

SECTOR UPDATE

Offshore Marine – Singapore

Unmoved And Unaffected By Poor Oil Price Sentiment

Sentiment on oil prices remains fragile with worries over lower demand and higher supply taking centre stage. However, rig day rates and utilisation rates remain robust even in the face of contract cancellations in Saudi Arabia in 2Q24 as several of the jack-ups have found replacement work. Importantly, Seatrium is arguably oil-price agnostic given its exposure to the lower risk, late-cycle segment of field production via its FPSO construction projects in Brazil for Petrobras. Maintain OVERWEIGHT on the sector.

WHAT'S NEW

- **Industry dynamics remain robust despite weaker oil prices.** Market concerns over a potential global recession has driven oil prices lower with the Brent oil price declining 16% over the past six months and down 9% ytd. Nevertheless, rig day rates and utilisation rates have gone from strength to strength (see charts on pg 4), even in the face of negative events, eg Saudi Aramco's cancellation of multiple jack-up contracts in 2Q24.
- **A potential slowdown in the global economy in 2025 has led to consensus downgrades in oil price forecasts,** with China's economic malaise being blamed for lower oil consumption next year. In addition, OPEC, the IEA and a number of industry forecasts point to a potential oil supply glut from non-OPEC countries which could require OPEC to further cut oil production. Ameliorating these factors is US shale's relatively high breakeven oil price of US\$60/bbl or more. Thus, production could be shuttered should prices decline into the US\$60-65 range in our view, though Brent oil for delivery in 2030 is currently at around US\$69/bbl.
- **M&A heating up in Singapore.** Evidence of the high corporate interest in late-cycle offshore marine plays can be found in Hanwha Ocean's voluntary conditional cash offer for Dyna-Mac (DMHL SP, NOT RATED) at S\$0.60/share announced on 11 Sep 24. Annualising DMHL's 1H24 net profit of S\$39m and excluding the S\$308m in cash on its balance sheet, the takeover PE multiple of 5x appears inexpensive. We note that DMHL's closing share price of S\$0.62 yesterday is above Hanwha's offer price.
- **Brazil & FPSOs – Key growth drivers for Seatrium.** STM is currently building eight of Petrobras' 11 FPSOs that will be deployed to offshore Brazil between 2H24 and 2028. Apart from these, we highlight that there are another 7-11 new FPSOs required in Brazil that Petrobras planned to come onstream after 2029 but has yet to contract out. Assuming medium-sized FPSOs, these projects could be worth between US\$20-30b and will need to be awarded in the next 12-24 months if production timelines are to be met.

ACTION

- **Maintain OVERWEIGHT on the sector.** While our conviction levels for STM have been affected by regulatory overhang, thus resulting in our valuing the company at S\$2.31 or 1x P/B, a removal of such an overhang could result in valuation upside towards +1SD above 1x P/B or S\$2.80. As seen in the chart on the RHS, STM is exposed to the five largest regions for floating production projects that have been planned but not awarded. Given its admirable track record for safe and reliable deliveries, we believe STM is in a strong position to win a number of these projects over the next 12-24 months.

PEER COMPARISON - SHIPYARDS

Company	Ticker	Rec	Price (1cy)		Upside to TP (%)	Market Cap (US\$m)	PE (x)		P/B (x)		EV/EBITDA (x)		ROE%	Yield (%)
			18 Sep	Target			2024F	2025F	2024F	2025F	2024F	2025F		
Seatrium	STM SP	BUY	1.68	2.31	37.5%	4,298	54.1	19.3	1.0	0.9	10.3	8.3	1.6	0.0
Yangzijiang Shipbldg	YZJSGD SP	BUY	2.63	3.40	29.3%	7,823	9.1	7.7	2.0	1.6	5.9	5.0	25.7	3.4
Marco Polo Marine*	MPM SP	BUY	0.054	0.061	20.4%	155	8.0	7.5	1.1	1.0	2.9	2.7	13.6	2.8
Average – Spore-listed							23.7	11.5	1.4	1.2	6.4	5.3	13.6	2.1
Hanwha Ocean Co	042660 KS	NR	30,600	35,555	16.2%	7,085	50.1	21.8	2.1	1.9	27.6	14.7	4.1	0.0
Samsung Heavy Ind	010140 KS	NR	10,340	14,313	38.4%	6,873	34.3	16.3	2.4	2.1	16.2	11.1	7.3	0.0
HD Korea Shipbldg	009540 KS	NR	183,000	237,000	29.5%	9,774	13.4	8.0	1.2	1.0	7.0	4.3	8.4	1.0
Average – Sector							28.2	13.4	1.6	1.4	11.7	7.7	10.1	1.2

Note: * fiscal year ending 30 September; NR = Not Rated, based on Bloomberg consensus
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

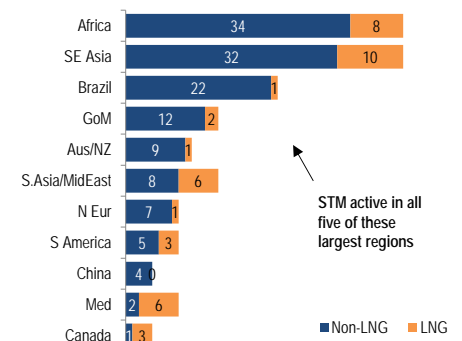
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	
			18 Sep	Target
Keppel	KEP SP	BUY	6.51	8.86
Seatrium	STM SP	BUY	1.68	2.31
Semb Industries	SCI SP	BUY	5.30	7.47
Yangzijiang	YZJSGD SP	BUY	2.63	3.40
Marco Polo Marine	MPM SP	BUY	0.054	0.061

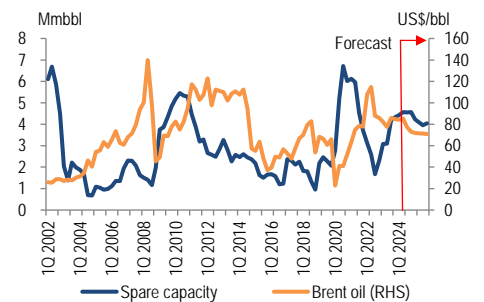
Source: Bloomberg, UOB Kay Hian

NO. OF FLOATING PRODUCTION PROJECTS IN THE PLANNING PIPELINE, BY REGION



Source: EMA

OPEC SPARE CAPACITY VS BRENT OIL PRICE



Source: US Energy Information Administration, Bloomberg

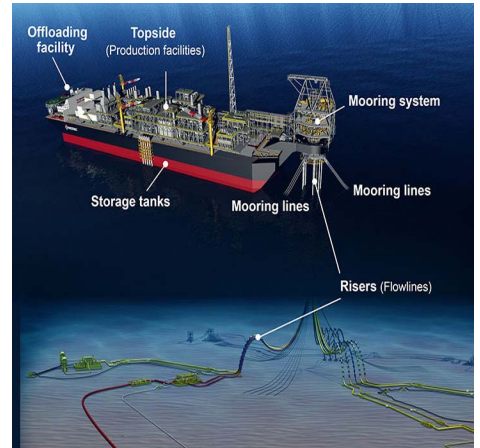
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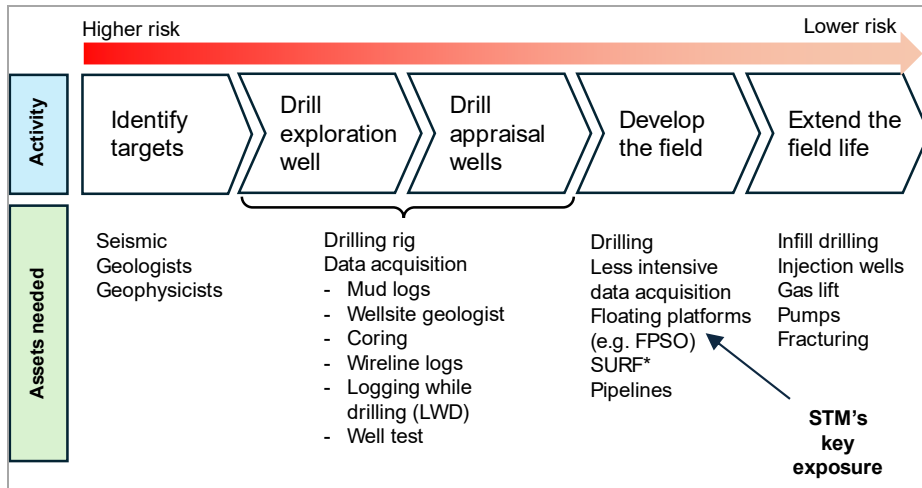
- What are FPSOs...** FPSOs, or floating production, storage and off-take vessels, are ships that have been converted (typically from an oil tanker or built from scratch) to accept oil production from subsurface wells and store the produced oil until a tanker comes alongside to unload it (see diagram on RHS). FPSOs can range in sophistication from simple barge-like vessels anchored via chains to huge dynamically positioned ships capable of separating out oil/gas and water, storing over 2mmbbl of oil and re-injecting produced water or gas.
- ...and why were they chosen for offshore Brazil?** FPSOs are the most common solution to deepwater developments and were chosen by Petrobras due to three main reasons: a) Brazil's offshore oil reserves are located in very deep waters of >2,000 meters where fixed platforms are not feasible, b) FPSOs do not require expensive pipeline infrastructure to transport oil and gas from offshore fields to onshore facilities as they store produced oil on-site, thus reducing the need for continuous transportation and making them cost-effective for remote fields, c) FPSOs can be relocated or repurposed for different fields once the initial oil field depletes vs fixed platforms which are more permanent and costly to decommission or abandon.
- STM's exposure to Brazil is lower risk.** Looking at the diagram below on the life cycle of an oil field, one can see that STM's key exposure is when FPSOs are needed in field development which is late-cycle and lower-risk. In this stage, the high-risk part of exploration and appraisal is over and the oil company – certain that it has commercial amounts of oil and gas in the ground – will have declared Final Investment Decision, and more importantly allocated capex to the project. Thus, only the construction and installation of the FPSO is needed to be completed prior to commencement of oil and gas production.

THE FPSO ECOSYSTEM



Source: MODEC

LIFE CYCLE OF AN OIL FIELD AND STM'S KEY SUB-SECTOR EXPOSURE



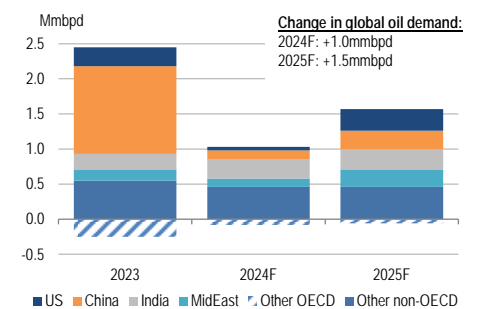
Note: * subsea umbilicals, risers and flowlines
Source: UOB Kay Hian

- Large pipeline of floating production projects yet to be awarded.** According to Energy Maritime Associates, there are 177 projects in the pipeline as at end-Aug 24 with 59 projects (33%) in the bidding/final design stage, 86 projects (49%) in the planning phase and 32 projects (18%) in the appraisal stage. A significant chunk of the appraisal projects is from Africa where political and financial issues have been key hurdles. However, STM has benefited from Africa given its ties with ExxonMobil's exploration activities in Guyana. In the past decade, ExxonMobil has discovered 11b boe of recoverable oil with STM delivering the Liza Unity FPSO in 2021 for its client's Stabroek block.

RISKS TO OUR THESIS

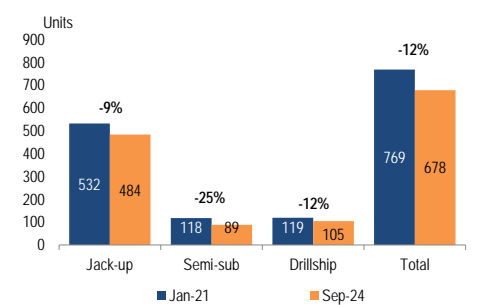
- Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; global recession leading to lower oil prices and lower capex spending.

INCREMENTAL OIL DEMAND GROWTH PER YEAR



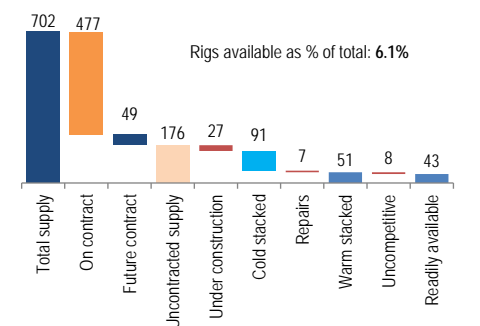
Source: US Energy Information Administration (Jul 24)

CHANGE IN TOTAL NUMBER OF OFFSHORE ASSETS GLOBALLY: SEP 24 VS JAN 21



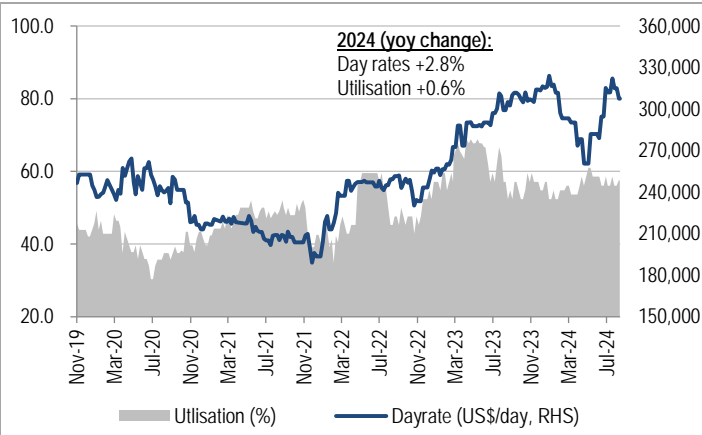
Source: Bassoe Analytics

% OF RIGS UTILISED AND AVAILABLE GLOBALLY



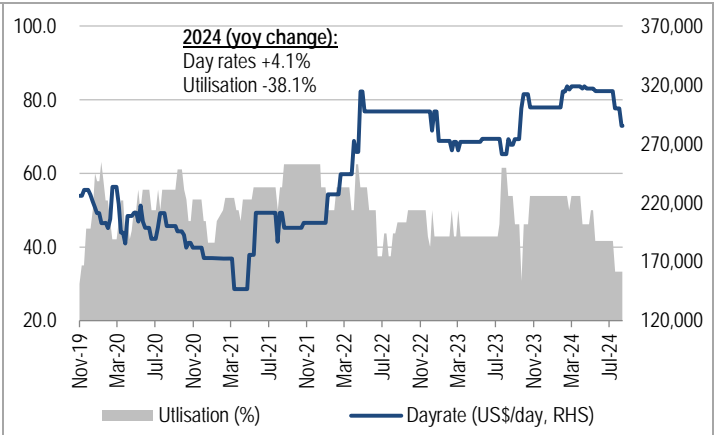
Source: Bassoe Analytics

DAYRATE & UTILISATION: SEMISUB 8000'



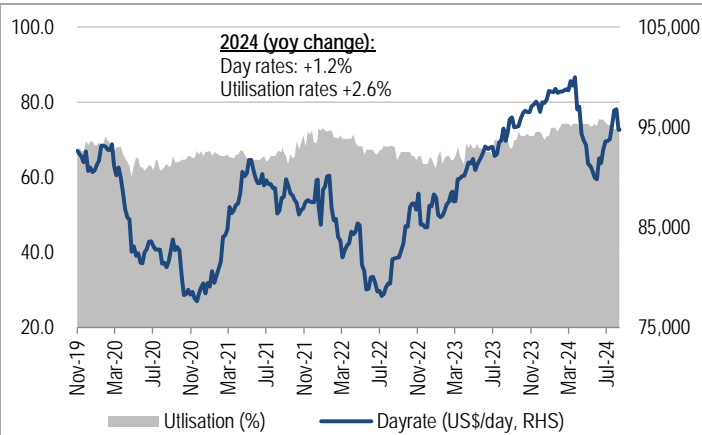
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: SEMISUB 5000-8000'



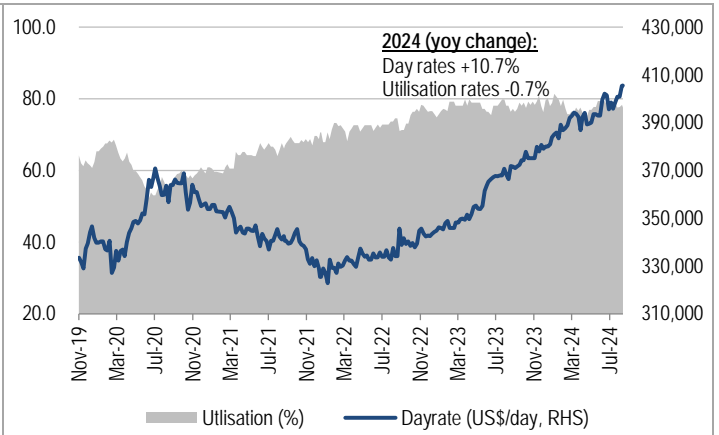
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: JACKUP 300+ INDEPENDENT CANTILEVERED



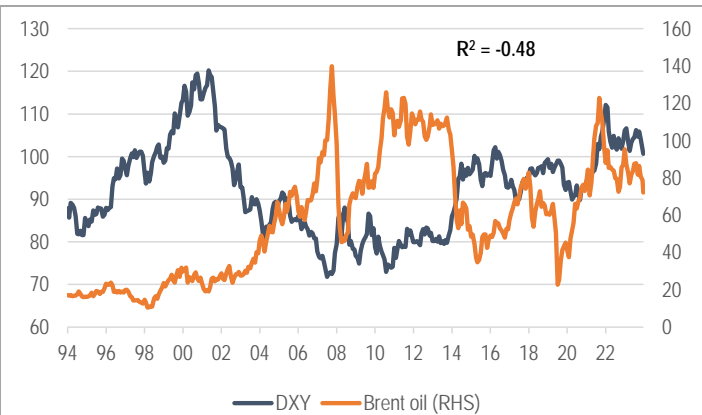
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: DRILLSHIP



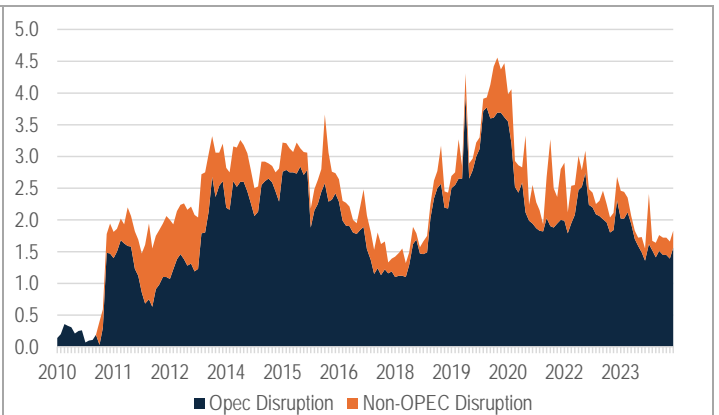
Source: Rigzone, Bloomberg

NEGATIVE CORRELATION BETWEEN U.S. DOLLAR INDEX & BRENT OIL PRICE



Note: R^2 is statistically significant negative correlation given sample size of 361
Source: Bloomberg

DISRUPTIONS TO GLOBAL OIL PRODUCTION: OPEC VS NON-OPEC (MMBL)



Source: US Energy Information Agency

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