

SembCorp Marine

Gets a foothold in the US

SMM is in the process of acquiring Sabine Shipyard, strategically located on the Gulf of Mexico. This acquisition is positive for SMM as the Gulf of Mexico is an important offshore hub - 25% of the global jackup and 20% of the global semisubmersible rig fleet are mobilized there. Initially, Sabine will be involved in repair and refurbishment of rigs and should later expand its operations to include rig construction. Maintain Buy with a revised price target of S\$3.50.

- **Acquires Sabine Shipyard, Gulf of Mexico.** SMM's subsidiary, PPL Shipyard, is in the process of acquiring Sabine Shipyard, Texas, USA. Sabine is a 223-acre size shipyard in the Sabine Pass, strategically located on the Gulf of Mexico which will give it immediate access to the Texas and Louisiana offshore drilling activities. The size of the shipyard is sizeable, similar in size to Sembawang Shipyard. The transaction details have not been disclosed.

- **Strategic acquisition.** This acquisition of Sabine Shipyard is in line with SMM's strategy to establish a presence in the Gulf of Mexico region and be better positioned to serve customers in the offshore rig refurbishment and rig building market. The Gulf of Mexico is an important offshore hub as around 25% of jackup rigs and 20% of semisubmersibles are mobilized there. Initially, Sabine Shipyard will be used for repair and refurbishment of drilling rigs. And, will later move on to build rigs when the required facilities are put up. The shipyard also provides offshore construction and related fabrication capabilities to drilling contractors located in the Gulf of Mexico region.

- **Target price reset to S\$3.50.** On our estimates, assuming that SMM can generate S\$80m and S\$100m of revenue from rig repairs in FY06-07 respectively from Sabine Shipyard, the boost to net profit will be in the region of 3% for each of FY06 and FY07. Total new orders booked YTD stands at S\$3.9bn and we have assumed another S\$5.9bn from now till end FY06 in our forecast. There is strong visibility into revenue, where contracts in hand make up 87%, 70% and 50% of our revenue forecast for FY05-07 respectively.

BUY

S\$3.12

At a Glance

Price Target:

1-year S\$3.50 (from S\$3.40)

Stock Code:

Bloomberg: SMM SP
Reuters: SCMN.SI

Sector: Marine

STI: 2,290.68

Reason for Report:

Acquisition of Sabine Shipyard

Implications:

Positive

Earnings Revision:

FY05 unchg
FY06 +3%
FY07 +3%

Consensus EPS:

FY05 9.3 S cts
FY06 13.9 S cts
FY07 17.4 S cts

DBSV vs Consensus EPS (% variance):

FY05 -2.2%
FY06 +12.2%
FY07 +11.5%

Principal Business:

Leading global marine engineering group specialising in ship repair, ship building, ship conversion, rig building and offshore engineering.

Forecasts and Valuation

	2004.5	2004.5	3431.5	3873.8
Turnover	1362.8	153.0	268.5	338.8
EBITDA	127.4	166.8	289.6	361.4
Pretax Profit	114.0	131.1	224.5	280.3
Net Profit	95.0	98.1	131.1	224.5
Net Profit *	98.1	131.1	224.5	280.3
EPS (Scts)	6.7	9.1	15.6	19.4
EPS * (Scts)	6.9	9.1	15.6	19.4
EPS * Gth (%)	27%	32%	71%	25%
PE * (x)	45.2	34.3	20.0	16.1
EV/EBITDA (x)	40.2	32.7	28.4	16.2
DPS-net (S cts)	6.0	7.5	7.9	8.3
Div Yield - net (%)	1.9	2.4	2.5	2.7
Net Gearing (x)	cash	cash	cash	cash
ROE (%)	10.0	13.4	21.4	42.2
Book Value (\$)	0.70	0.71	0.79	0.88
P/Book (x)	4.4	4.4	3.9	3.5

General Data

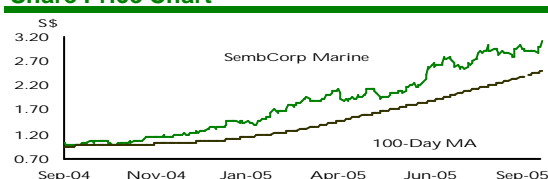
Issued Capital (m shrs)	1,446
Mkt Cap (\$m/US\$m)	4,512 / 2,719
Major Shareholders (%)	
SembCorp Ind	63.3
IHI	4.2
Free Float (%)	32.6
Avg Daily Vol (000 shrs)	3,887

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	4.23	10	1	2
6 Mth	4.33	12	1	2
12 Mth	4.33	12	1	2
Market	3.59			
Sector	3.78			

Source: Bloomberg
Avg Rating: 1 = Sell, 3 = Hold, 5 = Buy

Share Price Chart



Share Price Performance

	Share Price	Rel SII	Rel Sector
Past 1 mth	7%	8%	4%
Past 3 mths	60%	26%	19%
Past 6 mths	66%	61%	43%
Past 12 mths	206%	191%	143%

Income Statement and Forecast

FYE Dec	2003A	2004A	2005F	2006F	2007F
Turnover	1068.0	1362.8	2004.5	3431.5	3873.8
EBITDA	108.2	127.4	153.0	268.5	338.8
Depreciation	(33.9)	(33.5)	(33.5)	(31.5)	(32.0)
EBIT	74.3	93.9	119.5	237.0	306.8
Net interest	11.5	9.9	12.0	8.0	8.0
Exceptionals	1.3	(3.1)	0.0	0.0	0.0
Associates	8.0	13.3	35.3	44.6	46.6
Pretax	95.1	114.0	166.8	289.6	361.4
Tax	(16.9)	(16.0)	(33.7)	(60.1)	(75.2)
Minorities	0.3	(3.0)	(2.0)	(5.0)	(6.0)
Net Profit	78.5	95.0	131.1	224.5	280.3
Sales Growth (%)	5.5	27.6	47.1	71.2	12.9
Net Pr Growth (%)	(14.8)	21.1	38.0	71.3	24.8
EBITDA Margin (%)	10.1	9.3	7.6	7.8	8.7
EBIT Margin (%)	7.0	6.9	6.0	6.9	7.9
Tax rate (%)	17.8	14.0	20.2	20.8	20.8

Source: Company, DBS Vickers

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