

# Sembcorp Marine Ltd

A disappointing year for the group



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## SINGAPORE | OIL & GAS | 4Q17 RESULTS

- 4Q17 Revenue and PATMI markedly missed our expectation due to lower unexpected sales volume.
- Market condition started to improve, but SMM's profitability remained weak.
- We downgrade our rating to REDUCE with an unchanged TP of S\$1.91, based on FY18e EPS of 4.4 SG cents and a blended 12-month forward PER of 43.4x.

### Results at a glance

(SGD mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	655.0	829.9	(21.1)	2,387.4	3,544.8	(32.7)	Low revenue recognition from rig building and offshore platforms projects
Gross profit	(48.2)	34.7	(238.7)	60.5	292.8	(79.3)	lower overall business volume, especially in rigs & floaters and offshore platforms, which impacted the absorption of overhead costs, and additional cost accruals for floater projects, which are pending finalisation with the customers
Operating profit	(43.6)	67.1	(165.1)	20.5	225.3	(90.9)	Gross loss offset by the FX gain due to the revaluation of liabilities denominated in Brazilian Real to United States dollar
<b>PATMI</b>	<b>(33.8)</b>	<b>34.3</b>	<b>(198.5)</b>	<b>14.1</b>	<b>78.8</b>	<b>(82.1)</b>	Operating loss offset by gains from the disposal of assets and tax

Source: Company, PSR

### Positives

**+ Order flows started to pick up in 4Q17:** During 4Q17, oil price rallied from US\$50/bbl to US\$60/bbl, restoring some momentums in the upstream exploration and development (E&P) segment. In Oct-17, the group announced the contract for the disposal of 9 jack-up rigs for S\$1.77bn. In Dec-17, it also secured a US\$490mn contract of the turnkey engineering, procurement, and construction of hull and living quarters for a newbuild FPSO. In the same month, SMM signed a letter of content for the construction of the hull and topside and the integration of an FPU. The group delivered an improvement of new order secured in FY17. Excluding the reselling of the jack-ups, the total amount of new contracts arrived at US\$966mn in FY17 (FY16: US\$320mn).

### Negatives

**- Net order book continued to decline:** The FY17 net order book arrived at S\$7.58bn (FY16: S\$7.84bn). Part of the order book included the S\$1.77bn contract for the disposal of 9 jack-ups is expected to translate into minimal profits. The latest contracts secured were mainly from floaters segment that generates a lower profit margin than drilling solutions segment. Meanwhile, floating LNG business remained muted though management strove to translate enquiries into orders.

### Outlook

The operating environment is still challenging. Oversupply continues in the most drilling segments. Even though global E&P spending has started to recover, there are a significant amount of old deliveries from 2014/2015 orders. Therefore, facing the intense competition, SMM will have to bear a lower profit margin in the next couples of years. Over the past few years, SMM has been expanding and upgrading the Tuas Boulevard Yard to cater to increasing demand for LNG and cruise ships repairs and upgrades. Meanwhile, management sees more demand for installation and retrofit of ballast water treatment system in this and next year. We remain upbeat on the non-drilling solutions segment while believing that it will take a longer time to see the turn in drilling segment.

### Downgrade to REDUCE with an unchanged target price of S\$1.91

We revised down our FY18e EPS (from 5.0 SG cents to 4.4 SG cents) due to the expectation of prolonged weak profitability. Based on FY18e EPS of 4.4 SG cents and blended forward 12-month PER of 43.4x, we derive an unchanged TP of S\$1.91 for FY18. We maintain our call to REDUCE.

26 February 2018

### REDUCE (Downgrade)

CLOSING PRICE	SGD 2.230
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.910
<b>TOTAL RETURN</b>	<b>-13.2%</b>

### COMPANY DATA

BLOOMBERG CODE:	SMM SF
O/S SHARES (MN):	2,088
MARKET CAP (USD mn / SGD mn):	3519 / 4656
52 - WK HI/LO (SGD):	2.81 / 1.55
3M Average Daily T/O (mn):	11.45

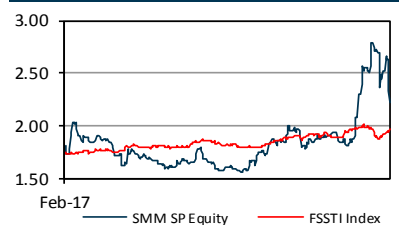
### MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	61.0%
FRANKLIN RESOURCES	5.0%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.5)	26.6	53.6
STIRETURN	(2.1)	2.1	15.3

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD mn	FY 16	FY 17	FY 18e	FY 19e
Revenue	3,545	2,387	3,391	3,647
Gross profit	293	61	237	284
Net Profit	79	14	97	129
P/E (x)	36.6	274.6	48.2	36.2
P/B (x)	12	12	12	12
EV/EBITDA (x)	15.0	34.7	20.4	17.6
Dividend (SG Cents)	2.5	2.0	2.5	2.5
Dividend Yield, %	1.8	1.1	1.1	1.1

Source: Company, PSR

### VALUATION METHOD

P/E Multiple (PER: 41.5x)

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## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Revenue</b>	<b>4,968</b>	<b>3,545</b>	<b>2,387</b>	<b>3,391</b>	<b>3,647</b>
Gross profit	131	293	61	237	284
<b>EBITDA</b>	<b>(18)</b>	<b>363</b>	<b>191</b>	<b>366</b>	<b>418</b>
Depreciation & Amortisation	132	138	170	191	195
<b>EBIT</b>	<b>(150)</b>	<b>225</b>	<b>20</b>	<b>175</b>	<b>223</b>
Net Finance (Expense)/Inc	(36)	(81)	(84)	(86)	(94)
Associates & JVs	(173)	(35)	(4)	8	15
<b>PBT</b>	<b>(378)</b>	<b>91</b>	<b>(16)</b>	<b>97</b>	<b>144</b>
Taxation	78	(15)	26	(10)	(14)
<b>PAT</b>	<b>(300)</b>	<b>75</b>	<b>10</b>	<b>88</b>	<b>130</b>
Non-controlling interest	(10)	(4)	(4)	(5)	5
<b>PATMI, reported</b>	<b>(290)</b>	<b>79</b>	<b>14</b>	<b>93</b>	<b>125</b>
<b>PATMI, adj.</b>	<b>384</b>	<b>79</b>	<b>14</b>	<b>93</b>	<b>125</b>

### Per share data

Y/E Dec (SG Cents)	FY15	FY16	FY17	FY18e	FY19e
EPS, basic	(13.9)	3.8	0.7	4.4	6.0
EPS, diluted	(13.9)	3.8	0.7	4.4	6.0
DPS, basic	6.0	2.5	2.0	2.5	2.5
DPS, diluted	6.0	2.5	2.0	2.5	2.5
BVPS (SGD)	1.2	1.2	1.2	1.2	1.2

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Operating profit	(150)	225	20	175	223
Adjustments	686	159	183	191	195
WC changes	(1,364)	284	(59)	16	147
Cash generated from ops	(828)	669	144	382	565
Others	(161)	(100)	(94)	(96)	(108)
<b>Cashflow from ops</b>	<b>(989)</b>	<b>569</b>	<b>50</b>	<b>286</b>	<b>457</b>
<b>CFI</b>					
CAPEX, net	(932)	(421)	(176)	(250)	(300)
Others	0	(69)	242	-	-
<b>Cashflow from investments</b>	<b>(932)</b>	<b>(490)</b>	<b>65</b>	<b>(250)</b>	<b>(300)</b>
<b>CFF</b>					
Loans, net of repayments	1,744	768	24	360	481
Dividends to shareholders	(251)	(73)	(42)	(42)	(52)
Dividends to non-controlling interest	(15)	(1)	(0)	(1)	(8)
Others	(11)	(160)	(6)	-	-
<b>Cashflow from financing</b>	<b>1,467</b>	<b>534</b>	<b>(24)</b>	<b>318</b>	<b>420</b>
<b>Net change in cash</b>	<b>(454)</b>	<b>612</b>	<b>91</b>	<b>354</b>	<b>577</b>
Effects of exchange rates	5	(23)	(7)	-	-
<b>Ending cash</b>	<b>627</b>	<b>1,217</b>	<b>1,301</b>	<b>1,655</b>	<b>2,232</b>

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	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
PP&E	3,541	3,987	3,995	4,099	4,227
Trade receivables	54	53	169	53	58
Intangible assets	47	202	179	156	134
Associates & JVs	312	75	68	76	82
Others	131	80	52	92	99
<b>Total non-current assets</b>	<b>4,084</b>	<b>4,397</b>	<b>4,463</b>	<b>4,477</b>	<b>4,599</b>
Cash	629	1,217	1,301	1,655	2,232
Trade receivables	590	492	567	527	546
Inventories & WIP	3,833	3,067	2,776	3,182	3,406
Others	65	242	45	49	49
<b>Total current assets</b>	<b>5,117</b>	<b>5,018</b>	<b>4,688</b>	<b>5,412</b>	<b>6,232</b>
<b>Total Assets</b>	<b>9,201</b>	<b>9,415</b>	<b>9,151</b>	<b>9,889</b>	<b>10,832</b>
<b>LIABILITIES</b>					
Trade payables	78	91	105	110	90
Borrowings	2,465	2,791	3,247	3,507	3,788
Others	97	177	137	130	146
<b>Total non-current liabilities</b>	<b>2,640</b>	<b>3,059</b>	<b>3,489</b>	<b>3,747</b>	<b>4,023</b>
Trade payables	2,519	2,120	2,061	2,387	2,736
Borrowings	915	1,364	853	953	1,153
Progress billings in excess of WIP	288	193	174	190	250
Others	175	70	54	50	48
<b>Total current liabilities</b>	<b>3,897</b>	<b>3,748</b>	<b>3,143</b>	<b>3,580</b>	<b>4,187</b>
<b>Total Liabilities</b>	<b>6,537</b>	<b>6,807</b>	<b>6,632</b>	<b>7,327</b>	<b>8,210</b>
<b>Shareholder Equity</b>	<b>2,511</b>	<b>2,562</b>	<b>2,478</b>	<b>2,518</b>	<b>2,574</b>
Non-controlling interest	153	46	41	43	47

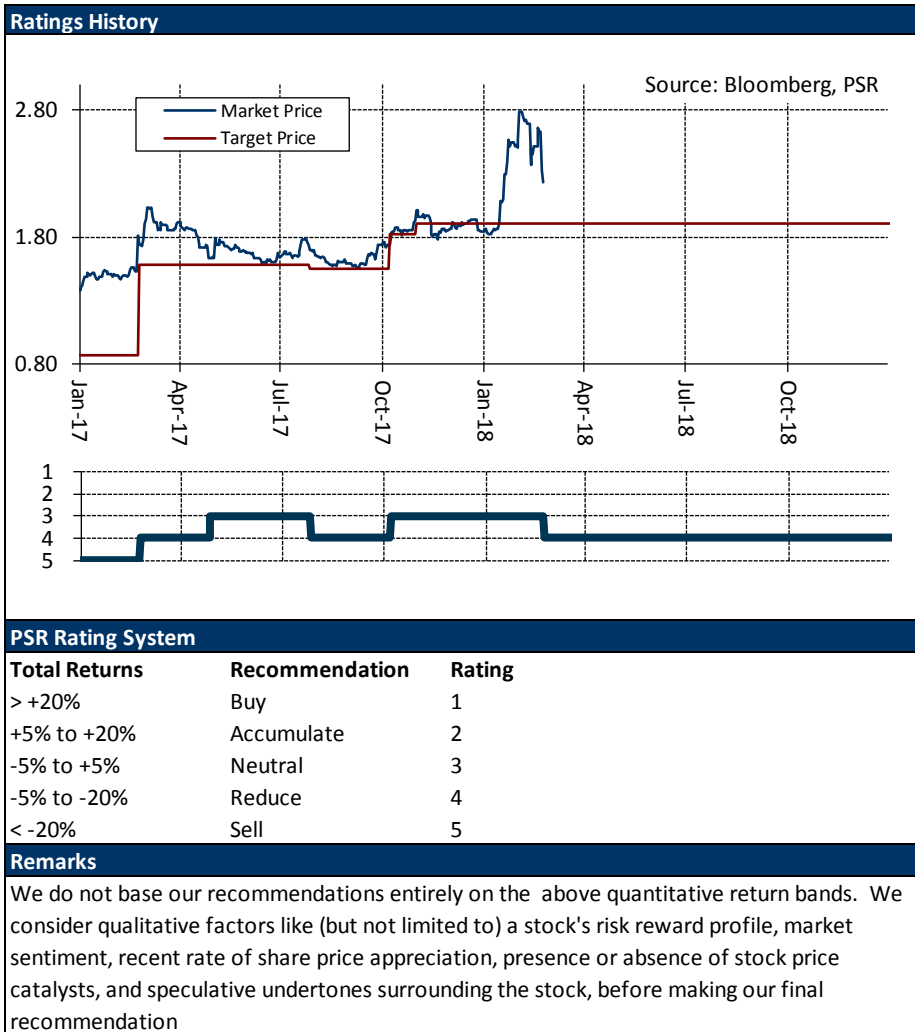
### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.M.	37	275	50	37
P/B (x)	1.5	1.1	1.6	1.9	1.8
EV/EBITDA (x)	N.M.	15	35	20	18
Dividend Yield (%)	3.4	1.8	1.1	1.1	1.1

### Growth & Margins (%)

<b>Growth</b>					
Revenue	-15%	-29%	-33%	42%	8%
EBITDA	n.m.	n.m.	-48%	92%	14%
EBIT	n.m.	n.m.	-91%	n.m.	27%
PATMI, adj.	-31%	-79%	-82%	n.m.	35%
<b>Margins</b>					
EBITDA margin	0%	10%	8%	11%	11%
EBIT margin	-3%	6%	1%	5%	6%
PATMI margin, adj.	8%	2%	1%	3%	3%
<b>Key Ratios</b>					
ROE (%), adj.	15%	3%	1%	4%	5%
ROA (%), adj.	4%	1%	0%	1%	1%
Net Debt or (Net Cash)	2,751	2,938	2,799	2,805	2,709
Net Gearing (x)	1.0	1.1	1.1	1.1	1.0

n.m.: not meaningful



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