



Sembcorp Marine Ltd

(SMM SP/SCMN.SI)

BUY - Upgrade

Price as of 4 May 2018	2.11
12M target price (S\$)	2.64
Previous target price (S\$)	2.06
Upside (%)	25.0

Trading data

Mkt Cap (S\$m) / (US\$m)	4,405 / 3,305
Issued Shares (m)	2,087.9
Ave Daily Traded (3-Month) Vol / Val	12.1m / \$27.6m
52 week lo / hi	\$1.55 / \$2.81
Free Float	38.7%

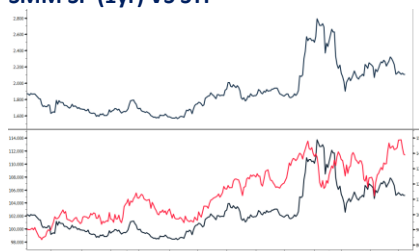
Major Shareholders

Sembcorp Industries	61.1%
Franklin Resources	5.0%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
26-Feb-18	HOLD	2.180	2.060
2-Nov-17	HOLD	2.000	2.050
31-Jul-17	BUY	1.690	2.050
21-Mar-17	HOLD	1.890	1.630
31-Oct-17	HOLD	1.290	1.390

SMM SP (1yr) VS STI



Source: Bloomberg

Joel Ng
65 6202 1192
joel.ng@kgi.com

See the last page for important disclosures.

Pure-play on oil industry recovery

Event

SMM's 1Q18 performance was uninspiring, although not surprising given the current state of the industry. In 1Q18, revenue increased to S\$1.18bn compared to S\$746mn in 1Q17, but net profit declined to S\$5.3mn from S\$37mn in 1Q17.

On a positive note, SMM secured S\$476mn of new orders, bringing its total net orderbook including the Sete Brasil orders to S\$7.7bn as at end Mar-18. Management mentioned that the overall sentiment in offshore capex has begun to improve, in line with our view that we are just at the start of the multi-year bull run for companies leveraged to higher oil prices.

Impact

As we noted in our previous reports, earnings has not been a major factor in the performance of SMM's share price. Rather, SMM's share price performance in 2017 and 2018 has been driven mainly by new order wins, as well as market talk of potential corporate action.

Valuation & Action

We upgrade SMM to a BUY based on 2.4x 2018F BVPS (0.5 S.D above its 15-year P/B average, see Figure 2) as we see a bottom in new order wins. The large capex cuts in the oil & gas industry since 2014 is setting us up for a new multi-year bull run for companies leverage to higher oil prices over the next few years, in our view. SMM is currently trading at 15-year historical low valuations (P/B basis) and is well-positioned with its new Tuas mega-yard to be able to capture new type of orders.

SMM has the highest correlation to oil prices among the large-cap SGX-listed O&M companies, and could be a good proxy for an oil price recovery. Oil market rebalancing is underway, as per the International Energy Agency (IEA) and the US Energy Information Agency's (EIA) forecasts. OPEC's production cap could further quicken the drawdown in the world's oil inventory. A short-term upside catalyst to oil prices may be the reinstatement of Iran sanctions that the US will decide on 12 May.

Risks

Cancellations from customers remains the biggest risk. Lower for longer oil prices may delay recovery in capex spending by customers.

Financials & Key Operating Statistics

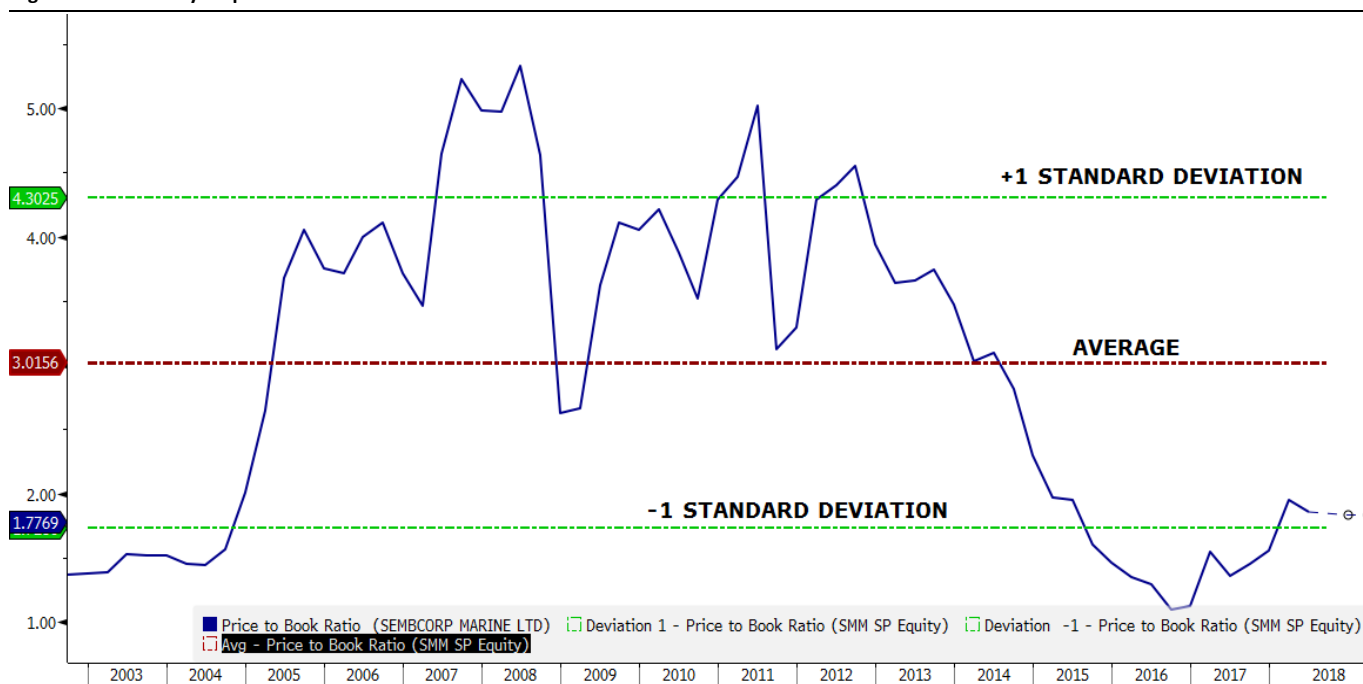
YE Dec (S\$ m)	2016	2017	2018F	2019F	2020F
Revenue	3544.8	2387.4	2633.4	3512.1	4232.1
PATMI	78.8	14.1	41.8	73.7	109.7
Core PATMI	97.7	-37.4	41.8	73.7	109.7
Core EPS	4.7	-1.8	2.0	3.5	5.3
Core EPS grth (%)	-74.5	-138.3	na	76.5	48.8
Core P/E (x)	45.1	-117.8	105.6	59.8	40.2
DPS (SG Cents)	2.5	2.0	1.5	2.0	2.0
Div Yield (%)	1.2	0.9	0.7	0.9	0.9
Net Margin (%)	2.2	0.6	1.6	2.1	2.6
Gearing (%)	112.7	111.1	106.2	116.9	120.9
Price / Book (x)	1.7	1.8	1.8	1.8	1.7
ROE (%)	3.0	0.6	1.7	2.9	4.2

Source: Company Data, KGI Research

Figure 1: Results Comparison

FYE Dec (SGDm)	2018 Q1	2017 Q1	yoy % chg	2016 Q4	qoq % chg	KGI Est 2018F	Comments
Revenue	1,180.3	760.1	55.3	829.9	42.2	2,633.4	
Operating costs	(1,160.8)	(746.5)	55.5	(762.8)	52.2	(2,475.8)	
EBITDA	64.0	42.2	51.8	38.3	67.1	257.1	
EBITDA margin (%)	5.4%	5.5%		4.6%		9.8%	
Depn & amort.	(45.3)	(46.0)	(1.6)	(32.1)	40.9	(146.5)	
EBIT	19.5	13.6	43.8	67.1	(70.9)	157.5	
Interest expense	(22.1)	(23.9)	(7.4)	(25.8)	(14.1)	(115.9)	
Int & Inv income	8.5	1.0	735.1	1.5	479.1	4.8	
Associates' contrib	0.2	(0.7)	126.1	(5.3)	103.5	-	
Exceptionals	0.0	46.8	(100.0)	(16.2)	100.1	-	
Pretax profit	6.1	36.8	(83.4)	21.3	(71.2)	46.5	
Tax	(1.8)	2.8	(166.6)	9.4	(119.7)	(9.3)	
Tax rate (%)	30.1%	(7.5%)		(44.0%)		20.0%	
NCI	1.0	(0.0)	3,665.5	3.7	(71.8)	4.6	
Net profit	5.3	39.5	(86.6)	34.3	(84.5)	41.8	
Core profit	5.3	(7.1)	174.8	50.5	(89.5)	41.8	
EPS (SGDcts)	0.3	1.9	(86.6)	1.6	(84.5)	2.0	
Core EPS (SGDcts)	0.3	(0.3)	174.8	2.4	(89.5)	2.0	

Source: Company data, KGI Research

Figure 2: SMM's 15-year price-to-book


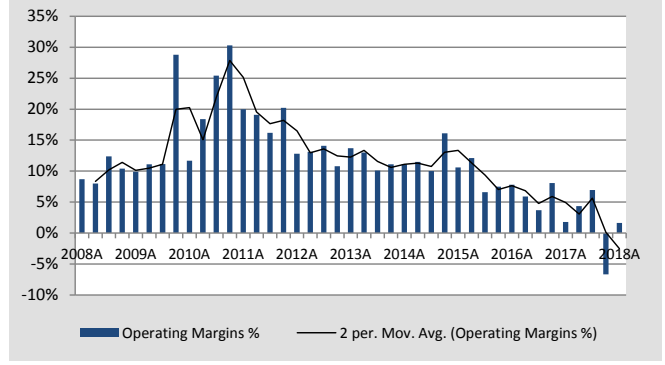
Source: Bloomberg, KGI Research

Figure 3: Company profile

Sembcorp Marine provides engineering solutions to the global offshore and marine industry. It has four key capabilities: Rigs & Floaters, Repairs & Upgrades, Offshore Platforms and Specialised Shipbuilding. It has built up a proven track record of delivering solutions to the offshore & marine industries over the past 50 years with key presence in Indonesia, the U.S., India, Brazil and the U.K.

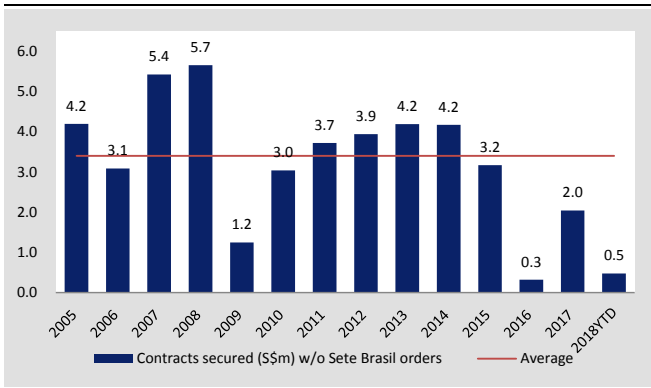
Source: KGI Research

Figure 4: Quarterly operating margins (%)



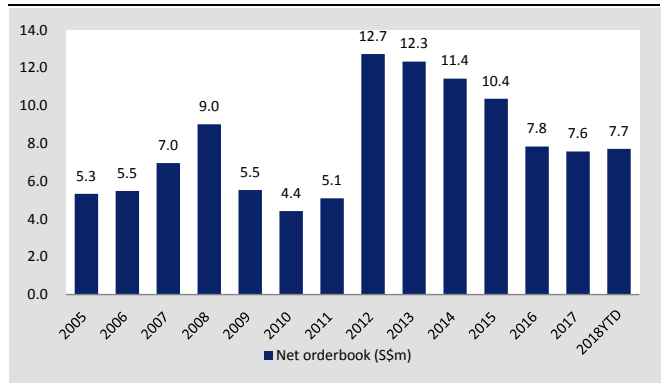
Source: KGI Research

Figure 5: Orders secured per year (\$\$ billion)



Source: KGI Research

Figure 6: Net orderbook (\$\$ billion)



Source: KGI Research

YE 31 Dec

INCOME STATEMENT (\$\$m)	2016	2017	2018F	2019F	2020F
Revenue	3,544.8	2,387.4	2,633.4	3,512.1	4,232.1
Cost of sales	(3,252.1)	(2,326.8)	(2,422.7)	(3,196.0)	(3,808.9)
Gross Profit	292.8	60.5	210.7	316.1	423.2
Other operating income/(expenses)	46.5	58.7	46.9	37.6	30.0
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(114.0)	(98.7)	(100.1)	(119.4)	(143.9)
Profit from Operations	225.3	20.5	157.5	234.2	309.4
Finance income/(expenses)	(80.7)	(84.0)	(111.0)	(149.7)	(181.4)
Share of JV results	(35.1)	(3.6)	0.0	0.0	0.0
Exceptionals/Investment income	(18.9)	51.5	0.0	0.0	0.0
Profit before Tax	90.5	(15.6)	46.5	84.5	128.0
Income tax	(15.4)	25.6	(9.3)	(16.9)	(25.6)
Non-controlling interests	3.6	4.1	4.6	6.1	7.3
PATMI	78.8	14.1	41.8	73.7	109.7
PATMI Normalized	97.7	(37.4)	41.8	73.7	109.7
BALANCE SHEET (\$\$m)	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	1,217.0	1,301.0	632.0	1,438.3	2,166.4
Trade and other receivables	492.0	566.9	447.7	597.1	719.5
Inventory	3,066.9	2,775.8	2,543.9	3,355.8	3,999.4
Other current assets	242.5	44.8	44.8	44.8	44.8
Current Assets	5,018.3	4,688.5	3,668.3	5,436.0	6,930.0
Property, plant and equipment	3,986.7	3,995.0	4,008.6	4,002.9	3,980.8
Other non-current assets	409.9	467.9	485.6	503.9	523.0
Non-current Assets	4,396.5	4,463.0	4,494.2	4,506.8	4,503.7
Total assets	9,414.8	9,151.4	8,162.5	9,942.8	11,433.7
Trade and other payables	2,313.9	2,235.8	2,059.3	2,716.6	3,237.6
Borrowings (current)	1,364.0	852.7	940.6	1,254.5	1,511.7
Other current liabilities	70.5	54.1	28.8	21.3	25.4
Current Liabilities	3,748.3	3,142.6	3,028.8	3,992.4	4,774.7
Borrowings (non-current)	2,791.0	3,247.4	2,370.1	3,160.9	3,808.9
Other non-current liabilities	267.9	242.1	242.1	242.1	242.1
Non-current liabilities	3,058.9	3,489.5	2,612.1	3,403.0	4,051.0
Shareholders equity	2,562.0	2,478.2	2,485.0	2,516.9	2,584.8
Non-controlling interests	45.6	41.2	36.6	30.6	23.3
Total Equity	2,607.6	2,519.4	2,521.6	2,547.4	2,608.0
Total Liabilities and Equity	9,414.8	9,151.4	8,162.5	9,942.8	11,433.7
CASH FLOW STATEMENT (\$\$m)	2016	2017	2018F	2019F	2020F
Net income before tax	90.5	(15.6)	46.5	84.5	128.0
Depreciation & non cash adjustments	135.4	141.9	146.5	149.8	151.8
Change in Working Capital	252.6	(0.5)	29.1	(478.2)	(447.8)
Income Tax Paid	(35.7)	(49.0)	(34.6)	(24.5)	(21.4)
Interest Paid	(88.7)	(95.5)	(115.9)	(154.5)	(186.2)
CF from operating activities	568.5	49.6	329.6	(115.7)	1.6
Purchase/Disposal of PPE	(421.4)	(177.9)	(160.1)	(144.1)	(129.7)
Other CFI	(69.1)	243.3	0.0	0.0	0.0
CF from investing activities	(490.5)	65.4	(160.1)	(144.1)	(129.7)
Dividends Paid	0.0	(41.8)	(41.8)	(31.3)	(41.8)
Debt Raised / (Repaid)	0.0	24.8	(789.4)	1,104.7	905.2
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	534.4	(6.7)	0.0	0.0	0.0
CF from financing activities	534.4	(23.8)	(831.2)	1,073.4	863.4
Net increase in cash & cash equiv.	612.4	91.3	(661.7)	813.6	735.3
FX effects	(22.7)	(7.3)	(7.3)	(7.3)	(7.3)
Beginning Cash	627.3	1,217.0	1,301.0	632.0	1,438.3
Ending Cash	1,217.0	1,301.0	632.0	1,438.3	2,166.4
KEY RATIOS	2016	2017	2018F	2019F	2020F
Profitability					
Core EPS	4.7	(1.8)	2.0	3.5	5.3
Core EPS Growth (%)	(74.5)	(138.3)	(211.6)	76.5	48.8
DPS (SGD Cents)	2.5	2.0	1.5	2.0	2.0
Dividend Yield (%)	1.2	0.9	0.7	0.9	0.9
Profitability					
Gross margin	8.3%	2.5%	8.0%	9.0%	10.0%
EBITDA margin	8.9%	4.3%	9.8%	9.9%	10.2%
Net margin	2.2%	0.6%	1.6%	2.1%	2.6%
ROE	3.0%	0.6%	1.7%	2.9%	4.2%
ROA	0.8%	0.2%	0.5%	0.7%	1.0%
Growth (% Y-o-Y)					
Revenue	-28.6%	-32.7%	10.3%	33.4%	20.5%
EBITDA	-1050.6%	-67.0%	148.1%	34.7%	24.5%
Net income (core)	-129.1%	-82.1%	196.8%	76.5%	48.8%
Diluted EPS (core)	-74.5%	-138.3%	-211.6%	76.5%	48.8%
Financial Structure (x)					
Interest coverage	2.5	0.2	1.4	1.5	1.7
Total Debt/Equity	1.6	1.6	1.3	1.7	2.0
Net Gearing	1.1	1.1	1.1	1.2	1.2

Source: KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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