

COMPANY UPDATE

Seatrium (STM SP)

Positive Developments In 4Q24 Close Out The Year

Seatrium's business activity did not flag in 4Q24 with a notable contract win for a floating production unit for the Gulf of Mexico as well as the delivery of a fifth jack-up rig to Borr Drilling. A tie-up with an Indian shipyard presents interesting growth opportunities for the company in the medium to longer term. Key near-term share price catalysts are the conclusion of the MAS/CAD investigation, and the completion of two low-margin contracts in the US. Maintain BUY. Target price: S\$2.80.

WHAT'S NEW

- **An offshore production platform win.** In late-Dec 24, Seatrium (STM) announced that it had successfully converted a Letter of Intent to a firm contract for the engineering, procurement, construction and commissioning (EPCC) for BP's Kaskida project in the Gulf of Mexico (GoM) which we estimate to be worth S\$500m-600m. As at end-3Q24, STM's net orderbook stood at S\$24.4b excluding this contract, with deliveries out to 2031.
- **Strong contender for two more follow-on projects.** While this project win was largely expected, we highlight that it is the first of BP's three large deepwater discoveries in the GoM, the others being Tiber and Gila. In its 3Q24 results presentation, BP stated that Tiber will progress to final investment decision in 2025 and thus we should expect a contract announcement for its production platform 6-9 months thereafter. In total, the three fields contain an estimated 9b bbls of recoverable reserves and are thus strategically and economically important to BP. In our view, the Kaskida EPCC contract puts STM in a very strong position to clinch the Tiber and Gila production units as both proceed towards final investment decision in the next few years. A single yard winning all the production assets is not unprecedented as we point to STM winning Shell's trio of deepwater production assets in the GoM, namely Whale, Vito and Sparta. Importantly, the building of a series of such assets will enable STM to capture higher profit margins given economies of scale.
- **Onerous contracts should be completed by end-24.** In our view, one of the key overhangs on STM's share price at the moment is its legacy contracts which have been a drag on its gross profit margins. We believe that these projects were completed by end-24 and in line with management's projections. 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.	67.1	23.8	19.3
P/B (x)	17.2	19.9	1.1	1.0	1.0
EV/EBITDA (x)	n.a.	n.a.	12.2	9.7	9.3
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\$2.07
Target Price	S\$2.80
Upside	36.7%

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):	3,386.1
Market cap (S\$m):	7,009.1
Market cap (US\$m):	5,147.7
3-mth avg daily t'over (US\$m):	32.8

Price Performance (%)

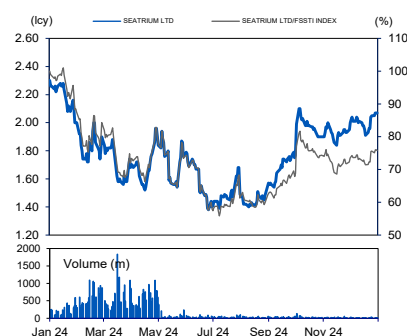
52-week high/low	S\$2.40/S\$1.36			
1mth	3mth	6mth	1yr	YTD
6.2	18.3	47.9	(13.8)	0.0

Major Shareholders

Temasek Hldgs	37.9
-	-

FY24 NAV/Share (S\$)	1.93
FY24 Net Debt/Share (S\$)	0.28

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Successful delivery of fifth jack-up rig to Borr Drilling.** In mid-Nov 24, STM announced that it had delivered its fifth newbuild jack-up rig “Var” to Borr Drilling. Importantly, this was nearly one year ahead of schedule and was executed within budget and bodes well for the company’s sequential EBITDA trend in 2H24 since completion of projects will see final payments paid to STM. “Var” is a KFELS Super B Class 400-foot jack-up rig and comes on the heels of the fourth jack-up “Vali” that was delivered in Aug 24. In total, we estimate that STM will receive at least S\$400m-420m in final payments for both jack-up rigs.
- A small step into the busy Indian market.** In late-Nov 24, STM announced that it had signed an MOU with Cochin Shipyard of Kerala, India, to jointly design and supply critical equipment for jack-up rigs for the Indian market with Mobile Offshore Drilling Units specifically mentioned. Cochin Shipyard is an Indian Government enterprise with a market capitalisation of INR345b (US\$4.1b).
- Oil & gas drilling offshore India has seen support from the government** via an increasing intent to push domestic oil manufacturers to increase the domestic production of oil and gas to reduce the country’s import dependency. In 1H24, India’s Petroleum & Natural Gas minister stated that upstream capex could total US\$100b by 2030. As seen in the chart on RHS, India’s national oil company (NOC), ONGC, has drilled an average of 480 wells per year in the past five years and this number has been relatively stable with little correlation to the Brent oil price. With NOCs often prioritising national interests over profits or return on capital, India’s pursuit of self-sufficiency in energy could be an interesting theme for STM to ride on via its MOU with Cochin Shipyard.
- Share buyback update.** In 2024, STM spent >S\$43m buying back around 25.2m shares at an aggregate share price of around S\$1.72. With less than 44% of its authorised amount spent on its buyback, we expect the company to further support its share price in the lead-up to its 2024 results (expected in late-Feb 25). Since its 3Q business update announced on 11 Nov 24, the company has bought back over 7m shares worth nearly S\$14m.

EARNINGS REVISION/RISK

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

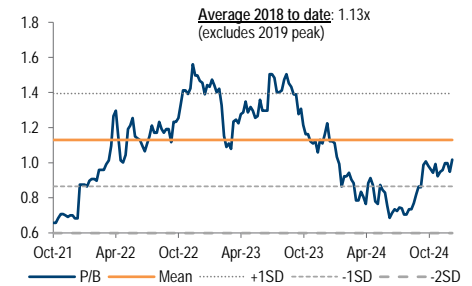
VALUATION/RECOMMENDATION

- 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 STM as we believe that the company will benefit from stronger offshore marine dynamics in 2025 as well as demand for offshore vessels and structures related to the renewables industry.

SHARE PRICE CATALYST

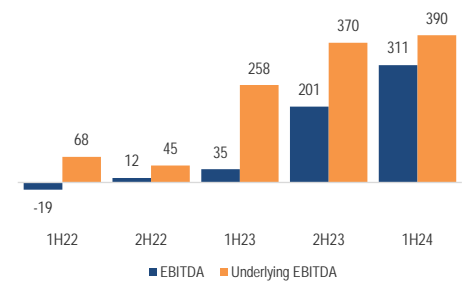
- Completion of the MAS/CAD investigations.
- New orders for rigs, offshore renewable installations or fabrication works.
- Repairs and upgrade works for cruise ships and other commercial vessels.
- Changes in US regulations and policies which may result in higher demand for offshore assets.

P/B CHART FROM 2018 TO PRESENT



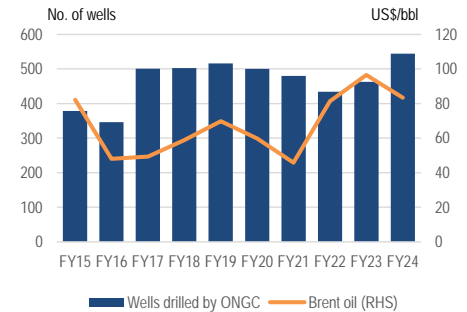
Source: STM, UOB Kay Hian estimates

SEQUENTIAL IMPROVEMENT IN EBITDA (\$M)



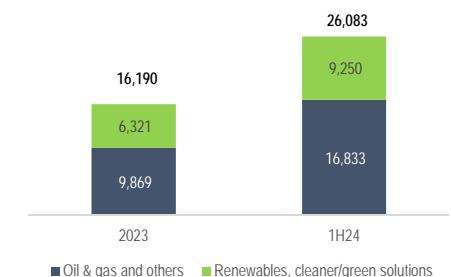
Source: STM

NO. OF WELLS DRILLED BY ONGC VS OIL PRICE



Note: 12 months ending 31 March
Source: ONGC, Bloomberg

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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