

SECTOR UPDATE

Offshore Marine – Singapore

Tariff Tantrum: Winners, Losers & Deepwater Plays

In Apr 25, Trump’s steep tariffs triggered a drop in oil prices amid worries about oil demand and excess OPEC supply. Shipping has also been impacted; however, this may be somewhat limited as US-China trade forms just 5% of global container volumes, offset by rapidly growing intra-Asia trade. In the drilling market, deepwater rigs are still the most resilient segment. Maintain OVERWEIGHT on the sector. Top picks are STM and MPM with YZJ appearing to have very favourable risk/reward at present.

WHAT’S NEW

- The tariff tsunami.** US President Trump’s “Liberation Day” on 2 April saw the announcement of tariffs that were more wide-ranging and significant than expected, with some nations facing a baseline 10% rate and over 140% for China. The irrational expectation for about 90 bilateral agreements to be negotiated in the next few months appears forgotten for now, however the impact has already been felt in the energy sector with weaker oil prices (-18% since 2 April), lower onshore rig counts, and more warm-stacked jack-up rigs.
- Shipping hit by negative sentiment, but impact may be less than feared.** According to Clarksons Research, China-US volumes in 2024 comprised only 5% of the global container trade in TEU terms (total global trade in 2024: 213m TEU). As seen in the chart on the RHS, the US was involved in 18% of global volumes (imports 13%, exports 5%); however, this has declined from 27% compared with 20 years ago. Conversely, intra-Asia container trade has swiftly expanded from 22% in 2004 to 31% in 2024. Thus, it would appear that the US’ proposed port fees on China-built ships may be less of a hurdle for global trade than initially thought.
- Offshore rigs continue to do well, with deepwater assets the focus.** Ytd, semi-subs have done well with day rate and utilisation rate up 10% and 24% respectively although the latter is coming off a low base and remains uncomfortably below 50%. Jack-ups and drillships remain high in demand with day rates continuing to trend up and utilisation levels appearing to be “full” at 75-80%. That said, higher numbers of warm-stacked jack-ups are not a good sign. Recent contract news for leading-edge drillships have reported dayrates of US\$580,000 per day for 2025 and rising to over US\$600,000 per day in 2026 which underscores the willingness of oil companies to spend for larger, high-impact projects with spot oil prices not a concern. Note that Brent oil for delivery in Dec 30 is >US\$66/bbl, or 10% higher than current levels.

ACTION

- Maintain sector view at OVERWEIGHT.** We like Seatrium (STM SP/BUY/Target: S\$2.80) as we believe that the company will benefit from resilient demand for oil and gas production assets as well as demand for offshore vessels and structures related to the renewables industry. We also like Marco Polo Marine (MPM SP/BUY/Target: S\$0.072) as its vessels are exposed to potential upside in charter rates in 2025 and beyond.
- Value dislocation with YZJ.** Trading ex S\$0.12 dividend as of 5 May, Yangzijiang Shipbuilding (YZJ) appears extremely inexpensive with its 2025F PE and P/B of 5.8x and 1.3x respectively while delivering a forecast yield of 5.1% and ROE of 24.9%. Its share price has fallen 38% since its peak in Feb 25, and thus YZJ’s risk/reward ratio appears very attractive in our view. Downside risk: order cancellations for container vessels which make up 69% of the company’s orderbook of US\$24.4b as at end-24.

PEER COMPARISON - SHIPYARDS

Company	Ticker	Rec	Price (1cy)		Upside to TP (%)	Market Cap (US\$m)	PE (x)		P/B (x)		EV/EBITDA (x)		ROE% 2025F	Yield (%) 2025F
			6 May	Target			2025F	2026F	2025F	2026F	2025F	2026F		
Seatrium	STM SP	BUY	1.92	2.96	54.2	5,037	22.6	17.0	1.0	1.0	8.0	7.2	4.5	1.4
Yangzijiang Shipbldg	YZJSGD SP	BUY	2.06	3.50	69.9	6,282	5.8	5.4	1.3	1.1	2.9	2.6	24.9	5.1
Marco Polo Marine*	MPM SP	BUY	0.04	0.07	75.6	119	5.4	4.7	0.7	0.7	2.5	2.2	14.6	4.9
Average – Spore-listed							11.3	9.0	1.0	0.9	4.5	4.0	14.7	3.8
Hanwha Ocean Co	042660 KS	NR	78,900	85,250	8.0	17,355	37.4	28.5	4.4	3.8	27.6	22.3	12.4	0.0
Samsung Heavy Ind	010140 KS	NR	14,610	18,190	24.5	9,230	25.5	16.1	2.9	2.4	15.4	11.1	12.3	0.0
HD Korea Shipbldg	009540 KS	NR	277,500	334,667	20.6	14,098	9.6	7.5	1.5	1.3	5.0	4.1	16.7	2.9
Average – Sector							17.7	13.2	2.0	1.7	10.2	8.3	14.2	2.4

Note: * fiscal year ending 30 Sep; NR = Not Rated, based on Bloomberg consensus
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

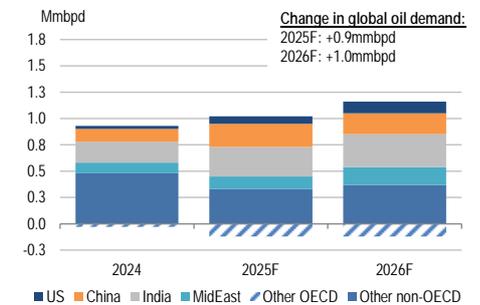
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Price (S\$)	
			6 May	Target
Keppel	KEP SP	BUY	6.66	9.25
Semb Industries	SCI SP	BUY	6.58	8.00
Seatrium	STM SP	BUY	1.92	2.96
Yangzijiang	YZJSGD SP	BUY	2.06	3.50
Marco Polo Marine	MPM SP	BUY	0.041	0.072

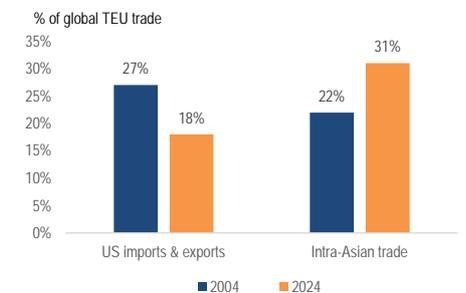
Source: Bloomberg, UOB Kay Hian

GLOBAL OIL DEMAND EXPECTED TO GROW IN 2025 AND 2026



Source: US Energy Information Administration (Apr 25)

GLOBAL CONTAINER TRADE TRENDS



Source: Clarksons

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- Mixed takeaways from the US energy sector's 1Q25 results season.** Overall, the US energy companies were neutral to cautiously optimistic about 2025, noting the challenges around tariffs and their impact on the global economy. For ExxonMobil and ConocoPhillips, they maintained or slightly increased their capital expenditures and share buyback programmes, assuming reasonable market conditions, while Chevron announced reductions in both areas for 2025. Occidental Petroleum focused on debt repayment, with less emphasis on share repurchases.
- US oil production has peaked.** The US produced a record 13.21mmbbl of oil in 2024; however, this could have peaked given that the number of onshore rigs have fallen 5% over the past year. The plethora of policy pronouncements from the Trump Administration during April has created market uncertainty in a mature industry and any fall below US\$50/bbl for the WTI oil price could see production cuts. In the near term, OPEC appears willing to depress oil prices by committing to its 411,000bpd production increase in June.
- Global GDP growth downgraded – negative for oil demand.** Ytd we have seen the US move decidedly away from a “pro-business tax and regulatory plan” to one of tariffs levied on a seemingly endless number of countries and products. As a result of the tariff war leading to uncertainty and policy unpredictability, the IMF believes that global growth will slow and thus downgraded its global GDP forecast for 2025 to 2.8% from 3.3% previously. The US and China were among countries to see the biggest downgrades by the IMF with the US forecast to grow 1.8% in 2025 (2.7% previously) while China was cut to 4.0% from 4.6% previously. A lower GDP growth would clearly be negative for global oil demand.

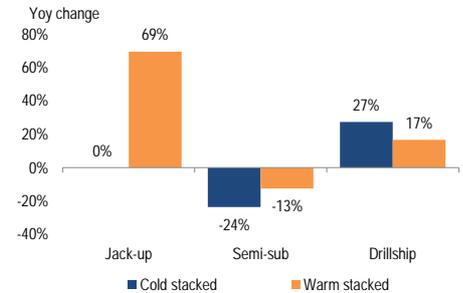
STOCK RECOMMENDATIONS

- Keppel Ltd:** Maintain BUY on the stock with an SOTP-based target price of S\$9.25/share. KEP currently trades at 2025F PE of 11.6x and P/B of 1.1x while delivering a prospective yield of 5.7%. We view these investment metrics as inexpensive, especially considering the company's more stable earnings stream given the divestment of its offshore marine business. In 1Q25, more than 80% of the company's net profit came from recurring income (excluding legacy offshore & marine assets).
- Sembcorp Industries:** Maintain BUY with an unchanged PE-based target price of S\$8.00. We use a target PE multiple of 12.6x which is 1.5SD above the company's 2018-25 average PE of 8.2x (excluding 2020 where the company reported impairment-related losses) which is then pegged to our 2025 EPS. Key share price catalysts include: a) execution of its renewables energy targets via organic and inorganic means; b) delivering its 600MW hydrogen-ready co-generation plant in Singapore on time and within budget; and c) capital recycling in its energy portfolio.
- Seatrium:** We have a BUY rating on the stock with a P/B-based target price of S\$2.96. Our target P/B multiple of 1.5x is 1.5SD above the company's five-year average. In our view, this P/B multiple appears reasonable considering the company's strong competitive position globally, its increasing revenue visibility out to 2031 and potential for more order wins in 2025. In the near term, a key re-rating catalyst is the completion of the investigation by the MAS/CAD.
- Yangzijiang Shipbuilding:** Maintain our BUY rating on the stock with a PE-based target price of S\$3.50. Our target price is pegged to a target PE multiple of 9.5x (+1SD above the company's ten-year average of 6.8x). We believe the premium to its average PE multiple is justified given the company's earnings visibility into 2028 as well as its strong track record of safe and efficient shipbuilding for its international customer base. YZJ's current orderbook comprised 245 vessels worth US\$24.4b as at end-24. We note that clean energy vessels account for around 74% of its orderbook value.

RISKS TO OUR THESIS

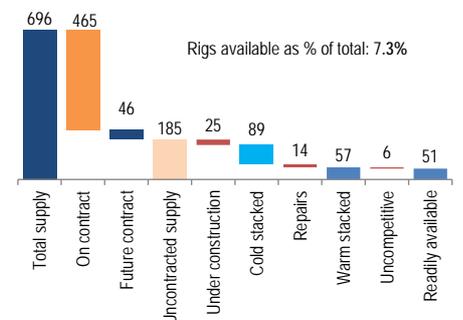
- Risks include:** a) Delays in project sanctioning due to supply chain issues; b) lack of financing for fossil fuel-related industries; and c) a global recession leading to lower oil prices and lower capex spending.

SIGNIFICANT INCREASE IN WARM STACKED JACK-UP RIGS IN RESPONSE TO LOWER OIL PRICES



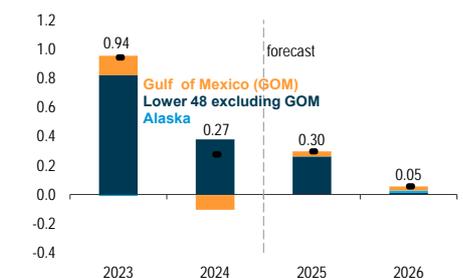
Source: Basso Analytics

% OF RIGS UTILISED AND AVAILABLE GLOBALLY



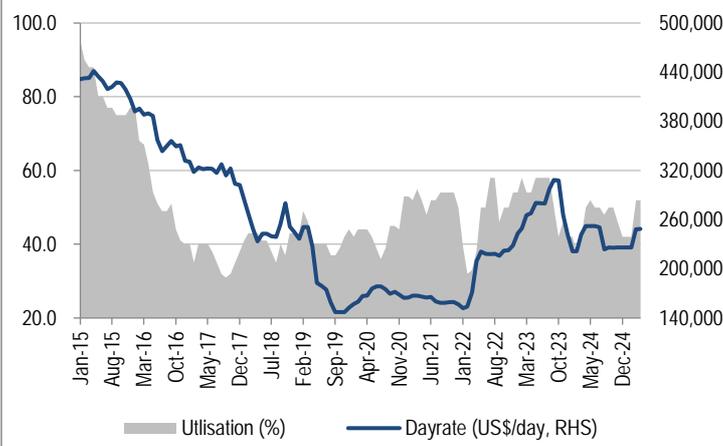
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US OIL PRODUCTION MAY NEED TO BE REVISED DOWN (MMBBL)



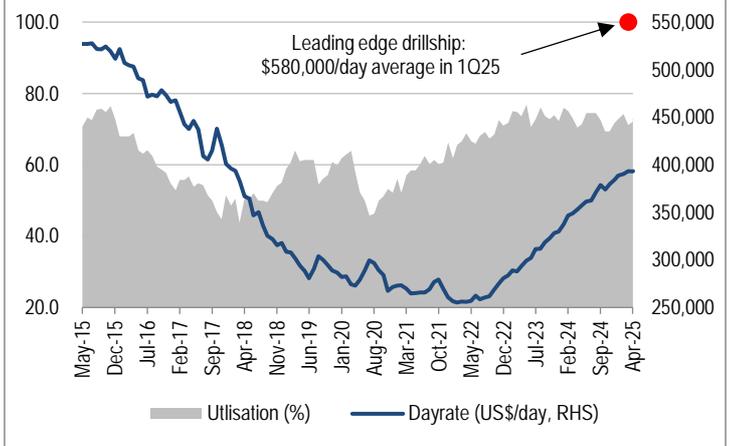
Source: Basso Analytics

DAY RATE & UTILISATION: SEMISUB >7,500'



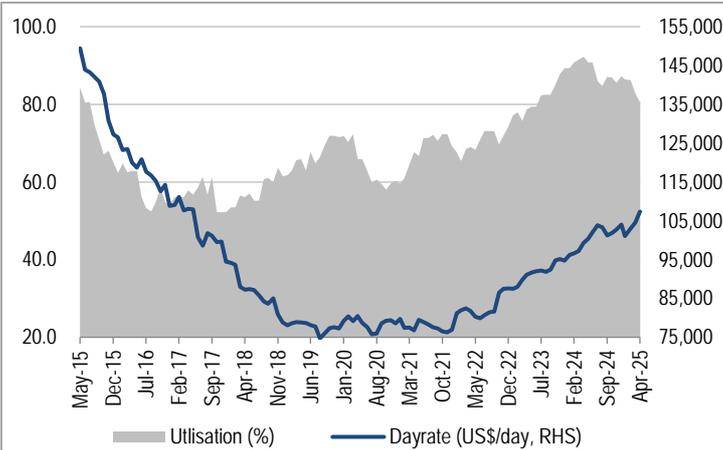
Source: Rigzone, Bloomberg

DAY RATE & UTILISATION: DRILLSHIP >7,500'



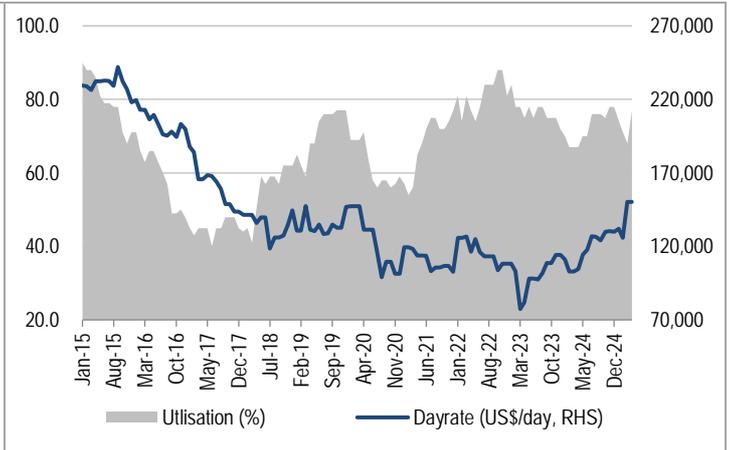
Source: Rigzone, Bloomberg

DAY RATE & UTILISATION: JACKUP 361-400' INDEPENDENT CANTILEVERED



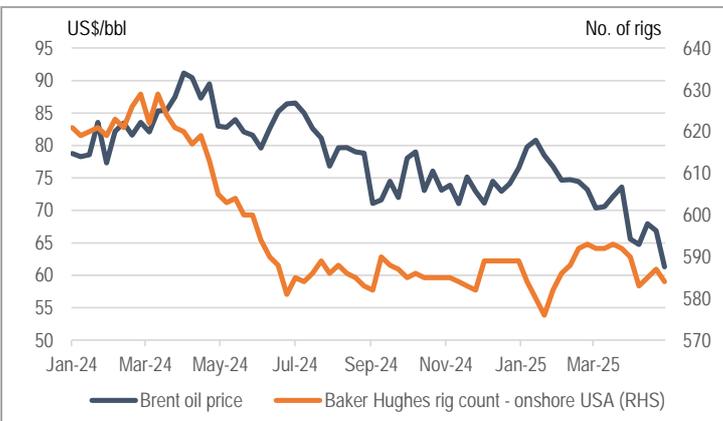
Source: Rigzone, Bloomberg

DAY RATE & UTILISATION: JACKUP HARSH STANDARD



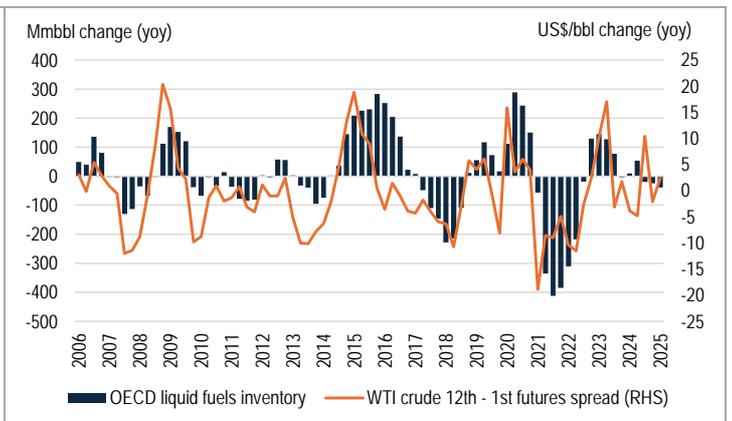
Source: Rigzone, Bloomberg

BRENT OIL PRICE VS BAKER HUGHES ONSHORE USA RIG COUNT



Source: Bloomberg

INVENTORY BUILDS TEND TO GO HAND-IN-HAND WITH INCREASES IN FUTURE OIL PRICES RELATIVE TO CURRENT PRICES (AND VICE VERSA)



Source: US Energy Information Agency

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