

ASIAN GEMS CORPORATE HIGHLIGHTS

Seatrium (STM SP)

Enthusiasm Unabated – Outlook Remains Bright In 2024

Seatrium's outlook in 2024 remains bright, in our view, as we expect new order wins in both the oil & gas as well as renewables sectors. In the near term, this could come in the form of two Brazilian FPSOs while in the medium to longer term, renewables demand remains well supported. The company's strategic review remains on track to be completed by end-23. Maintain BUY. Target price: S\$0.19.

WHAT'S NEW

- Positive outlook – Stay invested.** Seatrium presented an upbeat outlook on the offshore marine and renewables industry to nearly 40 institutional investors at the UOB Kay Hian Asian Gems conference earlier this week. While new rig orders may be 1-2 years away, the company will continue to focus on a return to profitability, safe and on-time execution of its current S\$19.7b orderbook as well as to fill up the gap in its orderbook pipeline for 2026-29.
- Strategic review to be completed by end-23.** Management commented that its "ambitious" strategic review is ongoing and, among other issues, will address: a) extraction of cost and revenue synergies between the merged companies, b) the inevitable consolidation of its global network of yards, c) the company's ideal capital structure going forwards, d) potential consolidation of its shares (which appears to be a 2024 event in our view), and e) target orderbook mix between renewables and oil & gas projects. In addition, the strategic review will also look at what sort of investments the company will need to make in the areas of digitisation, robotics and artificial intelligence, which will partially address the issue of a chronic labour shortage that has affected many industries globally.
- Update on Brazilian FPSOs.** The company has submitted its tender for the P-84 and P-85 FPSOs for Petrobras' Atapu and Sépia fields respectively and, as is standard procedure, Seatrium is currently going through the negotiation with Petrobras regarding the price as well as a technical review. Management appeared somewhat optimistic that the results of the tender could be known by year end.
- Headwinds in the offshore wind sector not a worry.** While price growth and rising interest rates have driven up costs for offshore wind projects, Seatrium's wind projects are related to infrastructure that has received Final Investment Decision and thus management strongly believes that its projects have no cancellation risk.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,862	1,947	4,621	5,353	6,942
EBITDA	(1,028)	(7)	256	502	839
Operating profit	(1,224)	(206)	(35)	211	501
Net profit (rep./act.)	(1,171)	(261)	(270)	158	353
Net profit (adj.)	(1,171)	(261)	(270)	158	352
EPS (S\$ cent)	(6.5)	(0.8)	(0.4)	0.2	0.5
PE (x)	n.m.	n.m.	n.m.	53.9	24.2
P/B (x)	0.5	1.0	1.0	1.0	1.0
EV/EBITDA (x)	n.m.	n.m.	41.7	21.3	12.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(62.9)	(13.4)	(5.8)	3.0	5.1
Net debt/(cash) to equity (%)	45.8	26.5	25.2	19.1	9.1
Interest cover (x)	(14.8)	(1.5)	(0.2)	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	1.9	4.1
Consensus net profit	-	-	(278)	195	497
UOBKH/Consensus (x)	-	-	0.97	0.81	0.71

Source: Seatrium, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$0.128
Target Price	S\$0.190
Upside	+48.4%

COMPANY DESCRIPTION

Seatrium is an integrated shipyard offering one-stop engineering solutions for the offshore oil & gas and renewables industries. It merged with Keppel Offshore Marine in 1Q23.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	STM SP
Shares issued (m):	68,217.1
Market cap (S\$m):	8,731.8
Market cap (US\$m):	6,405.4
3-mth avg daily t'over (US\$m):	35.2

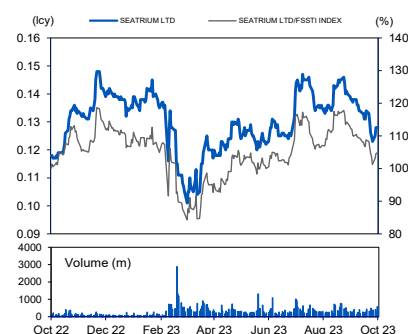
Price Performance (%)

52-week high/low	S\$0.148/S\$0.101			
1mth	3mth	6mth	1yr	YTD
(7.9)	(3.0)	9.4	8.5	(7.2)

Major Shareholders

	%
Temasek Hldgs	38.1
FY23 NAV/Share (S\$)	0.12
FY23 Net Debt/Share (S\$)	0.03

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
 +65 6590 6633
 adrianloh@uobkayhian.com

STOCK IMPACT

- **New rig orders – not so soon.** Management commented that while jack-up dayrates have, in some cases, exceeded US\$180,000/day with a large number of rigs having been reactivated, it does not believe that rig owners will order new assets in the next 1-2 years. Seatrium attributed this to the health of the drillers which, as a group, has only just regained a modicum of financial health. Instead, it believes that national oil companies and perhaps brave speculators will likely be the first to order rigs in the medium to longer term.
- **Repairs and upgrades segment – remaining bullish.** In 1H23, Seatrium successfully delivered 144 repairs & upgrades projects and on the investor call highlighted that it remains bullish on this business segment into 2024 given greater volumes of trade flows and cruise liner activity after COVID-19. In addition, it noted that new decarbonisation rules and regulations promulgated by the International Maritime Organisation (IMO) will lead to retrofitting of older vessels, thus opening up a new business segment for the company.
- **1H23 results season saw positive comments from oilfield services CEOs** which bolster our positive view on the offshore marine sector. SLB stated that the offshore market is being driven by “resilient long-cycle offshore developments, production capacity expansions, (and) the return of global exploration and appraisal”. This was echoed by Subsea 7 which stated that “there is a very long cycle in oil and gas coming, there are a number of good years ahead of us”. TechnipFMC meanwhile commented that many projects are “in advanced stages (and) moving towards final investment decision”. Thus far in 2H23, our channel checks indicate that offshore marine companies remain bullish heading into 2024.

EARNINGS REVISION/RISK

- **None.**

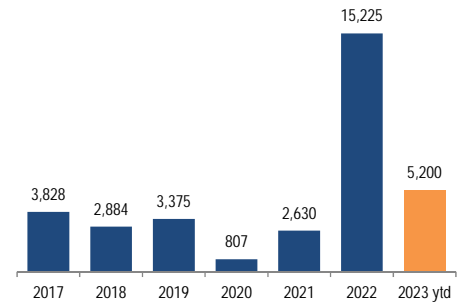
VALUATION/RECOMMENDATION

- **We maintain our BUY rating on Seatrium with a P/B-based target price of S\$0.19.** Our target P/B multiple of 1.5x is 2SD above the company’s five-year average of 1.0x and is pegged to its 2024 book value of S\$0.125. Given the company’s exposure to the offshore marine upcycle, we strongly believe that Seatrium’s current P/B valuation is inexpensive. Risks include higher-than-expected provisions for 2023, negative news flow regarding its CPIB case and volatile oil prices.
- **Maintain sector view at OVERWEIGHT.** We continue to like Seatrium as we believe that the company will benefit from stronger offshore marine dynamics as well as demand for offshore vessels and structures related to the renewables industry. In addition, the normalisation of economic activity should result in a greater volume of shipping activities thus positively impacting its repairs/upgrades segment. While 40% of Seatrium’s current orderbook is in the renewable energy space (with the remainder related to oil and gas projects), its addressable market is arguably much larger when taking into account carbon capture usage and storage, floating LNG, and ammonia storage and transport which feeds into the hydrogen energy chain.

SHARE PRICE CATALYST

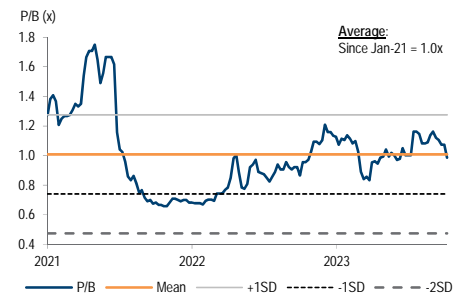
- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.

NEW ORDER WINS BY YEAR (\$M)



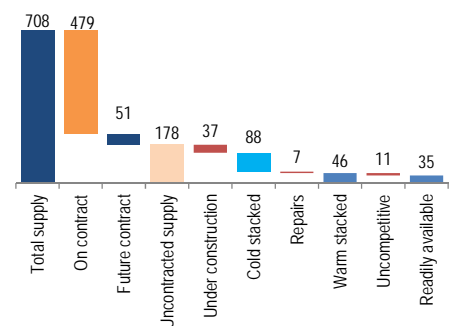
Note: data relates to the combined Keppel and Semb Marine/ Seatrium order wins
Source: Keppel, Seatrium

P/B SINCE 2021



Source: Bloomberg

TOTAL SUPPLY OF RIGS IN THE GLOBAL MARKET



Source: Esglan

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2022	2023F	2024F	2025F
Net turnover	1,947	4,621	5,353	6,942
EBITDA	(7)	256	502	839
Deprec. & amort.	200	291	291	337
EBIT	(206)	(35)	211	501
Total other non-operating income	0	80	0	0
Associate contributions	1	16	16	16
Net interest income/(expense)	(34)	(17)	11	11
Pre-tax profit	(240)	45	238	528
Tax	(26)	(9)	(48)	(106)
Minorities	4	(6)	(32)	(71)
Preferred dividends	0	0	0	1
Net profit	(261)	(270)	158	353
Net profit (adj.)	(261)	(270)	158	352

CASH FLOW

Year to 31 Dec (\$Sm)	2022	2023F	2024F	2025F
Operating	1,039	(474)	418	745
Pre-tax profit	(206)	(35)	211	501
Tax	(2)	19	337	472
Deprec. & amort.	200	291	291	337
Associates	0	0	0	0
Working capital changes	1,050	145	(290)	(436)
Non-cash items	(36)	(60)	0	0
Other operating cashflows	34	(835)	(130)	(130)
Investing	(26)	13	69	69
Capex (growth)	(23)	(40)	(100)	(100)
Capex (maintenance)	0	0	0	0
Investments	0	(101)	159	159
Proceeds from sale of assets	3	10	10	10
Others	(6)	144	0	0
Financing	(21)	286	(729)	(600)
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	938	0	0
Loan repayment	0	0	(729)	(600)
Others/interest paid	(20)	(652)	0	0
Net cash inflow (outflow)	992	(175)	(243)	214
Beginning cash & cash equivalent	1,104	2,091	1,916	1,674
Changes due to forex impact	(6)	0	0	0
Ending cash & cash equivalent	2,091	1,916	1,674	1,887

BALANCE SHEET

Year to 31 Dec (\$Sm)	2022	2023F	2024F	2025F
Fixed assets	3,860	5,020	4,844	4,622
Other LT assets	2,109	6,558	6,803	7,366
Cash/ST investment	2,091	1,916	1,674	1,887
Other current assets	1,042	3,838	4,277	5,216
Total assets	9,102	17,333	17,598	19,092
ST debt	1,669	1,197	1,197	1,197
Other current liabilities	1,765	4,067	4,871	6,543
LT debt	1,420	2,829	2,100	1,500
Other LT liabilities	460	838	838	838
Shareholders' equity	3,769	8,359	8,517	8,869
Minority interest	19	43	75	146
Total liabilities & equity	9,102	17,333	17,598	19,092

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(0.3)	5.5	9.4	12.1
Pre-tax margin	(12.3)	1.0	4.4	7.6
Net margin	(13.4)	(5.8)	3.0	5.1
ROA	n.a.	n.a.	0.9	1.9
ROE	n.a.	n.a.	1.9	4.1
Growth				
Turnover	4.6	137.3	15.8	29.7
EBITDA	n.a.	n.a.	95.8	67.1
Pre-tax profit	n.a.	n.a.	431.9	122.1
Net profit	n.a.	n.a.	n.a.	122.7
Net profit (adj.)	n.a.	n.a.	n.a.	122.1
EPS	n.a.	n.a.	n.a.	122.7
Leverage				
Debt to total capital	44.9	32.4	27.7	23.0
Debt to equity	81.9	48.2	38.7	30.4
Net debt/(cash) to equity	26.5	25.2	19.1	9.1
Interest cover (x)	(1.5)	(0.2)	n.a.	n.a.

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