

MITA No. 010/06/2008

7 April 2009

SembCorp Marine Ltd

Downgrade to

HOLD

Previous Rating : BUY

S\$2.15

Fair Value: S\$2.02

Stock Code:

Reuters: SCMN.SI

ISIN Code S51

Bloomberg: SMM SP

Event:

Update

General Data

Issued Capital (m)	2,071
Mkt Cap (S\$m/US\$m)	4,454/2,955
Major Shareholder	SembCorp Industries (60.9%)
Free Float (%)	38.8%
NAV per share (S\$)	0.64
Daily Vol 3-mth ('000)	10,834
52Wk High (S\$)	4.730
52Wk Low (S\$)	1.150

Wins first new build contract

US\$247.m new build contract win. Sembcorp Marine (SMM) has secured a rig order from Gander Drilling Limited, a wholly-owned subsidiary of SeaDragon Offshore Limited, to complete and deliver a Moss Maritime Full Dynamically Positioned (DP-3) Semi-submersible drilling unit with an option for an additional unit. SMM will complete the build after the bare-deck hull arrives (latest by Apr 2009) from a Russian shipyard which constructed the hull. SMM has experience with bare-deck hulls from a similar contract with Noble Drilling in May 2007. This semi is scheduled for delivery by end 2010.

Financial reasons to like it. This contract is not a speculative build as it comes with a US\$958m five-year contract with Mexico's National Oil Company, Pemex. A check with industry research site, Rigzone, indicates that the rig has full asset financing arranged by Lloyds TSB Bank. Moreover, SMM has received a deposit for the rig as well as a "favourable schedule" of regular payments. This reduces the risk of bullet payments and will smoothen out the contribution to SMM's earnings.

Operational reasons to like it. Rigzone has also indicated that the original yard slated to finish the work was to be the Haverton Hill Yard. In obtaining this contract (and its option for the second rig) from Haverton Hill, SMM effectively authenticates its strength as one the leading rig yards in the world, providing on-schedule, on-budget deliveries of new generation rigs. While SMM has not constructed this particular rig design, it has experience with finishing bare-hulled jobs, evident from its May 07 contract with Noble Drilling. Completing this project will add another feather to its cap for building experience in an array of rig models. To top it off, SeaDragon is a new customer.

Better sentiments but remain cautious. This win puts some ease into our estimates but SMM still has another S\$1b worth of wins to catch up with our forecasts for FY09. We have bumped up our valuation peg to 11x FY09 PER (prev. 10x) as positive sentiments on the Oil and Gas sector have somewhat returned. While our fair value is now raised in tandem to S\$2.02 (prev. S\$1.85), we remain cautious on the 68% rise in share price since its low on 3 Mar 09. As such, we are downgrading our rating to **HOLD**, purely based on valuations. Sustained rise oil prices along with an accelerated pace of contract wins will incentivise us to nudge our valuations upwards.

Kelly Chia

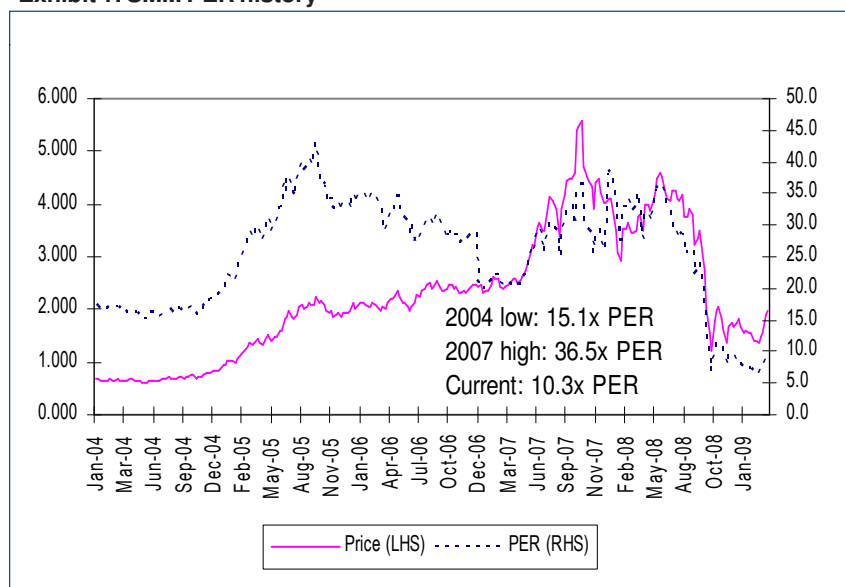
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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	4,513.1	413.1	251.7	11.7	1.8	18.3	4.0
FY 08	5,063.9	572.5	451.2	20.8	78.2	10.3	5.1
FY 09F	4,644.2	472.4	399.4	18.4	-11.3	11.7	4.6
FY 10F	3,860.6	409.1	351.2	16.2	-12.0	13.3	3.9

Please refer to the important disclosures at the back of this document.

Exhibit 1: SMM PER history



Source: Bloomberg

SMM's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
Revenue	4,513.1	5,063.9	4,644.2	3,860.6
Gross profit	411.5	655.2	490.0	409.0
Operating and admin expenses	-105.3	-173.0	-111.5	-92.7
EBITDA	413.1	572.5	472.4	409.1
Operating profit	349.0	501.8	401.8	335.7
Other expenses/income	-66.1	-22.2	23.2	19.3
Associates	81.8	65.3	62.0	68.2
Pre-tax profit	364.7	545.0	487.0	423.2
Tax	-113.0	-93.7	-87.7	-71.9
Net profit	251.7	451.2	399.4	351.2
PATMI	241.0	429.9	381.4	335.4
Dividend	179.5	227.1	207.2	176.2
Earnings per share (S\$cents)	11.7	20.8	18.4	16.2
Fully diluted earnings per share (S\$cents)	11.6	20.7	18.4	16.2
EPS growth	1.8%	78.2%	-11.3%	-12.0%
Gross profit margin (%)	9.1	12.9	10.6	10.6
EBIT margin (%)	7.7	9.9	8.7	8.7
EBITDA margin (%)	9.2	11.3	10.2	10.6
Net profit margin (%)	5.6	8.9	8.6	9.1
Segment revenue				
Ship repair	731.1	794.8	825.5	910.1
Rig Building	2,499.0	2,839.6	2,621.9	2,014.1
Ship conversion / offshore	1,131.0	1,354.4	1,123.7	863.2
Ship building / others	119.8	75.1	73.1	73.1

BALANCE SHEET**As at 31 Dec (S\$ m)**

	FY07	FY08	FY09F	FY10F
Cash and equivalents	740.5	2,054.0	1,640.9	1,317.1
Other current assets	2,105.7	1,381.5	1,346.8	1,312.6
Fixed assets	675.6	697.7	748.9	795.5
Other long term assets	941.0	478.6	444.1	436.2
Total assets	4,462.8	4,611.8	4,180.7	3,861.4
Debt	441.7	272.0	250.0	250.0
Other long term liabilities	177.8	70.5	67.7	92.4
Total liabilities	2,757.1	3,251.9	2,646.6	2,168.0
Shareholders equity (incl reserves)	1,705.7	1,360.0	1,534.1	1,693.4
Total equity and liabilities	4,462.8	4,611.8	4,180.7	3,861.4
NTA per share (S\$ cents)	81.4	63.6	71.6	79.3
NAV per share (S\$ cents)	81.7	63.8	72.0	79.7

CASH FLOW**Year Ended 31 Dec (S\$ m)**

	FY07	FY08	FY09F	FY10F
Profit/(Loss) before working cap. changes	411.6	634.7	472.4	409.1
Working capital changes	-199.9	1,282.3	-502.2	-497.5
Net cash from operations	211.7	1,916.9	-29.8	-88.5
Capex	-103.9	-96.9	-120.0	-120.0
Other investing flows	286.1	11.9	-34.1	60.7
Total investing cash flow	182.2	-85.0	-154.1	-59.3
Change in equity	23.9	11.7	0.0	0.0
Net change in debt	60.9	-219.5	-22.0	0.0
Dividends and other payables	-231.4	-310.6	-207.2	-176.2
Total financing cash flow	-146.5	-518.4	-229.2	-176.2
Net cash flow	247.3	1,313.6	-413.1	-323.9
Cash at beginning of year	493.1	740.5	2,054.0	1,640.9
Cash at end of year (incl FD pledged)	740.5	2,054.0	1,640.9	1,317.1

Key Ratios

PER (x)	18.3	10.3	11.7	13.3
Price/NTA (x)	2.6	3.3	2.9	2.6
Dividend yield (%)	4.0	5.1	4.6	3.9
ROA (%)	5.6	9.8	9.6	9.1
ROE (%)	14.8	33.2	26.0	20.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE growth (x)	151.9	0.1	-1.0	-1.1

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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