



CHINA
DEVELOPMENT
FINANCIAL

Sembcorp Marine Ltd

(SMM SP/SCMN.SI)

Hold - Downgrade

Price as of 2 Nov 2017	2.00
12M target price (S\$)	2.05
Previous target price (S\$)	1.63
Upside (%)	2.3

Trading data

Mkt Cap (S\$m) / (US\$m)	4,179 / 3,077
Issued Shares (m)	2,089.7
Ave Daily Traded (3-Month) Vol / Val	4.4m / \$7.8m
52 week lo / hi	\$1.28 / \$2.09
Free Float	38.7%

Major Shareholders

Sembcorp Industries	61.1%
Franklin Resources	5.0%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
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
28-Apr-16	HOLD	1.670	1.650

SMM SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

Earnings needed to sustain rally; downgrade to HOLD

Event

SMM results were uninspiring, although not surprising given the current state of the industry. The group reported a 3Q17 net profit of S\$2.7m, a reversal from a net loss of S\$21.8m in the prior year period. Net gearing remains manageable at 1.3x as at end Sep-17, unchanged from the previous quarter.

SMM's net gearing would have improved to 1.04x with the down payment of US\$500m from Borr Drilling for the nine Pacific Class 400 jack-up drilling rigs. Borr Drilling will take delivery of the jack-ups progressively over a 14-month period, beginning 4Q17 to 1Q19. The US\$800m balance can be paid any time within five years from the respective delivery dates of the rigs.

Impact

Markets may be disregarding earnings for FY17/FY18 and instead be looking at potential new order wins in the coming quarters. SMM has managed to reverse four years of declining orderbook. Net orderbook (including the Sete Brasil drillships) had increased to S\$8.0 billion as at end 3Q17 from S\$7.8 billion as at end FY16.

Valuation & Action

We downgrade to HOLD as its share price (+18% since we upgraded to BUY in July 2017) has almost reached our fair value of S\$2.05. Sustained upside potential may need to be driven by earnings growth eventually, which we believe may still take a year to come through. We will have a relook at our investment thesis when we have a clear picture of SMM's margin/earnings trend in its full-year results. Meanwhile, we would prefer pure-play oil producers such as CNOOC (883 HK; NR) to play the recovery in oil markets.

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

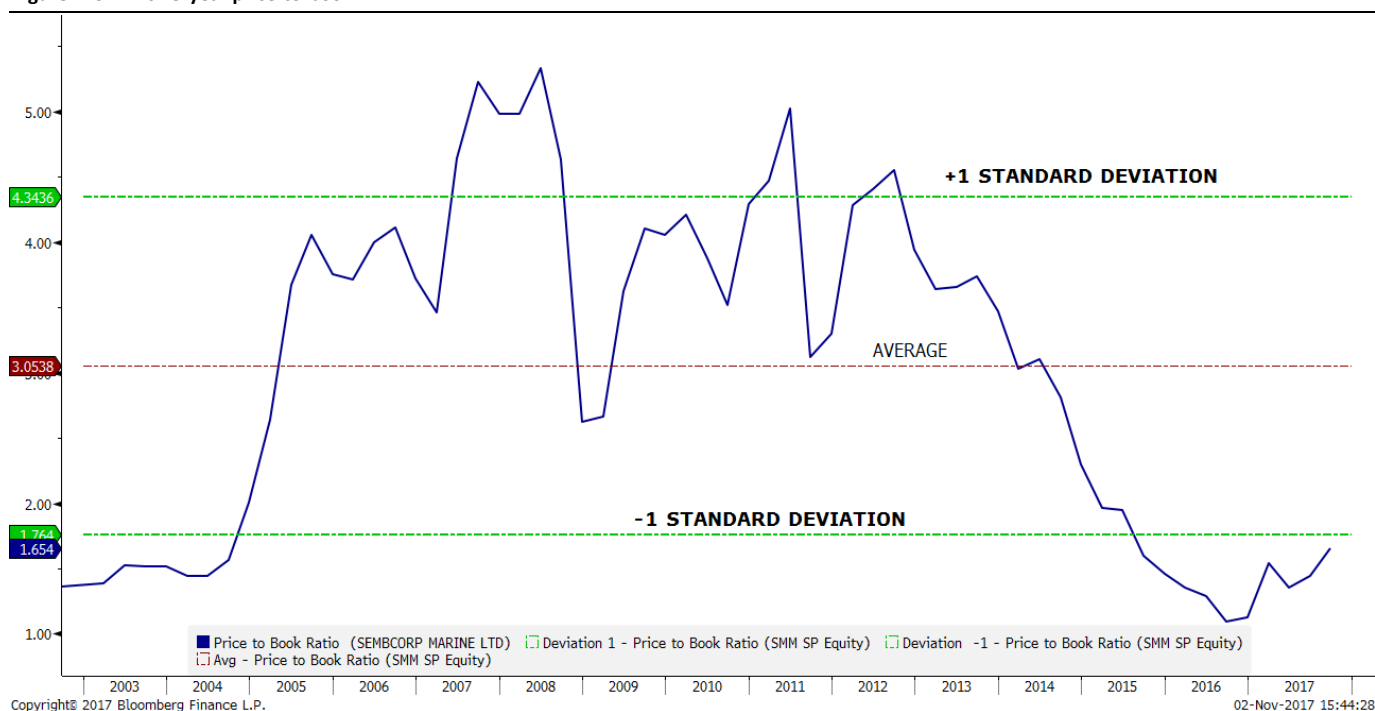
YE Dec (S\$ m)	2015	2016	2017F	2018F	2018F
Revenue	4968.1	3544.8	2591.5	2481.1	3177.1
PATMI	-271.0	78.8	46.8	77.5	97.8
Core PATMI	383.7	97.7	46.8	77.5	97.8
Core EPS	18.4	4.7	2.2	3.7	4.7
Core EPS grth (%)	-31.5	-74.5	-52.1	65.6	26.3
Core P/E (x)	9.2	36.0	75.3	45.5	36.0
DPS (SG Cents)	6.0	2.5	2.0	1.5	2.0
Div Yield (%)	3.6	1.5	1.2	0.9	1.2
Net Margin (%)	-5.5	2.2	1.8	3.1	3.1
Gearing (%)	103.3	112.7	102.0	100.7	107.3
Price / Book (x)	1.4	1.4	1.4	1.3	1.3
ROE (%)	-10.2	3.0	1.8	2.9	3.6

Source: Company Data, KGI Research

Figure 1: Results Comparison

FYE Dec (SGDm)	2017 Q3	2016 Q3	yoy % chg	2016 Q3	qoq % chg	KGI Est 2017F	Comments
Revenue	316.9	888.0	(64.3)	888.0	(64.3)	2,591.5	
Operating costs	(294.9)	(855.1)	(65.5)	(855.1)	(65.5)	(2,441.3)	
EBITDA	20.2	74.1	(72.8)	74.1	(72.8)	245.5	
EBITDA margin (%)	6.4%	8.3%		8.3%		9.5%	
Depn & amort.	(35.5)	(37.0)	(4.1)	(37.0)	(4.1)	(141.9)	
EBIT	22.0	32.9	(33.2)	32.9	(33.2)	150.2	
Interest expense	(23.7)	(22.5)	5.3	(22.5)	5.3	(99.9)	
Int & Inv income	1.7	2.9	(42.2)	2.9	(42.2)	4.8	
Associates' contrib	(0.7)	(27.7)	(97.5)	(27.7)	(97.5)	-	
Exceptionals	(1.1)	(3.9)	(73.1)	(3.9)	(73.1)	-	
Pretax profit	(1.8)	(18.3)	(90.3)	(18.3)	(90.3)	55.2	
Tax	3.4	(3.5)	197.2	(3.5)	197.2	(11.0)	
Tax rate (%)	193.8%	(19.3%)		(19.3%)		20.0%	
NCI	1.1	0.0	6,135.3	0.0	6,135.3	2.6	
Net profit	2.7	(21.8)	112.5	(21.8)	112.5	46.8	
Core profit	3.8	(17.9)	121.0	(17.9)	121.0	46.8	
EPS (SGDcts)	0.1	(1.0)	112.5	(1.0)	112.5	2.2	
Core EPS (SGDcts)	0.2	(0.9)	121.1	(0.9)	121.1	2.2	

Source: Company data, KGI Research

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


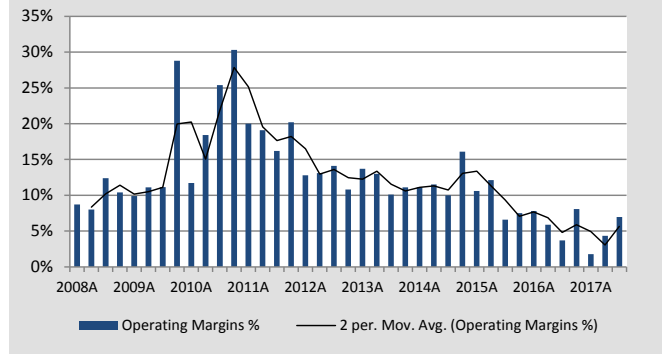
Source: Bloomberg, KGI Research

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.

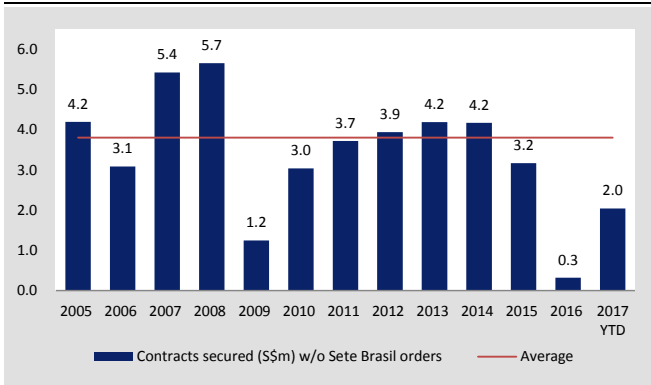
Source: KGI Research

Figure 4: Quarterly operating margins (%)



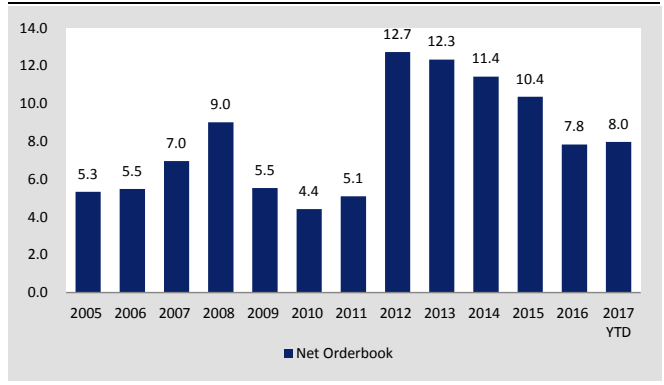
Source: KGI Research

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



Source: KGI Research

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



Source: KGI Research

YE 31 Dec

INCOME STATEMENT (\$\$m)	2015	2016	2017F	2018F	2018F
Revenue	4,968.1	3,544.8	2,337.6	1,922.7	1,948.5
Cost of sales	(4,837.2)	(3,252.1)	(2,174.0)	(1,730.4)	(1,753.7)
Gross Profit	130.9	292.8	163.6	192.3	194.9
Other operating income/(expenses)	664.2	46.5	46.5	46.5	46.5
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(290.4)	(114.0)	(93.5)	(73.1)	(66.3)
Profit from Operations	504.7	225.3	116.7	165.7	175.1
Finance income/(expenses)	(35.4)	(80.7)	(85.3)	(81.6)	(82.8)
Share of JV results	(173.5)	(35.1)	0.0	0.0	0.0
Exceptionals/Investment income	(654.7)	(18.9)	45.0	0.0	0.0
Profit before Tax	(358.9)	90.5	76.4	84.1	92.4
Income tax	77.6	(15.4)	(15.3)	(16.8)	(18.5)
Non-controlling interests	10.3	3.6	2.4	2.0	2.0
PATMI	(271.0)	78.8	63.5	69.3	75.9
PATMI Normalized	383.7	97.7	18.5	69.3	75.9
BALANCE SHEET (\$\$m)	2015	2016	2017F	2018F	2018F
Cash and cash equivalents	629.3	1,217.0	422.9	-17.2	-9.2
Trade and other receivables	589.7	492.0	374.0	326.9	331.3
Inventory	3,833.1	3,066.9	2,282.7	1,816.9	1,841.4
Other current assets	65.0	242.5	242.5	242.5	242.5
Current Assets	5,117.0	5,018.3	3,322.1	2,369.0	2,405.9
Property, plant and equipment	3,540.6	3,986.7	4,055.5	4,098.6	4,119.5
Other non-current assets	543.5	409.9	426.2	443.2	461.0
Non-current Assets	4,084.1	4,396.5	4,481.7	4,541.8	4,580.5
Total assets	9,201.1	9,414.8	7,803.8	6,910.9	6,986.4
Trade and other payables	2,806.7	2,313.9	1,847.9	1,470.8	1,490.6
Borrowings (current)	915.0	1,364.0	899.5	739.8	749.8
Other current liabilities	175.4	70.5	36.8	18.1	8.5
Current Liabilities	3,897.0	3,748.3	2,784.1	2,228.7	2,248.9
Borrowings (non-current)	2,465.2	2,791.0	2,103.9	1,730.4	1,753.7
Other non-current liabilities	174.6	267.9	267.9	267.9	267.9
Non-current liabilities	2,639.8	3,058.9	2,371.8	1,998.3	2,021.6
Shareholders equity	2,511.2	2,562.0	2,604.6	2,642.5	2,676.6
Non-controlling interests	153.1	45.6	43.2	41.3	39.3
Total Equity	2,664.3	2,607.6	2,647.8	2,683.8	2,715.9
Total Liabilities and Equity	9,201.1	9,414.8	7,803.8	6,910.9	6,986.4
CASH FLOW STATEMENT (\$\$m)	2015	2016	2017F	2018F	2018F
Net income before tax	(358.9)	90.5	76.4	84.1	92.4
Depreciation & non cash adjustments	126.5	135.4	141.9	146.5	149.8
Change in Working Capital	(1,120.5)	252.6	301.9	18.8	(119.9)
Income Tax Paid	(100.6)	(35.7)	(49.0)	(35.5)	(28.0)
Interest Paid	(46.8)	(88.7)	(90.1)	(86.5)	(87.6)
CF from operating activities	(989.1)	568.5	643.2	347.2	199.5
Purchase/Disposal of PPE	(932.8)	(421.4)	(210.7)	(189.6)	(170.7)
Other CFI	0.6	(69.1)	0.0	0.0	0.0
CF from investing activities	(932.2)	(490.5)	(210.7)	(189.6)	(170.7)
Dividends Paid	(250.7)	0.0	(52.2)	(41.8)	(31.3)
Debt Raised / (Repaid)	1,743.5	0.0	(1,151.6)	(533.1)	33.2
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(25.8)	534.4	0.0	0.0	0.0
CF from financing activities	1,467.1	534.4	(1,203.9)	(574.9)	1.9
Net increase in cash & cash equiv.	(454.2)	612.4	(771.4)	(417.4)	30.8
FX effects	4.7	(22.7)	(22.7)	(22.7)	(22.7)
Beginning Cash	1,076.8	627.3	1,217.0	422.9	(17.2)
Ending Cash	629.3	1,217.0	422.9	(17.2)	(9.2)
KEY RATIOS	2015	2016	2017F	2018F	2018F
Profitability					
Core EPS	18.4	4.7	0.9	3.3	3.6
Core EPS Growth (%)	(31.5)	(74.5)	(81.0)	274.1	9.5
DPS (SGD Cents)	6.0	2.5	2.0	1.5	2.0
Dividend Yield (%)	3.0	1.3	1.0	0.8	1.0
Profitability					
Gross margin	2.6%	8.3%	7.0%	10.0%	10.0%
EBITDA margin	-0.7%	8.9%	9.1%	13.8%	14.3%
Net margin	-5.5%	2.2%	2.7%	3.6%	3.9%
ROE	-10.2%	3.0%	2.4%	2.6%	2.8%
ROA	-2.9%	0.8%	0.8%	1.0%	1.1%
Growth (% Y-o-Y)					
Revenue	-14.8%	-28.6%	-34.1%	-17.8%	1.3%
EBITDA	-104.1%	-1050.6%	-32.5%	25.3%	4.8%
Net income (core)	-148.4%	-129.1%	-19.4%	9.1%	9.5%
Diluted EPS (core)	-31.5%	-74.5%	-81.0%	274.1%	9.5%
Financial Structure (x)					
Interest coverage	10.8	2.5	1.3	1.9	2.0
Total Debt/Equity	1.3	1.6	1.1	0.9	0.9
Net Gearing	1.0	1.1	1.0	0.9	0.9

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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