

Singapore Offshore and Marine Sector

Another mega tender from Petrobras for integration of eight FPSOs

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- Another tender from Petrobras—this time for the topsides integration of the eight replicant FPSOs, which are expected to start-up 2015-onwards. Upstream is reporting Keppel, Sembcorp Marine and OSX-Mendes Junior are the frontrunners.
- Each bidder could secure two FPSOs each, with the final two split between the best performing initial winners. Prices are not disclosed and could vary with the complexity of the jobscope, but we estimate a value of at least US\$500m/FPSO.
- In our view, Keppel remains best positioned given its established BrasFELS yard and track record in FPSO integration, with recent work on FPSO Cidade de Paraty and FPSO Cidade de Sao Paulo. While Sembcorp Marine has undertaken 12 major conversion projects for Petrobras, its Estaleiro Jurong Aracruz yard is scheduled for full completion only in end-2014.
- FPSO integration contracts demonstrate opportunities for Singapore yards in Brazil outside Petrobras' 28-rig tender, following award of a letter of intent worth US\$4.12 bn for five semisubmersible rigs to Keppel, and a US\$793 mn contract for a drillship to Sembcorp Marine.

size of the FPSO. Valor reported earlier that the total value of contract for integration of eight FPSOs could be worth US\$5–7 bn.

Singapore yards are frontrunners

In our view, Keppel remains best positioned, given its established BrasFELS yard and track record in FPSO integration, with recent work on FPSO Cidade de Paraty and FPSO Cidade de Sao Paulo. Despite recent contract awards, we believe Keppel would be able to accommodate the integration of three FPSO hulls from 2013 onwards for delivery before 2017. We understand that the BrasFELS yard has the capacity to work on four large jobs simultaneously. At the same time, management noted that the company is looking to grow its capacity in Brazil, as well as enhance its productivity.

Sembcorp Marine has undertaken 12 major FPSO/FPU/FSO/FDPSO conversion projects for Petrobras, starting from the conversion of P-37 FPSO in 1997. More recently in October 2010, the Jurong shipyard was awarded a FPSO conversion contract worth S\$351 mn from Teekay Petrojarl for the conversion of an Aframax tanker to FPSO Petrojarl Cidade de Itajai. However, its new yard facility Estaleiro Jurong Aracruz in the state of Espirito Santo, Brazil, broke ground only in December 2011 and the full completion is scheduled for end-2014.

Figure 1: Petrobras critical equipment demand

Critical Resources	Current Situation(Dec/10)	Delivery Plan Accumulated Value		
		By 2013	By 2015	By 2020
Drilling Rigs Water Depth Above 2,000 m	15	39	37 ⁽¹⁾	65 ⁽²⁾
Supply and Special Vessel	287	423	479	568
Production Platforms SS e FPSO	44	54	61	94
Others (Jacket and TLWP)	78	80	81	83

Source: Petrobras. Note: (1) Two rigs reallocated from international operations, expire in 2015, therefore not considered in the 2020 value. (2) The long-term demand can be adjusted as new demand assessments are made

Petrobras' tender for integration of eight FPSOs

According to Upstream, Keppel, Sembcorp Marine and the OSX-Mendes Junior consortium are the frontrunners in a tender from Petrobras for the integration of eight floating production, storage and offloading (FPSO) vessels. It was reported that each of the leading bidders could secure two FPSO integration jobs each, with the final two split between the best performing among the initial contract winners.

The FPSOs will be able to process up to 150,000 barrels of oil and 6 mn cubic meters of gas per day. The hulls are being constructed by the Brazilian company Engevix at the Rio Grande Naval Pole at the state of Rio Grande do Sul. Hull construction started in March 2011, and the first two hulls are expected to be delivered in 2013, and the others in 2014 and 2015. Awarded by Petrobras in November 2010 for a total contract value of US\$3.46 bn, these units are part of a strategy to standardise equipment and allow economies of scale.

Value of contract expected to be above US\$500mn/FPSO

Although prices of the bids were not disclosed, we believe that the contract value for the integration of each FPSO could be worth at least US\$500 mn, and can vary with the complexity or the jobscope and the

Opportunities for Singapore yards outside of 28-rig tender

The FPSO integration contracts demonstrate opportunities for Singapore yards in Brazil outside Petrobras' 28-rig tender, following the award of a letter of intent worth US\$4.12 bn for five semisubmersible rigs to Keppel, and a contract worth US\$793 mn for a drillship to Sembcorp Marine. 2012 has started off with a busy pace for the oil supply chain industry in Brazil. In addition to the eight FPSO integration tender discussed, Petrobras has also been tendering and awarding contracts across a number of subsectors, including Subsea, Drilling, FPSOs and Shipyards

Keppel is our preferred pick to play the Brazilian offshore equipment theme

In our view, Singapore yards could win significant orders based on their strong execution capabilities and track record. Keppel remains our preferred play on the Brazilian offshore equipment theme, while Sembcorp Marine could also benefit as a pure-play on the sector.

Valuation metrics

Company	Ticker	Rating	Price		Year T	P/E (x)		P/B (x) T+1
			Local	Target		T+1	T+2	
Keppel Corp	KPLM.SI	O	11.02	12.70	12/11	11.9	14.2	2.4
Sembcorp Marine	SCMN.SI	N	5.07	4.70	12/11	15.3	16.4	5.4
Sembcorp Industries	SCIL.SI	O	5.11	5.50	12/11	11.4	11.6	2.0

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 04 May 12)

Keppel Corporation (KPLM.SI, S\$11.02, OUTPERFORM, TP S\$12.70, UNDERWEIGHT)
 Sembcorp Marine Ltd. (SCMN.SI, S\$5.07, NEUTRAL, TP S\$4.70, UNDERWEIGHT)
 Sembcorp Industries Limited (SCIL.SI, S\$5.11, OUTPERFORM, TP S\$5.50, UNDERWEIGHT)
 OSX Brasil S.A. (OSXB3, R\$14.65, RESTRICTED [V])
 Petrobras (PBR, \$22.15, NEUTRAL, TP \$32.00)

Disclosure Appendix

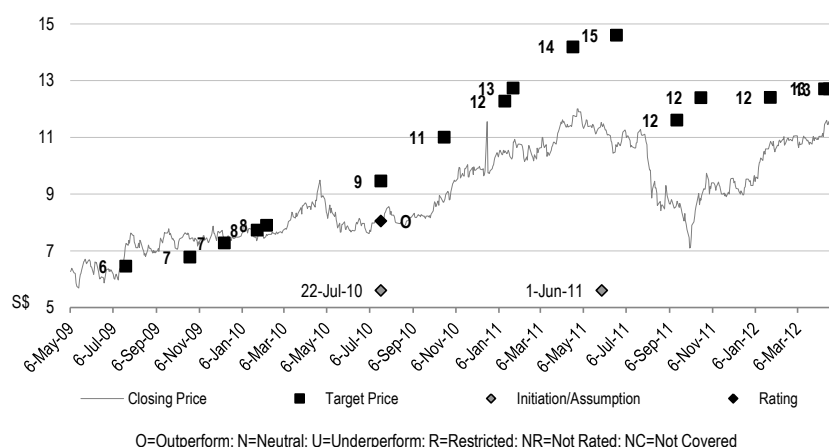
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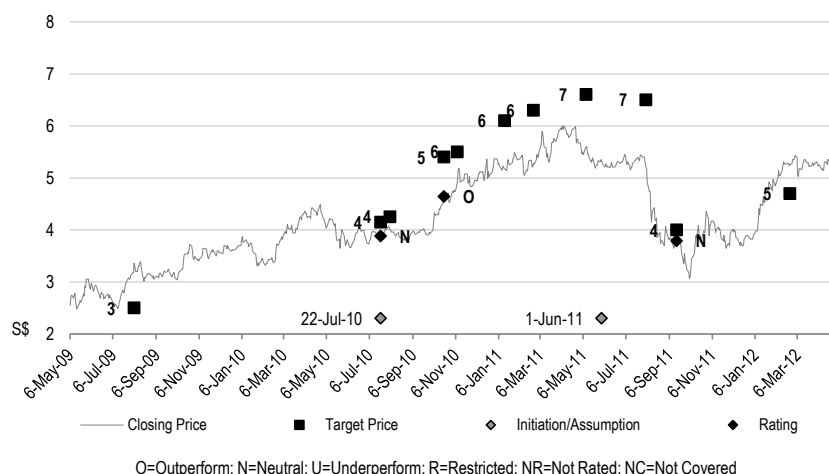
3-Year Price, Target Price and Rating Change History Chart for KPLM.SI

KPLM.SI Date	Closing Price (S\$)	Target Price (S\$)	Rating	Initiation/ Assumption
24-Jul-09	7.255	6.455		
23-Oct-09	7.409	6.773		
11-Dec-09	7.446	7.273		
27-Jan-10	7.418	7.727		
9-Feb-10	7.582	7.892		
22-Jul-10	8.046	9.455	O	X
20-Oct-10	8.773	11		
14-Jan-11	10.527	12.273		
26-Jan-11	10.836	12.727		
21-Apr-11	11.764	14.182		
1-Jun-11				X
22-Jun-11	10.68	14.6		
16-Sep-11	8.75	11.6		
20-Oct-11	8.78	12.396		
27-Jan-12	10.85	12.405		
13-Apr-12	11.46	12.702		
20-Apr-12	11.39	12.7		

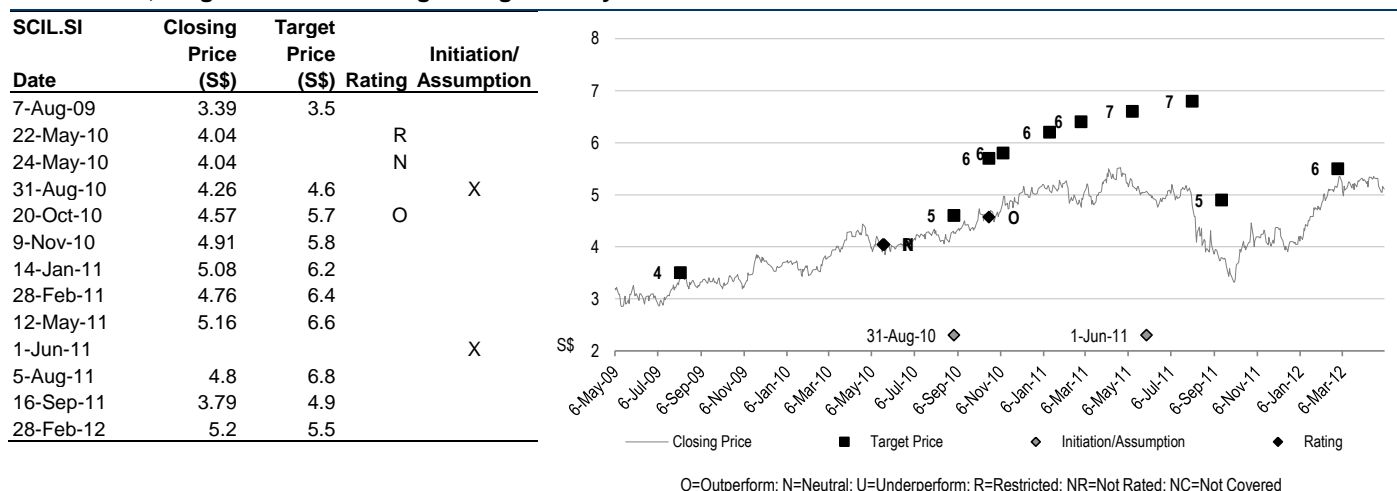


3-Year Price, Target Price and Rating Change History Chart for SCMN.SI

SCMN.SI Date	Closing Price (S\$)	Target Price (S\$)	Rating	Initiation/ Assumption
5-Aug-09	3.36	2.5		
22-Jul-10	3.88	4.15	N	X
4-Aug-10	4	4.25		
20-Oct-10	4.64	5.4	O	
8-Nov-10	4.93	5.5		
14-Jan-11	5.18	6.1		
24-Feb-11	5.28	6.3		
10-May-11	5.6	6.6		
1-Jun-11				X
3-Aug-11	5.22	6.5		
16-Sep-11	3.79	4	N	
24-Feb-12	5.26	4.7		



3-Year Price, Target Price and Rating Change History Chart for SCIL.SI



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Price Target: (12 months) for (KPLM.SI)

Method: Our TP \$12.70 is based on a SOTP valuing 1) 15x O&M 2012E EPS. 2) CS target prices for Keppel Land (\$2.92), KREIT (\$1.17), 3) Mark-to-market value of other listed entities, and 4) asset value estimates of Keppel Bay and the infrastructure business.

Risks: Risks to our target price of S\$12.70 for Keppel Corp include the following: 1) slower than expected recovery in the offshore & marine or property cycles; 2) limited earnings visibility on infrastructure business and 3) limited disclosure on individual businesses.

Price Target: (12 months) for (SCMN.SI)

Method: Our SOTP value of S\$4.70 is based on: 1) 15x O&M 2012E earnings per share (EPS), 2) SMM's stake in Cosco Shipyard and 3) SMM's equity stake in COSCO Corp.

Risks: The risks to SembCorp Marine achieving our target price of S\$4.70 are: 1) changes in the oil and rig day rate prices, 2) a rebound in world economic growth, and 3) a shift in capital expenditure of drillers to drill ships, and 4) Changes in value or operating risk pertaining to COSCO Corp.

Price Target: (12 months) for (SCIL.SI)

Method: Our target price of S\$5.50 for Sembcorp Industries is based on 1) sum-of-the-parts analysis with SembCorp Marine (SCMN.SI) valued at CS target price 2) Gallant Venture was marked to market and 3) the balance of SCI is valued at 10x FY12E earnings.

Risks: The key risks to SembCorp Industries (SCI) achieving our target price of S\$5.50 are 1) Potential slowdown in Rig demand for SMM which constitutes a significant portion of our value of SCI 2) Asset impairment in the financial assets held by SCI 3) the risk that there is poor take up in the additional space in Jurong Island by petrochemical companies and not meeting our growth forecasts 4) limited success in its overseas joint venture.

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