

Sembcorp Marine (SMM SP)

Energy & Petrochemicals - Oil & Gas Services

Market Cap: USD2,812m

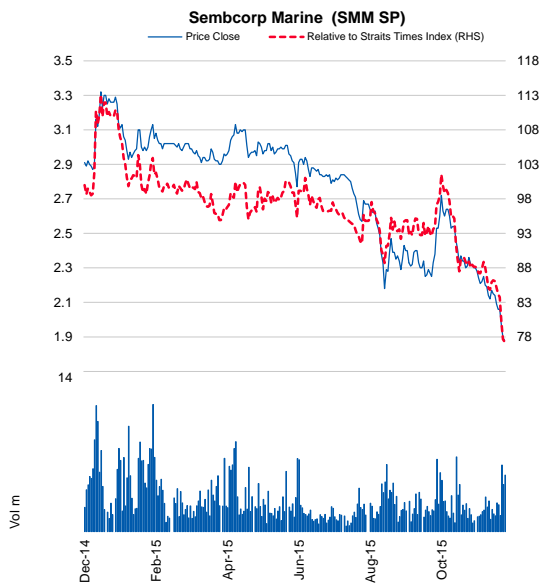
Neutral (from Sell)

Target Price: SGD1.81

Price: SGD1.88

Risks Priced In After Difficult Fortnight

Macro	◆◆◆
Risks	◆◆◆
Growth	◆
Value	◆◆



Source: Bloomberg

Avg Turnover (SGD/USD)	5.40m/3.84m
Cons. Upside (%)	28.2
Upside (%)	-3.7
52-wk Price low/high (SGD)	1.88 - 3.32
Free float (%)	39
Share outstanding (m)	2,089
Shareholders (%)	
Sembcorp Industries	60.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(42.3)	(20.3)	(19.7)	(35.6)	(35.8)
Relative	(27.8)	(15.0)	(20.2)	(21.7)	(22.9)

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SembMarine had a tough fortnight with a jack-up rig cancelled (on build quality concerns) and a semi-sub on “standstill” (we view it effectively a non-delivery/cancellation) – a newbuild contract was the only positive. While a 4Q15 profit warning was issued and we cut FY15 earnings by 33% to factor in the cancellations, we upgrade to NEUTRAL on valuation grounds with a SGD1.81 TP (from SGD2.00, 4% downside) as the stock has fallen 26% since our downgrade and trades even below 2008 levels now.

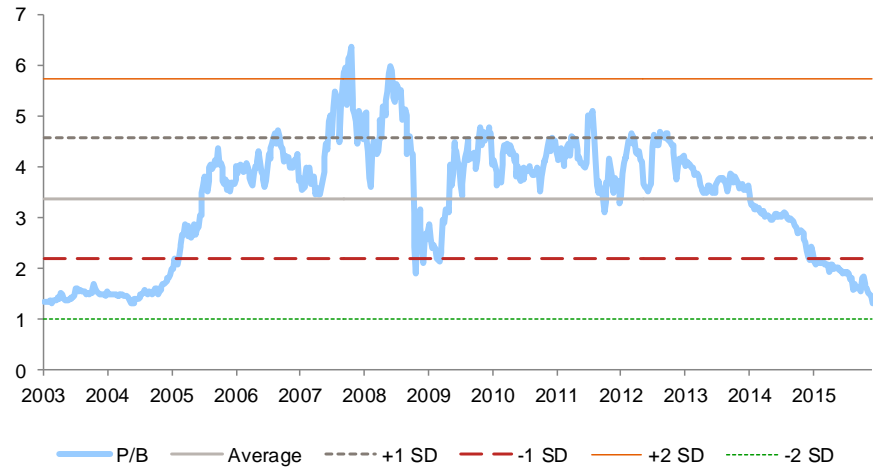
- ◆ **Quality dispute details emerge.** Marco Polo Drilling (I) Pte Ltd (MPD) stated there were 70 cracks found on all three legs after the first full jacking test, “including cracks on the parent material, with a majority of the cracks detected at or near the weld joints on both the internal and external surfaces of the spud cans.” Subsequently, >180 cracks were found even after one round of repairs and after a second partial test that involved only a full preload but no full-length jacking test. PPL Shipyard Pte Ltd (PPLS) is of the view that “the purported termination by MPD is to avoid its obligation to pay the second 10% disbursement of the contract price”. MPD pointed out that PPLS’ 25 Nov announcement to “affirm” the contract after the 18 Nov one to “terminate the contract” was “inconsistent”. We note that PPLS served a termination notice on 1 Dec, after the 30 Nov schedule for payment of the second disbursement.
- ◆ **Profit warning on recognition reversals.** With the MPD cancellation and the semi-sub rig “standstill” agreement with North Atlantic Drilling, profits recognised on both rigs have to be reversed. We estimate these to be c.SGD39m and c.SGD90m respectively, leading Sembcorp Marine (SembMarine) to post its first profit warning ever. Additional provisions on the Brazilian drillships, if taken, could lead to a worse-than-expected 4Q15 result. We slash FY15F/FY16F earnings by 33%/12% respectively to factor in the profit reversals and additional rig delivery delays.
- ◆ **Negatives do appear priced in.** Even though the news has been negative, we note that SembMarine now trades at 1.38x P/BV, below the 2008 low of 1.9x and nearing the -2SD mark (Figure 1). Our SGD1.81 TP is based on 12x blended FY15/16F P/E and implies 1.33x FY15F P/BV. As the stock has fallen 26% since 23 Oct and now trades at unprecedented P/BV lows, we upgrade the counter to NEUTRAL. Further cancellations are the key earnings risks now – if two of the Brazilian drillships are cancelled, our TP could fall c.34%.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F	
Total turnover (SGDm)	5,526	5,833	3,870	4,893	5,096	
Reported net profit (SGDm)	556	554	195	355	356	
Recurring net profit (SGDm)	553	558	221	355	356	
Recurring net profit growth (%)	2.3	0.9	(60.4)	60.6	0.4	
Recurring EPS (SGD)	0.27	0.27	0.11	0.17	0.17	
DPS (SGD)	0.13	0.13	0.10	0.10	0.10	
Recurring P/E (x)	7.1	7.0	17.7	11.1	11.0	
P/B (x)	1.47	1.32	1.38	1.36	1.34	
P/CF (x)	4.2	na	na	12.7	6.3	
Dividend Yield (%)	6.9	6.9	5.3	5.3	5.3	
EV/EBITDA (x)	3.4	5.1	11.7	8.7	8.4	
Return on average equity (%)	21.7	19.6	6.7	12.4	12.2	
Net debt to equity (%)		net cash	21.2	68.2	80.1	73.8
Our vs consensus EPS (adjusted) (%)				(22.9)	0.7	(1.7)

Source: Company data, RHB

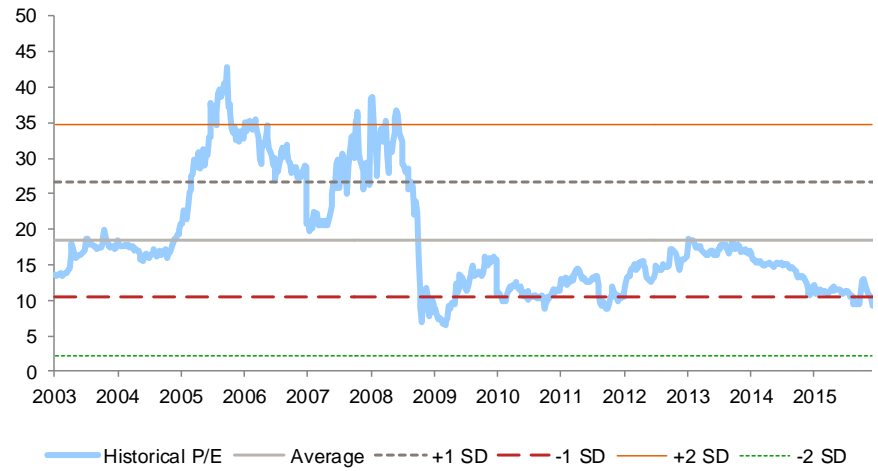
Additional Notes

Figure 1: Approaching 2SDs below the 13-year average P/BV



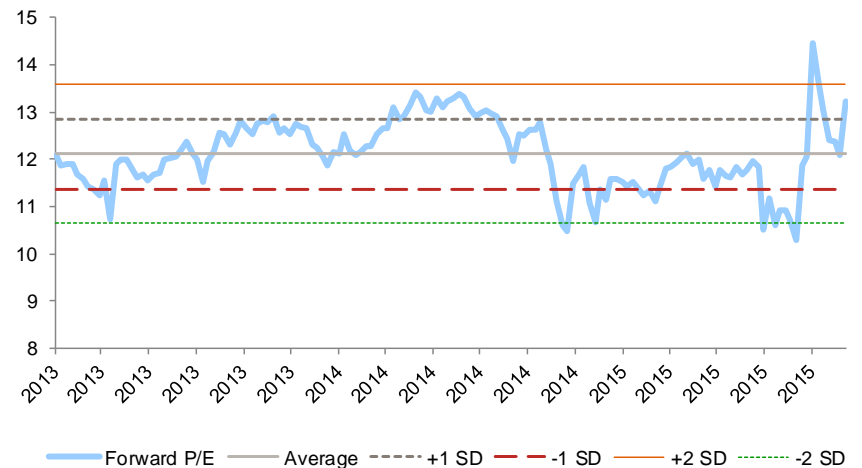
Source: Bloomberg, RHB

Figure 2: Historical P/Es at global financial crisis lows near -1 SD to the 13-year average



Source: Bloomberg, RHB

Figure 3: Forward P/Es now unstable due to sharp earnings downgrades



Source: Bloomberg, RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	5,526	5,833	3,870	4,893	5,096
Cost of sales	(4,818)	(4,989)	(3,373)	(4,186)	(4,378)
Gross profit	708	844	497	707	718
Gen & admin expenses	(148)	(152)	(150)	(189)	(197)
Other operating costs	85	16	5	30	30
Operating profit	644	707	352	548	551
Operating EBITDA	745	822	478	696	704
Depreciation of fixed assets	(101)	(115)	(126)	(148)	(153)
Operating EBIT	644	707	352	548	551
Net income from investments	16	10	(25)	(25)	(25)
Interest income	10	10	9	10	10
Interest expense	(8)	(21)	(49)	(85)	(93)
Exceptional income - net	3	(5)	(26)	-	-
Pre-tax profit	665	701	261	447	443
Taxation	(77)	(106)	(60)	(80)	(75)
Minority interests	(33)	(41)	(6)	(11)	(11)
Profit after tax & minorities	556	554	195	355	356
Reported net profit	556	554	195	355	356
Recurring net profit	553	558	221	355	356

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	644	707	352	548	551
Depreciation & amortisation	101	115	126	148	153
Change in working capital	369	(1,322)	(735)	(231)	73
Other operating cash flow	(123)	84	(26)	(0)	(0)
Operating cash flow	991	(417)	(283)	465	777
Interest received	11	11	9	10	10
Interest paid	(11)	(19)	(49)	(85)	(93)
Dividends received	1	-	-	-	-
Tax paid	(54)	(83)	(60)	(80)	(75)
Cash flow from operations	938	(508)	(383)	309	619
Capex	(815)	(739)	(700)	(400)	(150)
Other new investments	(2)	-	-	-	-
Other investing cash flow	18	(5)	2	-	-
Cash flow from investing activities	(799)	(744)	(698)	(400)	(150)
Dividends paid	(272)	(272)	(313)	(313)	(313)
Proceeds from issue of shares	1	(12)	-	-	-
Increase in debt	438	964	1,200	(199)	(198)
Other financing cash flow	(32)	(13)	-	-	-
Cash flow from financing activities	135	668	887	(512)	(511)
Cash at beginning of period	1,409	1,695	1,079	882	279
Total cash generated	275	(584)	(195)	(603)	(42)
Forex effects	11	(7)	-	-	-
Implied cash at end of period	1,695	1,103	884	279	237

Source: Company data, RHB

Financial Exhibits

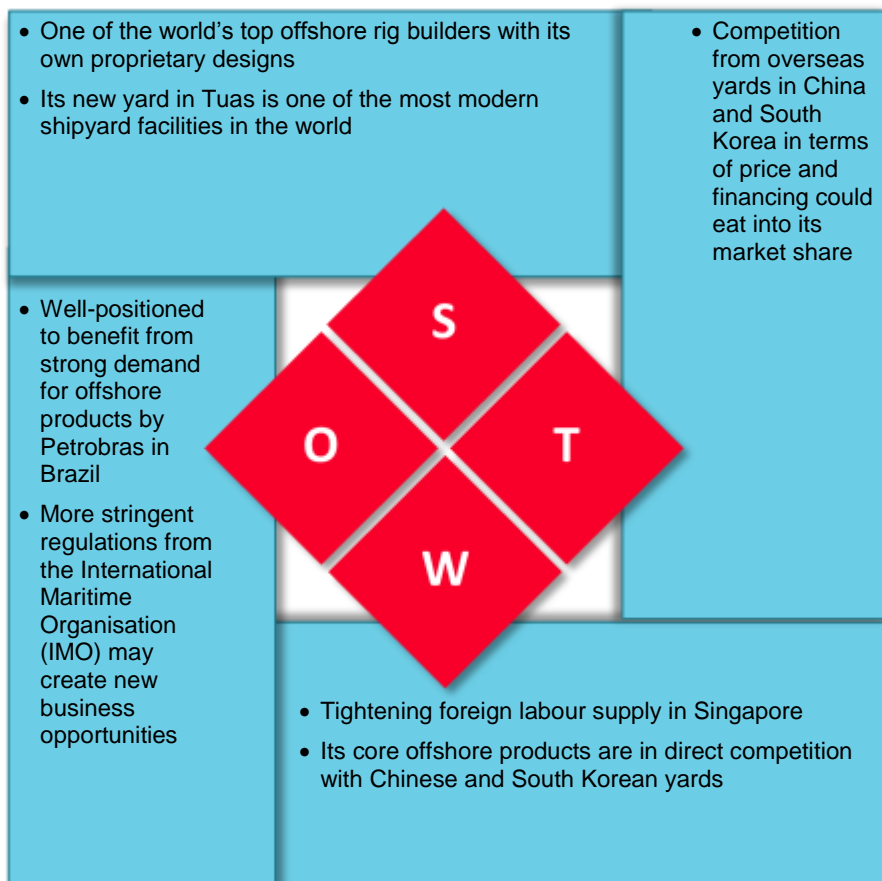
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,695	1,079	882	279	237
Inventories	2,084	3,005	2,544	3,217	3,211
Accounts receivable	442	469	742	804	838
Other current assets	0	14	14	14	14
Total current assets	4,221	4,567	4,183	4,315	4,300
Total investments	597	602	577	552	527
Tangible fixed assets	2,394	3,009	3,583	3,835	3,832
Intangible assets	30	53	53	53	53
Total other assets	7	8	8	8	8
Total non-current assets	3,029	3,671	4,221	4,447	4,419
Total assets	7,250	8,238	8,404	8,763	8,719
Short-term debt	166	434	434	434	434
Accounts payable	1,781	1,826	1,272	1,609	1,675
Other current liabilities	1,583	1,189	820	988	1,021
Total current liabilities	3,530	3,449	2,526	3,031	3,131
Total long-term debt	600	1,308	2,508	2,309	2,111
Other liabilities	310	350	350	350	350
Total non-current liabilities	910	1,658	2,858	2,659	2,461
Total liabilities	4,441	5,106	5,384	5,689	5,592
Share capital	484	484	484	484	484
Retained earnings reserve	2,193	2,481	2,363	2,405	2,448
Shareholders' equity	2,677	2,965	2,847	2,889	2,933
Minority interests	132	167	173	184	195
Total equity	2,810	3,132	3,020	3,073	3,128
Total liabilities & equity	7,250	8,238	8,404	8,763	8,719

Source: Company data, RHB

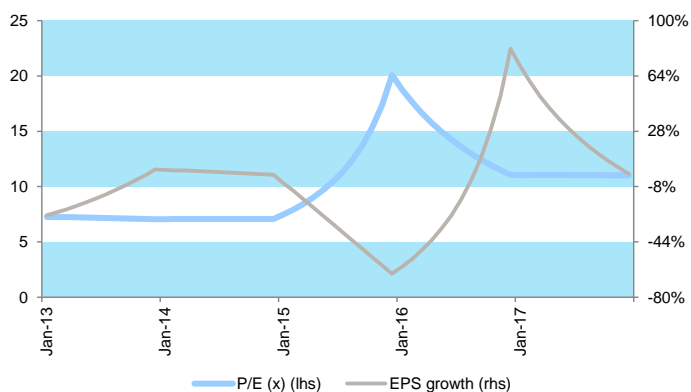
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	24.7	5.6	(33.7)	26.5	4.1
Operating profit growth (%)	16.2	9.7	(50.2)	55.5	0.6
Net profit growth (%)	3.2	(0.3)	(64.7)	81.8	0.4
EPS growth (%)	3.1	(0.3)	(64.7)	81.8	0.4
BVPS growth (%)	9.8	10.8	(4.0)	1.5	1.5
Operating margin (%)	11.7	12.1	9.1	11.2	10.8
Net profit margin (%)	10.1	9.5	5.1	7.3	7.0
Return on average assets (%)	8.5	7.2	2.3	4.1	4.1
Return on average equity (%)	21.7	19.6	6.7	12.4	12.2
Net debt to equity (%)	(33.1)	21.2	68.2	80.1	73.8
DPS	0.13	0.13	0.10	0.10	0.10
Recurrent cash flow per share	0.45	(0.24)	(0.18)	0.15	0.30

Source: Company data, RHB

SWOT Analysis

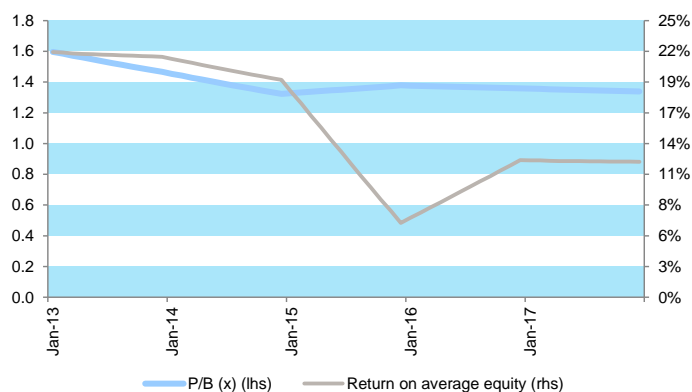


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sembcorp Marine (SembMarine) is a leading marine and offshore engineering group. It is renowned for its rig building and offshore conversion services.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-11-18	Sell	2.00	2.20
2015-10-23	Sell	2.00	2.46
2015-09-01	Neutral	2.60	2.39
2015-07-30	Neutral	2.60	2.66
2015-07-20	Neutral	2.70	2.84
2015-05-06	Neutral	2.90	3.03
2015-03-31	Neutral	3.10	2.92
2015-02-17	Neutral	3.10	3.02
2014-11-06	Neutral	3.80	3.59
2014-10-09	Buy	4.50	3.68

Source: RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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