



CHINA
DEVELOPMENT
FINANCIAL

Sembcorp Marine Ltd

(SMM SP/SCMN.SI)

What's next?

Joel Ng / 65 6202 1192 / joel.ng@kqi.com

- The final leg down for its share price. We expect SMM to trade around the S\$0.20-0.25 range, as valuations bottom out and as selling pressure abates ex-rights.
- The year ahead looks challenging as the company grapples with industry overcapacity, weak profit margins and poor order book visibility.
- Maintain NEUTRAL. We believe earnings are less likely to drive its share price performance going forward. Focus will instead be on the restructuring of Singapore's offshore & marine (O&M) industry in 2020 and likely involve a deal with Keppel Corp's O&M business.

Financials & Key Operating Statistics

YE Dec (\$\$ m)	2018	2019	2020F	2021F	2022F
Revenue	4887.9	2882.6	2305.4	1965.4	1693.4
PATMI	-74.1	-137.2	-148.8	-35.7	4.3
Core PATMI	-74.3	-137.4	-148.8	-35.7	4.3
Core EPS	-3.6	-6.6	-1.2	-0.3	0.0
Core EPS grth (%)	na	na	na	na	na
Core P/E (x)	na	na	na	na	609.1
DPS (SG Cents)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Net Margin (%)	-1.5	-4.8	-6.5	-1.8	0.3
Gearing (%)	144.4	181.8	48.8	48.4	44.9
Price / Book (x)	0.2	0.2	0.6	0.6	0.6
ROE (%)	-3.2	-6.2	-3.6	-0.9	0.1

Source: Company Data, KGI Research

Event: Trading of SMM's 5-for-1 rights (5 rights share for every 1 share) started yesterday, 19 Aug 2020, and will end at 5:00pm on Thurs, 27 Aug. Investors holding the rights will have until 2 Sep to accept the rights shares and make the necessary payments. Rights shares will start trading on Fri, 11 Sep. The full timetable of key events is detailed below.

Figure 1: Timetable of key events

Lodgment of the Offer Information Statement and accompanying application forms with the MAS:	Friday, 14 August 2020
Record Date:	Friday, 14 August 2020 at 5.00 p.m.
Despatch of the Offer Information Statement (together with the ARE or the PAL, as the case may be) to Entitled Shareholders:	Wednesday, 19 August 2020
Commencement of trading of Rights:	Wednesday, 19 August 2020 from 9.00 a.m.
First date and time for acceptance of and payment for the Rights Shares and/or applications and payment for Excess Rights Shares(1):	Wednesday, 19 August 2020 (9.00 a.m. for Electronic Applications through ATMs of the Participating Banks)
Last date and time for splitting and trading of Rights:	Thursday, 27 August 2020 at 5.00 p.m.
Last date and time for acceptance of and payment for Rights Shares and/or applications and payment for Excess Rights Shares(1), (2)	Wednesday, 2 September 2020 at 5.00 p.m. (9.30 p.m. for Electronic Applications through ATMs of the Participating Banks)
Last date and time for renunciation of and payment for Rights Shares(1), (2)	Wednesday, 2 September 2020 at 5.00 p.m. (9.30 p.m. for Electronic Applications through ATMs of the Participating Banks)
Expected date of issuance of Rights Shares:	Friday, 11 September 2020
Expected date of commencement of trading of Rights Shares:	Friday, 11 September 2020

Source: Company data, KGI Research

Stronger after rights. After the completion of the demerger from Sembcorp Industries (SCI SP, Not-rated), SMM will have S\$600mn of extra cash, in addition to S\$1.5bn of debt converted into equity. SMM's balance sheet will be in a much healthier position after the rights as net gearing drops to 0.5x.

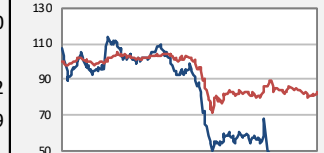
NEUTRAL - Maintain

Price as of 19 Aug 20 (SGD)	0.21	Performance (Absolute)	
12M TP (\$)	0.23	1 Month (%)	-25.8
Previous TP (\$)	1.19	3 Month (%)	-52.1
Upside (%)	8.8	12 Month (%)	-74.1

Trading data

Mkt Cap (\$mn)	440
Issued Shares (mn)	2,093
Vol - 3M Daily avg (mn)	15.2
Val - 3M Daily avg (\$mn)	4.9
Free Float (%)	38.9%

Perf. vs STI Index (Red)



Major Shareholders

Sembcorp Industries	61.1%
---------------------	-------

Previous Recommendations

27-Feb-20	N \$1.19
31-Jul-19	N \$1.59
21-Feb-19	OW \$2.48

SMM + KOM. We expect the consolidation of Singapore's offshore & marine industry to finally take shape this year, with the backing of Temasek Holdings. The likely scenario is for SMM to acquire KOM. This will complete the restructuring of Singapore's O&M sector and would be the best outcome for all stakeholders.

The consolidation of Singapore's two largest yards would lay the proper foundation for the long-term, by pooling together resources and enlarging the balance sheet. A bigger balance sheet will enable the combined entity to embark on much larger projects and fully utilise the capacity of SMM's mega yard in Tuas.

SMM's crown jewel. SMM's Tuas Boulevard Yard (TBY) - which now takes up 108 hectares and has room to at least double in size - is highly anticipated to be Singapore's solution to the next generation of "smart" yard designs. TBY will be able to utilise advanced manufacturing capabilities to shorten development cycles and lead to cost reduction, and therefore be in a stronger position to compete against Chinese and South Korean yards (who have themselves undergone consolidation over the last few years).

Valuation & Action: We maintain NEUTRAL and lower our fair value to S\$0.23 as we factor in the share dilution from the rights issuance. Our new TP is pegged to 0.8x P/B. The group is expected to remain loss-making in FY20F and FY21F, but attention will likely focus on the consolidation of Singapore's two largest shipyards over the coming quarters.

Risks: Profit margins may continue to be under pressure as SMM diversifies into new projects. Cancellation of orders by customers.

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.