

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jul 2019

## Sembcorp Marine (SMM SP) : BUY

Mkt. Cap: US\$2,172m | 3m Avg. Daily Val: US\$6.0m

Last Traded Price ( 3 Jul 2019): S\$1.41

Price Target 12-mth: S\$2.40 (70% upside)

### Analyst

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## Brazil yard under investigation

- Brazilian authorities executed a search warrant on SMM's Brazil yard, EJA
- Former president of EJA assisting in investigations
- Ongoing investigations will remain an overhang
- Stock has underperformed YTD pending weak contract flow

### Forecasts and Valuation

FY Dec (\$m)	2017A	2018A	2019F	2020F
Revenue	3,035	4,888	2,854	2,824
EBITDA	500	141	313	347
Pre-tax Profit	281	(101)	50.4	96.9
Net Profit	260	(74.1)	38.7	74.4
Net Pft (Pre Ex.)	213	(74.1)	38.7	74.4
Net Pft Gth (Pre-ex) (%)	170.9	nm	nm	92.1
EPS (S cts)	12.5	(3.6)	1.86	3.56
EPS Pre Ex. (S cts)	10.2	(3.6)	1.86	3.56
EPS Gth Pre Ex (%)	171	nm	nm	92
Diluted EPS (S cts)	12.5	(3.5)	1.85	3.56
Net DPS (S cts)	2.00	1.00	1.00	2.00
BV Per Share (S cts)	117	111	112	114
PE (X)	11.3	nm	76.0	39.6
PE Pre Ex. (X)	13.8	nm	76.0	39.6
P/Cash Flow (X)	59.3	nm	3.5	10.9
EV/EBITDA (X)	11.5	45.1	18.7	16.7
Net Div Yield (%)	1.4	0.7	0.7	1.4
P/Book Value (X)	1.2	1.3	1.3	1.2
Net Debt/Equity (X)	1.1	1.4	1.2	1.2
ROAE (%)	10.4	(3.1)	1.7	3.2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's new

Sembcorp Marine (SMM) has provided an update that the **Brazilian authorities have executed a search warrant on its Brazil yard**, Estaleiro Jurong Aracruz Ltda (EJA), in relation to the ongoing Operation Car Wash investigations in Brazil. EJA is co-operating fully with the Brazilian Federal Police and has provided materials within the scope of the warrant.

### What's the impact

SMM understands that the search is in relation to investigations against Mr Guilherme Esteves de Jesus (GDJ), a former consultant engaged by EJA in Brazil. GDJ has been arrested by the Brazilian Federal Police and is facing criminal charges and proceedings have not concluded yet. News relating to GDJ's charges is not new, having surfaced in early 2018. However, **what is new in this update is that the current investigations also involve Mr Martin Cheah Kok Choon (Martin), the former president of EJA.**

A **Brazil local newswire** has suggested that GDJ held four overseas accounts for monies related to crimes of corruption committed by him in favour of EJA. Furthermore, Swiss Authorities confirmed that in addition to the payments of undue advantages, GDJ also transferred ~US\$9m to accounts held abroad by Martin, then president of EJA, through several fractional transfers.

<https://politica.estadao.com.br/blogs/fausto-macedo/lava-jato-prende-operador-em-investigacao-sobre-propina-de-us-9-mi/>



## Flash Note

At this juncture, investigations are ongoing and market talk is rife. The implications to SMM is uncertain. If we were to make a guesstimate, we believe a worst case scenario for SMM could amount to a penalty of **S\$200-400m (approx 35%-70% of Keppel's), this would translate to ~8-17% of SMM's book value and ~6-12% of its market cap.** However, we believe the penalty, if any, will likely be closer to the lower end of the range given EJA's shorter operating history and non-US involvement on the Brazilian contracts.

## Recommendation

The news would undoubtedly cause a knee jerk reaction to SMM's stock price. Concern on the Brazil bribery issue has probably been another overhang on SMM's share price besides concern of potential rights issue. We believe the latter concern on rights issue has taken a back seat, with the shareholder loan by Sembcorp Industries. We are cognizant that share price could remain volatile in the near term. Our BUY call on SMM and S\$2.40 TP hinges on order win uptick driving an earnings recovery.

## Target Price & Ratings History



**Note:** Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Jul 18	1.97	2.90	BUY
2:	23 Jul 18	1.83	2.50	BUY
3:	06 Sep 18	1.69	2.50	BUY
4:	05 Oct 18	2.01	2.50	BUY
5:	26 Oct 18	1.61	2.40	BUY
6:	07 Nov 18	1.61	2.40	BUY
7:	10 Dec 18	1.62	2.40	BUY
8:	16 Jan 19	1.60	2.40	BUY
9:	01 Feb 19	1.59	2.40	BUY
10:	21 Feb 19	1.70	2.40	BUY
11:	27 Feb 19	1.73	2.40	BUY
12:	08 Apr 19	1.70	2.40	BUY
13:	12 Apr 19	1.66	2.40	BUY
14:	25 Apr 19	1.76	2.40	BUY
15:	06 May 19	1.58	2.40	BUY
16:	27 May 19	1.47	2.40	BUY
17:	24 Jun 19	1.51	2.40	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

**Flash Note**

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**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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