

Singapore

November 1, 2019 - 10:00 AM

Overweight (no change)

Highlighted Companies

Sembcorp Marine
HOLD, TP S\$1.26, S\$1.37 close

The value for SMM as a privatisation target is dependent of SCI's ability/share swap. At 1.3x CY19 P/BV, SMM could have partially priced in the change in shareholders. Our TP is based on 1.2x CY19F P/BV (-1 s.d. of 5-year mean).

Yangzijiang Shipbuilding
ADD, TP S\$1.45, S\$0.96 close

With the news flow of M&As among the Singapore yards, valuations have been pushed up to 1.2-1.3x P/BV. At some point, interest could return to YZJ as it is trading below book at 0.6x in our view.

Summary Valuation Metrics

P/E (x)	Dec-19F	Dec-20F	Dec-21F
Sembcorp Marine	NA	NA	807.32
Yangzijiang Shipbuilding	5.97	6.04	6.48
P/BV (x)	Dec-19F	Dec-20F	Dec-21F
Sembcorp Marine	1.30	1.30	1.30
Yangzijiang Shipbuilding	0.61	0.56	0.53
Dividend Yield	Dec-19F	Dec-20F	Dec-21F
Sembcorp Marine	1.46%	0.00%	0.00%
Yangzijiang Shipbuilding	4.12%	4.12%	4.12%

Offshore & Marine

Contract wins

- We estimate the value of 4 bulk carriers secured by Yangzijiang to be about US\$100m, and US\$250m for the FPU that SMM secured from Shell.
- YTD wins for YZJ should rise to c.US\$705m, within our US\$1bn target; SMM's YTD order wins are at c.S\$900m, above our S\$500m forecast.
- We expect positive share price movement for both on the back of attractive valuations for YZJ (0.6x CY19 P/BV) and above-expectation wins for SMM.

More orders from Shell for SMM; orders beat our expectations

- SMM secured a contract from Shell Offshore to build and integrate the topside and hull of a Floating Production Unit (FPU) for the Whale field in the Gulf of Mexico.
- The FPU comprises a topside module and a four-column semi-submersible floating hull, with a combined weight of 25k tonnes, to be completed in 2022.
- This follows the Vito FPU which was awarded by Shell in May 2018, affirming SMM's track record.
- We estimate the contract to be worth about US\$250m, bringing YTD order wins to c.S\$900m, above our S\$500m order forecast. Historically, to achieve profitability, the yard requires about S\$3bn of revenue run rate and an order intake of S\$2bn-3bn p.a. We think SMM still needs to step up its order win momentum to see a meaningful turnaround in 2020F. We keep our S\$1bn order forecast for 2020F, for now.
- Maintain Hold and TP of S\$1.26, based on 1.2x CY19F P/BV (-1 s.d. of 5-year mean). We expect short-term share price re-rating due to the above contract wins as well as investors' hope for privatisation/divestment by Sembcorp Industries. However, near-term losses and bribery investigation into its Brazilian operations may cap upside. **SMM will release its 3Q19 results on 13 Nov (before market) and we expect wider qoq losses of S\$30m.**

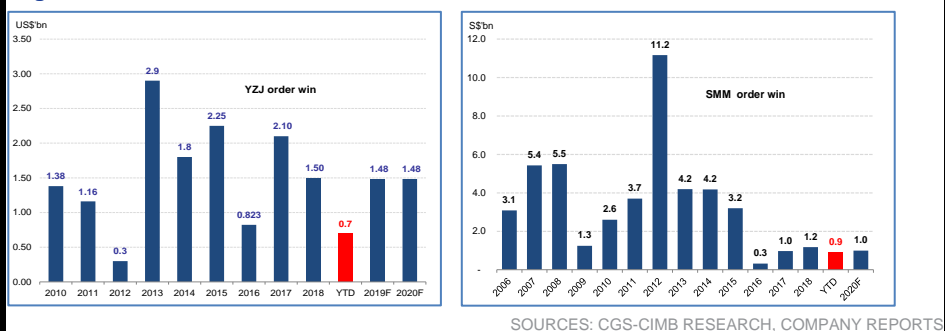
Yangzijiang secured c.US\$100m of orders

- YZJ secured 6 units (4 effective) of 31.8k dwt Great Lakes bulk carriers from Bulgarian shipping company, Navigation Maritime Bulgare. These vessels will be delivered in 2021-2022.
- We estimate the 4 effective contracts to worth about US\$100m, bringing YTD order wins to c.US\$705m, in line with our FY19 US\$1bn forecast.
- We expect weaker qoq 3Q19 earnings of Rmb800m, to be announced on 13 Nov, after market. We expect shipbuilding margins to be steady at around 10-11%. Other gains and interest income could trend weaker qoq on lower grants and interest rates.
- Maintain Add and TP of S\$1.45. With the news flow of M&As among the Singapore yards (trading at around 1.2-1.3x CY19 P/BV), interest could switch to YZJ given its relatively cheaper valuation at below book of 0.6x.

Analyst(s)

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Figure 1: YZJ and SMM order wins



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Peers 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 (%) CY19F	Dividend Yield (%) CY19F
						CY19F	CY20F	CY21F		CY19F	CY20F		
Keppel Corporation	KEP SP	Add	6.86	8.36	9,143	15.4	13.3	12.6	-1.1%	1.06	1.02	7.0%	3.0%
Sembcorp Marine	SMM SP	Hold	1.37	1.26	2,103	na	na	807.3	na	1.30	1.30	-3.2%	1.5%
Yangzijiang Shipbuilding	YZJSGD SP	Add	0.96	1.45	2,746	6.0	6.0	6.5	-10.4%	0.61	0.56	10.8%	4.1%
CSE Global	CSE SP	Add	0.48	0.68	179	11.0	9.5	9.3	11.0%	1.38	1.29	13.0%	5.7%
Dyna-Mac Holdings Ltd	DMHL SP	Add	0.09	0.13	66	22.1	16.1	na	na	0.88	0.83	4.0%	0.0%
Pacific Radiance	PACRA SP	Reduce	0.10	0.07	54	na	na	na	na	0.25	na	-4.3%	0.0%
Penguin Int'l Ltd	PBS SP	Add	0.68	0.72	109	10.0	9.9	9.9	3.7%	0.90	0.84	9.5%	2.0%
Singapore average						13.6	11.2	208.9	-0.2%	0.91	1.00	4.6%	2.4%
Bumi Armada	BAB MK	Add	0.43	0.36	604	7.9	7.5	6.8	24.4%	0.69	0.63	9.2%	0.0%
Velesto Energy Berhad	VEB MK	Add	0.37	0.36	726	84.8	34.5	25.6	209.5%	1.07	1.04	1.3%	0.0%
Yinson Holdings Bhd	YNS MK	Add	7.02	8.01	1,813	100.8	23.6	20.7	27.6%	2.16	2.00	2.2%	0.9%
Malaysia average						64.5	21.8	17.7	87.2%	1.30	1.22	4.2%	0.3%
Korea Shipbuilding & Offshore	009540 KS	Add	128,000	170,000	7,788	28.4	11.4	7.7	na	0.77	0.72	2.8%	0.0%
Hyundai Mipo Dockyard	010620 KS	Add	45,000	81,000	1,545	23.6	21.0	19.2	-0.8%	0.76	0.73	3.3%	1.6%
Samsung Heavy Industries	010140 KS	Hold	7,700	8,600	4,170	na	26.8	17.7	na	0.79	0.77	-9.0%	0.0%
South Korea average						26.0	19.7	14.9	-0.8%	0.77	0.74	-1.0%	0.5%
Average (All simple)						33.3	17.0	93.3	37.2%	0.98	0.99	3.1%	1.4%

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG

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Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be

changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2019		
777 companies under coverage for quarter ended on 30 September 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.8%	0.9%
Hold	26.3%	0.0%
Reduce	14.9%	0.1%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared,

DIF – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **JWD** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **S** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 31, 2018) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

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.

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.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.