



Sembcorp Marine (SMM SP)

Share Price: SGD2.25

Target Price: SGD1.75 (-22%)

MCap (USD): 3.3B

ADTV (USD): 4M

Singapore

Oil & Gas

SELL

 (Unchanged)

First contract cancellation

- Marco Polo terminates jackup rig contract worth USD214.3m with SMM and seeks refund of its 10% deposit.
- First formal contract cancellation for SMM. 2 rigs with Perisai and 3 with Oro Negro also at risk.
- Reiterate SELL and SGD1.75 TP based on 0.55x EV/Backlog.

What's New

Marco Polo Marine Ltd said that it is terminating a USD214.3m jackup rig contract with PPL Shipyard, SMM's subsidiary. The rig was ordered back in Feb 2014 during the rig building boom and due for delivery in end-2015. Marco Polo claimed that PPL failed to comply with material contract obligations as cracks were found on all three legs of the rig. It is also seeking a refund of the 10% deposit (USD21.4m) it has paid. SMM refuted Marco Polo's allegations, saying that this is a repudiatory breach. SMM is terminating this contract on its end and claiming its amounts due.

What's Our View

We understand that Marco Polo has not operated a rig before and has not secured any charter for this intended jackup rig. As at 9M15, its net gearing was 0.94x with cash of SGD15.5m. It would require huge funding if it were to take delivery of the rig, which would further stress its balance sheet.

This rig contract marks the first formal cancellation for SMM. Even if SMM did not breach its contract obligations, we worry that other weak clients may follow Marco Polo's actions. SMM has five other rigs (2 under Perisai, 3 under Oro Negro) that could also be at risk. Delivery dates for these units have been deferred for now.

SMM should have recognised a large part of this contract given that it was due for end-2015 delivery. If it cannot claim the amounts due or resell this unit, we believe that it may have to reverse the recognised profits. Reiterate SELL and Street-low TP of SGD1.75 as we see no respite in the various pressures that it is facing.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	5,525.9	5,832.6	4,973.9	4,778.8	4,946.1
EBITDA	744.9	822.2	625.7	624.1	630.9
Core net profit	555.7	560.1	336.5	342.8	355.0
Core EPS (cts)	26.6	26.8	16.1	16.4	17.0
Core EPS growth (%)	3.2	0.8	(40.0)	1.9	3.6
Net DPS (cts)	13.0	13.0	8.0	8.0	8.0
Core P/E (x)	8.5	8.4	14.0	13.7	13.2
P/BV (x)	1.8	1.6	1.5	1.4	1.4
Net dividend yield (%)	5.8	5.8	3.6	3.6	3.6
ROAE (%)	21.7	19.9	11.1	10.8	10.6
ROAA (%)	8.5	7.2	3.9	3.9	4.0
EV/EBITDA (x)	11.4	9.3	11.0	10.1	9.5
Net debt/equity (%)	net cash	22.3	64.5	43.2	32.6

Key Data

52w high/low (SGD)	3.40/2.18
3m avg turnover (USDm)	4.3
Free float (%)	34.0
Issued shares (m)	2,090
Market capitalization	SGD4.7B
Major shareholders:	
-Sembcorp Industries Ltd.	61.0%
-DBS Group Holdings Ltd.	4.1%
-APG Asset Management NV	1.2%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(14.8)	(12.1)	(33.4)
Relative to index (%)	(11.4)	(7.6)	(24.9)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	7	11
	Maybank Consensus		% +/-
Target Price (SGD)	1.75	2.05	(14.6)
'15 PATMI (SGDm)	336	353	(4.8)
'16 PATMI (SGDm)	343	393	(12.8)

Source: FactSet; Maybank

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FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	8.5	8.4	14.0	13.7	13.2
Core P/E (x)	8.5	8.4	14.0	13.7	13.2
P/BV (x)	1.8	1.6	1.5	1.4	1.4
P/NTA (x)	1.8	1.6	1.6	1.5	1.4
Net dividend yield (%)	5.8	5.8	3.6	3.6	3.6
FCF yield (%)	2.6	nm	nm	15.9	9.6
EV/EBITDA (x)	11.4	9.3	11.0	10.1	9.5
EV/EBIT (x)	13.2	10.8	13.8	13.3	12.6

INCOME STATEMENT (SGD m)

Revenue	5,525.9	5,832.6	4,973.9	4,778.8	4,946.1
Gross profit	707.8	843.7	634.2	597.2	605.1
EBITDA	744.9	822.2	625.7	624.1	630.9
Depreciation	(97.3)	(110.9)	(127.1)	(148.4)	(151.5)
Amortisation	(3.4)	(4.2)	(1.2)	(2.4)	(2.5)
EBIT	644.3	707.0	497.4	473.3	477.0
Net interest income / (exp)	2.4	(11.2)	(48.0)	(55.2)	(48.5)
Associates & JV	15.6	9.9	(24.2)	4.0	8.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	2.8	1.4	(16.4)	0.3	0.2
Pretax profit	665.0	707.0	408.9	422.4	436.7
Income tax	(76.7)	(105.7)	(60.9)	(69.0)	(70.7)
Minorities	(32.5)	(41.1)	(11.6)	(10.6)	(11.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	555.7	560.1	336.5	342.8	355.0
Core net profit	555.7	560.1	336.5	342.8	355.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,694.9	1,078.8	782.4	1,196.6	1,391.8
Accounts receivable	442.4	468.5	681.4	523.7	542.0
Inventory	2,083.6	3,005.4	3,448.0	2,978.7	2,973.3
Property, Plant & Equip (net)	2,394.2	3,008.9	3,368.3	3,454.4	3,422.9
Intangible assets	30.3	52.6	52.6	52.6	52.6
Investment in Associates & JVs	445.7	470.3	446.1	450.1	458.1
Other assets	159.0	153.9	147.7	146.3	147.5
Total assets	7,250.1	8,238.4	8,926.4	8,802.4	8,988.3
ST interest bearing debt	166.1	433.8	1,075.1	976.1	965.5
Accounts payable	1,781.1	1,825.7	1,605.1	1,546.6	1,605.6
LT interest bearing debt	600.0	1,307.5	1,689.5	1,626.9	1,551.7
Other liabilities	1,893.0	1,539.0	1,311.0	1,219.0	1,231.0
Total Liabilities	4,440.6	5,106.4	5,680.8	5,368.5	5,353.3
Shareholders Equity	2,677.0	2,965.1	3,071.7	3,253.7	3,448.2
Minority Interest	132.5	166.9	173.8	180.2	186.8
Total shareholder equity	2,809.5	3,132.0	3,245.6	3,433.9	3,635.0
Total liabilities and equity	7,250.1	8,238.4	8,926.4	8,802.4	8,988.3

CASH FLOW (SGD m)

Pretax profit	665.0	707.0	408.9	422.4	436.7
Depreciation & amortisation	100.6	115.1	128.3	150.8	153.9
Adj net interest (income)/exp	(2.4)	11.2	48.0	55.2	48.5
Change in working capital	242.5	(1,267.2)	(1,129.0)	492.8	68.3
Cash taxes paid	(76.7)	(105.7)	(60.9)	(69.0)	(70.7)
Other operating cash flow	62.0	122.8	156.6	53.8	55.2
Cash flow from operations	937.2	(508.3)	(557.0)	981.7	572.6
Capex	(814.9)	(738.9)	(776.8)	(234.5)	(120.0)
Free cash flow	122.2	(1,247.2)	(1,333.8)	747.2	452.6
Dividends paid	(283.1)	(285.0)	(276.2)	(171.4)	(171.5)
Equity raised / (purchased)	0.6	0.7	0.0	0.0	0.0
Change in Debt	438.2	963.6	1,023.2	(161.6)	(85.8)
Other invest/financing cash flow	(3.1)	(38.1)	0.0	0.0	0.0
Effect of exch rate changes	11.2	(7.2)	0.0	0.0	0.0
Net cash flow	286.0	(618.1)	(296.4)	414.2	195.2

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.7	5.6	(14.7)	(3.9)	3.5
EBITDA growth	14.9	10.4	(23.9)	(0.3)	1.1
EBIT growth	16.2	9.7	(29.6)	(4.8)	0.8
Pretax growth	5.6	6.3	(42.2)	3.3	3.4
Reported net profit growth	3.2	0.8	(39.9)	1.9	3.6
Core net profit growth	3.2	0.8	(39.9)	1.9	3.6
Profitability ratios (%)					
EBITDA margin	13.5	14.1	12.6	13.1	12.8
EBIT margin	11.7	12.1	10.0	9.9	9.6
Pretax profit margin	12.0	12.1	8.2	8.8	8.8
Payout ratio	48.9	48.5	49.7	48.8	47.1
DuPont analysis					
Net profit margin (%)	10.1	9.6	6.8	7.2	7.2
Revenue/Assets (x)	0.8	0.7	0.6	0.5	0.6
Assets/Equity (x)	2.7	2.8	2.9	2.7	2.6
ROAE (%)	21.7	19.9	11.1	10.8	10.6
ROAA (%)	8.5	7.2	3.9	3.9	4.0
Liquidity & Efficiency					
Cash conversion cycle	42.6	81.6	167.0	186.4	154.9
Days receivable outstanding	29.7	28.1	41.6	45.4	38.8
Days inventory outstanding	142.5	183.6	267.7	276.6	246.8
Days payables outstanding	129.6	130.1	142.3	135.7	130.7
Dividend cover (x)	2.0	2.1	2.0	2.1	2.1
Current ratio (x)	1.2	1.3	1.4	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.7
Net debt/equity (%)	net cash	22.3	64.5	43.2	32.6
Net interest cover (x)	na	62.9	10.4	8.6	9.8
Debt/EBITDA (x)	1.0	2.1	4.4	4.2	4.0
Capex/revenue (%)	14.7	12.7	15.6	4.9	2.4
Net debt/ (net cash)	(928.8)	662.6	1,982.2	1,406.4	1,125.3

Source: Company; Maybank

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