

Singapore

January 4, 2024 - 1:34 PM

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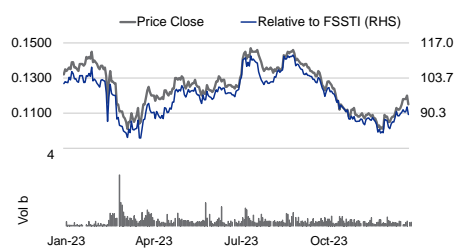
Consensus ratings*: Buy 7 Hold 1 Sell 1

Current price:	S\$0.115
Target price:	S\$0.19
Previous target:	S\$0.19
Up/downside:	65.2%
CGS-CIMB / Consensus:	11.8%
Reuters:	SEAT.SI
Bloomberg:	STM SP
Market cap:	US\$5,906m
	S\$7,845m
Average daily turnover:	US\$20.50m
	S\$27.73m
Current shares o/s	68,237m
Free float:	64.5%

*Source: Bloomberg

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (S\$m)	(250.8)	256.0	659.7
Core EPS (S\$)	(0.004)	0.004	0.010
Core EPS Growth	(92%)		158%
FD Core P/E (x)	NA	30.66	11.89
Recurring ROE	(4.16%)	3.04%	7.44%
P/BV (x)	0.95	0.92	0.85
DPS (S\$)	-	-	-
Dividend Yield	0%	0%	0%


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.7	-11.5	-16.1
Relative (%)	9.2	-11.7	-14.7

Major shareholders	% held
Temasek	35.5

Analyst(s)

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Seatrium Ltd

Project cancelled, but still an Add

- We estimate FY24F EBIT impact of Equinor and BP's cancelled 1,260MW offshore wind farm substation Empire Wind 2 (EW2) at S\$20m-30m in total.
- Empire Wind 1 (810MW), the other offshore wind farm substation that was awarded together with EW 2, escaped the axe, with work started in 4Q23.
- We anticipate negative knee-jerk share price reaction, although the cancelled contract of S\$250m-300m only forms 1.5% of its S\$18.3bn orderbook.
- We keep our Add call and TP of S\$0.19.

Macro factors caused cancellation

- Equinor and BP announced an agreement with the New York State Energy Research and Development Authority (NYSERDA) to terminate the Offshore Wind Renewable Energy Certificate (OREC) Agreement for EW2, an offshore wind farm substation in the US with potential generative capacity of 1,260MW. The key reason cited for cancellation was significant macroeconomic conditions, which we believe to be higher inflation, increased interest costs and supply chain impact, as a result of Covid-19-related disruptions and the Russia-Ukraine war. STM was affected accordingly and announced that its contract to build EW2 (contract value of more than S\$250m) is being cancelled.
- Seatrium (STM) was awarded two offshore windfarm substation platforms (Empire Wind 1 and Empire Wind 2) by Equinor and BP in May 23. In Oct 23, we published a [report](#) on the decision by New York Public Service Commission (PSC) to reject an appeal to adjust prices in its power purchase agreements to incorporate inflation and other supply chain factors for 4 proposed offshore wind projects, including EW1 and 2. However, we believe Equinor/BP did not fully factor in the potential impact of a cancellation at that time.
- Construction work on the EW2 was expected to commence only in Jun 24, with minimal engineering work performed to date. STM said that it will avail construction capacity set aside for this project to other projects in the pipeline. The contract is structured on progressive payment milestones and payment for the work performed to date has been received, resulting in neutral project cashflow.
- We estimate EW2's cancellation to reduce our FY24-26F EBIT by S\$20m-30m in total, or c.S\$7m-8m p.a. assuming high-single-digit EBIT margin of 7-8%.

Empire Wind 1 safe

- We believe 10-15% of EW1 has been completed as work started in 4Q23. The project is now due for delivery in 2026F.
- We understand from STM that construction of other offshore substations include Orsted's Greater Changhua 2b and 4 offshore wind farms in Taiwan (clinched by Keppel Offshore and Marine in Jan 2023), which struck steel in Aug 2023. The project is due for delivery in 2025F.

1.5% impact on order book

- We estimate the cancelled contract forms about 1.5% of STM's S\$18.3bn order book. Although it is not big, we think any cancellation will negatively impact the share price.
- We would look to buy on share price weakness as we still project c.S\$7bn of new order wins for 2024F, with high likelihood of awards from Petrobras and TenneT.
- Investor communication of post-merger cost savings between Sembcorp Marine and Keppel Offshore Marine could be a key catalyst. Other catalysts include securing one or two orders for jack-up rigs from national oil companies (NOC) as well as turning profitable by FY24F. Downside risks: order cancellations impacting revenue recognition, and project cost overruns impacting profitability.
- Reiterate Add as STM is the only offshore and marine proxy in ASEAN and it has a sizeable c.S\$18bn order book with a path towards profitability as loss-making legacy projects are gradually completed by 1H24F. We retain our TP of S\$0.19, still based on 1.5x CY24F P/BV, its 7-year average valuation.
- We understand from STM that its other offshore substation construction projects include Orsted's Greater Changhua 2b and 4 offshore wind farms in Taiwan (clinched by Keppel Offshore and Marine in Jan 2023), which struck steel in Aug 2023. The project is due for delivery in 2025F. See offshore projects on page 2.

Figure 1 : STM offshore wind projects in order book

Project	Client	Contract Value	Due Date
DolWin 5	TenneT	S\$560m	2024
Offshore Substation 1	Unnamed client		2024
Offshore Substation 2	Unnamed client	S\$110m	2024
Sofia	RWE Renewables	£600m	2025
Greater Changhua 2b and 4	Orsted	S\$130m	2025
Empire Wind 1	Empire Wind (JV between BP and Equinor)		2026
Empire Wind 2	Empire Wind (JV between BP and Equinor)	S\$500m	2026
I Jmuiden Ver Beta	TenneT	€2bn	2029-2031
I Jmuiden Ver Gamma	TenneT	€2bn	2029-2031
WTIV	Maersk SupplyService	US\$300-500m (est)	2025
WTIV	Dominion Energy	US\$625m (est)	2024

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Peer comparison

Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)			2-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY23F	CY24F	CY25F		CY23F	CY24F		
Keppel Corporation	KEP SP	Add	7.11	8.70	9,433	12.8	11.4	10.7	11.8%	1.06	1.02	8.4%	5.0%
Capitaland Investment	CLI SP	Add	3.07	4.30	11,788	20.3	17.0	15.8	37.8%	0.96	0.92	4.9%	3.9%
Integrated global asset management - big cap simple average						16.5	14.2	13.2	24.8%	1.01	0.97	6.6%	4.5%
Seatrium Ltd	STM SP	Add	0.12	0.19	5,906	na	30.7	11.9	na	0.95	0.92	-7.8%	0.0%
Singapore offshore - big cap simple average						na	30.7	11.9	na	0.95	0.92	-7.8%	0.0%
COSCO SHIPPING International S	COS SP	NR	0.13	na	251	na	na	na	na	na	na	na	na
China CSSC Holdings Ltd	600150 CH	NR	29.44	na	18,611	47.2	20.3	14.5	502.7%	2.72	2.42	5.9%	0.7%
China Shipbuilding Industry Co	601989 CH	NR	4.13	na	13,236	206.5	24.3	15.3	na	1.13	1.08	0.4%	0.5%
CSSC Offshore and Marine Engin	600685 CH	NR	25.55	na	3,796	na	na	na	na	na	na	na	na
Yangzijiang Shipbuilding	YZJSGD SP	Add	1.50	1.96	4,461	8.8	7.7	7.1	20.8%	1.61	1.43	19.8%	4.4%
Chinese Shipbuilder simple average						87.5	17.4	12.3	261.7%	1.82	1.64	8.7%	1.8%
Korea Shipbuilding & Offshore	009540 KS	Add	113,500	119,000	6,155	30.4	10.5	6.6	na	0.80	0.72	2.7%	0.0%
Hyundai Mipo Dockyard	010620 KS	Reduce	82,000	69,000	2,510	na	23.0	15.0	na	1.56	1.47	-2.1%	0.0%
Samsung Heavy Industries	010140 KS	Add	7,480	10,900	5,044	101.2	23.7	13.7	na	1.80	1.67	1.8%	0.0%
Hanwha Ocean	042660 KS	Hold	24,900	35,300	5,845	na	24.5	13.9	na	1.65	1.55	-8.0%	0.0%
Sejin Heavy Industries Co Ltd	075580 KS	NR	4,755	na	205	16.8	18.2	10.1	11.0%	1.63	1.57	9.8%	3.2%
Korean Shipbuilder simple average						49.5	20.0	11.9	11.0%	1.49	1.40	0.9%	0.6%
Mitsui E&S Co Ltd	7003 JP	NR	706.0	na	513	4.0	3.8	na	68.0%	0.64	0.58	na	0.1%
Japan Shipbuilder simple average						5.9	3.8	na	68.0%	0.64	0.58	na	0.1%
Brookfield Corp	BN US	NR	40.12	na	63,736	19.9	15.2	12.8	47.2%	1.44	1.42	9.6%	0.7%
US Shipbuilder simple average						19.9	15.2	12.8	47.2%	1.44	1.42	9.6%	0.7%
CSE Global	CSE SP	Add	0.43	0.57	197	11.7	9.0	7.7	83.1%	1.21	1.14	10.5%	6.5%
SATS Ltd	SATS SP	Add	2.73	3.00	3,064	134.2	42.1	22.3	na	1.89	1.91	1.3%	0.5%
Sembcorp Industries	SCI SP	Add	5.34	6.85	7,153	9.6	10.4	10.3	12.0%	2.04	1.79	23.1%	2.9%
ST Engineering	STE SP	Add	3.82	4.27	8,957	20.6	17.0	14.6	23.8%	4.81	4.45	23.8%	4.2%
SIA Engineering	SIE SP	Hold	2.36	2.51	1,995	24.4	20.1	18.4	41.1%	1.55	1.51	6.5%	3.4%
Industrial/conglomerate / airport services simple average						40.1	19.7	14.7	40.0%	2.30	2.16	13.0%	3.5%

DATA AS AT 3 JAN 2024

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
Estimates for Not rated companies are based on Bloomberg consensus

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	1,947	5,595	6,887	8,624
Gross Profit	-132	-169	551	1,121
Operating EBITDA	-36	334	866	1,354
Depreciation And Amortisation	-170	-406	-383	-362
Operating EBIT	-206	-73	482	992
Financial Income/(Expense)	-34	-157	-198	-259
Pretax Income/(Loss) from Assoc.	1	-5	0	0
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	-240	-234	284	733
Exceptional Items	0	0	0	0
Pre-tax Profit	-240	-234	284	733
Taxation	-26	-21	-23	-59
Exceptional Income - post-tax				
Profit After Tax	-266	-255	262	674
Minority Interests	4	5	-6	-15
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	-261	-251	256	660
Recurring Net Profit	-261	-251	256	660
Fully Diluted Recurring Net Profit	-261	-251	256	660

Balance Sheet

(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	2,091	1,861	1,997	2,675
Total Debtors	572	1,554	1,913	2,396
Inventories	71	466	574	719
Total Other Current Assets	399	2,989	3,528	4,251
Total Current Assets	3,133	6,870	8,012	10,041
Fixed Assets	3,860	5,012	4,729	4,467
Total Investments	257	462	462	462
Intangible Assets	175	3,881	3,881	3,881
Total Other Non-Current Assets	1,677	1,810	1,810	1,810
Total Non-current Assets	5,969	11,165	10,882	10,619
Short-term Debt	1,695	2,051	2,051	2,051
Current Portion of Long-Term Debt				
Total Creditors	1,144	3,976	4,874	6,080
Other Current Liabilities	595	1,377	1,576	1,962
Total Current Liabilities	3,434	7,404	8,501	10,093
Total Long-term Debt	1,662	1,743	1,243	743
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	202	504	504	504
Total Non-current Liabilities	1,864	2,246	1,746	1,246
Total Provisions	16	62	62	62
Total Liabilities	5,313	9,712	10,309	11,401
Shareholders' Equity	3,769	8,287	8,543	9,203
Minority Interests	19	36	42	56
Total Equity	3,788	8,323	8,585	9,259

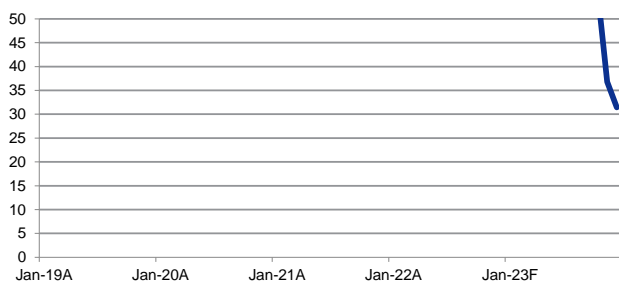
Cash Flow

(\$m)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	-36	334	866	1,354
Cash Flow from Invt. & Assoc.				
Change In Working Capital	1,050	-282	179	241
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	19	-157	-198	-259
Tax Paid	-2	-21	-23	-59
Cashflow From Operations	1,031	-126	825	1,278
Capex	-23	-100	-100	-100
Disposals Of FAs/subsidiaries	3	0	0	0
Acq. Of Subsidiaries/Investments	-6	0	0	0
Other Investing Cashflow	0	0	0	0
Cash Flow From Investing	-26	-100	-100	-100
Debt Raised/(repaid)	0	-500	-500	-500
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	-0	0	0	0
Dividends Paid	-0	0	0	0
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	-1	-500	-500	-500
Total Cash Generated	1,005	-726	225	678
Free Cashflow To Equity	1,005	-726	225	678
Free Cashflow To Firm	1,103	110	1,100	1,566

Key Ratios

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	5%	187%	23%	25%
Operating EBITDA Growth	(97%)	N/A	159%	56%
Operating EBITDA Margin	(1.8%)	6.0%	12.6%	15.7%
Net Cash Per Share (\$)	-0.24	-0.03	-0.02	-0.00
BVPS (\$)	0.70	0.12	0.13	0.13
Gross Interest Cover	-1.51	-0.22	1.28	2.56
Effective Tax Rate	0.00%	0.00%	8.00%	8.00%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	97.8	69.3	92.1	91.2
Inventory Days	12.11	17.01	30.04	31.44
Accounts Payables Days	218.1	156.3	250.3	262.0
ROIC (%)	(3.3%)	(1.5%)	4.7%	9.9%
ROCE (%)	(1.4%)	1.1%	5.5%	9.3%
Return On Average Assets	(2.5%)	(0.7%)	2.5%	4.7%

12-mth Fwd FD P/E (x) - Seatrium Ltd



Key Drivers

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Order win (\$bn)	15.1	7.1	7.0	6.0

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Description:	Excellent	Very Good	Good	N/A	N/A

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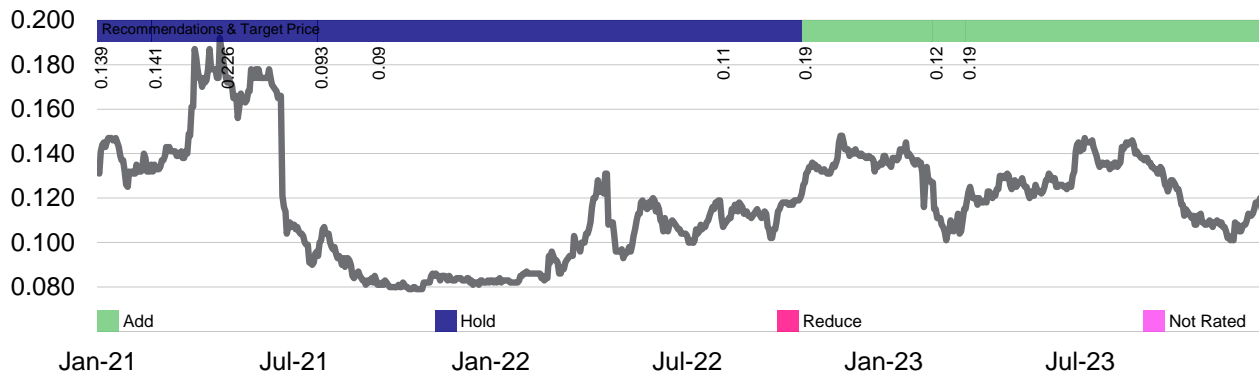
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Seatrium Ltd (STM SP)

— Price Close



Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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