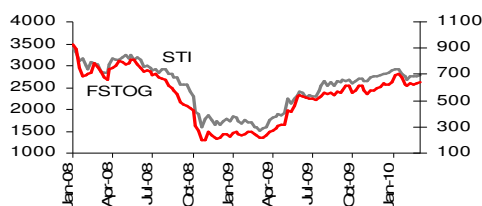


11 March 2010

Overweight



Singapore Rig Builders

Rig tender delay but fundamentals remain intact

Rig tender delay. According to Upstream¹, Petrobras has delayed its tender for 28 rigs. The deadline for the first package is now May 18, 2010, compared to March 18, 2010 previously. Given the huge dollar value of the first package (about US\$3.5b), the delay is understandable. It seems that certain technical details still have to be ironed out by potential bidders even after clarification by Petrobras. Hence the delay is not surprising to industry players.

More yard space at Sembcorp Marine in Brazil. Ever since Sembcorp Marine said it was building a new yard in Brazil, it has seemed to be in a better position than Keppel to win the first package given its greenfield yard with little work now compared to Keppel's current busy yard. We understand that some projects should be completed by the end of this year, which will free up Keppel's yard resources. However do note that Keppel's JV (FloaTEC) was awarded the P-61 TLWP project recently, and it will be constructed in the BrasFELS yard. Finally, Sembcorp Marine's new yard (82.5ha) will also be double the size of Keppel's existing BrasFELS yard (40ha).

Willing and able to invest. In line with our earlier reports, resources have been, and are still being poured into niche areas of the future with increasing concerns over declining oil reserves and efficiency. A Bloomberg article² highlighted that oil companies are investing in assets that previously were not worth their time or money. This is after oil-rich nations reduced their access to reserves, coupled with a rising rate of exploration failures. Hence we continue to favour companies that are willing and able to invest in technology for the future, such as Keppel Corp.

Built to thrive. Singapore's local rig builders have turned in sterling FY09 results. The pat on the back should partly be attributed to productivity gains resulting in better margins. Definitely, repeat orders of rigs contributed to this but one should not discount efforts to achieve higher efficiency.

Maintain BUY. Despite the rig tender delay, fundamentals of local rig builders remain intact. Companies with established track records and good relationships with potential customers are better positioned to secure jobs in an environment with fewer orders. Hence there is basis for optimism, though it is good to keep in mind possible political changes with Brazil's upcoming elections in October. We maintain our **BUY** ratings on Keppel Corp [FV: S\$9.93] and Sembcorp Marine [FV: S\$4.58].

Co	Share	Mkt	Rating	Fair	P/E		P/B
	price	Cap		value	Hist	Cur	
	S\$	S\$m		S\$			
SembCorp Marine	3.97	8,224	BUY	4.58	11.7	13.0	4.2
Keppel Corp	8.59	13,716	BUY	9.93	8.4	13.5	2.3

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¹ "Petrobras pushes back rig tender bonanza until May." 5 March 2010 - Upstream.

² "Oil giants lower the bar to grab less attractive assets." 10 March 2010 - Bloomberg.

More yard space at Sembcorp Marine in Brazil. Ever since Sembcorp Marine said it was building a new yard in Brazil, it has seemed to be in a better position than Keppel to win the first package (all seven drillships to be awarded to a single yard), given its greenfield yard with little work now compared to Keppel's current yard which is working on several projects (P-56 semi-sub floating production unit, pipelay barge and P-57 FPSO). We understand that the P-56 and P-57 should be completed by the end of this year, which will free up yard resources for new projects. However do note that Keppel's JV (FloaTEC) was awarded the P-61 tension leg well-head platform project recently, which will also be constructed in the BrasFELS yard. Finally, Sembcorp Marine's new yard in Brazil at 82.5ha will be double the size of Keppel's existing BrasFELS yard (40ha).

Oil majors forced to lower the bar. In line with our earlier reports, resources have been, and are still being poured into niche areas of the future with increasing concerns over falling oil reserves and efficiency. A Bloomberg article³ highlighted that oil companies such as Exxon Mobil, BP and Total are investing in assets that previously were not worth their time or money. This is after oil-rich nations reduced their access to reserves, coupled with a rising rate of exploration failures (e.g. Chevron's failure rate rose to 35% in 2009 compared to 10% in 2008). Hence we continue to favour companies that are willing and able to invest in technology for the future, such as Keppel Corp. Its offshore and marine technology centre (KOMtech) signed a MOU with the Norwegian Marine Technology Research Institute a few days ago to collaborate on R&D opportunities. The focus will be on the design and operation of ships in harsh environments such as the Arctic, marine operations related to installation of units such as offshore wind turbines, amongst others.

³ "Oil giants lower the bar to grab less attractive assets." 10 March 2010 - Bloomberg.

SHAREHOLDING DECLARATION:

The analyst's immediate family owns shares in Keppel Corp.

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