

Sembcorp Marine (SMM SP)

Energy & Petrochemicals - Oil & Gas Services

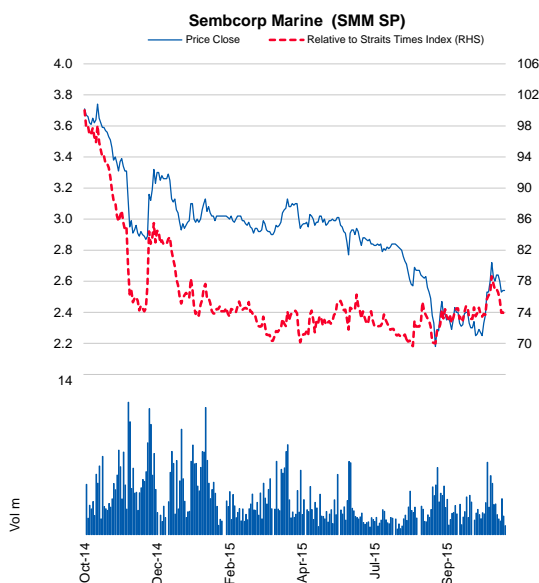
Market Cap: USD3,808m

Sell (from Neutral)

 Target Price: **SGD2.00**

 Price: **SGD2.54**

A Massive Miss

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	5.64m/4.02m
Cons. Upside (%)	-5.1
Upside (%)	-21.3
52-wk Price low/high (SGD)	2.18 - 3.74
Free float (%)	39
Share outstanding (m)	2,089
Shareholders (%)	
Sembcorp Industries	60.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.1)	9.0	(9.9)	(17.8)	(31.5)
Relative	(12.4)	3.1	(0.3)	(4.7)	(26.3)

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SembMarine delivered a shocking miss with a 3Q15 PATMI of only SGD32m due to a perfect storm of profit reversals, asset writedowns, and losses from associates. Downgrade to SELL, with a SGD2.00 TP (from SGD2.60, 21.3% downside) based on 11x blended FY15/16F P/E. We are concerned at what may be a deteriorating trend in disclosure standards and transparency. We also cut our earnings forecasts by 13%/14%/14% for FY15-17F.

- ◆ **Operating margin plunges to 6.6% as profits reverse on delayed rigs.** From 12.2% in 2Q15, Sembcorp Marine's (SembMarine) operating margin almost halved to 6.6% this quarter as it reversed profits recognised on some rigs which were delayed (and may likely face cancellation, in our opinion). The company has won SGD2.9bn of orders YTD, with a SGD11.6bn net orderbook which at least provides some revenue visibility for the next two years.
- ◆ **Cosco proves to be a lemon.** SembMarine's SGD120m investment in Cosco Corporation (S) Ltd (COS SP, NR) has gone completely sour, with the shares now suspended pending restructuring in China. SembMarine took a SGD17m writedown on its holding value to the last traded price. We believe a large part of the SGD24.4m associates' loss is due to Cosco, which just announced a profit warning.
- ◆ **Need for clearer guidance.** What worries us most, however, was neither margins nor underperforming associates but the company's apparent reluctance to provide clearer guidance in its announcement and in the conference call. The usual presentation slides were also omitted. We will, however, continue to follow up with management to clarify the situation.
- ◆ **Downgrade to SELL with a SGD2.00 TP.** Incorporating the negative surprise this quarter, and expecting continued losses at Cosco, we slash our FY15-17F earnings by 13%/14%/14% and downgrade the stock to SELL. Our new TP is SGD2.00 (from SGD2.60), based on 11x (from 12x) blended FY15/16F P/E.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	5,526	5,833	4,829	5,726	5,540
Reported net profit (SGDm)	556	554	340	404	385
Recurring net profit (SGDm)	553	558	362	404	385
Recurring net profit growth (%)	2.3	0.9	(35.1)	11.4	(4.7)
Recurring EPS (SGD)	0.27	0.27	0.17	0.19	0.18
DPS (SGD)	0.13	0.13	0.10	0.10	0.10
Recurring P/E (x)	9.6	9.5	14.6	13.1	13.8
P/B (x)	1.98	1.79	1.77	1.72	1.68
P/CF (x)	5.7	na	na	12.3	6.7
Dividend Yield (%)	5.1	5.1	3.9	3.9	3.9
EV/EBITDA (x)	5.2	6.7	11.5	9.8	9.7
Return on average equity (%)	21.7	19.6	11.4	13.3	12.3
Net debt to equity (%)	net cash	21.2	71.3	77.6	66.0
Our vs consensus EPS (adjusted) (%)			(20.8)	(8.9)	(7.8)

Source: Company data, RHB

Additional Notes

Figure 1: Quarterly results in review

FYE 31 Dec (SGDm)	3Q14	2Q15	3Q15	QoQ	YoY	Remarks
Revenue	1,712	1,208	1,130	-6%	-34%	Net orderbook stands at USD11.6bn.
Ship repair	157	166	131	-21%	-16%	Vessel owners continue to delay repairs and only perform bare minimum works.
Rig building	1,235	623	744	19%	-40%	Slower pace of construction due to delivery deferrals and uncertainty over Brazilian drillships' schedules and payments.
Offshore and Conversion	300	402	235	-42%	-22%	
Others	19	18	20	14%	4%	
Gross profit	205	199	91	-54%	-56%	
Other income	19	8	29	nm	54%	
Other expense	-12	-23	0	-99%	-98%	
G&A expense	-40	-37	-44	21%	12%	Higher 3Q15 admin expenses due to rebranding efforts, consultancy fees, rolling out of new initiatives.
EBITDA	199	177	106	-40%	-46%	
Depreciation	-27	-30	-32	5%	16%	
Amortisation	-1	-2	-2	0%	79%	
Operating profit	171	147	75	-49%	-56%	
Interest income	2	2	1	-36%	-34%	
Interest expense	-5	-11	-12	8%	nm	Higher bank borrowings.
Share of profit associates	3	-3	-24	nm	nm	Likely mostly due to Cosco, which just issued a profit warning.
Exceptional items	-12	-22	2	nm	nm	
Forex transaction	-13	-5	19	nm	nm	Revaluation of assets and liabilities denominated in EUR, USD, BRL.
Non operating income	0	0		nm	-100%	
Non operating expenses	0	-17	-17	1%	nm	Writedown on holding value of Cosco shares.
PBT	172	136	23	-83%	-87%	
Tax	-33	-23	9	nm	nm	
Minority interests	-7	-4	1	nm	nm	
PATMI	132	109	32	-71%	-76%	
Core PATMI	144	132	30	-77%	-79%	
Margins						
Gross profit	11.9%	16.5%	8.0%			
EBITDA	11.6%	14.7%	9.4%			
Operating profit	10.0%	12.2%	6.6%			Reversal of profits for delayed rigs led to plunge in 3Q15 margins.
PBT	10.0%	11.3%	2.0%			
PATMI	7.7%	9.0%	2.8%			

Source: Company data, RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	5,526	5,833	4,829	5,726	5,540
Cost of sales	(4,818)	(4,989)	(4,187)	(4,965)	(4,812)
Gross profit	708	844	642	761	728
Gen & admin expenses	(148)	(152)	(150)	(177)	(172)
Other operating costs	85	16	5	30	30
Operating profit	644	707	498	614	586
Operating EBITDA	745	822	623	762	739
Depreciation of fixed assets	(101)	(115)	(126)	(148)	(153)
Operating EBIT	644	707	498	614	586
Net income from investments	16	10	(25)	(30)	(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	406	508	478
Taxation	(77)	(106)	(60)	(91)	(81)
Minority interests	(33)	(41)	(6)	(13)	(12)
Profit after tax & minorities	556	554	340	404	385
Reported net profit	556	554	340	404	385
Recurring net profit	553	558	362	404	385

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	644	707	498	614	586
Depreciation & amortisation	101	115	126	148	153
Change in working capital	369	(1,322)	(1,077)	(163)	213
Other operating cash flow	(123)	84	(26)	-	(0)
Operating cash flow	991	(417)	(479)	599	952
Interest received	11	11	9	10	10
Interest paid	(11)	(19)	(49)	(85)	(93)
Dividends received	1	-	-	-	-
Tax paid	(54)	(83)	(60)	(91)	(81)
Cash flow from operations	938	(508)	(580)	432	788
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	686	206
Total cash generated	275	(584)	(391)	(480)	127
Forex effects	11	(7)	-	-	-
Implied cash at end of period	1,695	1,103	688	206	333

Source: Company data, RHB

Financial Exhibits

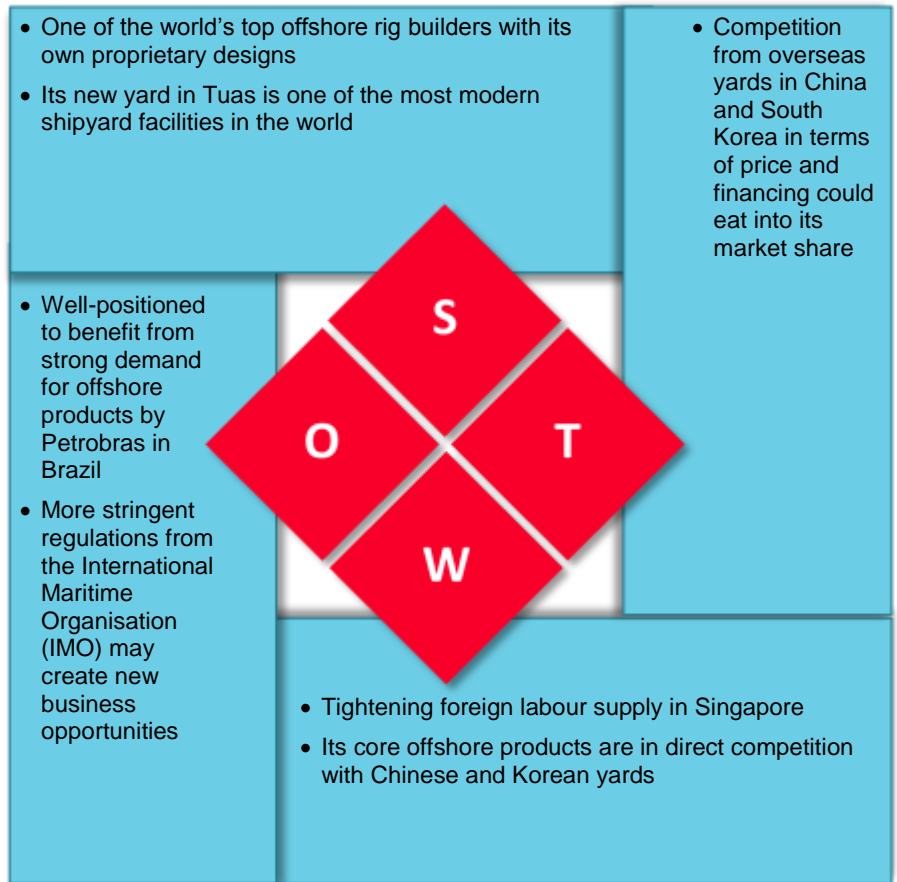
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,695	1,079	686	206	333
Inventories	2,084	3,005	3,175	3,765	3,491
Accounts receivable	442	469	926	941	911
Other current assets	0	14	14	14	14
Total current assets	4,221	4,567	4,801	4,926	4,748
Total investments	597	602	577	547	522
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	4,442	4,414
Total assets	7,250	8,238	9,022	9,369	9,162
Short-term debt	166	434	434	434	434
Accounts payable	1,781	1,826	1,588	1,883	1,821
Other current liabilities	1,583	1,189	978	1,125	1,094
Total current liabilities	3,530	3,449	2,999	3,441	3,349
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	5,857	6,100	5,810
Share capital	484	484	484	484	484
Retained earnings reserve	2,193	2,481	2,508	2,599	2,670
Shareholders' equity	2,677	2,965	2,992	3,083	3,155
Minority interests	132	167	173	185	197
Total equity	2,810	3,132	3,165	3,268	3,352
Total liabilities & equity	7,250	8,238	9,022	9,369	9,162

Source: Company data, RHB

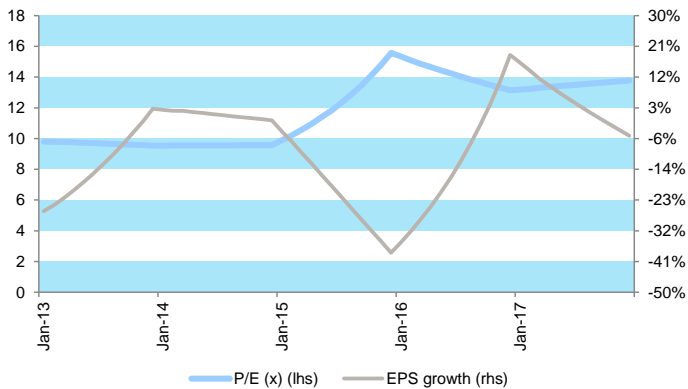
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	24.7	5.6	(17.2)	18.6	(3.3)
Operating profit growth (%)	16.2	9.7	(29.6)	23.3	(4.5)
Net profit growth (%)	3.2	(0.3)	(38.6)	18.6	(4.7)
EPS growth (%)	3.1	(0.3)	(38.6)	18.6	(4.7)
BVPS growth (%)	9.8	10.8	0.9	3.0	2.3
Operating margin (%)	11.7	12.1	10.3	10.7	10.6
Net profit margin (%)	10.1	9.5	7.1	7.1	6.9
Return on average assets (%)	8.5	7.2	3.9	4.4	4.2
Return on average equity (%)	21.7	19.6	11.4	13.3	12.3
Net debt to equity (%)	(33.1)	21.2	71.3	77.6	66.0
DPS	0.13	0.13	0.10	0.10	0.10
Recurrent cash flow per share	0.45	(0.24)	(0.28)	0.21	0.38

Source: Company data, RHB

SWOT Analysis

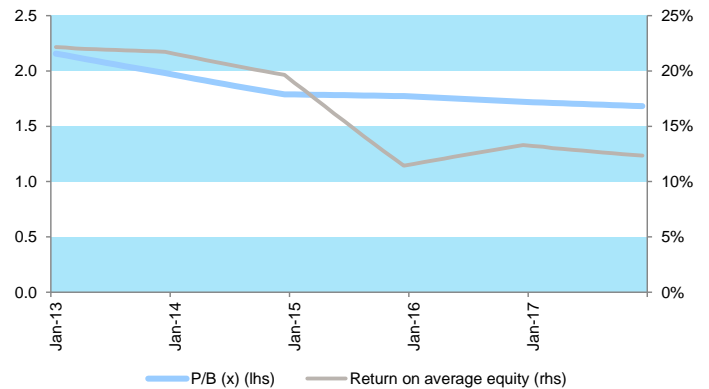


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sembcorp Marine is a leading marine and offshore engineering group and is renowned for its rig building and offshore conversion.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2014-05-04	Buy	5.00	4.06
2014-02-28	Buy	5.40	4.11

Source : RHB, Bloomberg

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

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