

MITA No. 010/06/2008

11 May 2009

# SembCorp Marine Ltd

Maintain

## HOLD

Previous Rating : HOLD

### S\$2.75

### Fair Value: S\$2.65

Stock Code:

Reuters: SCMN.SI

ISIN Code S51

Bloomberg: SMM SP

Event:

Results

#### General Data

Issued Capital (m)	2,071
Mkt Cap (S\$m/US\$m)	5,696/3,779
Major Shareholder	SembCorp Industries (61.9%)
Free Float (%)	38.8%
NAV per share (S\$)	0.68
Daily Vol 3-mth ('000)	10,834
52Wk High (S\$)	4.730
52Wk Low (S\$)	1.150

**Good results.** Sembcorp Marine Ltd (SMM) reported its 1Q09 results with topline came in at S\$1.36b (+49% YoY, -16% QoQ). PATMI registered S\$120.2m (+32% YoY, +73% QoQ). SMM did well when compared to a weak 1Q08 which had project revenue recognition timing issues. The group also experienced a better gross margin this quarter as it started reaping from the better priced contracts signed during the peak 2007-2008 phase. The group's net cash position stood at S\$1.89b while order book stood at S\$8.4b.

**Repair activities seem peak-ish.** SMM's ship repair activities seem to have come to a plateau with a net change in ships repair growing in the high single digits this quarter. While SMM iterates that a base load (~80%) of its repairs consists of exclusive agreements with major shipping/oil companies that are regulars at its docks, we are waiting to see if this should tail off as companies anchor vessels as demand for goods and raw materials slows down. A slew of LNG tankers coming on stream could affect SMM's repair of this vessel class as the recession takes demand off fuel.

**No clarity with Petrobras... yet.** Management has indicated that discussions with Petrobras are ongoing and are confident of some positive newsflow in the future. With about half of the 28 drilling assets slated to be semi-subs, it translates to about US\$7.7b worth of orders (14 x US\$550m). However, there is no clarity on the quantum and timing of contracts being discussed. The bug-bear issue with Petrobras is its requirements for the use of "local content" to sustain employment in Brazil's yards. SMM's jointly operated MacLaren yard is its only presence in Brazil. MacLaren is currently building a new dock (ready 2H09) capable of drydocking the largest of semi-submersible rigs.

**Pricing for hope.** We have upped our estimates in view of a more aggressive recognition of higher valued projects from FY07/08. However, SMM still has another S\$1b worth of wins to catch up with our forecasts for FY09. Oil prices have run up in tandem with equity markets and we bump up our valuation peg to 13x FY09F PER (prev. 11x). While our fair value is now raised in tandem to S\$2.65 (prev. S\$2.02), we find the hope of the sustained oil price rise of the recent magnitude to lack fundamentals. As such, we are maintaining our **HOLD** rating.

**Kelly Chia**

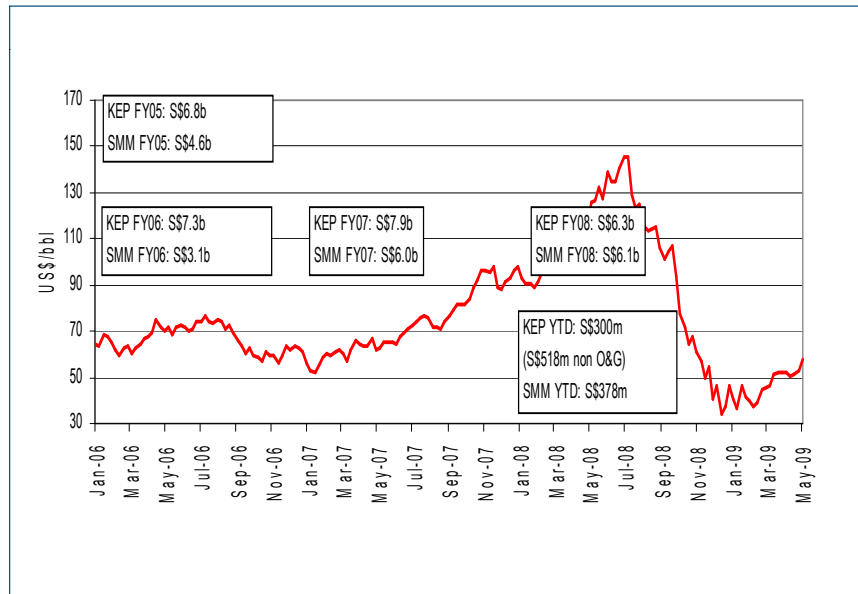
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Year to 31-Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (S cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	4,513.1	411.5	251.7	11.7	1.8	23.5	3.2
FY 08	5,063.9	655.2	451.2	20.8	78.2	13.2	4.0
FY 09F	5,202.0	546.6	442.4	20.4	-1.7	13.5	3.6
FY 10F	4,192.4	438.0	372.5	17.2	-15.8	16.0	3.1

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

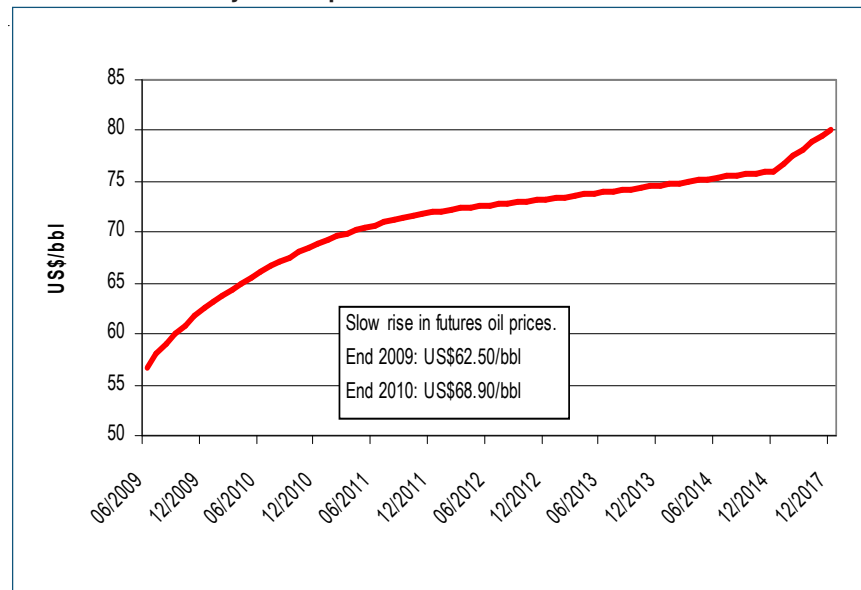
Exhibit 1: Order book win historical track record



Source: Bloomberg

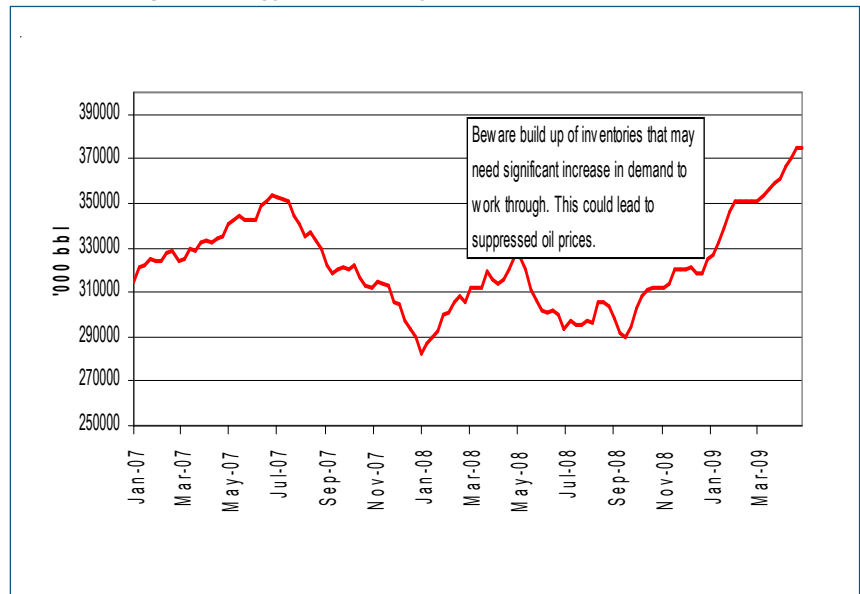
**Oil prices not likely to spike up.** A Reuters poll of more than 30 sources in March 09, predicted a 2009 average price of \$50.85/bbl, up from \$49.73/bbl. Current futures prices are slightly more optimistic with end 2009 prices trading at about US\$62.50/bbl. This was in part helped by significant oil supply curbs (-1.2m bbl/day from Sep 08, about 5% of world demand) by Opec that have helped to support prices, which in turn fed the frenzy in the equity markets. Oil demand will also continue to be reduced with lesser air travel. It has delivered on about 80% of those cuts. Traded futures data indicate that prices would likely not rise significantly until at least 2010 and only if there was a global economic recovery to boost demand for oil products.

Exhibit 2: Futures Nymex oil price



Source: Bloomberg

Exhibit 3: Dept of Energy Oil Inventory data



Source: Bloomberg

**SembCorp Marine's Key Financial Data**

<b>SembCorp Marine Results</b>	<b>1Q08</b>	<b>1Q09</b>	<b>% Chg</b>	<b>4Q08</b>	<b>% Chg</b>
<b>Year Ended 31 Dec (S\$ m)</b>	<b>(S\$m)</b>	<b>(S\$m)</b>	<b>(YoY)</b>	<b>(S\$m)</b>	<b>(QoQ)</b>
Ship repair revenue	188.4	196.0	4.0%	201.2	-2.6%
Rig building	484.1	759.5	56.9%	862.8	-12.0%
Ship conversion / offshore	222.3	401.0	80.4%	534.2	-24.9%
Others	21.3	7.0	-67.1%	19.3	-63.7%
<b>Total revenue</b>	<b>916.1</b>	<b>1,363.5</b>	<b>48.8%</b>	<b>1,617.5</b>	<b>-15.7%</b>
Cost of Sales	-819.4	-1,217.3	48.6%	-1,355.6	-10.2%
GP taking COGS	96.8	146.2	51.1%	261.9	-44.2%
Depreciation	-15.8	-17.6	11.4%	-19.6	-10.4%
EBITDA	95.2	152.2	59.8%	188.4	-19.2%
Other income	12.2	19.0	55.7%	-6.1	NM
Other operating costs	-6.6	-9.7	47.8%	-51.6	-81.2%
Admin costs	-23.0	-21.0	-8.7%	-35.4	-40.8%
Profit from operations	79.5	134.6	69.4%	168.8	-20.2%
Financial income (expense), net	1.5	1.4	-11.4%	5.7	-76.1%
Forex gains/(loss)	0.0	0.0	NM	-43.7	NM
Share of associates	34.2	15.3	-55.1%	-42.5	NM
Profit before income tax	115.2	151.3	31.4%	88.2	71.6%
Income Tax	-20.7	-24.4	18.0%	-10.7	127.0%
Profit after tax	94.5	126.9	34.3%	77.4	63.9%
Minority Interests	-3.1	-6.7	113.8%	-8.0	-16.1%
PATMI	91.3	120.2	31.6%	69.4	73.1%

**EARNINGS FORECAST**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Revenue	4,513.1	5,063.9	5,202.0	4,192.4
Gross profit	411.5	655.2	546.6	438.0
Operating and admin expenses	-105.3	-173.0	-124.8	-100.6
EBITDA	413.1	572.5	528.9	440.2
Operating profit	349.0	501.8	458.2	366.8
Other expenses/income	-66.1	-22.2	19.3	16.9
Associates	81.8	65.3	62.0	65.1
Pre-tax profit	364.7	545.0	539.6	448.8
Tax	-113.0	-93.7	-97.1	-76.3
Net profit	251.7	451.2	442.4	372.5
PATMI	241.0	429.9	422.5	355.8
Earnings per share (S\$cents)	11.7	20.8	20.4	17.2
Fully diluted earnings per share (S\$cents)	11.6	20.7	20.4	17.1
EPS growth	1.8%	78.2%	-1.7%	-15.8%
Gross profit margin (%)	9.1	12.9	10.5	10.4
EBIT margin (%)	7.7	9.9	8.8	8.7
EBITDA margin (%)	9.2	11.3	10.2	10.5
Net profit margin (%)	5.6	8.9	8.5	8.9
<b>Revenue revision</b>	NA	NA	12.0%	8.6%
<b>PATMI revision</b>	NA	NA	10.8%	6.1%
<b><u>Segment revenue</u></b>				
Ship repair	731.1	794.8	825.5	910.1
Rig Building	2,499.0	2,839.6	3,009.9	2,261.1
Ship conversion / offshore	1,131.0	1,354.4	1,293.4	948.1
Ship building / others	119.8	75.1	73.1	73.1

**BALANCE SHEET**

<b>As at 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash and equivalents	740.5	2,054.0	1,933.0	1,765.8
Other current assets	2,105.7	1,381.5	1,768.7	1,467.3
Fixed assets	675.6	697.7	748.9	795.5
Other long term assets	941.0	478.6	501.6	486.4
Total assets	4,462.8	4,611.8	4,952.2	4,515.0
Debt (ST and LT)	441.7	272.0	250.0	250.0
Other current liabilities	2,137.6	2,909.4	3,059.5	2,435.7
Other long term liabilities	177.8	70.5	75.2	62.2
Total liabilities	2,757.1	3,251.9	3,384.7	2,748.0
Shareholders equity (incl reserves)	1,705.7	1,360.0	1,567.6	1,767.1
Total equity and liabilities	4,462.8	4,611.8	4,952.2	4,515.0
NTA per share (S\$ cents)	81.4	63.6	73.6	82.3
NAV per share (S\$ cents)	81.7	63.8	74.0	82.7

**CASH FLOW**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Profit/(Loss) before working cap. changes	411.6	634.7	528.9	440.2
Working capital changes	-199.9	1,282.3	-328.4	-321.0
Net cash from operations	211.7	1,916.9	200.5	119.2
Capex	-103.9	-96.9	-120.0	-120.0
Other investing flows	286.1	11.9	27.7	9.8
Total investing cash flow	182.2	-85.0	-92.3	-110.2
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	-121.0	-167.2
Cash at beginning of year	493.1	740.5	2,054.0	1,933.0
Cash at end of year (incl FD pledged)	740.5	2,054.0	1,933.0	1,765.8

**Key Ratios**

PER (x)	23.5	13.2	13.5	16.0
Price/NTA (x)	3.4	4.3	3.7	3.3
Dividend yield (%)	3.2	4.0	3.6	3.1
ROA (%)	5.6	9.8	8.9	8.3
ROE (%)	14.8	33.2	28.2	21.1
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE growth (x)	194.3	0.2	-6.4	-1.0

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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Head of Research