

Singapore Industry Focus

Sembcorp Group

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DBS Group Research . Equity

24 Jun 2019

Parent support on debt re-profiling

- Parent SCI to provide SMM with S\$2bn loan for debt re-profiling and working capital
- Funded by issuance of S\$1.5bn 5-year bonds and existing resources / facilities
- Eases concerns of an imminent cash call by SMM
- Order wins remain the key driver for earnings recovery

SCI to provide subordinated loan to SMM. Sembcorp Industries (SCI) is providing its 61%-owned subsidiary Sembcorp Marine (SMM) with a 5-year subordinated loan facility of S\$2bn to strengthen SMM's financial position amid the current downturn in the global offshore and marine (O&M) industry. To fund the loan, SCI will issue S\$1.5bn of bonds (5-year maturity @ 3.55% coupon) to DBS Bank as sole lead manager and initial purchaser through a private placement to investors which include Temasek. The remaining S\$500m will be funded through SCI's existing available resources and facilities.

Debt reprofiling and interest cost savings. SMM will utilise the subordinated loan from parent to retire approx. S\$1.5bn of borrowings, and the balance S\$500m for working capital and general corporate purposes. Assuming the S\$2bn was fully drawn as at end Mar-2019 resulting in net increase of S\$500m in debt, SCI's net gearing would increase from 1.09x to 1.15x while SMM from 1.47x to 1.68x. Based on a ballpark estimate, the higher interest expense from the net loan increase should be marginal, offset by interest savings from the lower cost loan (estimated to be ~S\$18m).

Eases concern of an immediate cash call. The board of directors of SCI and SMM believe the proposed financing option is in the best interests of the companies after considering a wide range of options. Our sense is that the exercise buys SMM some breathing space as sector recovery takes time and hence, the urgency of a cash call in the near term is reduced. Management will continue to evaluate options to increase liquidity, and at some point a recapitalisation exercise, in our view.

Proxies to O&M recovery. SCI (BUY; TP S\$3.90) is a safer proxy to O&M recovery with its undervalued utilities business trading at 0.6x P/B while SMM (BUY; TP S\$2.40) is the pure O&M blue chip name in Singapore. Order wins remain the critical factor for SMM at this juncture.

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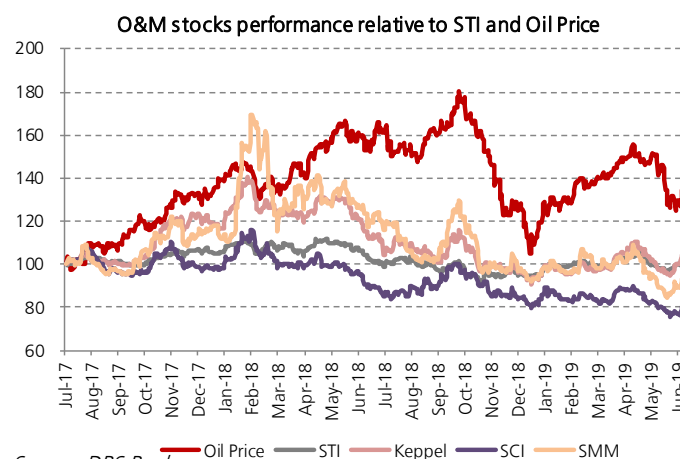
STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%) 3 mth	12 mth	Rating
Sembcorp Ind	2.45	3,231	3.90	(3.9)	(12.2)	BUY
Sembcorp Marine	1.55	2,390	2.40	(6.1)	(22.1)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 21 Jun 2019

O&M Share Prices vs Oil Prices vs STI



Live more, Bank less

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SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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