

# Sembcorp Marine Ltd

Expecting tardy recovery

SINGAPORE | OIL & GAS | RESULTS

2 May 2017

- Revenue was in line with our expectation.
- Gross profit substantially missed our expectation, mainly due to costs incurred for a floater project which is pending finalisation with the customer. No details were given by the management on this project.
- The divestment of Cosco Shipyard Group Co., Ltd (Cosco) was completed in 1Q17.
- We upgrade our call to **Neutral** with an unchanged TP of **S\$1.58**, based on a PER of 23.9x, since the last done price of S\$1.63 is near our TP. This implies a downside of 3.1% from the last close price.

## Neutral (Upgrade)

CLOSING PRICE	SGD 1.630
FORECAST DIV	SGD 0.030
TARGET PRICE	SGD 1.580
TOTAL RETURN	-1.2%

### COMPANY DATA

O/S SHARES (MN) :	2,088
MARKET CAP (USD mn / SGD mn) :	2439 / 3404
52 - WK HI/LO (SGD) :	2.09 / 122
3M Average Daily T/O (mn) :	7.39528

### MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	61.0%
FRANKLIN RESOURCES	5.0%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(14.4)	10.0	(0.7)
STI RETURN	0.4	5.0	15.9

### Results at a glance

(SGD mn)	1Q17	1Q16	y-y (%)	Comments
Revenue	760.1	918.4	↓(17.2)	Low revenue recognition from rig building segment, resulting from delivery deferment and lower repair business
Gross profit	19.9	80.6	↓(75.3)	Lower contribution from rig building projects and costs incurred for a floater project that is pending finalisation with the customer
Operating profit	13.6	71.7	↓(81.1)	Lower gross profit and mild decrease in overhead costs
Net profit	39.6	55.6	↓(28.8)	Divestment of 30% equity interest in Cosco, which generated S\$46.8mn gain

Source: Company, Phillip Securities Research (Singapore)

### Draining order books protract the recovery

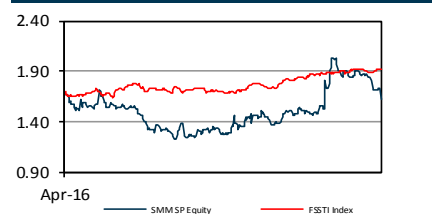
In 1Q17, Sembcorp Marine (SMM) secured S\$75mn new orders that were from non-drilling segments (Offshore platforms and Floaters). Comparatively, new contracts worth of S\$320mn signed in FY16 were from these segment, and \$60mn out of which were logged up in 1Q16. Net order book YTD excluding repairs and upgrades totalled S\$7.1bn with 26% Y-o-Y drop and 8.8% Q-o-Q drop. As of Mar-17, the drillship contracts from Sete Brasil valued at S\$3.1bn out of S\$7.1bn remained frozen.

The recovery of in oil price since 3Q16 effectively revitalised upstream drilling and production activities, driving reactivation of idled rigs. However, new flows of capital expenditure on exploration and production will still take time to be injected into the market. Therefore, it remains challenging to solicit large orders from drilling segment. The momentum in the non-drilling segment is a path for new businesses, but the size of contracts may not be substantial to improve profitability in the near term. In a nutshell, the shrinking order books will drag the recovery, and SMM could have to endure longer than expected.

### Near shore gas infrastructure solutions help but take time

According to the management, inquires for near-shore infrastructure solutions have been increasing. Moreover, ongoing reallocation and retaining of manpower are commensurate with the shift towards non-drilling projects. In addition, the development and commercialization of Gravifloat LNG solutions are on track. All of these signal the near-shore gas projects (floating LNG) could vivify the current tardy business. However, it may not see a surge in terms of revenue contribution from the new segment in a short term, but it will relieve the pressure from other segments order books drying out.

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD mn	FY 15	FY 16	FY 17e	FY 18e
Revenue	4,968	3,545	3,056	2,999
Gross profit	131	293	244	255
Net Profit	(290)	79	137	115
P/E (x)	10.0	36.6	24.0	28.6
P/B (x)	12	12	13	13
EV/EBITDA	7.7	16.0	14.4	12.9
Dividend (SG Cents)	6.0	2.5	3.0	3.0
Dividend Yield, %	4.2	1.8	1.9	1.9

Source: Company Data, PSR est.

### VALUATION METHOD

P/E Multiple (PER:23.9x)

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**Investment Action**

Since SMM booked in the gain in divestment of Cosco, we slightly revise upward our forecast of net income to S\$137mn and EPS of 6.6 cents in FY17e, compared with our previous forecast of net income of S\$130mn and EPS of 6.2 cents. Currently, SMM is trading at a 12-month blended forward PE of 23.9x.

We upgrade our call to **Neutral** with an unchanged TP of **S\$1.58**, based on a PER of 23.9x, since the last close price of S\$1.63 is near our TP This implies a downside of 3.1% from the last close price.

## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Revenue</b>	<b>5,833</b>	<b>4,968</b>	<b>3,545</b>	<b>3,056</b>	<b>2,999</b>
Gross profit	844	131	293	244	255
<b>EBITDA</b>	<b>822</b>	<b>(18)</b>	<b>363</b>	<b>391</b>	<b>423</b>
Depreciation & Amortisation	115	132	138	179	190
<b>EBIT</b>	<b>707</b>	<b>(150)</b>	<b>225</b>	<b>211</b>	<b>233</b>
Net Finance (Expense)/Inc	(11)	(36)	(81)	(85)	(86)
Associates & JVs	10	(173)	(35)	(14)	(13)
<b>Profit Before Tax</b>	<b>707</b>	<b>(378)</b>	<b>91</b>	<b>160</b>	<b>134</b>
Taxation	(106)	78	(15)	(19)	(16)
<b>Profit After Tax</b>	<b>601</b>	<b>(300)</b>	<b>75</b>	<b>140</b>	<b>118</b>
Non-controlling interest	41	(10)	(4)	3	3
<b>Net Income, reported</b>	<b>560</b>	<b>(290)</b>	<b>79</b>	<b>137</b>	<b>115</b>
<b>Net Income, adj.</b>	<b>560</b>	<b>384</b>	<b>79</b>	<b>137</b>	<b>115</b>

### Per share data

Y/E Dec (SG Cents)	FY14	FY15	FY16	FY17e	FY18e
EPS, basic	26.8	(13.9)	3.8	6.6	5.5
EPS, diluted	26.8	(13.9)	3.8	6.6	5.5
DPS, basic	13.0	6.0	2.5	3.0	3.0
DPS, diluted	13.0	6.0	2.5	3.0	3.0
BVPS (SGD)	1.4	1.2	1.2	1.3	1.3

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
Operating profit	707	(150)	225	211	233
Adjustments	144	686	159	180	190
WC changes	(1,267)	(1,364)	284	572	427
Cash generated from ops	(417)	(828)	669	963	850
Others	(91)	(161)	(100)	(104)	(102)
<b>Cashflow from ops</b>	<b>(508)</b>	<b>(989)</b>	<b>569</b>	<b>859</b>	<b>748</b>
<b>CFI</b>					
CAPEX, net	(738)	(932)	(421)	(421)	(490)
Others	(32)	0	(69)	220	-
<b>Cashflow from investments</b>	<b>(770)</b>	<b>(932)</b>	<b>(490)</b>	<b>(201)</b>	<b>(490)</b>
<b>CFF</b>					
Loans, net of repayments	964	1,744	768	280	160
Dividends to shareholders	(272)	(251)	(73)	(42)	(63)
Dividends to non-controlling interest	(13)	(15)	(1)	(13)	(14)
Others	(10.8)	(11.4)	(160.0)	-	-
<b>Cashflow from financing</b>	<b>668</b>	<b>1,467</b>	<b>534</b>	<b>225</b>	<b>83</b>
<b>Net change in cash</b>	<b>(611)</b>	<b>(454)</b>	<b>612</b>	<b>883</b>	<b>342</b>
Effects of exchange rates	(7)	5	(22.7)	-	-
<b>Ending cash</b>	<b>1,077</b>	<b>627</b>	<b>1,217</b>	<b>2,100</b>	<b>2,442</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PP&E	3,009	3,541	3,987	4,249	4,569
Trade receivables	41	54	53	53	53
Intangible assets	53	47	202	182	162
Associates & JVs	470	312	75	75	75
Others	98	131	80	76	74
<b>Total non-current assets</b>	<b>3,671</b>	<b>4,084</b>	<b>4,397</b>	<b>4,635</b>	<b>4,932</b>
Cash	1,079	629	1,217	2,100	2,442
Trade receivables	469	590	492	441	475
Inventories & WIP	3,005	3,833	3,067	2,212	1,850
Others	14	65	242	54	54
<b>Total current assets</b>	<b>4,567</b>	<b>5,117</b>	<b>5,018</b>	<b>4,807</b>	<b>4,820</b>
<b>Total Assets</b>	<b>8,238</b>	<b>9,201</b>	<b>9,415</b>	<b>9,442</b>	<b>9,753</b>
<b>LIABILITIES</b>					
Trade payables	84	78	91	109	120
Borrowings	1,308	2,465	2,791	2,971	3,031
Others	266	97	177	177	177
<b>Total non-current liabilities</b>	<b>1,658</b>	<b>2,640</b>	<b>3,059</b>	<b>3,257</b>	<b>3,328</b>
Trade payables	1,853	2,519	2,120	1,793	1,872
Borrowings	434	915	1,364	1,464	1,564
Progress billings in excess of WIP	1,005	288	193	188	206
Others	184	175	70	74	78
<b>Total current liabilities</b>	<b>3,476</b>	<b>3,897</b>	<b>3,748</b>	<b>3,518</b>	<b>3,721</b>
<b>Total Liabilities</b>	<b>5,133</b>	<b>6,537</b>	<b>6,807</b>	<b>6,775</b>	<b>7,049</b>
<b>Shareholder Equity</b>	<b>2,965</b>	<b>2,511</b>	<b>2,562</b>	<b>2,621</b>	<b>2,656</b>
Non-controlling interest	167	153	46	46	48

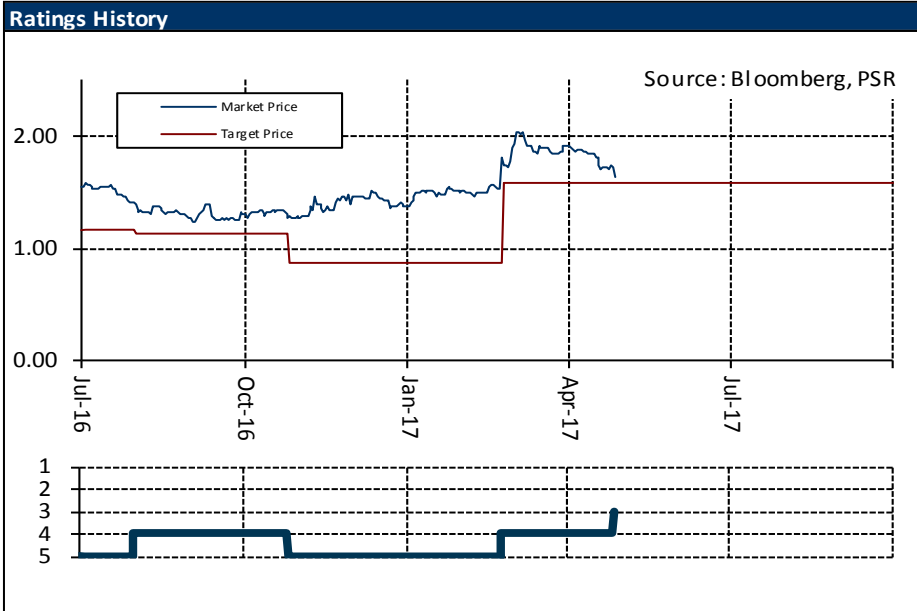
### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	15	10	37	24	29
P/B (x)	3	2	1	1	1
EV/EBITDA (x)	10	8	16	14	13
Dividend Yield (%)	3	4	2	2	2

### Growth & Margins (%)

Growth					
Revenue	6%	-15%	-29%	-14%	-2%
EBITDA	10%	n.m.	n.m.	8%	8%
EBIT	10%	n.m.	n.m.	8%	8%
Net Income, adj.	1%	-31%	-79%	74%	-16%
Margins					
EBITDA margin	14%	0%	10%	13%	14%
EBIT margin	12%	-3%	6%	7%	8%
NP margin, adj.	10%	8%	2%	4%	4%
Key Ratios					
ROE (%), adj.	19%	15%	3%	5%	4%
ROA (%), adj.	7%	4%	1%	1%	1%
Net Debt or (Net Cash)	663	2,751	2,938	2,335	2,153
Net Gearing (x)	0.2	1.0	1.1	0.9	0.8

n.m.: not meaningful



### 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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