Company update
17 November 2014

SBM Offshore

The last hurdle is the most difficult to take

The case of improper sales practices at SBM has, in our view, entered its final stage. After settling with the Dutch Prosecutor's Office, the Brazilians CGU showed its independence by starting up its own investigation. The most likely outcome we now see is another costly settlement, which we value at US$400m. Based on this final settlement, we lower our TP to €17 from €18 previously.

Petrobras' bribery case is the biggest news in Brazil, with the new government willing to end corruption at Petrobras' highest levels and punish the culprits, including foreign companies. SBM could be one of these firms, although there is no certainty that the company was directly involved in this bribery. The first consequence is that SBM is not allowed to tender for Petrobras' contracts for the duration of the investigations, which could go well into 1Q15. Second, the comptroller in Brazil has indicated that, if the matter were to be settled, SBM would need to pay an amount exceeding the settlement with DPO of US$240m. We believe it could be US$400m. Given around two large lease awards over FY07-11, there is background for such a high amount. However, we believe it will be up to the Brazilians to propose a settlement, while SBM's position is far from ideal given its dependence on Petrobras. Bear in mind, for the Brazilians, a settlement is the most preferable outcome given the long-term costs Petrobras would have to bear if competition is limited.

SBM's 3Q14 trading update was not the main trigger. Although SBM's order intake was better than expected, revenues declined. We believe the master limited partnership (MLP) was the positive trigger, but we have to wait and see until 3Q15. Nevertheless, given the collapse in the oil price and the reaction to curbing capex, especially in deep water, we lower our FY14-16F estimates. Our FY15F EPS based on directional reporting is now US$1.20 compared with US$1.72 previously, assuming no new large awards in Turnkey. We expect FY16F to be a better year due to Lease & Operate benefitting from new FPSOs in production. Our EPS is now US$1.70 compared with US$2.10 previously.

The Brazilian case is another setback for this management; although it has concluded the investigation, the Brazilians continue their own investigations. This creates a risk for SBM shares in the short term, as the newsflow is likely to continue to be negative until the investigation is completed. However, we maintain our 12-month-based **BUY** for SBM on the back of the company's underlying value. Valued at an SOTP of €17.0, we see SBM as undervalued and continue to believe management is taking the best measures to bring about a compliant and reliable firm with an order position enviable to many industry peers, while also taking measures to move in the right direction, including realising higher returns in the future. As we continue to believe that the share price should be in the range of 1x SOTP, we believe the current price offers an upside of 47%, justifying a **BUY**.

Forecasts and ratios

Year end Dec (US$m)	2012	2013	2014F	2015F	2016F
Revenues	3,639	4,584	5,387	5,210	5,185
Normalised EBITDA	686	598	914	691	1,176
Normalised net profit	(79)	117	506	507	541
Normalised EPS (US$)	(0.45)	0.57	2.42	2.43	2.59
Normalised PER (x)	n/a	25.1	5.9	5.9	5.6
EV/normalised EBITDA (x)	7.5	12.3	10.0	14.9	8.9
FCF yield (%)	12.8	4.2	0.45	0.05	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Price/book (x)	1.7	1.5	1.2	1.2	0.96
Normalised ROE (%)	-5.7	6.7	22.7	20.4	19.0

Source: Company data, ING estimates

Buy (maintained)

Price (14/11/14)
€11.55

Target price (12-mth)
€17.00 (previously €18.00)

Forecast total return
47.2%

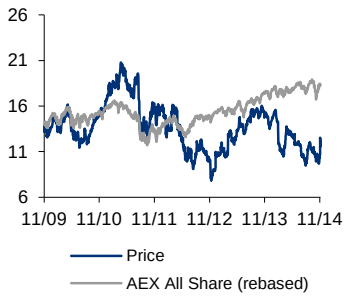
Oil & Gas
Netherlands
Bloomberg: SBMO NA
Reuters: SBMO.AS

Share data

Avg daily volume (3-mth)	2,228,860
Free float (%)	100.0
Market cap (€m)	2,411.1
Net debt (1F, US$m)	5,517
Enterprise value (1F, US$m)	9,158
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

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Compliance takes over again

Limited news in 3Q14

SBM's 3Q14 trading update did not reveal much news. Revenues were lower YoY whereas they were higher in 1H14. However, the company did not change its full-year outlook of revenues at US$3.3bn, based on directional income (including the effects of IFRS 10 & 11). The order intake in 3Q14 was better than expected, mainly reflecting indexation and the extension/renewal of the contract for the Thunderhawk platform. The move on the MLP was the biggest surprise.

MLP

MLP listing in 3Q15

At its CMD in September, management promised to look at the MLP structure again before turning down this opportunity to raise cash. Now, management has decided to pursue this strategic shift and has aimed to file for registration with a subsequent listing of common units in 3Q15.

Attractive valuation for MLPs

The background for the decision is the MLP's attractive valuation, which leads management to believe it can unlock the value of its assets in the MLP. Raising amounts such as US$150-400m is being considered. We believe the company is considering bringing in two long-term Petrobras Brazilian floaters. The MLP structure is attractive, as the cash raised from the partial selling of assets can be used to finance further growth. The flipside is that it obliges SBM to keep cash flow rolling in the MLP. Further, the MLP structure is not an individual partner with whom you can (re)negotiate, and it also complicates the position of the other partners in lease FPSO, in our view. The main risk, however, remains the point at which clients execute their right to acquire the vessel and SBM has to replace the unit with another, mostly deviating, one. Therefore, we are very interested in what CFO Peter van Rossum, who leads the process, will submit in FY15.

Earnings

3Q14

Trading update shows lower revenues

3Q14 revenues based on directional reporting were lower than we expected – at US$792m, they were more than 10% lower than our estimate of US$900m. Especially Lease & Operate was lower, with a YoY decline of 14% despite lease additions, 22% below our estimates; we believe the P-57 end of three services contract played a role. Turnkey also came in lower, but the phasing of construction and deliveries plays an important role. As far as we know, the execution of the five FPSOs under construction (Ihlabela, Marica, Saquarema, Kizomba's N'Goma and Turritella/Stones) continues without major setbacks, with Ihlabela and N'Goma moving towards first oil in a short period.

Fig 1 3Q14 (US$m)

	3Q14	3Q14F	% diff	3Q13	%ch
Revenues	792	900	-12	884	-10
Lease and operate	234	300	-22	271	-14
Turnkey	558	600	-7	613	-9
Order backlog	21,800	20,400	7	24,400	-11

Source: Company data, ING estimates

Outlook

Order intake due to variation orders, Thunderhawk and indexation

The order backlog based on directional reporting was strong at US$21.8bn, following an order intake of US$1.1bn and modest revenues in 3Q14. We had earmarked c.US$400m for Thunderhawk and maybe some small construction work. The remaining, or c.US$600m, is related to indexation effects and variation orders, not large turrets or other engineering work that materially support utilisation. As a result, management expects

FY15 utilisation to be limited. However, this mediocre outlook for FY15, we think, can change dramatically if a large FPSO contract is won or even a turret. Management did not exclude this possibility, but the current oil price is not supportive for clients to hurry FIDs.

Market is still quite interesting

Management updated us on FPSOs in general; of the 25 lease projects for FY14-15, 8 have been awarded in FY14, 11 are being tendered and 6 are in the pre-tender phase. SBM has submitted 3 tenders and earmarks 5 of this 6 in the pre-tender phase. We believe 4 of them are from Petrobras.

No change in outlook

The company maintained its outlook for FY14 at US$3.3bn revenues, US$1.0bn stemming from Lease & Operate and US$2.3bn from Turnkey. For the remainder of FY14, that implies revenues comparable with 3Q14 at US$800m, with in our view at least US$250m for Lease & Operate and US$550m for Turnkey.

US$1bn orderbook left for Turnkey

For FY15F, assuming the order intake in 3Q14 was mainly Lease & Operate, the breakdown of the orderbook of US$21.8bn is c.US$1.1bn for Turnkey (90% in FY15) and US$20.7bn for Lease & Operate.

Odyssey 24

According to management, Odyssey on full speed ahead

The Odyssey cost savings programme for reducing costs by 5% by FY16 continues at full speed ahead but management did not make the impression of looking for more cost savings when clients are focusing on lower input costs. The company initiated this programme in order to streamline the organisation with regard to, for example, the purchase of materials and equipment among other things, as the company has grown considerably over the past few years. Therefore, it will not be used in the first instance to squeeze out suppliers, as there is more pressure from their own clients.

Estimates

Mix deterioration

We adjust our FY14-16F estimates. For FY14, the main reason is the weaker mix of earnings due to the serious deviation of Lease & Operate revenues from our estimates. Therefore, overall revenues are slightly down for its directional reporting but high margins for Lease & Operate is partially replaced by low margins for Turnkey.

Fig 2 Quarterly revenue – directional accounting (US$m)

	1Q14	2Q14	3Q14	4Q14F	FY14F	Δ1Q	Δ2Q	Δ3Q	Δ4QF	ΔFY14F
Turnkey	545	663	558	577	2,343	(6)	18	(9)	(5)	(5)
Lease & Operate	237	284	234	253	1,008	2	11	(14)	2	2
Total	782	947	792	830	3,351	(4)	15	(10)	(3)	(3)

Source: Company data, ING estimates

Turnkey concerns

For FY15-16 profit, the collapse in the oil price has further weakened the situation for deep water projects, which appear to be the first victims of austerity measures. Clients' need for short-term cash is pivotal – deep water project have a long lead time with many years of negative cash flow, so these projects are continuously reconsidered. For SBM, this implies that the Turnkey business suffers, as said, from lower utilisation in FY15, as there is no clear alternative work after delivering the Ihlabela and N'Goma FPSOs.

We need oil price to stabilise at over US$80 for Brent

In our view, stabilisation of the oil price between US$80/bbl and US$90/bbl will support FIDs being made on economic rationale later on – deep water barrels are estimated at a cost price of US$45-50/bbl. IOCs might consider capex plans, but most regretted sharp cuts later on, hence they should be more cautious about reducing spending. Independents might land in a more awkward situation due to optimistic cash flow projections in the past, but large turrets and FPSOs are anyway not on their agenda. NOCs keep spending in order to develop nations' resources. However, overall high

volatility is not supportive for oil and gas capex, let alone oil prices below US$70/bbl, but we estimate the chance of that scenario as very low.

Fig 3 New estimates FY14-16F (Directional Reporting adjusted) (US$m)

	FY14F		FY15F		FY16F		FY15/14F	FY16/15F
	New	Old	New	Old	New	Old	(%)	(%)
Turnkey								
Revenues	2,343	2,272	2062	2,440	2,124	2,454	-12	3
EBITDA	279	270	224	260	271	270	-20	21
EBIT	265	258	210	254	259	266	-21	23
EBITDA margin (%)	11.9	11.9	12.8	10.7	12.8	11.0	7	0
EBIT margin (%)	11.3	11.4	12.2	10.4	12.2	10.8	8	0
Lease & Operate								
Revenues	1,008	1,056	1,129	1,177	1,355	1,354	12	20
EBITDA	564	592	634	667	745	760	12	17
EBIT	275	303	311	328	373	379	13	20
EBITDA margin (%)	55.9	56.1	56.2	56.7	55.0	56.1	0	-2
EBIT margin (%)	27.3	28.7	27.5	27.9	27.5	28.0	1	0
Total								
Revenues	3,351	3,328	3,191	3,617	3,479	3,808	-5	9
EBITDA before holding costs	843	862	858	927	1,016	1,030	2	18
EBIT before holding costs	540	561	521	582	631	645	-4	21
EBITDA margin (%)	25.2	25.9	26.9	25.6	29.2	27.0	7	9
EBIT margin (%)	16.1	16.9	16.3	16.1	18.1	16.9	1	11
EPS (US$)	1.40	1.51	1.21	1.72	1.70	2.10	-13	41

Source: Company data, ING estimates

Turnkey lower EBIT

Our new FY15F estimates do not take into account any material new contracts for Turnkey. We expect revenues to be lower, while margins improve due to a mix improvement, as SBM still delivers large FPSOs to its lease units. Our EBIT is now US$210m compared with US$254m previously, a decline of 21% YoY.

Adjusted Lease & Operate revenues and EBIT

For Lease & Operate, we adjust our FY15F revenues to reflect 3Q14's lower revenues. With approximately stable margins at c.27.5%, we estimate a 5% decline in EBIT compared with our previous estimate of US$328m, but still expect it to be 13% higher YoY.

FY15 EPS considerably lowered from US$1.72 to US$1.21

Mainly due to the lower EBIT for Turnkey, we expect group EBIT before holding costs at US$521m from US$582m previously. Due to the high holding related to the Odyssey programme, we estimate EPS of US$1.21 compared with US$1.72 previously on directional accounting. For FY16F, we expect stabilisation of Turnkey at lower levels (revenues +3% YoY), as oil companies need time to reconsider their investment spree, while construction continues on Saquarema, Marica and Turritella. Lease & Operate is likely to perform materially better due to new vessels at end-FY15 and in FY16. We see a recovery in EPS to US$1.70, a 41% YoY increase but still lower than our previous EPS estimate of US$2.10.

Sensitivity for new work is high

Sensitivity to our estimates is high due to low financing costs for working capital and a low tax rate. For example, if SBM were to now receive an order for a large turret of, for example, US$500m with a 10% EBIT margin, to be built in two years, EPS would increase by c.7% in FY15F and FY16 to US$1.36 and US$1.84, respectively.

Compliance

Agreement on improper sales practices

A day before its trading update, SBM announced that it reached an out-of-court settlement with the Dutch Department of Justice OM in the improper sales practices case. The US Department of Justice (DoJ) informed SBM that it would not be not prosecuting the company and has closed its inquiry into the matter. The settlement with the OM decision relates to payments to sales agents in Equatorial Guinea, Angola and Brazil over 2007-2011.

The Netherlands was leading in the settlement

The news is that SBM has its hands free to bring forward to its clients and other parties in the industry the outcome that the improper sales practices case has been settled and that it has updated its compliance regulations internally. The US DoJ has passed the case on to the Netherlands, as it does not see this as its case, as we understand. Given the serious amount of US$240m, the Netherlands is now, we believe, fully aligned in this case with the US practices.

Red flags not proven by SBM but proven by OM/DoJ

It is important to note that the DoJ/OM has access to files, transactions and companies that SBM did not. Although in Brazil red flags were raised at certain transactions, SBM could not find any proof of bribery. However, the DoJ/OM did. As a result, the red flags turned out to be correct, with improper sales practices taking place. As we understand, the fine and disgorgement were partially for Brazilian operations.

Turning blind eye to developments?

In spite of the outcome, the Brazilians have their own investigations, which are a part of a larger investigation into questionable practices at Petrobras over many years. SBM's knowledge of these practices is difficult to determine.

Another official investigation into SBM

The latest news is that there is now a direct investigation by the Comptroller General (CGU) into allegations of SBM bribing Brazilian officials to get work (separate to three other investigations into Petrobras). This probe will be launched officially by the Ministry of State and could start any moment. A positive is that SBM is very open to cooperating, which could accelerate the process. However, until the Brazil investigations end (forecast for 1Q15), Petrobras will not invite SBM to participate in tenders. This could lead to another miss of one or two FPSOs in the next few months, but we are not certain of that, looking at the list.

Fig 4 Potential projects, Petrobras operator

Tender launch	Field	Basin	Depth (m)	Estimated reserves (MBOE)	Oil (kpd)	Gas (MMcmd)	Submission	Prod planning
2H14	Sergipe-Alagoas	Sergipe-Alagoas	ultra deep	2bn	100			2018
2H14	Maromba	Campos		1.4bn	60/80			2018
2Q15	Parque das Baleias	Campos			100			
2Q15	Carcara	Santos, BM-S-8			150			
2Q15	Libra, pre salt	Santos	2000	8-12bn	150			
2H15	Jupiter	Santos BM-S-24		7bn	50	4		2017
2H15	Marlim-Sul	Campos			90/100			

Source: Upstream online

Two planned tenders for FY14 still?

Two FPSOs are planned for 2H14, but we have not seen any recent activity with these two projects, such as a submission date or anything that would indicate that a tender is in progress. Maromba, also called Marimba in the past, was already planned in FY07 for production in FY12, but has not materialised in these years. Adversely, Marimba seems to have been scaled down in the past few months from a large 100kpd+ to 80kpd or even 60kpd. This does not help the progress of placing a tender. Therefore, we are curious whether this tender or the Sergipe will still arrive in FY14 or 1Q15. In addition, expelling SBM from contracts can have severe consequences for Petrobras, as MODEC demands a day rate, which was never thought of when SBM was an active competitor; a difference of US$100,000 for a 100bpd FPSO in a 12-year lease makes a difference of a nominal US$438m over the contract period. Therefore, purely for financial reason, we believe Petrobras will be willing to allow SBM to tender.

Punishment could be possible

If found guilty by the CGU, the risk is that SBM will face a CGU uplifted by the political landscape in Brazil to destroy Petrobras' alleged corrupt practices. One of the risks is that SBM will be expelled from tendering for a longer period as punishment for missing what its intermediary was doing or its own wrongdoing. However, given the importance of SBM to Petrobras and SBM having taken many measures to become a clean, compliance-

proof firm, there could be a settlement, separate from last week's US$240m settlement with DPO.

But settlement more likely

Jorge Hage, head of Comptroller (CGU) in Brazil, has already indicated that a settlement is a possibility for SBM Offshore. This is positive, as SBM can move on. However, the amount could be a difficult point for SBM given what Mr Hage said: "This (US$240m) maybe enough for the Netherlands, it is too little for us, we need to negotiate in different base lines, because of the large amounts of these contracts', while mentioning US$6bn worth of eight contracts for Petrobras.

Five contracts won in the period

Realistically, this number and amount are overdone, in our view, as the investigation includes FY07-11, which implies no more than five potential contracts, as Figure 5 shows:

Fig 5 Five contract wins in Brazil over FY07-11

Date	FPSO	Field	Purchase/ Lease	Capacity	Value (US$bn)	Delivery	Remarks
15-02-08	P-57	Jubarte field	Purchase	180k bpd & 71 MMscfd	1.3	Dec-10	Original announcement on 8 Jan 2008
02-06-08	Capixaba	Cachalote field	Lease		1.0	Feb-10	FPSO to be disconnected from current location, upgrade and re-installation
17-12-09	Espadarte	Baleia Azul field	Lease		1.7	Jul-12	FPSO to be disconnected from current location, upgrade and re-installation
01-06-10	Cidade de Paraty	Tupi Nordeste field	Lease	150k bpd	3.8	Apr-13	JV operation/contract signed on 14 Jul 2011
11-08-11	Cidade de Ilhabela	Sapinhoá field	Lease	150k bpd	4.5	Jul-14	LOI/contract signed on 2 Apr 2012

Source: Company data, ING estimates

Latest two in FY11 are biggest

Looking at the contracts won, P-57 was a purchase won with a little margin against BW Offshore in FY08. This might be a suspect contract but is a purchase with relatively little profitability. The bribery allegation should not be the case with the Capixaba and the Espadarte relocations, as Petrobras was searching for another solution for these existing floaters due to a decline in production rates; in these cases, there was no competition at all. That leaves the leases Cidade de Paraty and Cidade de Ihlabela, one started mid-FY13 and the other planned to start at end of this year. This is a big question mark for us; in our view, another culture was already moving ahead, with raising the compliance level at end-FY11. The awards were earlier, however.

A charge of US$400m should not be excluded

Given the size and length of the lease, the value of Cidade de Paraty is already bigger than the two FPSOs we took into account in the calculation in our previous report in April (SBM Offshore, *Wait for settlement overshadows performance*, 10 April). Based on such a calculation, a Brazilian charge of US$300-400m is undoubtedly possible, and has some consistency with what the CGU's Mr Hage has indicated regarding Brazilian interests being larger. However, it remains a pure guess, as we believe the DoJ methodology is likely not being used. It is not positive for SBM that there is no reason for the Brazilians to negotiate the amount, as SBM needs to go on with its business. It is SBM's last hurdle, but we believe it could be a costly one.

For the balance sheet, we believe US$400m can be handled. A decision by the CGU is likely in FY15. Together with the US$70m for the DoJ/OM settlement, SBM might need US$470m next year. Net debt over equity might reach high levels of over 170% end FY15, but we believe solvency will be c.30%.

Conclusion

The last hurdle?

The official Brazilian launch into SBM is disappointing news for management, as it worked very hard to settle the case with the DoJ/OM. The company now has a valid document it can submit to the Brazilians and it will cooperate in whatever way it can, as Petrobras is pivotal for SBM. We believe SBM will settle with the Brazilian authorities, but

the question is what this will cost. In our model, we include US$400m in settlement costs, being the very last legacy issue from former management left to cope with.

Valuation

No change in valuation approach

We maintain our previous valuation approach for SBM. Our valuation is based on an SOTP methodology, with an NPV for the Lease segment, and a DCF methodology for the Turnkey Systems segment based on direct reporting.

Fig 6 SOTP

US$/€ resp. no of shares		1.25	208.7
NPV lease fleet	US$m	€m	€ per share
Existing fleet	8,284	6,627	31.75
Contract extensions	1,182	946	4.53
Debt including capex related to latest awards	**(6,448)**	**(5,158)**	**(24.71)**
Lease portfolio	3,019	2,415	11.57
DCF based:			
Supply-side Dir. Reporting (EBIT margins 12-13%)	1,416	1,133	5.43
Total SOTP value	4,434	3,548	16.99
Current share price			11.60
Discount (%)			32

Source: ING estimates

Adjustments made for SOTP

Besides several normal changes, such as USD to EUR, we also adjust the NPV of the lease fleet to reflect the Thunderhawk project. In addition, we include a further US$400m for the second settlement relating to the Brazilian part of the improper sales practices case.

SOTP €19.1 per share, unchanged

We maintain our WACC at 7% for the lease fleet and the lease income of FPSOs under construction, while subtracting debt including capex for FY14-16F for these new builds as well. Based on the number, we arrive at a net value per share of €11.6. This is slightly lower than in our previous report at €12.1. For Turnkey, we estimate a net value based on DCF with a debt-free WACC of 10%, arriving a value of €5.43, lower than before, reflecting the effect of lower demand in the medium term due to the immediate concern over the oil price effect now at the cost of deep water projects. The total value is €16.99 per share, c.€2 lower than our April SOTP.

TP lower to €17 from €18

We continue to believe that SBM is on its way to a share price at 1x SOTP once all the issues are resolved. This settlement should be the last, and we include it in our SOTP. Our adjustment of the SOTP by €2.00 is for the €1.50 related to the Brazilian settlement we expect. Therefore, we can allow a €17 TP at 1x SOTP without further corrections. This offers 47% upside to the current share price of €11.6, justifying a **BUY** recommendation, in our view.

Risks

The collapse in the oil price might lead to further postponements of deep water contracts. This could hurt SBM in the medium term.

It continues to be difficult to predict how long the whole case in Brazil will take. The main risk is that the political sentiment in Brazil will look for punishment of the persons and corporates that have done the wrong things. This might lead to an overreaction, in this case at the cost of SBM's future.

Financials

Year end Dec (US$m)	2009	2010	2011	2012	2013	2014F	2015F	2016F
Income statement								
Revenues	2,957	3,056	3,157	3,639	4,584	5,387	5,210	5,185
Cost of goods sold	(2,184)	(2,193)	(2,166)	(2,879)	(3,799)	(4,217)	(4,065)	(3,923)
Gross profit	**772**	**863**	**991**	**760**	**785**	**1,169**	**1,145**	**1,262**
Operating costs	(159)	(149)	(180)	(74)	(187)	(73)	(54)	(86)
EBITDA	**613**	**714**	**811**	**686**	**598**	**1,096**	**1,091**	**1,176**
Depreciation & amortisation	(320)	(327)	(1,152)	(648)	(407)	(302)	(327)	(362)
Impairments	0	0	0	0	0	0	0	0
EBIT	**293**	**386**	**(341)**	**38**	**191**	**794**	**764**	**814**
Net interest	(60)	(84)	(50)	(78)	(112)	(143)	(158)	(179)
Associates	0.2	0	0	4	153	1	1	1
Other pre-tax items	0	0	0	0	0	0	0	0
Pre-tax profit	**234**	**303**	**(391)**	**(36)**	**232**	**653**	**607**	**636**
Tax	(4)	(27)	(50)	(38)	(54)	(98)	(61)	(64)
Minorities	(9)	(36)	(32)	(5)	(61)	(49)	(39)	(31)
Other post-tax items	0	0	0	0	0	(182)	(400)	0
Net profit	**221**	**240**	**(473)**	**(79)**	**117**	**324**	**107**	**541**
Normalised EBITDA	**613**	**714**	**811**	**686**	**598**	**914**	**1091**	**1,176**
Normalised EBIT	**293**	**386**	**(341)**	**38**	**191**	**794**	**764**	**814**
Normalised net profit	**221**	**240**	**(473)**	**(79)**	**117**	**506**	**507**	**541**
Balance sheet								
Tangible fixed assets	2,830	2,942	2,534	2,414	2,297	3,073	3,332	3,580
Intangible fixed assets	61	68	47	29	30	28	26	24
Other non-current assets	390	268	983	1,000	2,474	4,105	5,021	5,513
Cash & equivalents	208	206	203	741	317	286	(299)	164
Other current assets	1,169	1,590	1,523	2,133	3,576	3,515	3,557	3,620
Total assets	**4,658**	**5,073**	**5,290**	**6,317**	**8,694**	**11,007**	**11,637**	**12,901**
Short-term debt	500	312	716	672	499	499	499	499
Other current liabilities	1,014	905	1,290	1,796	1,608	1,730	1,746	1,806
Long-term debt	1,282	1,689	1,888	2,247	3,604	5,304	5,804	6,404
Other long-term liabilities	45	44	47	75	95	165	95	95
Total liabilities	**2,842**	**2,950**	**3,941**	**4,790**	**5,806**	**7,698**	**8,144**	**8,804**
Total equity	1,817	2,123	1,349	1,530	2,887	3,309	3,494	4,097
Total liabilities & equity	**4,658**	**5,073**	**5,290**	**6,320**	**8,693**	**11,007**	**11,637**	**12,901**
Capital employed	3,600	4,124	3,953	4,449	6,990	9,112	9,797	11,000
Net working capital	160	723	275	544	1,893	1,899	1,887	1,916
Net debt (cash)	1,575	1,795	2,402	2,178	3,786	5,517	6,602	6,739
Cash flow								
Cash flow EBITDA	613	714	811	690	751	1,097	1,092	1,177
Change in working capital	(46)	286	394	499	(91)	239	(71)	(71)
Other non-cash items	(0.2)	0	0	(4)	(153)	(241)	(401)	(1)
Operating cash flow	**567**	**1,000**	**1,206**	**1,185**	**507**	**1,095**	**620**	**1,105**
Cash interest paid	(55)	(53)	(39)	(99)	(112)	(143)	(158)	(179)
Cash taxes paid	(19)	(18)	(48)	(52)	(35)	(98)	(61)	(64)
Net cash from operating activities	**493**	**929**	**1,119**	**1,034**	**360**	**855**	**401**	**862**
Capex	(652)	(514)	(806)	(626)	(185)	(1,076)	(584)	(608)
Net acquisitions	0	0	0	0	0	0	0	0
Other net investing cash flows	(0.1)	(543)	(516)	(402)	(1,282)	(1,510)	(885)	(464)
Cash from investing activities	**(652)**	**(1,057)**	**(1,322)**	**(1,028)**	**(1,467)**	**(2,586)**	**(1,469)**	**(1,072)**
Increase (decrease) in equity	255	0	0	189	273	0	0	0
Increase (decrease) in debt	(93)	146	327	387	333	1,700	500	600
Dividends & minority distribution	(70)	(58)	(61)	(4)	(7)	0	0	0
Other financing cash flow	0	0	0	0	0	0	0	0
Cash from financing activities	**91**	**88**	**266**	**572**	**599**	**1,700**	**500**	**600**
Forex & discontinued operations	8	(4)	(2)	1	1	0	0	0
Net change in cash & equivalents	**(59)**	**(43)**	**61**	**579**	**(507)**	**(31)**	**(568)**	**390**
FCF	(102)	468	366	657	307	41	5	460

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2009	2010	2011	2012	2013	2014F	2015F	2016F
Performance & returns								
Revenue growth (%)	-3.7	3.4	3.3	15.3	26.0	17.5	-3.3	-0.49
Normalised EBITDA growth (%)	12.8	16.4	13.6	-15.5	-12.8	52.9	-24.4	70.2
Normalised EBIT growth (%)	1.3	31.7	n/a	n/a	402.6	315.8	-3.8	6.6
Normalised EPS growth (%)	n/a	-2.5	n/a	n/a	n/a	322.1	0.21	6.7
Gross margin (%)	26.1	28.2	31.4	20.9	17.1	21.7	22.0	24.3
Normalised EBITDA margin (%)	20.7	23.4	25.7	18.8	13.0	17.0	13.3	22.7
Normalised EBIT margin (%)	9.9	12.6	-10.8	1.0	4.2	14.7	14.7	15.7
Reported net margin (%)	7.5	7.9	-15.0	-2.2	2.6	6.0	2.1	10.4
Reported ROE (%)	14.6	12.4	-28.2	-5.7	6.7	14.6	4.3	19.0
Normalised ROA (%)	6.5	7.9	-6.6	0.65	2.5	8.1	6.7	6.6
ROAIC (%)	7.9	9.4	-9.5	-0.33	2.7	8.5	7.3	7.2
ROACE (%)	8.5	10.0	-8.4	0.90	3.3	9.9	8.1	7.8
ROACE - WACC (%)	0.03	1.5	-16.9	-7.6	-5.2	1.4	-0.42	-0.67
Leverage & solvency								
Working capital as % of sales	5.4	23.7	8.7	14.9	41.3	35.3	36.2	37.0
Net debt (cash)/EBITDA (x)	2.6	2.5	3.0	3.2	6.3	5.0	6.1	5.7
Net debt (cash)/equity (%)	86.7	84.5	178.0	142.3	131.1	166.7	189.0	164.5
EBITDA net interest coverage (x)	10.2	8.5	16.2	8.8	5.3	7.7	6.9	6.6
Current ratio (x)	0.91	1.5	0.86	1.2	1.8	1.7	1.5	1.6
Dividend cover (cash flow) (x)	n/a	8.1	6.4	140.5	28.9	n/a	n/a	n/a
Valuation								
EV/revenue (x)	1.6	1.6	1.7	1.4	1.6	1.7	2.0	2.0
EV/normalised EBITDA (x)	7.5	6.7	6.7	7.5	12.3	10.0	14.9	8.9
EV/normalised EBIT (x)	15.7	12.4	(15.9)	135.5	38.6	11.5	13.5	12.8
EV/capital employed (x)	1.3	1.2	1.4	1.2	1.1	1.0	1.0	0.95
EV/invested capital (x)	1.3	1.2	1.4	1.1	1.0	0.99	1.0	0.94
Normalised PER (x)	9.8	10.0	n/a	n/a	25.1	5.9	5.9	5.6
Price/book (x)	1.3	1.2	1.9	1.7	1.5	1.2	1.2	0.96
Dividend yield (%)	4.6	4.9	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	n/a	9.7	6.8	12.8	4.2	0.45	0.05	4.4
Per share data								
Reported EPS (US$)	1.47	1.44	(2.77)	(0.45)	0.57	1.55	0.51	2.59
Normalised EPS (US$)	1.47	1.44	(2.77)	(0.45)	0.57	2.42	2.43	2.59
Dividend per share (US$)	0.67	0.71	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (US$)	(1.05)	2.49	1.92	3.18	0.96	(0.48)	(0.73)	1.35
BV/share (US$)	10.96	12.41	7.54	8.31	9.77	11.55	12.25	14.99

Source: Company data, ING estimates

Company profile

SBM Offshore designs, builds and operates equipment, vessels and complete systems for the oil & gas industry. This includes the design and construction of FPSOs. It aims to maintain its market position through advanced technology and to be a preferred supplier. Its clients include oil majors and NOCs and it targets large, complicated FPSOs. The group contracts and operates FPSOs under long-term leases to oil companies.

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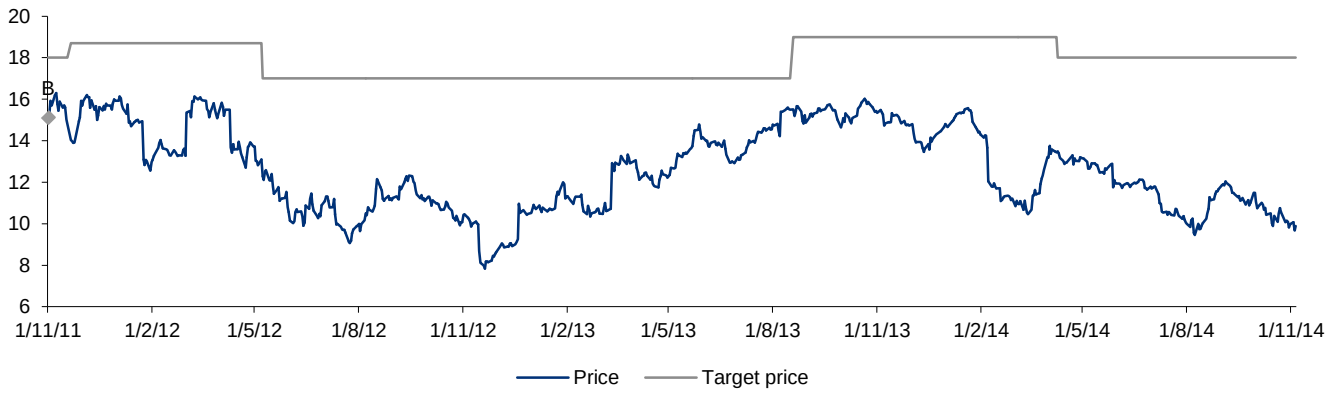

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