



# Sembcorp Marine Ltd

## (SMM SP/SCMN.SI)

### HOLD - Maintain

Price as of 23 Feb 2018	2.23
12M target price (S\$)	2.06
Previous target price (S\$)	2.05
Upside (%)	(7.7)

### Trading data

Mkt Cap (S\$m) / (US\$m)	4,656 / 3,521
Issued Shares (m)	2,087.9
Ave Daily Traded (3-Month) Vol / Val	11.1m / \$26.0m
52 week lo / hi	\$1.55 / \$2.81
Free Float	38.7%

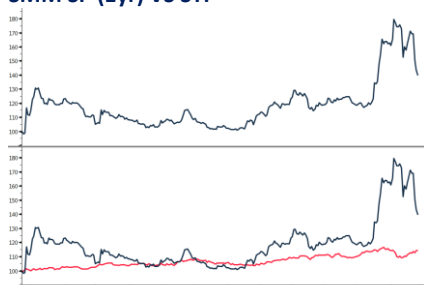
### Major Shareholders

Sembcorp Industries	61.1%
Franklin Resources	5.0%

### Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
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
29-Jul-16	HOLD	1.440	1.530

### SMM SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

## Orders are returning but profitability to remain weak

### Event

SMM 4Q17 earnings surprised on the downside, missing both consensus and KGI's estimates. The group reported a 4Q17 loss of S\$33.8m, its first operating loss in 17 years. However, balance sheet remains manageable as net gearing improved to 1.1x as at end December 2017 from 1.3x at end September 2017. SMM declared a final dividend of 1.0 SG cents, bringing full-year dividend to 2.0 SG cents, an implied 1.0% yield.

### Impact

As we noted in our previous reported (dated 2 November 2017), share price performance for SMM in 2018 has indeed been driven by order win news flow, as well as market talk of potential corporate action (e.g. privatisation) by its parent, Sembcorp Industries (SCI). However, the recently-announced strategic review of SCI excluded any plans for SMM, at least for now. In fact, SCI's CEO, Neil McGregor, had committed to supporting SMM's recovery during this downcycle and highlighted the synergistic potential in the long-term. We take it that SCI would focus on the IPO of its India energy business in 2018 before we can perhaps see a renewed focus of any corporate action for SMM.

On a positive note, new orders are indeed starting to pick up as major upstream players' Final Investment Decisions (FIDs) firm up in 2018. SMM has managed to stem its declining order book to maintain it at S\$7.6bn as at end 2017, a slight decrease from S\$7.8bn as at end 2016. SMM has LOIs/discussions for around S\$3.0bn of new projects in 2018, highlighting the improvement in industry sentiments.

### Valuation & Action

We maintain our HOLD recommendation. With profitability expected to be subpar and ROEs barely positive over the next two years, we believe SMM's share price has run ahead of fundamentals. Nevertheless, longer-term oriented investors with a timeframe of 2-4 years would be able to see annualised gains of 15-20% when the industry recovers. SMM is currently trading at 15-year historical low valuations (P/B basis) and is well-positioned with its new megayard to be able to secure orders in fast-growing gas-related projects.

### 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

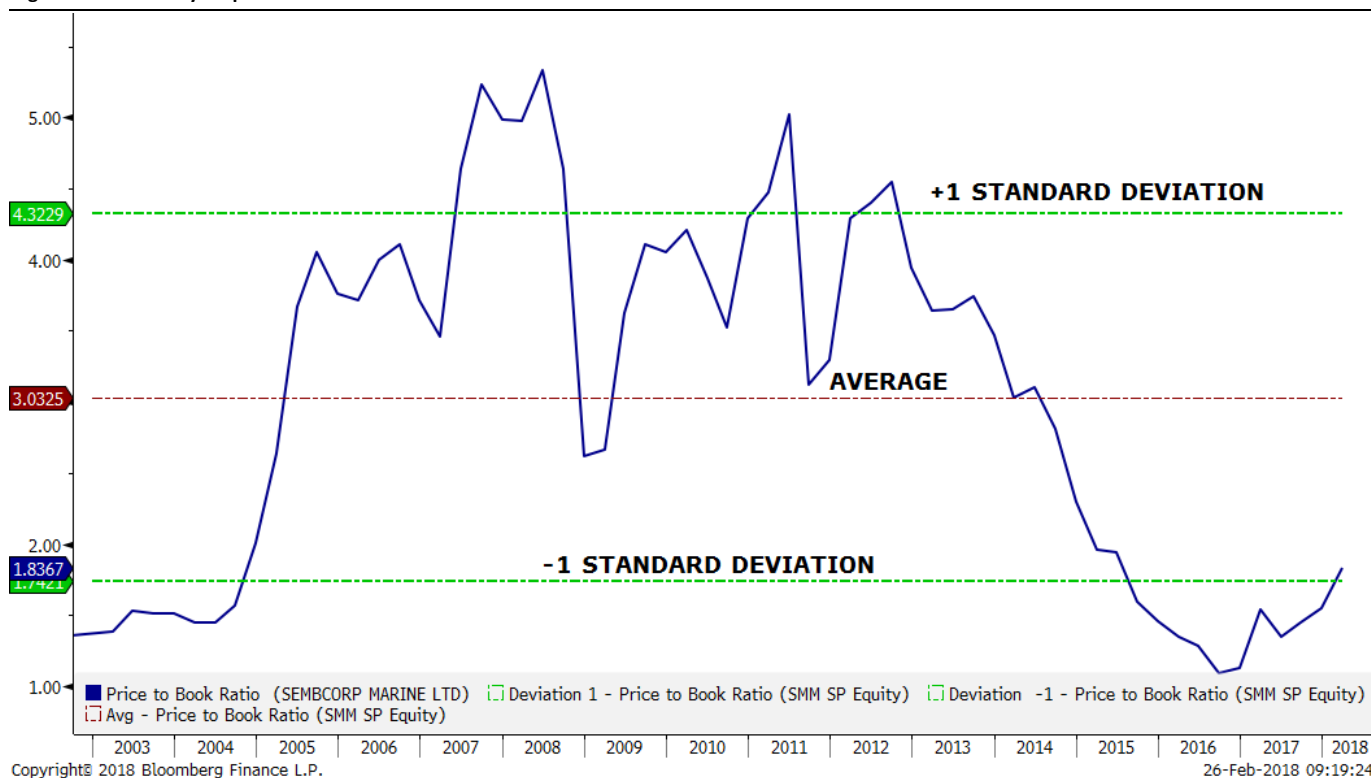
YE Dec (S\$ m)	2016	2017	2018F	2019F	2020F
Revenue	3544.8	2387.4	2633.4	3512.1	5628.2
PATMI	78.8	14.1	93.3	118.7	204.6
Core PATMI	97.7	-37.4	93.3	118.7	204.6
Core EPS	4.7	-1.8	4.5	5.7	9.8
Core EPS grth (%)	-74.5	-138.3	-349.3	27.2	72.4
Core P/E (x)	12.1	47.7	-124.5	49.9	39.3
DPS (SG Cents)	2.5	2.0	1.5	2.0	2.0
Div Yield (%)	1.1	0.9	0.7	0.9	0.9
Net Margin (%)	2.2	0.6	3.5	3.4	3.6
Gearing (%)	112.7	111.1	105.4	116.9	138.5
Price / Book (x)	1.8	1.9	1.8	1.8	1.7
ROE (%)	3.0	0.6	3.6	4.5	7.3

Source: Company Data, KGI Research

**Figure 1: Results Comparison**

FYE Dec (SGDm)	2017 Q4	2016 Q4	yoy % chg	2016 Q3	qoq % chg	KGI Est 2017F	Comments
Revenue	655.0	829.9	(21.1)	888.0	(26.2)	2,337.6	
Operating costs	(698.6)	(762.8)	(8.4)	(855.1)	(18.3)	(2,221.0)	
EBITDA	(59.4)	38.3	(255.0)	74.1	(180.1)	212.0	
EBITDA margin (%)	(9.1%)	4.6%		8.3%		9.1%	
Depn & amort.	(13.1)	(32.1)	(59.1)	(37.0)	(64.5)	(141.9)	
EBIT	(43.6)	67.1	(165.1)	32.9	(232.5)	116.7	
Interest expense	(22.9)	(25.8)	(11.1)	(22.5)	1.9	(90.1)	
Int & Inv income	3.7	1.5	151.0	2.9	28.4	4.8	
Associates' contrib	(1.7)	(5.3)	(68.3)	(27.7)	(93.9)	-	
Exceptionals	10.4	(16.2)	164.1	(3.9)	365.8	45.0	
Pretax profit	(54.2)	21.3	(354.8)	(18.3)	196.3	76.4	
Tax	19.2	9.4	105.3	(3.5)	645.5	(15.3)	
Tax rate (%)	35.4%	(44.0%)		(19.3%)		20.0%	
NCI	1.2	3.7	(67.1)	0.0	6,988.2	2.4	
<b>Net profit</b>	<b>(33.8)</b>	<b>34.3</b>	<b>(198.5)</b>	<b>(21.8)</b>	<b>55.0</b>	<b>63.5</b>	
<b>Core profit</b>	<b>(44.3)</b>	<b>50.5</b>	<b>(187.8)</b>	<b>(17.9)</b>	<b>147.7</b>	<b>18.5</b>	
EPS (SGDcts)	(1.6)	1.6	(198.6)	(1.0)	55.1	3.0	
Core EPS (SGDcts)	(2.1)	2.4	(187.9)	(0.9)	147.9	0.9	

Source: Company data, KGI Research

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


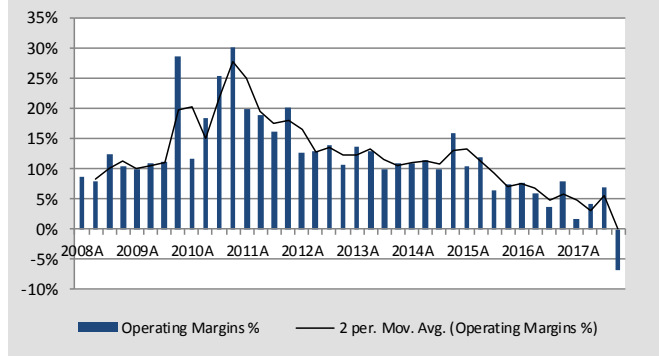
Source: Bloomberg, KGI Research

**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.

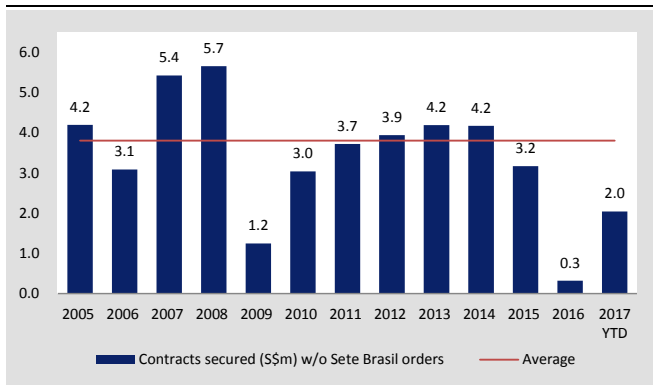
Source: KGI Research

**Figure 4: Quarterly operating margins (%)**



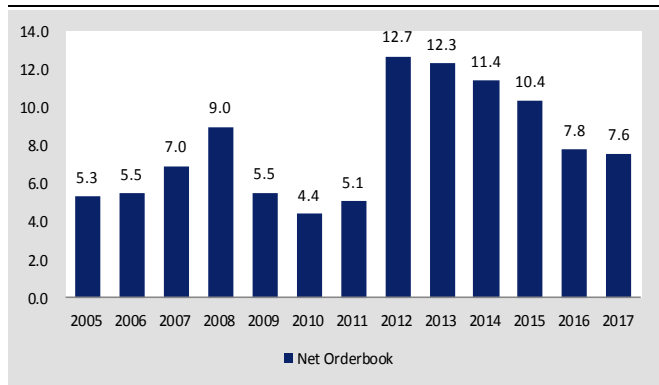
Source: KGI Research

**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
<b>Revenue</b>	<b>3,544.8</b>	<b>2,387.4</b>	<b>2,633.4</b>	<b>3,512.1</b>	<b>5,628.2</b>
Cost of sales	(3,252.1)	(2,326.8)	(2,370.1)	(3,160.9)	(5,009.1)
<b>Gross Profit</b>	<b>292.8</b>	<b>60.5</b>	<b>263.3</b>	<b>351.2</b>	<b>619.1</b>
Other operating income/(expenses)	46.5	58.7	58.7	58.7	58.7
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(114.0)	(98.7)	(100.1)	(119.4)	(191.4)
<b>Profit from Operations</b>	<b>225.3</b>	<b>20.5</b>	<b>222.0</b>	<b>290.5</b>	<b>486.4</b>
Finance income/(expenses)	(80.7)	(84.0)	(111.0)	(149.7)	(242.8)
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
<b>Profit before Tax</b>	<b>90.5</b>	<b>(15.6)</b>	<b>110.9</b>	<b>140.8</b>	<b>243.6</b>
Income tax	(15.4)	25.6	(22.2)	(28.2)	(48.7)
Non-controlling interests	3.6	4.1	4.6	6.1	9.7
<b>PATMI</b>	<b>78.8</b>	<b>14.1</b>	<b>93.3</b>	<b>118.7</b>	<b>204.6</b>
PATMI Normalized	97.7	(37.4)	93.3	118.7	204.6
BALANCE SHEET (\$\$m)	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	1,217.0	1,301.0	599.5	1,325.2	3,201.0
Trade and other receivables	492.0	566.9	447.7	597.1	956.8
Inventory	3,066.9	2,775.8	2,488.6	3,319.0	5,259.5
Other current assets	242.5	44.8	44.8	44.8	44.8
<b>Current Assets</b>	<b>5,018.3</b>	<b>4,688.5</b>	<b>3,580.5</b>	<b>5,286.0</b>	<b>9,462.1</b>
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
<b>Non-current Assets</b>	<b>4,396.5</b>	<b>4,463.0</b>	<b>4,494.2</b>	<b>4,506.8</b>	<b>4,503.7</b>
<b>Total assets</b>	<b>9,414.8</b>	<b>9,151.4</b>	<b>8,074.6</b>	<b>9,792.8</b>	<b>13,965.8</b>
Trade and other payables	2,313.9	2,335.8	2,014.5	2,686.8	4,257.7
Borrowings (current)	1,364.0	852.7	940.6	1,254.5	2,010.3
Other current liabilities	70.5	54.1	41.7	40.2	59.9
<b>Current Liabilities</b>	<b>3,748.3</b>	<b>3,142.6</b>	<b>2,996.9</b>	<b>3,981.5</b>	<b>6,328.0</b>
Borrowings (non-current)	2,791.0	3,247.4	2,370.1	3,160.9	5,065.4
Other non-current liabilities	267.9	242.1	242.1	242.1	242.1
<b>Non-current liabilities</b>	<b>3,058.9</b>	<b>3,489.5</b>	<b>2,612.1</b>	<b>3,403.0</b>	<b>5,307.5</b>
Shareholders equity	2,562.0	2,478.2	2,536.5	2,613.4	2,776.2
Non-controlling interests	45.6	41.2	36.6	30.6	20.8
<b>Total Equity</b>	<b>2,607.6</b>	<b>2,519.4</b>	<b>2,573.1</b>	<b>2,644.0</b>	<b>2,797.1</b>
<b>Total Liabilities and Equity</b>	<b>9,414.8</b>	<b>9,151.4</b>	<b>8,182.1</b>	<b>10,028.5</b>	<b>14,432.5</b>
CASH FLOW STATEMENT (\$\$m)	2016	2017	2018F	2019F	2020F
Net income before tax	90.5	(15.6)	110.9	140.8	243.6
Depreciation & non cash adjustments	135.4	141.9	146.5	149.8	151.8
Change in Working Capital	252.6	(0.5)	39.6	(486.9)	(1,001.2)
Income Tax Paid	(35.7)	(49.0)	(34.6)	(29.6)	(29.0)
Interest Paid	(88.7)	(95.5)	(115.9)	(154.5)	(247.6)
<b>CF from operating activities</b>	<b>568.5</b>	<b>49.6</b>	<b>297.1</b>	<b>(196.3)</b>	<b>(605.7)</b>
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
<b>CF from investing activities</b>	<b>(490.5)</b>	<b>65.4</b>	<b>(160.1)</b>	<b>(144.1)</b>	<b>(129.7)</b>
Dividends Paid	0.0	(41.8)	(41.8)	(31.3)	(41.8)
Debt Raised / (Repaid)	0.0	24.8	(789.4)	1,104.7	2,660.3
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
<b>CF from financing activities</b>	<b>534.4</b>	<b>(23.8)</b>	<b>(831.2)</b>	<b>1,073.4</b>	<b>2,618.5</b>
Net increase in cash & cash equiv.	612.4	91.3	(694.2)	733.0	1,883.1
FX effects	(22.7)	(7.3)	(7.3)	(7.3)	(7.3)
Beginning Cash	627.3	1,217.0	1,301.0	599.5	1,325.2
<b>Ending Cash</b>	<b>1,217.0</b>	<b>1,301.0</b>	<b>599.5</b>	<b>1,325.2</b>	<b>3,201.0</b>
KEY RATIOS	2016	2017	2018F	2019F	2020F
<b>Profitability</b>					
Core EPS	4.7	(1.8)	4.5	5.7	9.8
Core EPS Growth (%)	(74.5)	(138.3)	(349.3)	27.2	72.4
DPS (SGD Cents)	2.5	2.0	1.5	2.0	2.0
Dividend Yield (%)	1.1	0.9	0.7	0.9	0.9
<b>Profitability</b>					
Gross margin	8.3%	2.5%	10.0%	10.0%	11.0%
EBITDA margin	8.9%	4.3%	11.8%	10.9%	10.3%
Net margin	2.2%	0.6%	3.5%	3.4%	3.6%
ROE	3.0%	0.6%	3.6%	4.5%	7.3%
ROA	0.8%	0.2%	1.2%	1.2%	1.5%
<b>Growth (% Y-o-Y)</b>					
Revenue	-28.6%	-32.7%	10.3%	33.4%	60.3%
EBITDA	-1050.6%	-67.0%	198.9%	23.2%	51.9%
Net income (core)	-129.1%	-82.1%	562.8%	27.2%	72.4%
Diluted EPS (core)	-74.5%	-138.3%	-349.3%	27.2%	72.4%
<b>Financial Structure (x)</b>					
Interest coverage	2.5	0.2	1.9	1.9	2.0
Total Debt/Equity	1.6	1.6	1.3	1.7	2.5
Net Gearing	1.1	1.1	1.1	1.2	1.4

Source: KGI Research

**KGI's Ratings**

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

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