

Sembcorp Marine Ltd

Performance remains weak



StocksBnB.com

SINGAPORE | OIL & GAS | 3Q17 RESULTS

- 9M17 Revenue and PAT missed our expectation by 15.6% and 35.2% respectively.
- Market is recovering but SMM's profitability is still weak.
- We maintain our rating NEUTRAL with a higher TP of S\$1.91, based on FY18e EPS of 5 SG cents and a blended 12-month forward PER of 38.2x.

Results at a glance

(SGD mn)	9M17	9M16	YoY (%)	Comments
Revenue	1,792.4	2,714.9	(34.0)	Low revenue recognition from rig building and offshore platforms projects. Reversal of revenue due to termination fro rig building and offshore platform projects
Gross profit	108.7	258.0	(57.9)	Lower contribution from rig building and offshore platform projects, costs incurred for a floater project, and the effects of contracts termination and inventories written down
Operating profit	64.1	158.2	(59.5)	FX gain due to revaluation of assets and liabilities
PAT	44.9	44.5	0.9	Gain on divestment of COSCO. Decrease in losses from associates and JVs. Tax credit in 9M17 vs expenses in 9M16

Source: Company, PSR

Positives

+ Momentum of sector recovery is coming: In retrospect of 3Q17, SMM made progress in replenishing the order book with contracts including Hull carry-over works for FPSO P-68 Tupi Project (contract value: US\$145mn) and a letter of intent for the design and construction of at least two large Compressed Gas Liquid carriers.

In the early of Oct-17, the group succeeded in disposing of 9 jack-up rigs for S\$1.77bn, and 6 out of which were from terminated contracts. Meanwhile, SMM also receive enquires for projects such as floaters, offshore platforms, gas solutions and specialised shipbuilding. It is expected that the group could manage to nail down some contracts in 4Q17 since the team is speeding up the transactions from Gravifloat.

Negatives

- Overstated headline replenishment of net order book: The YTD net order book arrives at S\$2.04bn, of which S\$1.77 was from the sale of 9 jack-ups. However, 6 of the 9 rigs were booked into the order book again due to the reselling initiated. As a result, these orders won't enhance the profitability but only increase the top-line figures. According to the announcement, the deal could result in S\$15mn losses based on the preliminary assessment. If the SMM can deliver cost optimization from the deal, it could help reduce the losses or even generate some profits.

Outlook

Along with the gradual recovery of oil prices, the oil production and drilling activities continue to rejuvenate. We believe that if the current oil price level maintains, the confidence to restore capex will be strengthened in the upstream segment. However, the development of non-drilling solutions is more sustainable for SMM since the structural shift of energy is occurring. We expect more order flows from non-drilling segment moving forward.

Maintain NEUTRAL with higher target price of S\$1.91

We revised down our FY17e EPS (from 5.4 SG cents to 3.9 SG cents) and FY18e EPS (from 5.3 SG cents to 5 SG cents) due to the expectation of continuous weak profitability. Based on FY18e EPS of 5 SG cents and blended forward 12-month PER of 38.2x, we derive an updated TP of S\$1.91 for FY18. We maintain our call NEUTRAL.

2 November 2017

Neutral (Maintained)

CLOSING PRICE	SGD 2.010
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.910
TOTAL RETURN	-3.7%

COMPANY DATA

BLOOMBERG CODE:	SMM SF
O/S SHARES (MN):	2,090
MARKET CAP (USD mn / SGD mn):	3086 / 4200
52 - WK HI/LO (SGD):	2.09 / 1.28
3M Average Daily T/O (mn):	4,0901

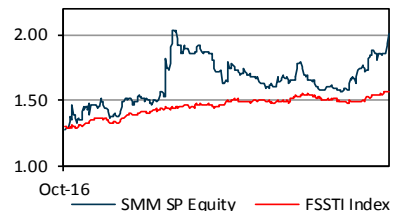
MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	610%
FRANKLIN RESOURCES	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	10.6	15.3	50.8
STIRETURN	4.8	2.6	23.9

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	2,666	3,268
Gross profit	131	293	160	255
Net Profit	(290)	79	82	104
P/E (x)	10.0	36.6	514	38.2
P/B (x)	12	12	13	13
EV/EBITDA (x)	7.7	16.0	23.6	18.2
Dividend (SG Cents)	6.0	2.5	2.5	2.5
Dividend Yield, %	4.2	18	16	16

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER: 38.2x)

Chen Guangzhi (+65 6212 1859)

Investment Analyst
chengz@phillip.com.sg

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	5,833	4,968	3,545	2,666	3,268
Gross profit	844	131	293	160	255
EBITDA	822	(18)	363	304	376
Depreciation & Amortisation	115	132	138	191	189
EBIT	707	(150)	225	113	187
Net Finance (Expense)/Inc	(11)	(36)	(81)	(82)	(85)
Associates & JVs	10	(173)	(35)	(3)	8
PBT	707	(378)	91	70	110
Taxation	(106)	78	(15)	8	(12)
PAT	601	(300)	75	78	98
Non-controlling interest	41	(10)	(4)	(4)	(6)
PATMI, reported	560	(290)	79	82	104
PATMI, adj.	560	384	79	82	104

Per share data

Y/E Dec (SG Cents)	FY14	FY15	FY16	FY17e	FY18e
EPS, basic	26.8	(13.9)	3.8	3.9	5.0
EPS, diluted	26.8	(13.9)	3.8	3.9	5.0
DPS, basic	13.0	6.0	2.5	2.5	2.5
DPS, diluted	13.0	6.0	2.5	2.5	2.5
BVPS (SGD)	1.4	1.2	1.2	1.3	1.3

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Operating profit	707	(150)	225	113	187
Adjustments	144	686	159	191	189
WC changes	(1,267)	(1,364)	284	(212)	107
Cash generated from ops	(417)	(828)	669	93	483
Others	(91)	(161)	(100)	(74)	(97)
Cashflow from ops	(508)	(989)	569	19	386
CFI					
CAPEX, net	(738)	(932)	(421)	(200)	(250)
Others	(32)	0	(69)	206	-
Cashflow from investments	(770)	(932)	(490)	6	(250)
CFF					
Loans, net of repayments	964	1,744	768	300	200
Dividends to shareholders	(272)	(251)	(73)	(42)	(52)
Dividends to non-controlling interest	(13)	(15)	(1)	(0)	(1)
Others	(10.8)	(11.4)	(160.0)	-	-
Cashflow from financing	668	1,467	534	258	147
Net change in cash	(611)	(454)	612	283	283
Effects of exchange rates	(7)	5	(22.7)	-	-
Ending cash	1,077	627	1,217	1,500	1,783

Source: Company, PSR

*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
ASSETS					
PP&E	3,009	3,541	3,987	4,015	4,097
Trade receivables	41	54	53	53	53
Intangible assets	53	47	202	182	162
Associates & JVs	470	312	75	68	76
Others	98	131	80	94	91
Total non-current assets	3,671	4,084	4,397	4,412	4,479
Cash	1,079	629	1,217	1,500	1,783
Trade receivables	469	590	492	514	848
Inventories & WIP	3,005	3,833	3,067	3,158	2,912
Others	14	65	242	49	49
Total current assets	4,567	5,117	5,018	5,222	5,592
Total Assets	8,238	9,201	9,415	9,634	10,071
LIABILITIES					
Trade payables	84	78	91	86	90
Borrowings	1,308	2,465	2,791	2,991	2,991
Others	266	97	177	149	149
Total non-current liabilities	1,658	2,640	3,059	3,226	3,230
Trade payables	1,853	2,519	2,120	2,036	2,220
Borrowings	434	915	1,364	1,464	1,664
Progress billings in excess of WIP	1,005	288	193	180	190
Others	184	175	70	64	66
Total current liabilities	3,476	3,897	3,748	3,744	4,140
Total Liabilities	5,133	6,537	6,807	6,970	7,370
Shareholder Equity	2,965	2,511	2,562	2,625	2,660
Non-controlling interest	167	153	46	39	41

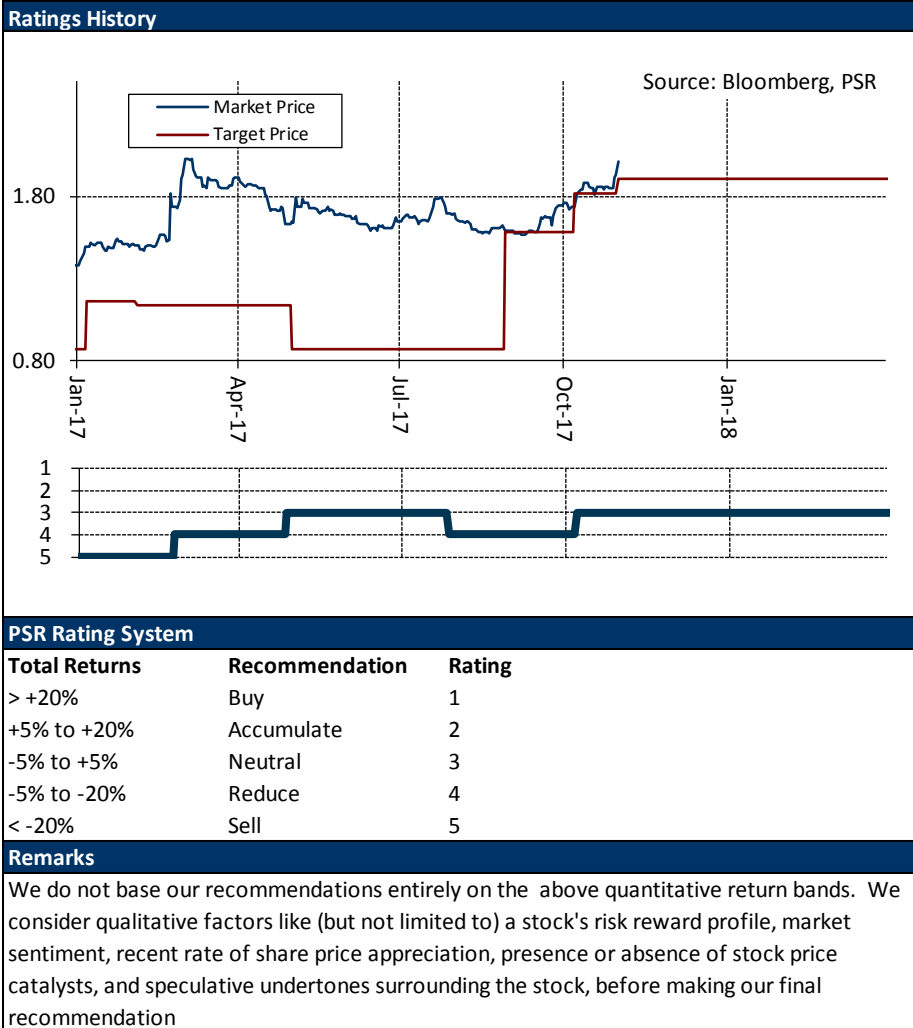
Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	15	10	37	51	38
P/B (x)	3	2	1	2	1
EV/EBITDA (x)	10	8	16	24	18
Dividend Yield (%)	3	4	2	2	2

Growth & Margins (%)

Growth					
Revenue	6%	-15%	-29%	-25%	23%
EBITDA	10%	n.m.	n.m.	-16%	23%
EBIT	10%	n.m.	n.m.	-16%	23%
Net Income, adj.	1%	-31%	-79%	4%	26%
Margins					
EBITDA margin	14%	0%	10%	11%	11%
EBIT margin	12%	-3%	6%	4%	6%
NP margin, adj.	10%	8%	2%	3%	3%
Key Ratios					
ROE (%), adj.	19%	15%	3%	3%	4%
ROA (%), adj.	7%	4%	1%	1%	1%
Net Debt or (Net Cash)	663	2,751	2,938	2,955	2,872
Net Gearing (x)	0.2	1.0	1.1	1.1	1.1

n.m.: not meaningful



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM –
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.