

COMPANY UPDATE

Seatrium (STM SP)

Keep On Keeping On

Seatrium's 3Q24 business update showed that it continues to execute well on its projects. After the end of the quarter, the company signed an LOI for a US\$400m EPC project from a Japanese client with the potential award of the contract in 1Q25. Two legacy low-margin projects should be completed by end-24, and while the MAS/CAD investigation remains an overhang, it could lead to a re-rating of the stock if removed in the near to medium term. Maintain BUY. Target price: S\$2.80.

WHAT'S NEW

- A relatively uneventful 3Q24 business update.** Seatrium's (STM) business update was relatively uneventful with the key highlights being deliveries of three major projects to its customers ytd. Importantly, the TenneT High Voltage Direct Current (HVDC) project achieved its strike steel milestone while the Sofia offshore wind farm in the UK witnessed the installation of a 13,000-tonne offshore converter platform built by STM. Given these significant milestones, positive cashflow impact for 2H24 should be expected. As at end-3Q24, Seatrium's net orderbook stood at S\$24.4b, with deliveries out to 2031.
- LOI worth US\$400m with Penta-Ocean.** After the end of the quarter, STM announced that it had signed a Letter of Intent (LOI) with Japan's Penta-Ocean for early engineering work for a Heavy Lift Vessel for the wind market in offshore Japan. The award of the full EPC contract is expected in 1Q25 after the final investment decision by Penta-Ocean. We estimate that this US\$400m project will be a relatively low-risk one for STM as it is a foundation-based project compared with the higher-risk US\$1.5b Heerema project that ran into cost overrun issues due to its more complicated semi-submersible heavy lift hull.
- Assuaging concerns on US wind projects.** In management's view, the offshore US wind projects in its orderbook have very little to zero chance of cancellations given that these have received final investment decisions. Outside of the US, we note that offshore wind projects continue to be favoured by governments, helped by potentially lower interest rates and the enabling of higher contracted prices by certain governments.
- Legacy contracts should be completed by end-24.** Management stated that its two-remaining low-margin legacy contracts are progressing well and that they should be completed by the year-end at its US shipyard. Whether its US yards are closed down remains to be seen given that the new Trump administration may look favourably on companies with US assets.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,947	7,291	8,343	7,281	6,715
EBITDA	(7)	(1,116)	657	823	860
Operating profit	(206)	(1,573)	201	355	417
Net profit (rep./act.)	(261)	(1,940)	105	296	366
Net profit (adj.)	(261)	(1,940)	105	295	365
EPS (S\$ cent)	(0.8)	(2.8)	3.1	8.7	10.7
PE (x)	n.a.	n.a.	63.2	22.5	18.2
P/B (x)	16.2	18.8	1.0	1.0	0.9
EV/EBITDA (x)	n.a.	n.a.	11.6	9.2	8.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(13.4)	(26.6)	1.3	4.1	5.5
Net debt/(cash) to equity (%)	26.5	11.5	14.7	4.8	(8.0)
Interest cover (x)	(0.2)	(12.1)	5.9	99.5	n.a.
ROE (%)	(6.5)	(37.9)	1.6	4.4	5.2
Consensus net profit	-	-	127	394	541
UOBKH/Consensus (x)	-	-	0.83	0.75	0.68

Source: Seatrium, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.95
Target Price	S\$2.80
Upside	+43.6%

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):	3,394.1
Market cap (S\$m):	6,618.5
Market cap (US\$m):	4,972.2
3-mth avg daily t'over (US\$m):	37.6

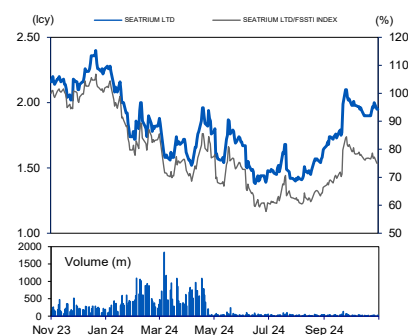
Price Performance (%)

52-week high/low	S\$2.40/S\$1.36			
1mth	3mth	6mth	1yr	YTD
(3.9)	37.3	10.8	(9.7)	(17.4)

Major Shareholders

Temasek Hldgs	37.9%
FY24 NAV/Share (S\$)	1.93
FY24 Net Debt/Share (S\$)	0.28

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
 +65 6590 6633
 adrianloh@uobkayhian.com

STOCK IMPACT

- Repairs & upgrades segment – Providing non-cyclical and foundational revenue via its numerous FCCs.** This business segment performed well in 3Q24, leading to the completion of 192 repairs & upgrades projects for 9M24. After the end of the quarter, STM announced that it had won S\$100m worth of repairs & upgrades projects including a carbon capture & storage (CCS) retrofit for Mitsui O.S.K. Lines, and three offshore refits for China Oilfield Services Ltd and McDermott. In our view, this is one of the key segments which we will be watching closely given the large annual addressable market size totalling S\$20b-30b. Importantly, this is a market that is non-cyclical given that ships need to be either repaired or upgraded at least every 3-5 years. Seatrium highlighted that it is aiming for this segment to grow by 3-4x by 2028. We highlight that in 2024 alone, the company has secured Favoured Customer Contracts (FCC) with Hyundai LNG Shipping, GasLog LNG, Shell International Trading & Shipping Co and TMS Cardiff Gas for repairs, refurbishment and upgrading activities for LNG vessels.
- Share buyback update.** The company commenced its S\$100m share buyback on 4 Jun 24 after its 20-for-1 share consolidation, and thus far has spent S\$29m buying back around 18m shares at an aggregate share price of around S\$1.63. With only 29% of its authorised amount spent on its buyback, we expect the company to further support its share price in the near to medium term via more share buybacks.

EARNINGS REVISION/RISK

- No changes to our earnings forecasts.** Key risks in the near term include weaker oil prices which could negatively impact sentiment on STM.

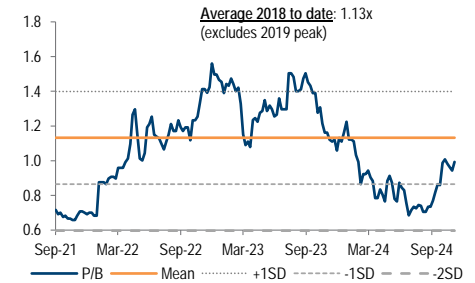
VALUATION/RECOMMENDATION

- We maintain our BUY recommendation with an unchanged P/B-based target price of S\$2.80.** Our target P/B multiple of 1.4x is 1SD above the company's five-year average and applied to its 2025 book value of S\$2.04. In our view, this P/B multiple appears reasonable considering the company's strong competitive position globally as many of its peers have shuttered over the past decade. In the near term, the key re-rating catalyst is the completion of the investigation by the MAS/CAD.
- 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 considering carbon capture usage and storage, floating LNG, and ammonia storage and transport which feeds into the hydrogen energy chain.

SHARE PRICE CATALYST

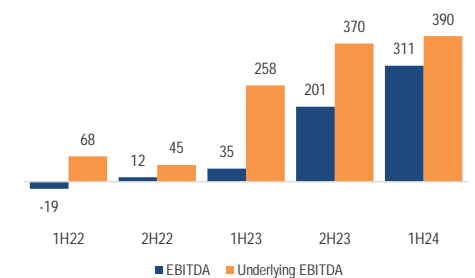
- New orders for rigs, offshore renewable installations or fabrication works.
- Repairs and upgrade works for cruise ships and other commercial vessels.
- Changes in US regulations and policies which may result in higher demand for offshore assets.

P/B CHART FROM 2018 TO PRESENT



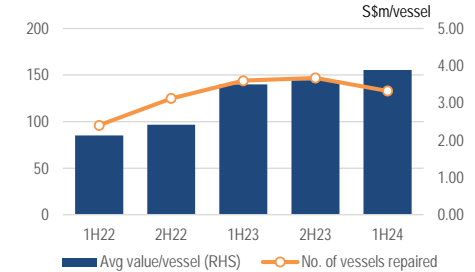
Source: STM, UOB Kay Hian estimates

SEQUENTIAL IMPROVEMENT IN EBITDA (\$M)



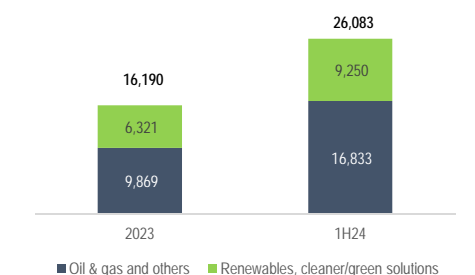
Source: STM

REPAIRS & UPGRADES SEGMENT



Source: STM

NET ORDERBOOK (\$M)



Source: STM

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	7,291	8,343	7,281	6,715
EBITDA	(1,116)	657	823	860
Deprec. & amort.	456	456	468	443
EBIT	(1,573)	201	355	417
Total other non-operating income	(282)	0	1	1
Associate contributions	7	28	28	28
Net interest income/(expense)	(92)	(111)	(8)	24
Pre-tax profit	(1,939)	118	375	470
Tax	(14)	(30)	(94)	(117)
Minorities	13	17	15	13
Net profit	(1,940)	105	296	366
Net profit (adj.)	(1,940)	105	295	365

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	600.8	(311.1)	595.7	836.9
Pre-tax profit	(1,572.6)	200.6	354.6	417.2
Tax	(23.5)	19.0	(124.6)	85.8
Deprec. & amort.	456.3	456.3	468.1	442.7
Associates	0.0	0.0	0.0	0.0
Working capital changes	122.1	(715.5)	18.3	12.0
Non-cash items	25.6	0.0	0.0	0.0
Other operating cashflows	1,593.0	(271.5)	(120.7)	(120.7)
Investing	654.4	89.0	40.4	72.8
Capex (growth)	(115.9)	(100.0)	(100.0)	(100.0)
Investments	755.4	179.0	130.4	162.8
Proceeds from sale of assets	14.5	10.0	10.0	10.0
Others	0.3	0.0	0.0	0.0
Financing	(1,071.5)	526.2	(400.0)	(100.0)
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	526.2	0.0	0.0
Loan repayment	(1,016.6)	0.0	(400.0)	(100.0)
Others/interest paid	(54.9)	0.0	0.0	0.0
Net cash inflow (outflow)	183.6	304.1	236.2	809.7
Beginning cash & cash equivalent	2,090.8	2,270.2	2,574.3	2,810.5
Changes due to forex impact	(4.3)	0.0	0.0	0.0
Ending cash & cash equivalent	2,270.2	2,574.3	2,810.5	3,620.2

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	4,081	3,855	3,618	3,405
Other LT assets	5,826	5,763	5,564	5,398
Cash/ST investment	2,270	2,574	2,811	3,620
Other current assets	4,050	4,423	3,842	3,540
Total assets	16,227	16,616	15,835	15,963
ST debt	743	743	743	743
Other current liabilities	5,445	5,219	4,558	4,434
LT debt	2,274	2,800	2,400	2,300
Other LT liabilities	1,272	1,272	1,272	1,272
Shareholders' equity	6,471	6,576	6,872	7,237
Minority interest	21	4	(10)	(24)
Total liabilities & equity	16,227	16,616	15,835	15,963

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	(15.3)	7.9	11.3	12.8
Pre-tax margin	(26.6)	1.4	5.2	7.0
Net margin	(26.6)	1.3	4.1	5.5
ROA	(15.3)	0.6	1.8	2.3
ROE	(37.9)	1.6	4.4	5.2
Growth				
Turnover	274.5	14.4	(12.7)	(7.8)
EBITDA	n.a.	n.a.	25.2	4.5
Pre-tax profit	n.a.	n.a.	217.8	25.3
Net profit	n.a.	n.a.	181.5	23.7
Net profit (adj.)	n.a.	n.a.	180.6	23.8
EPS	n.a.	n.a.	181.5	23.7
Leverage				
Debt to total capital	31.7	35.0	31.4	29.7
Debt to equity	46.6	53.9	45.7	42.1
Net debt/(cash) to equity	11.5	14.7	4.8	(8.0)
Interest cover (x)	(12.1)	5.9	99.5	n.a.

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