Sembcorp Marine interim Business Update for first quarter 2020


Introduction

1. As mentioned at Sembcorp Marine’s FY 2019 full-year results announcement on Feb 20, 2020, from FY 2020 onwards, the Group’s 1Q and 3Q financial results announcements will take the form of an interim Business Update, while half-year and full-year financial results announcements will be maintained. Sembcorp Marine will continue to update the market on all material developments related to the Group as and when necessary.

2. The above-mentioned changes follow the decision by SGX to discontinue the mandatory quarterly reporting (QR) requirement for most listed companies with effect from Feb 7, 2020.

Impact of COVID-19 Pandemic and Collapse in Oil Prices

3. Sembcorp Marine has been adversely affected by the global spread of the COVID-19 pandemic, along with all other sectors and industries in the global economy. Measures to contain the pandemic have severely disrupted transportation, supply chains, manpower access and plant operations, with resulting reduction in the demand for oil and energy.

4. A separate major development has been the collapse in oil prices from March 2020. The current low and volatile oil price levels have resulted in major oil companies deferring their final investment decisions (FIDs) for projects and cutting their capital expenditure (CAPEX) significantly for 2020.

5. While COVID-19 has resulted in delays in the execution and completion of our existing projects, the collapse in oil prices has significantly affected our securing of new orders for the foreseeable future.
Operations Review

6. Industry-wide cuts in CAPEX have affected the Group’s ongoing negotiations and finalisation of new orders, including the Siccar Point Cambo Floating Production, Storage and Offloading (FPSO) project. The project’s FID is now postponed to 2021.

7. Delays in executing our existing orders and lack of new orders have resulted in lower revenue recognition.

8. COVID-19 has also affected global shipping operations and adversely affected our Repairs & Upgrades business.

9. The above have resulted in low overall business volume for the Group. This in turn impacted the Group’s revenue recognition and overall bottom line performance.

10. Sembcorp Marine’s projects in progress include:
   - Johan Castberg and Karish newbuild FPSOs;
   - Shell Vito and Shell Whale Floating Production Units (FPUs);
   - Transocean drill ships;
   - Ørsted Hornsea 2 offshore wind farm substations;
   - Jan De Nul Formosa 2 offshore wind farm jackets fabrication;
   - Tyra offshore platforms;
   - Norled battery-powered roll-on/roll-off passenger (ROPAX) ferries; and
   - MOL LNG bunker vessel.

Other ongoing repairs and upgrades projects include:

- Floating Storage & Regasification Unit (FSRU) Karmol LNGT Powership Africa;
- FSRU Karmol LNGT Powership Asia; and
- Floating Storage Unit (FSU) LNG Flora.

11. As we make every effort to progress the above projects to completion, the Group will continue to right-size our resources in response to the activities outlook. We will also defer all non-essential CAPEX to preserve our cash flow and manage our overall liquidity with prudence and discipline.

Cash Flow and Liquidity Management

12. The Group generated positive cash flow from operations in 1Q 2020.

13. As at March 31, 2020, the Group remained in a net current liabilities position arising mainly from loans maturing this year. We are finalising with our lenders to refinance and re-profile these loans with longer term maturities. We have adequate existing loan facilities to refinance current borrowings as they fall due.
14. Net finance costs have increased arising from ongoing refinancing measures.

**COVID-19 Management at Sembcorp Marine Facilities**

15. Sembcorp Marine has implemented all necessary COVID-19 mitigation measures, such as social distancing, safe distancing at work, workplace segregation, staggered work hours, telecommuting, twice-daily temperature monitoring and intensified cleaning at all our work sites and worker dormitories.

16. As migrant workers’ dormitories have evolved into significant clusters of COVID-19 infections, we are coordinating with the Government’s inter-agency task forces to identify, treat and isolate infected workers through mass-testing at our dormitories.

17. Since April 7 when circuit breaker measures were implemented, we have imposed no-entry into our yards for those workers staying in close proximity to dormitories linked to COVID-19 infections. This was followed by a stand-down of production activities from April 17 for two weeks to further protect our employees and other stakeholders.

18. On April 21 when the Ministry of Manpower announced movement restriction measures that disallowed migrant workers from leaving their dormitories for work, our operating yard workforce of about 20,000 persons was substantially reduced to 850 persons. The reduced workforce was deployed to manage critical works and support yard essential services such as emergency response teams, facilities and utilities management, dormitory operations (including the central kitchen), medical centres and yard security. This was applied to our yards in Singapore. The movement restriction measures and other circuit breaker measures have been extended to June 1, 2020.

19. Our yard activities have been severely constrained by the reduced workforce. We will continue to assess the impact on our project schedules and are working closely with our customers to manage the ongoing projects during this challenging period. We aim to reactivate our workforce and resume work safely and efficiently when the measures are lifted.

**Sustainability Initiatives**

20. On Feb 13, 2020, Sembcorp Marine and the Agency for Science, Technology and Research (A*STAR) signed a Master Research Collaboration Agreement (MRCA) to jointly pursue innovation in Digital Design, Advanced Manufacturing and other Industry 4.0 technologies. We aim to shorten the development cycle and time-to-market of cutting-edge offshore, marine and clean energy solutions. Under the MRCA, Sembcorp Marine and A*STAR will set up a research lab and work space at Tuas Boulevard Yard to facilitate the test-bedding and commercialisation of these solutions.
21. Through our collaboration with A*STAR, we hope to advance the adoption and integration of Industry 4.0 technologies into the offshore and marine value chain, which will help boost Singapore’s offshore, marine and clean energy developments.

22. One other sustainability initiative in 1Q 2020 is the publication of the Group’s first stand-alone Sustainability Report. The Group has been reporting its sustainability performance since 2011 as part of its Annual Report, but starting this year, we are presenting a better focus on our sustainability vision, objectives and progress through a separate report.

23. Our goal over the next five years is to move Sembcorp Marine’s businesses towards cleaner fuel sources and solutions that support the global economy’s adoption of a greener energy mix, while strengthening our contributions towards a safer, healthier and more equitable environment through economic growth and high standards of governance. For more details on our Sustainability Management, please download Sembcorp Marine’s new Sustainability Report 2019 at www.sembmarine.com/sustainability-report.

Sembcorp Marine’s 57th Annual General Meeting

24. In view of the ongoing COVID-19 measures, Sembcorp Marine will conduct its 57th Annual General Meeting (AGM) via a webcast on May 20, 2020 at 11am. Shareholders can vote on the AGM resolutions by appointing Sembcorp Marine Chairman Tan Sri Mohd Hassan Marican as their proxy. They can also send in their questions before the AGM. The Group will endeavour to address shareholders’ concerns during our virtual AGM.

Outlook

25. Except for the Repairs and Upgrades segment, the Group’s business activity levels remain low for all other segments. Overall business volumes for all segments are expected to further weaken for the rest of the year.

26. Challenges have intensified, particularly due to the COVID-19 disruption of supply chains and the resulting impact on the timely execution of our projects.

27. The effects of COVID-19 as well as the low oil prices on projects’ FIDs will continue to adversely affect new orders in the foreseeable quarters.

28. In light of the challenging and deteriorating business environment, our current priority is to ensure that we have adequate liquidity to sustain operations and ride through this severe downturn. We continue to focus on safe and timely execution of our projects and to hunt for pockets of opportunities less affected by the current business climate. The Group expects the previous trend of losses to continue in the foreseeable quarters.

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