

# Sembcorp Marine Ltd

Still Gloomy



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## SINGAPORE | OIL & GAS | 1Q18 RESULTS

27 April 2018

- 1Q17 revenue exceeded our expectation but net profit missed. On Jan-18, SMM adopted Singapore Financial Reporting Standards (International) 15 (SFRS 15). Excluding the effects of SFRS 15, revenue would have only increased by 15% YoY, and a net loss reported.
- Order flow, profitability and guidance is still weak.
- We maintain our rating REDUCE with a lower TP of S\$1.85, based on FY18e EPS of 3.6 SG cents and a blended 12-month forward PER of 51.4x.

### REDUCE (Maintained)

CLOSING PRICE	SGD 2.110
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.850
TOTAL RETURN	-11.1%

#### COMPANY DATA

BLOOMBERG CODE:	SMM SF
O/S SHARES (MN):	2,088
MARKET CAP (USD mn / SGD mn):	3303 / 4385
52 - WK HI/LO (SGD):	2.81 / 1.55
3M Average Daily T/O (mn):	13.54

#### MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	61.0%
FRANKLIN RESOURCES	5.0%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	7.2	(12.2)	314
STIRETURN	4.4	0.3	16.4

#### Results at a glance

(SGD mn)	4Q18	4Q17 (Restated)	YoY (%)	Comments
Revenue	1,180.3	745.6	58.3	Higher revenue recognition for rigs & floaters upon the delivery of 2 jack-up rigs to Borr Drilling and 1 jack-up rig to BOTL; Adoption of SFRS(I)
Gross profit	43.1	15.2	183.6	Margin recognition upon delivery of rigs; offset by lower overall business volume, especially in rigs & floaters and offshore platforms, which impacted the absorption of overhead costs
Operating profit	19.5	8.8	120.9	Foreign exchange loss arose from the revaluation of assets and liabilities denominated in USD and SGD; Lower sales of scrap
PATMI	5.3	37.0	(85.7)	The gain on disposal of assets held for sale in 1Q 2017 arose from the Group's divestment of its 30% equity interest in Cosco

Source: Company, PSR

#### Positives

**+ A new contract replenished net order book in 1Q18:** SMM secured a contract to undertake the engineering, procurement, and construction of hull and living quarters for a newbuild FPSO in Mar-18. The contract was valued at S\$476mn. With this, the net order book arrived at S\$7.7bn (S\$3.13bn from Sete Brasil drillship contracts).

#### Negatives

**- Warning on profitability:** The adoption of SFRS 15 boosted the top line by 43.3% YoY in 1Q18. However, pre-SFRS 15, revenue growth would have been 15% YoY that translates into a S\$33mn net loss in 1Q18. Under SFRS 15, revenue will be recognised upon completion of the contract instead of progressive recognition.

**- Orders book dwindling:** The net order book continues to decline (1Q18: S\$7.7bn vs FY17 (restated): S\$8.4bn). Management guided that low new orders and work volume may persist in the foreseeable quarters. Hence, the operating losses began in 4Q17 will continue. Floating LNG businesses still at the enquiry stage with no orders.

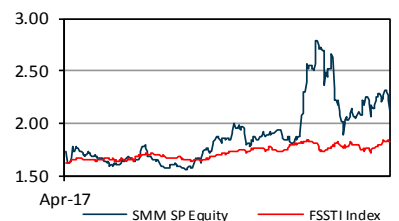
#### Outlook

Oil prices were on the course of recovery in 1Q18. However, the upstream drilling and production sector remained soft, as day rates and utilisation were relatively low. The drilling vessel market remains oversupplied. It will take several more quarters for the market to resume large capex on exploration and production. We have factored in new orders of S\$2.5bn for SMM in FY18 (FY17: S\$2.7bn).

#### Maintain REDUCE with a lower target price of S\$1.85

We revised down our FY18e EPS (from 4.4 SG cents to 3.6 SG cents) due to protracted weak performance and adoption of SFRS 15. Based on FY18e EPS of 3.6 SG cents and blended forward 12-month PER of 51.4x, we derive an updated TP of S\$1.85 for FY18. We maintain our REDUCE recommendation.

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, SGD mn	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	3,545	2,387	3,391	3,647
Gross profit	293	61	231	263
Net Profit	79	14	75	91
P/E (x)	36.6	274.6	58.7	48.4
P/B (x)	12	12	13	14
EV/EBITDA (x)	15.0	34.7	21.6	19.7
Dividend (SG Cents)	2.5	2.0	2.5	2.5
Dividend Yield, %	18	11	12	12

Source: Company, PSR

#### VALUATION METHOD

P/E M multiple (PER: 514x)

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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	231	263
<b>EBITDA</b>	<b>(18)</b>	<b>363</b>	<b>191</b>	<b>339</b>	<b>376</b>
Depreciation & Amortisation	132	138	170	191	195
<b>EBIT</b>	<b>(150)</b>	<b>225</b>	<b>20</b>	<b>148</b>	<b>181</b>
Net Finance (Expense)/Inc	(36)	(81)	(84)	(78)	(90)
Associates & JVs	(173)	(35)	(4)	8	15
<b>PBT</b>	<b>(378)</b>	<b>91</b>	<b>(16)</b>	<b>78</b>	<b>106</b>
Taxation	78	(15)	26	(8)	(10)
<b>PAT</b>	<b>(300)</b>	<b>75</b>	<b>10</b>	<b>70</b>	<b>96</b>
Non-controlling interest	(10)	(4)	(4)	(5)	5
<b>PATMI, reported</b>	<b>(290)</b>	<b>79</b>	<b>14</b>	<b>75</b>	<b>91</b>
<b>PATMI, adj.</b>	<b>384</b>	<b>79</b>	<b>14</b>	<b>75</b>	<b>91</b>

### Per share data

Y/E Dec (SG Cents)	FY15	FY16	FY17	FY18e	FY19e
EPS, basic	(13.9)	3.8	0.7	3.6	4.4
EPS, diluted	(13.9)	3.8	0.7	3.6	4.4
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	1.3	1.4

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Operating profit	(150)	225	20	148	181
Adjustments	686	159	183	191	195
WC changes	(1,364)	284	(59)	(57)	(40)
Cash generated from ops	(828)	669	144	282	336
Others	(161)	(100)	(94)	(86)	(100)
<b>Cashflow from ops</b>	<b>(989)</b>	<b>569</b>	<b>50</b>	<b>196</b>	<b>236</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	242	355
Dividends to shareholders	(251)	(73)	(42)	(42)	(52)
Dividends to non-controlling int	(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>200</b>	<b>294</b>
<b>Net change in cash</b>	<b>(454)</b>	<b>612</b>	<b>91</b>	<b>146</b>	<b>230</b>
Effects of exchange rates	5	(23)	(7)	-	-
<b>Ending cash</b>	<b>627</b>	<b>1,217</b>	<b>1,301</b>	<b>1,447</b>	<b>1,678</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	350	450
Intangible assets	47	202	179	156	134
Associates & JVs	312	75	68	76	82
Others	131	80	60	92	99
<b>Total non-current assets</b>	<b>4,084</b>	<b>4,397</b>	<b>4,471</b>	<b>4,773</b>	<b>4,991</b>
Cash	629	1,217	1,301	1,447	1,678
Trade receivables	590	492	580	653	749
Inventories & WIP	3,833	3,067	3,295	3,175	2,933
Others	65	242	45	49	49
<b>Total current assets</b>	<b>5,117</b>	<b>5,018</b>	<b>5,221</b>	<b>5,324</b>	<b>5,409</b>
<b>Total Assets</b>	<b>9,201</b>	<b>9,415</b>	<b>9,692</b>	<b>10,097</b>	<b>10,400</b>
<b>LIABILITIES</b>					
Trade payables	78	91	105	110	90
Borrowings	2,465	2,791	3,247	3,410	3,614
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>3,650</b>	<b>3,850</b>
Trade payables	2,519	2,120	1,604	2,711	2,526
Borrowings	915	1,364	853	933	1,083
Progress billings in excess of	288	193	-	-	-
Others	175	70	54	50	48
<b>Total current liabilities</b>	<b>3,897</b>	<b>3,748</b>	<b>3,722</b>	<b>3,694</b>	<b>3,656</b>
<b>Total Liabilities</b>	<b>6,537</b>	<b>6,807</b>	<b>7,212</b>	<b>7,344</b>	<b>7,506</b>
<b>Shareholder Equity</b>	<b>2,511</b>	<b>2,562</b>	<b>2,439</b>	<b>2,711</b>	<b>2,847</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	59	48
P/B (x)	1.5	1.1	1.6	1.6	1.5
EV/EBITDA (x)	N.M.	15	35	22	20
Dividend Yield (%)	3.4	1.8	1.1	1.2	1.2

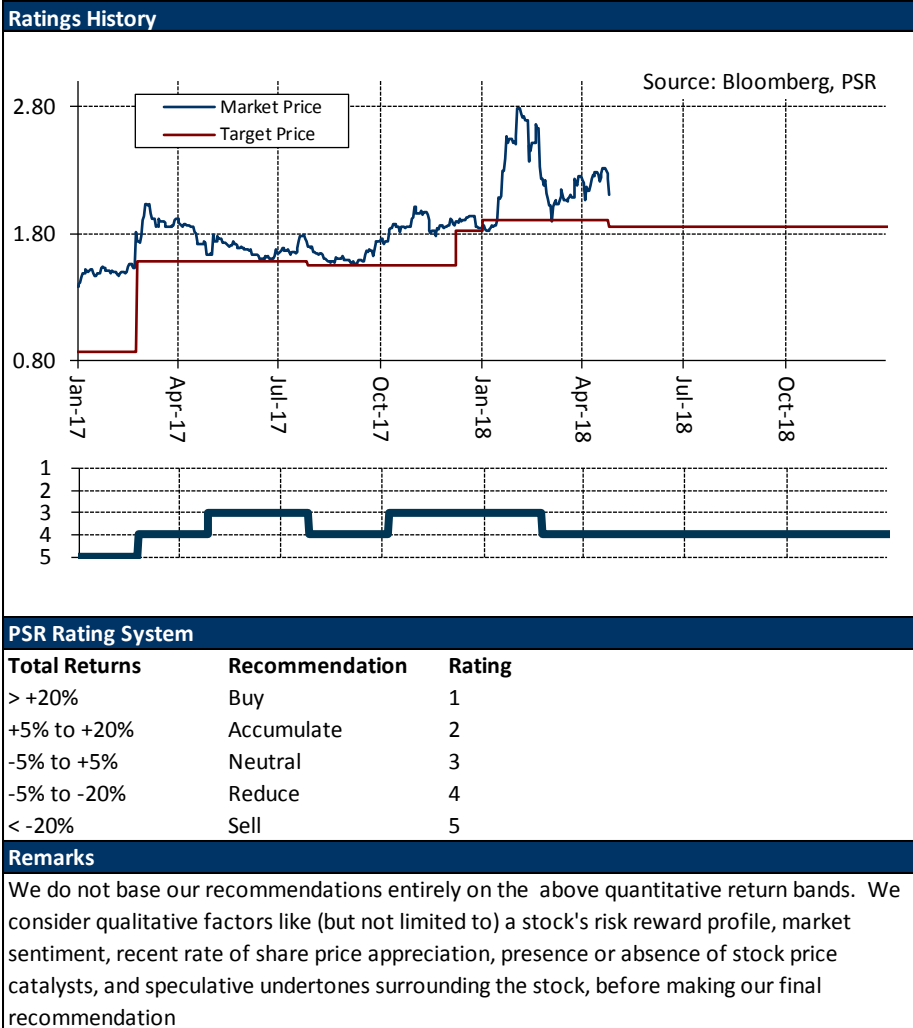
### Growth & Margins (%)

Growth					
Revenue	-15%	-29%	-33%	42%	8%
EBITDA	n.m.	n.m.	-48%	78%	11%
EBIT	n.m.	n.m.	-91%	n.m.	22%
PATMI, adj.	-31%	-79%	-82%	n.m.	21%
Margins					
EBITDA margin	0%	10%	8%	10%	10%
EBIT margin	-3%	6%	1%	4%	5%
PATMI margin, adj.	8%	2%	1%	2%	2%

### Key Ratios

ROE (%), adj.	15%	3%	1%	3%	3%
ROA (%), adj.	4%	1%	0%	1%	1%
Net Debt or (Net Cash)	2,751	2,938	2,799	2,895	3,020
Net Gearing (x)	1.0	1.1	1.1	1.1	1.0

n.m.: not meaningful



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