

# Sembcorp Marine Ltd

A depressed performance



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## SINGAPORE | OIL & GAS | 2Q18 RESULTS

23 July 2018

- 2Q18 revenue exceeded our expectation but net profit missed due to loss on the sale of a semi-submersible.
- Gloomy guidance for 2H18 due to low work volume and operating loss.
- Recent orders are all from the Floaters segment and order book is decreasing.
- We maintain our rating REDUCE with a lower TP of S\$1.78, based on FY18e BVPS of SG\$1.1 and the 5-year average PBR of 1.6x. It is worth mentioning that the historical PBR low was around 1.0x.

### REDUCE (Maintained)

CLOSING PRICE	SGD 1.960
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 1.780
TOTAL RETURN	-9.2%

#### COMPANY DATA

BLOOMBERG CODE:	SMM SF
O/S SHARES (MN):	2,088
MARKET CAP (USD mn / SGD mn):	2836 / 3863
52 - WK HI/LO (SGD):	2.81 / 1.55
3M Average Daily T/O (mn):	4.7426

#### MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	61.0%
FRANKLIN RESOURCES	5.0%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(15)	(15.1)	13.9
STIRETURN	(0.5)	(6.4)	3.6

#### Results at a glance

(SGD mn)	2Q18	2Q17 (Restated)	YoY (%)	Comments
Revenue	1,627.2	648.9	150.8	Higher revenue recognition for rigs & floaters upon the delivery of 2 jack-up rigs to Borr Drilling and sale of the semi-submersible rig
Gross profit	(47.1)	73.0	N.M.	Loss upon sale of a semi-submersible, lower overall business volume
Operating profit	(52.6)	25.2	N.M.	Foreign exchange gain arose from the revaluation of assets and liabilities denominated in USD and SGD; Lower sales of scrap
PATMI	(55.6)	5.1	N.M.	In line with the above

N.M.: not meaningful  
Source: Company, PSR

#### Positives

**+ Orders stem from floaters segment:** In 2Q18, SMM was awarded of the Shell Vito floating production unit hull and living quarters contract and a first polar expedition cruise ship design contract. Together with a contract from TechnipFMC for the engineering, procurement, and construction (EPC) of hull and living quarters for a newbuild FPSO secured in 1Q18, the total value of new contracts locked in 1H18 arrived at S\$730mn. In comparison, the total value of contracts from floaters segment was S\$911mn in FY17. It is worth noting that all the contracts secured YTD were from floaters segment, indicating that the only floaters are benefitting from the rally of oil prices in the offshore market.

#### Negatives

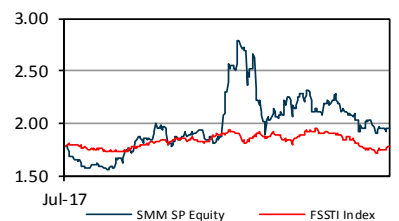
**- Gloomy guidance on 2H18:** Due to the prevailing challenging operating environment, management foresees that work volume remains low and margins remain compressed. Operating losses will continue for the rest of the current financial year. Meanwhile, it will take 2 to 4 quarters time for some EPC projects to recognise revenue after the main construction activities kick start.

**- Orders book dwindling:** The net order book continues to decline (1H18: S\$7.2bn vs FY17 (restated): S\$8.4bn). Floating LNG businesses still at the enquiry stage with no orders. Management expects to execute new and other potential orders smoothly.

#### Outlook

SMM is still struggling though oil prices recovered back to 3-yr high recently. At the juncture, oil majors remain cautious and prudent in raising capex on newbuild drilling facilities. Therefore, SMM continues to suffer from the stagnant order book. On the hand, management decided to move up the value chain, enabling the group to provide integrated solutions instead of purely construction and engineering services. To achieve it, the group will acquire more intellectual properties moving forward. We expect financials to turn around next year based on the orders.

#### 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	4,293	3,843
Gross profit	293	61	64	211
Net Profit	79	14	(43)	66
P/E (x)	36.6	274.6	n.m.	62.3
P/B (x)	12	12	11	12
EV/EBITDA (x)	15.0	34.7	39.0	219
Dividend (SG Cents)	2.5	2.0	-	10
Dividend Yield, %	18	11	-	0.5

Source: Company, PSR

#### VALUATION METHOD

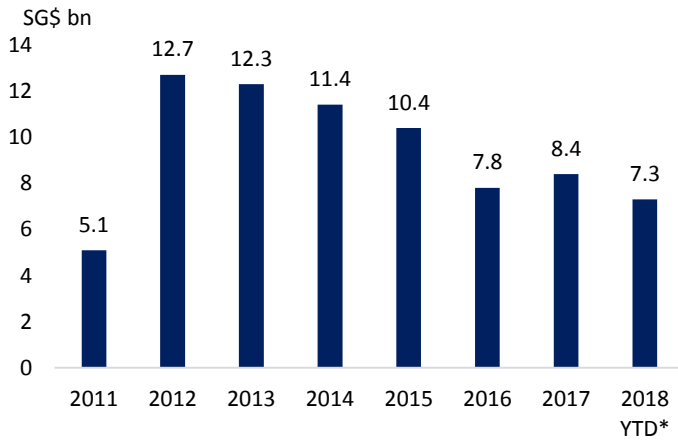
P/B Multiple (PBR: 16x)

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**Maintain REDUCE with a lower target price of S\$1.78**

We revised down our FY18e BVPS (from SG\$1.3 to SG\$1.1) due to protracted weak performance. Based on the 5-year average PBR of 1.6x, we derive an updated TP of S\$1.78 for FY18. It is worth mentioning that the historical PBR low was around 1.0x. We maintain our REDUCE recommendation.

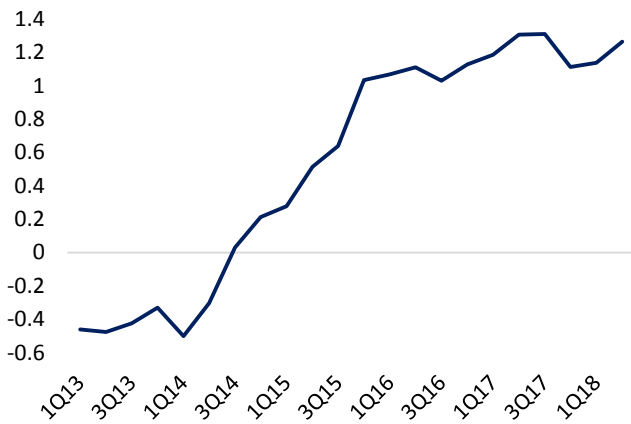
**Figure 1: Net order book dropped to a 6-year low as of 2Q18**



\*Sete Brasil drillship contracts valued at SG\$3.1bn

Source: Company, PSR

**Figure 2: Increasing net gearing ratio**



Source: Company, PSR

## 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>4,293</b>	<b>3,843</b>
Gross profit	131	293	61	64	211
<b>EBITDA</b>	<b>(18)</b>	<b>363</b>	<b>191</b>	<b>184</b>	<b>337</b>
Depreciation & Amortisation	132	138	170	191	195
<b>EBIT</b>	<b>(150)</b>	<b>225</b>	<b>20</b>	<b>(7)</b>	<b>142</b>
Net Finance (Expense)/Inc	(36)	(81)	(84)	(50)	(69)
Associates & JVs	(173)	(35)	(4)	3	5
<b>PBT</b>	<b>(378)</b>	<b>91</b>	<b>(16)</b>	<b>(54)</b>	<b>79</b>
Taxation	78	(15)	26	6	(8)
<b>PAT</b>	<b>(300)</b>	<b>75</b>	<b>10</b>	<b>(48)</b>	<b>71</b>
Non-controlling interest	(10)	(4)	(4)	(5)	5
<b>PATMI, reported</b>	<b>(290)</b>	<b>79</b>	<b>14</b>	<b>(43)</b>	<b>66</b>
<b>PATMI, adj.</b>	<b>384</b>	<b>79</b>	<b>14</b>	<b>(43)</b>	<b>66</b>

### Per share data

Y/E Dec (SG Cents)	FY15	FY16	FY17	FY18e	FY19e
EPS, basic	(13.9)	3.8	0.7	(2.0)	3.1
EPS, diluted	(13.9)	3.8	0.7	(2.0)	3.1
DPS, basic	6.0	2.5	2.0	-	1.0
DPS, diluted	6.0	2.5	2.0	-	1.0
BVPS (SGD)	1.2	1.2	1.2	1.1	1.2

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Operating profit	(150)	225	20	(7)	142
Adjustments	686	159	183	191	195
WC changes	(1,364)	284	(59)	(433)	(211)
Cash generated from ops	(828)	669	144	(249)	126
Others	(161)	(100)	(94)	(44)	(77)
<b>Cashflow from ops</b>	<b>(989)</b>	<b>569</b>	<b>50</b>	<b>(292)</b>	<b>49</b>
<b>CFI</b>					
CAPEX, net	(932)	(421)	(176)	(250)	(250)
Others	0	(69)	242	7	-
<b>Cashflow from investments</b>	<b>(932)</b>	<b>(490)</b>	<b>65</b>	<b>(243)</b>	<b>(250)</b>
<b>CFF</b>					
Loans, net of repayments	1,744	768	24	(174)	18
Dividends to shareholders	(251)	(73)	(42)	(21)	-
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>(195)</b>	<b>10</b>
<b>Net change in cash</b>	<b>(454)</b>	<b>612</b>	<b>91</b>	<b>(731)</b>	<b>(191)</b>
Effects of exchange rates	5	(23)	(7)	-	-
<b>Ending cash</b>	<b>898</b>	<b>1,488</b>	<b>1,572</b>	<b>842</b>	<b>651</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	4,177
Trade receivables	54	53	169	670	804
Intangible assets	47	202	179	156	134
Associates & JVs	312	75	68	71	77
Others	131	80	60	32	32
<b>Total non-current assets</b>	<b>4,084</b>	<b>4,397</b>	<b>4,471</b>	<b>5,029</b>	<b>5,224</b>
Cash	629	1,217	1,301	842	651
Trade receivables	590	492	580	683	795
Inventories & WIP	3,833	3,067	3,295	2,106	2,686
Others	65	242	45	49	49
<b>Total current assets</b>	<b>5,117</b>	<b>5,018</b>	<b>5,221</b>	<b>3,680</b>	<b>4,180</b>
<b>Total Assets</b>	<b>9,201</b>	<b>9,415</b>	<b>9,692</b>	<b>8,708</b>	<b>9,404</b>
<b>LIABILITIES</b>					
Trade payables	78	91	105	110	115
Borrowings	2,465	2,791	3,247	2,647	2,515
Others	97	177	137	128	130
<b>Total non-current liabilities</b>	<b>2,640</b>	<b>3,059</b>	<b>3,489</b>	<b>2,885</b>	<b>2,760</b>
Trade payables	2,519	2,120	1,604	2,048	2,504
Borrowings	915	1,364	853	1,279	1,429
Progress billings in excess of WIP	288	193	-	-	-
Others	175	70	54	59	63
<b>Total current liabilities</b>	<b>3,897</b>	<b>3,748</b>	<b>3,722</b>	<b>3,387</b>	<b>3,997</b>
<b>Total Liabilities</b>	<b>6,537</b>	<b>6,807</b>	<b>7,212</b>	<b>6,272</b>	<b>6,756</b>
<b>Shareholder Equity</b>	<b>2,511</b>	<b>2,562</b>	<b>2,439</b>	<b>2,394</b>	<b>2,601</b>
Non-controlling interest	153	46	41	43	47

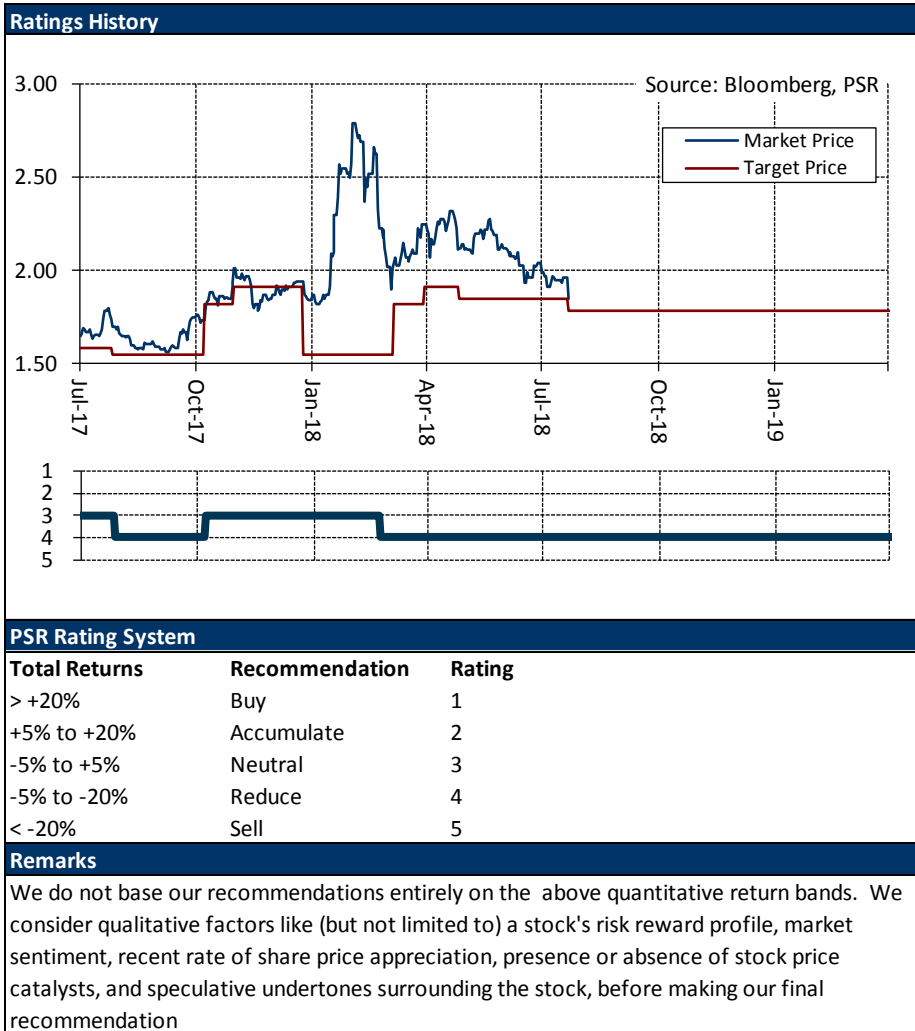
### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.M.	37	275	n.m.	62
P/B (x)	1.5	1.1	1.6	1.7	1.6
EV/EBITDA (x)	N.M.	15	35	39	22
Dividend Yield (%)	3.4	1.8	1.1	0.0	0.5

### Growth & Margins (%)

	FY15	FY16	FY17	FY18e	FY19e
<b>Growth</b>					
Revenue	-15%	-29%	-33%	80%	-10%
EBITDA	n.m.	n.m.	-48%	-3%	83%
EBIT	n.m.	n.m.	-91%	n.m.	n.m.
PATMI, adj.	-31%	-79%	-82%	n.m.	n.m.
<b>Margins</b>					
EBITDA margin	0%	10%	8%	4%	9%
EBIT margin	-3%	6%	1%	n.m.	4%
PATMI margin, adj.	8%	2%	1%	n.m.	2%
<b>Key Ratios</b>					
ROE (%), adj.	15%	3%	1%	-2%	3%
ROA (%), adj.	4%	1%	0%	0%	1%
Net Debt or (Net Cash)	2,751	2,938	2,799	3,085	3,293
Net Gearing (x)	1.0	1.1	1.1	1.3	1.2

n.m.: not meaningful



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