

Sembcorp Marine Ltd

Protracted weakness



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SINGAPORE | OIL & GAS | 3Q18 RESULTS

29 October 2018

- 3Q18 revenue and net loss exceeded our expectation due to an S\$34mn loss on the sale of a semi-submersible.
- Repairs and Upgrades segment secured a big contract.
- Order flow, profitability and guidance remain weak.
- We revised down our FY18e BVPS (from SG\$1.1 to SG\$1.0) due to the loss on the disposal and the lower margin assumption. Based on the 5-year average PBR of 1.6x, our revised TP is S\$1.65 (previously S\$1.78). It is worth mentioning that the historical PBR low was around 1.0x. We upgrade our recommendation to NEUTRAL due to the recent price correction.

NEUTRAL (Upgraded)

CLOSING PRICE	SGD 1.610
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 1.650
TOTAL RETURN	2.5%

COMPANY DATA

BLOOMBERG CODE:	SMM SF
O/S SHARES (MN):	2,089
MARKET CAP (USD mn / SGD mn):	2431 / 3363
52 - WK HI/LO (SGD):	2.81 / 1.6
3M Average Daily T/O (mn):	5.0881

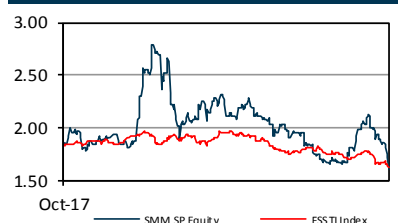
MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	610%
FRANKLIN RESOURCES	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(15.3)	(7.5)	(6.9)
STI RETURN	(6.8)	(8.0)	(6.5)

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	5,083	4,802
Gross profit	293	61	(36)	43
Net Profit	79	14	(109)	(44)
P/E (x)	36.6	274.6	n.m.	n.m.
P/B (x)	12	12	10	10
EV/EBITDA (x)	15.0	34.7	69.2	36.3
Dividend (SG Cents)	2.5	2.0	-	-
Dividend Yield, %	18	11	-	-

Source: Company, PSR

VALUATION METHOD

P/B Multiple (PBR: 16x)

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Results at a glance

(SGD mn)	3Q18	3Q17 (Restated)	YoY (%)	Comments
Revenue	1,167.2	728.8	60.2	Higher revenue recognition for rigs & floaters upon the delivery of 2 jack-up rigs to Borr Drilling and revenue recognition for newly secured projects
Gross profit	(12.8)	126.7	N.M.	Loss upon the sale of a semi-submersible, continued low overall business volume which impacted the absorption of overhead costs, offset by margin recognition from newly secured production floater projects and delivery of rigs.
Operating profit	(21.3)	136.3	N.M.	Foreign exchange gain arose from the revaluation of assets and liabilities denominated in USD and SGD; Higher sales of scrap
PATMI	(29.8)	100.7	N.M.	In line with the above

N.M.: not meaningful

Source: Company, PSR

Positives

+ A big contract under Repairs and Upgrades segment in 3Q18: In Sep-18, SMM was awarded the biggest technology retrofits contract to date. The contract was granted by Maran Tankers for the installation of marine scrubbers and ballast water management system on 13 of the Greek owner's vessels. With this contract, SMM has an order book of four marine scrubbers and 23 ballast water management system. Revenue for this segment was S\$336mn with a 5% YoY drop in 9M18. The average revenue per vessel surged by 35% YoY to S\$1.46mn, offsetting the decrease in the number of vessels repaired.

Negatives

- Hardly see a turnaround in the near term: Brent crude oil price averaged US\$78/bbl (up 44% YoY) in 3Q18, which supported the recovery of upstream drilling activities. Management believed the capex on global exploration and production (E&P) would continue to improve. However, the over-supply of offshore rigs and vessels takes a longer time to generate new order flows in the sector. Meanwhile, margins remain compressed due to intense competition. Management expects the trend of negative operating profit to continue for a few more quarters.

- Orders book dwindling: The net order book continues to decline (3Q18: S\$6.4bn vs FY17 (restated): S\$8.4bn). New contracts secured YTD came from Floaters segment, amounting to S\$730mn (FY17 Floaters: S\$911mn). Though management is optimistic about the increasing enquiries of LNG projects, there is no contract announced so far.

Outlook

It is encouraging that oil price was back to four-year high recently. However, we believe the sustainability of the current level (c.US\$80/bbl) matters. Two key factors are directing the recovery of SMM, capex on E&P and vibrancy of upstream drilling and production activities (measured by charter rate and utilisation rate). Since SMM's business is order book- driven, we have not seen any evident signal that its profitability will turn around in the near turn. In a nutshell, the survival mode is still on.

Upgrade to NEUTRAL with a lower target price of S\$1.65

We revised down our FY18e BVPS (from SG\$1.1 to SG\$1.0) due to the loss on the disposal and the lower margin assumption. Based on the 5-year average PBR of 1.6x, our revised TP is S\$1.65 (previously S\$1.78). It is worth mentioning that the historical PBR low was around 1.0x. We upgrade our recommendation to NEUTRAL due to the recent price correction.

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,968	3,545	2,387	5,083	4,802
Gross profit	131	293	61	(36)	43
EBITDA	(18)	363	191	92	169
Depreciation & Amortisation	132	138	170	183	189
EBIT	(150)	225	20	(91)	(21)
Net Finance (Expense)/Inc	(36)	(81)	(84)	(49)	(39)
Associates & JVs	(173)	(35)	(4)	(3)	(2)
PBT	(378)	91	(16)	(142)	(61)
Taxation	78	(15)	26	28	12
PAT	(300)	75	10	(114)	(49)
Non-controlling interest	(10)	(4)	(4)	(5)	(5)
PATMI, reported	(290)	79	14	(109)	(44)
PATMI, adj.	384	79	14	(109)	(44)

Per share data

Y/E Dec (SG Cents)	FY15	FY16	FY17	FY18e	FY19e
EPS, basic	(13.9)	3.8	0.7	(5.2)	(2.1)
EPS, diluted	(13.9)	3.8	0.7	(5.2)	(2.1)
DPS, basic	6.0	2.5	2.0	-	-
DPS, diluted	6.0	2.5	2.0	-	-
BVPS (SGD)	1.2	1.2	1.2	1.0	1.0

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Operating profit	(150)	225	20	(91)	(21)
Adjustments	686	159	183	188	189
WC changes	(1,364)	284	(59)	(177)	447
Cash generated from ops	(828)	669	144	(80)	615
Others	(161)	(100)	(94)	(21)	(27)
Cashflow from ops	(989)	569	50	(101)	588
CFI					
CAPEX, net	(932)	(421)	(176)	(300)	(350)
Others	0	(69)	242	(47)	-
Cashflow from investments	(932)	(490)	65	(347)	(350)
CFF					
Loans, net of repayments	1,744	768	24	8	(4)
Dividends to shareholders	(251)	(73)	(42)	(21)	-
Dividends to non-controlling interest	(15)	(1)	(0)	(1)	(8)
Others	(11)	(160)	(6)	-	-
Cashflow from financing	1,467	534	(24)	(13)	(12)
Net change in cash	(454)	612	91	(461)	226
Effects of exchange rates	5	(23)	(7)	-	-
Ending cash	898	1,488	1,572	1,111	1,337

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
ASSETS					
PP&E	3,541	3,987	3,995	4,157	4,341
Trade receivables	54	53	169	1,320	1,426
Intangible assets	47	202	179	211	188
Associates & JVs	312	75	68	71	76
Others	131	80	52	52	52
Total non-current assets	4,084	4,397	4,463	5,811	6,083
Cash	629	1,217	1,301	1,111	1,337
Trade receivables	590	492	567	736	686
Inventories & WIP	3,833	3,067	2,776	1,508	1,220
Others	65	242	45	30	30
Total current assets	5,117	5,018	4,688	3,386	3,274
Total Assets	9,201	9,415	9,151	9,196	9,357
LIABILITIES					
Trade payables	78	91	105	162	175
Borrowings	2,465	2,791	3,247	3,085	2,931
Others	97	177	137	152	154
Total non-current liabilities	2,640	3,059	3,489	3,400	3,261
Trade payables	2,519	2,120	2,236	2,521	2,738
Borrowings	915	1,364	853	1,023	1,173
Progress billings in excess of WIP	288	193	-	-	-
Others	175	70	54	67	70
Total current liabilities	3,897	3,748	3,143	3,611	3,982
Total Liabilities	6,537	6,807	6,632	7,011	7,242
Shareholder Equity	2,511	2,562	2,478	2,149	2,083
Non-controlling interest	153	46	41	36	31

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.M.	37	275	n.m.	n.m.
P/B (x)	1.5	1.1	1.6	1.6	1.6
EV/EBITDA (x)	N.M.	15	35	69	36
Dividend Yield (%)	3.4	1.8	1.1	0.0	0.0

Growth & Margins (%)

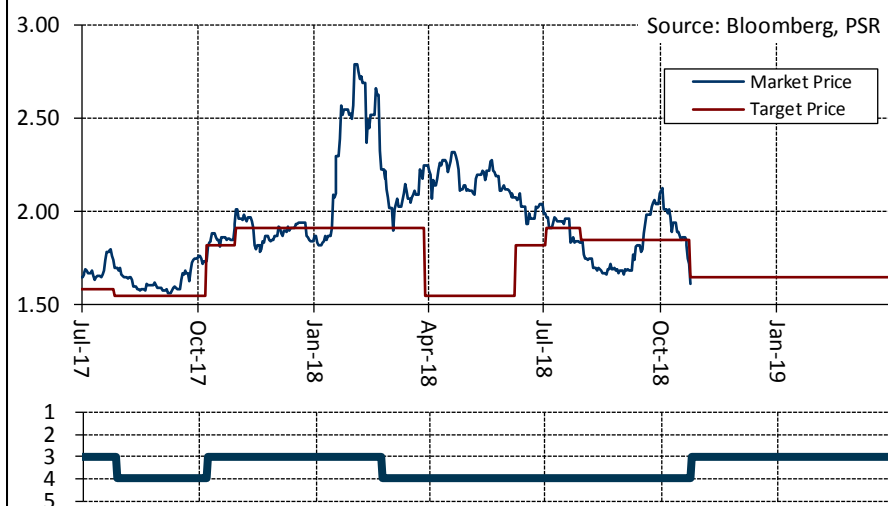
Growth					
Revenue	-15%	-29%	-33%	113%	-6%
EBITDA	n.m.	n.m.	-48%	-52%	84%
EBIT	n.m.	n.m.	-91%	n.m.	n.m.
PATMI, adj.	-31%	-79%	-82%	n.m.	n.m.
Margins					
EBITDA margin	0%	10%	8%	2%	4%
EBIT margin	-3%	6%	1%	n.m.	0%
PATMI margin, adj.	8%	2%	1%	n.m.	-1%

Key Ratios

ROE (%), adj.	15%	3%	1%	-5%	-2%
ROA (%), adj.	4%	1%	0%	-1%	0%
Net Debt or (Net Cash)	2,751	2,938	2,799	2,997	2,767
Net Gearing (x)	1.0	1.1	1.1	1.4	1.3

n.m.: not meaningful

Ratings History



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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