cash equivalents	2,915	1,990	1,409	1,385	1,214
Others	41	3	32	32	32
Total current assets	3,900	3,399	3,641	3,996	4,356
Total Assets	5,279	5,052	5,786	6,650	7,436
Short term loans	8	35	33	33	33
Billings on WIP in excess of related costs	646	352	884	884	884
Accounts Payables	1,462	1,786	1,687	1,981	2,388
Others	333	226	114	114	114
Total current liabilities	2,449	2,400	2,718	3,012	3,419
Long term loans	0	0	300	600	600
Others	143	145	221	221	221
Total non-current liabilities	143	145	521	821	821
Non-controlling interest	88	92	109	134	166
Shareholder Equity	2,599	2,414	2,439	2,683	3,030
Cashflow Statements (SGD mn)					
CFO					
Operating profit	943	737	554	608	735
Adjustments	102	115	116	118	137
Cash from ops before WC changes	1,045	853	671	726	872
WC changes	376	(418)	(396)	(86)	(123)
Cash generated from ops	1,420	434	275	641	749
Taxes paid, net	(145)	(170)	(90)	(91)	(113)
Interest paid, net	(3)	(3)	(2)	(17)	(19)
Others	85	65	25	18	17
Cashflow from ops	1,358	326	208	550	634
CFI					
CAPEX, net	(69)	(437)	(516)	(595)	(505)
Dividends from associates & investments	0	1	1	0	0
Others	(4)	(40)	(11)	0	0
Cashflow from investments	(72)	(477)	(527)	(595)	(505)
CFF					
Loans, net of repayments	(12)	27	300	300	0
Dividends to minority interests	(16)	(13)	(7)	(7)	(8)
Dividends to shareholders & capital distribution	(311)	(751)	(522)	(271)	(292)
Others	16	(29)	(3)	0	0
Cashflow from financing	(323)	(765)	(232)	21	(300)
Net change in cash	962	(916)	(551)	(24)	(171)
Effects of exchange rates	(25)	(10)	(30)	0	0
CCE, end	2,915	1,990	1,409	1,385	1,214

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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