

Sembcorp Marine Ltd

Longer than expected recovery



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SINGAPORE | OIL & GAS | 2Q17 RESULTS

- 1H17 Revenue missed our expectation by 7.4%
- 1H17 Net profit substantially missed our expectation, mainly due to costs incurred for a floater project in 1Q17 suppressed gross profit in 1H17.
- We downgrade our call to REDUCE with a lower TP of **S\$1.55**, based on a blended 12-month forward PER of 28.5x. This implies a downside of 8.6% from the last close price.

Results at a glance

(SGD mn)	1H17	1H16	YoY (%)	Comments
Revenue	1,415.5	1,826.9	(22.5)	Low revenue recognition from rig building and offshore platforms projects
Gross profit	96.2	187.1	(48.6)	Lower contribution from rig building and offshore platforms projects, costs incurred for a floater project in 1Q17
Operating profit	42.1	125.3	(66.4)	Lower gross profit, FX losses due to revaluation of assets and liabilities denominated in USD
Net profit	43.3	66.3	(34.8)	Tax credit in 1H17 compared to tax expenses in 1H16

Source: Company, PSR

Positives

+ Transocean requested the resumption of awarded contract works: The contract was for two drillship orders, and the delivery window is stretched to 2020.

+ Expenditures cut to maintain business: SMM decided to have further curbs on operating expenditure (Opex) in FY17. One of the measures to trim Opex is to freeze the wage across the board for all employees as well as to cut the 10% monthly variable component wage for senior management staff. In terms of capital expenditure (Capex), the Group generated S\$98mn outflows in 1H17, compared to S\$190mn in 1H16. It is expected to have S\$50mn+ Capex for the remaining projects on the yard in 2H17. Moving forward, the Capex excluding the maintenance outflows will decline.

Negatives

- No replenishment to order book: In 1H17, SMM secured only S\$75mn worth of new contracts excluding repairs, compared to S\$320mn in FY16. The net order book continued to shrink, arriving at S\$6.7bn YTD, of which S\$3.1bn is associated with Sete Brasil drillship contracts. There is no detailed update on current status of these projects. Nonetheless, Management expects the total amount of new contracts in FY17 to surpass that of FY16.

- Though the group had some enquiries for floating LNG projects earlier on this year, the progress in clinching orders had been slow so far.

Outlook

SMM's cost cutting measures will enable the Group to alleviate the pressure from the weak operating environment in the near term. However, we believe it will take time for the group to replenish the order book as well as get more work flows coming in. The weak performance may continue into 2H17.

31 July 2017

Reduce (Downgrade)

CLOSING PRICE	SGD 1.695
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 1.550
TOTAL RETURN	-7.1%

COMPANY DATA

BLOOMBERG CODE:	SMM SF
O/S SHARES (MN):	2,090
MARKET CAP (USD mn / SGD mn):	2604 / 3542
52 - WK HI/LO (SGD):	2.09 / 1.22
3M Average Daily T/O (mn):	4.3341

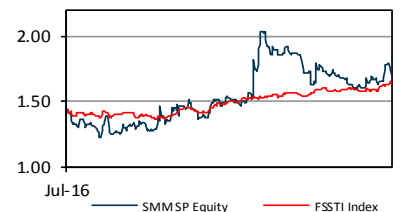
MAJOR SHAREHOLDERS (%)

SEMB CORP INDUSTRIES LTD	61.0%
FRANKLIN RESOURCES	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	8.4	0.6	212
STIRETURN	4.4	6.8	18.3

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	2,916	3,051
Gross profit	131	293	233	259
Net Profit	(290)	79	113	109
P/E (x)	10.0	36.6	28.5	29.7
P/B (x)	12	12	12	13
EV/EBITDA (x)	7.7	16.0	17.4	15.0
Dividend (SG Cents)	6.0	2.5	2.5	2.5
Dividend Yield, %	4.2	1.8	1.6	1.6

Source: Company, PSR

VALUATION METHOD

P/E M multiple (PER: 28.5x)

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Downgrade to REDUCE with lower target price of S\$1.55

We revise down the FY17e EPS from previous 6.6 SG cents to 5.4 SG cents, due to weaker than expected performance in 1H17. Based on updated blended forward 12-month PER of 28.5x, we derive an updated TP of S\$1.55 (previous TP: S\$1.58). This implies a downside of 8.6% from the last done price of S\$1.695, and we downgrade our call from NEUTRAL to REDUCE.

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	5,833	4,968	3,545	2,916	3,051
Gross profit	844	131	293	233	259
EBITDA	822	(18)	363	353	411
Depreciation & Amortisation	115	132	138	179	185
EBIT	707	(150)	225	174	226
Net Finance (Expense)/Inc	(11)	(36)	(81)	(85)	(86)
Associates & JVs	10	(173)	(35)	(14)	(13)
Profit Before Tax	707	(378)	91	122	127
Taxation	(106)	78	(15)	(5)	(15)
Profit After Tax	601	(300)	75	117	112
Non-controlling interest	41	(10)	(4)	3	3
Net Income, reported	560	(290)	79	113	109
Net Income, adj.	560	384	79	113	109

Per share data

Y/E Dec (SG Cents)	FY14	FY15	FY16	FY17e	FY18e
EPS, basic	26.8	(13.9)	3.8	5.4	5.2
EPS, diluted	26.8	(13.9)	3.8	5.4	5.2
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	1.2	1.3

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Operating profit	707	(150)	225	174	226
Adjustments	144	686	159	180	185
WC changes	(1,267)	(1,364)	284	101	114
Cash generated from ops	(417)	(828)	669	454	526
Others	(91)	(161)	(100)	(90)	(101)
Cashflow from ops	(508)	(989)	569	364	424
CFI					
CAPEX, net	(738)	(932)	(421)	(300)	(350)
Others	(32)	0	(69)	-	-
Cashflow from investments	(770)	(932)	(490)	(300)	(350)
CFF					
Loans, net of repayments	964	1,744	768	280	160
Dividends to shareholders	(272)	(251)	(73)	(42)	(52)
Dividends to non-controlling interest	(13)	(15)	(1)	(13)	(14)
Others	(10.8)	(11.4)	(160.0)	-	-
Cashflow from financing	668	1,467	534	225	94
Net change in cash	(611)	(454)	612	289	168
Effects of exchange rates	(7)	5	(22.7)	-	-
Ending cash	1,077	627	1,217	1,506	1,674

Source: Company, Phillip Securities Research (Singapore) Estimates

*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	4,127	4,312
Trade receivables	41	54	53	53	53
Intangible assets	53	47	202	182	162
Associates & JVs	470	312	75	75	75
Others	98	131	80	76	74
Total non-current assets	3,671	4,084	4,397	4,513	4,676
Cash	1,079	629	1,217	1,506	1,674
Trade receivables	469	590	492	608	663
Inventories & WIP	3,005	3,833	3,067	2,768	2,459
Others	14	65	242	54	54
Total current assets	4,567	5,117	5,018	4,937	4,851
Total Assets	8,238	9,201	9,415	9,451	9,527
LIABILITIES					
Trade payables	84	78	91	100	110
Borrowings	1,308	2,465	2,791	2,971	3,031
Others	266	97	177	152	152
Total non-current liabilities	1,658	2,640	3,059	3,223	3,293
Trade payables	1,853	2,519	2,120	1,853	1,694
Borrowings	434	915	1,364	1,464	1,564
Progress billings in excess of WIP	1,005	288	193	188	206
Others	184	175	70	74	78
Total current liabilities	3,476	3,897	3,748	3,579	3,542
Total Liabilities	5,133	6,537	6,807	6,801	6,835
Shareholder Equity	2,965	2,511	2,562	2,608	2,647
Non-controlling interest	167	153	46	41	44

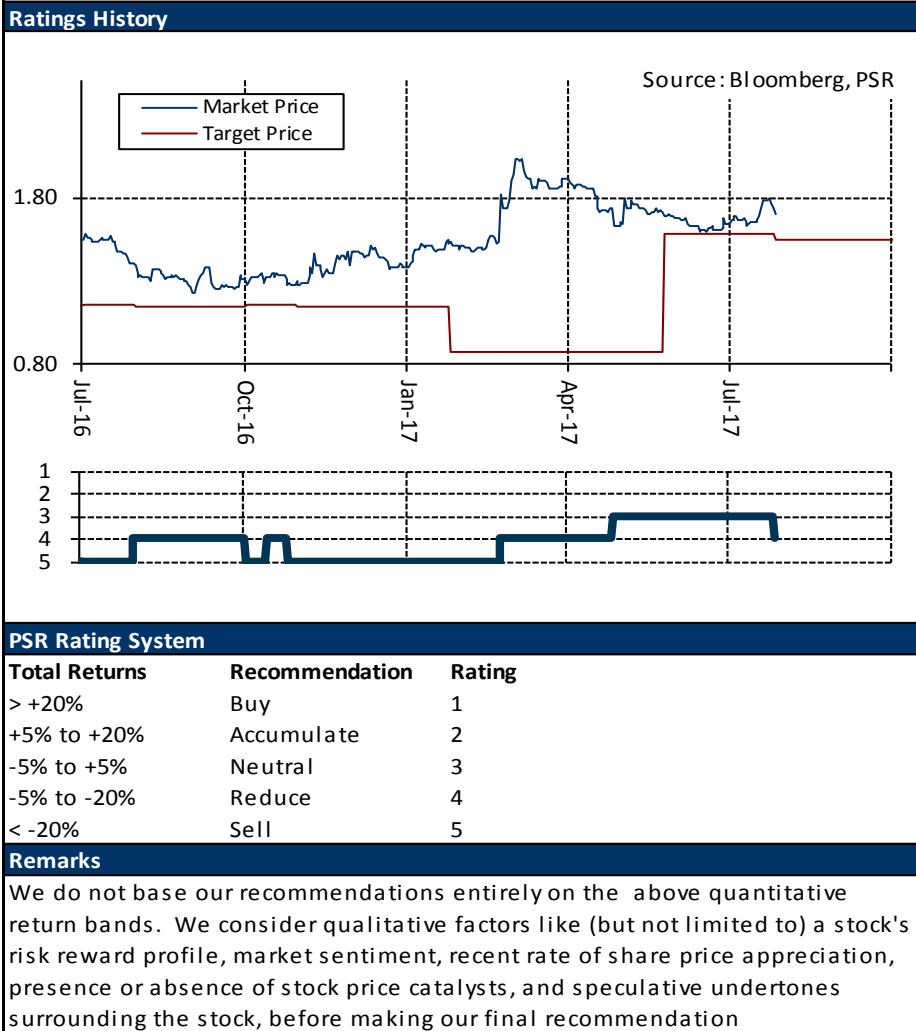
Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	15	10	37	29	30
P/B (x)	3	2	1	1	1
EV/EBITDA (x)	10	8	16	17	15
Dividend Yield (%)	3	4	2	2	2

Growth & Margins (%)

Growth					
Revenue	6%	-15%	-29%	-18%	5%
EBITDA	10%	n.m.	n.m.	-3%	16%
EBIT	10%	n.m.	n.m.	-3%	16%
Net Income, adj.	1%	-31%	-79%	44%	-4%
Margins					
EBITDA margin	14%	0%	10%	12%	13%
EBIT margin	12%	-3%	6%	6%	7%
NP margin, adj.	10%	8%	2%	4%	4%
Key Ratios					
ROE (%), adj.	19%	15%	3%	4%	4%
ROA (%), adj.	7%	4%	1%	1%	1%
Net Debt or (Net Cash)	663	2,751	2,938	2,929	2,921
Net Gearing (x)	0.2	1.0	1.1	1.1	1.1

n.m.: not meaningful



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