

4 March 2024

Seamec

Play on increased offshore activities

Rating: **Not Rated**

Share Price: Rs.1,102

For updates on its business and prospects we met the Seamec management. The company is set to capitalise on its dominance in domestic offshore activities given its long-standing relation with E&P majors like ONGC. It is confident of ~15% earnings growth over the next few years led by 1) higher contract day rates and 2) new vessel additions. It is replacing three ageing vessels, as new-age norms of 25 years come into force by Feb'26. Net debt/equity of 0.1x offers room for fleet expansion, given revived exploration after a decade of low crude-oil prices globally.

Near monopoly in offshore subsea services. Seamec leads the market in underwater services such as inspection and maintenance along with EPC service to E&P players like ONGC to sustain and grow oil & gas production from offshore fields. The company has five MSVs, three bulk carriers and one barge, which are leased to E&P players on multi-year contracts. This offers earnings assurance. Earnings are, however, volatile, given the need for dry docking of vessels every two and half years and the timing of contracts.

HAL's vessel add to dominance. Seamec's parent HAL Offshore (a 70.1% stake) has two MSVs (incl. one leased), for sub-sea activity. This means the Seamec Group incl. HAL is dominant in DSV services for engineering works. To simplify the business structure, Seamec plans to take up HAL's leased asset once up for renewal in FY26, which will give a leg up to its financials.

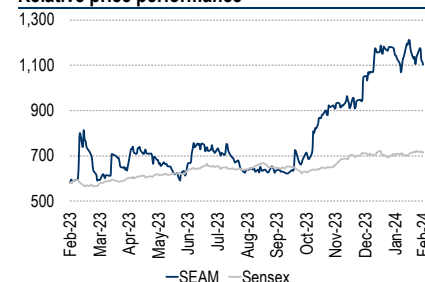
Financial flexibility to replace ageing vessels. Seamec is replacing three ageing DSVs as the new norm (25-year cap) is effective Feb'26. It added a vessel (Sea Diamond, Dec'23), two OSVs and is scouting for further vessels, supported by comfortable 0.1x net debt-to-equity (net debt: Rs880m at end-Q3 FY24).

Valuation. Aided by medium-term contracts and vessels added, the company aims at ~15% near-term earnings growth and at current price valuation is 16x PER FY24e **Risks:** 1) lower than expected contract rates; 2) increased competition from foreign players; 3) higher than expected cost of acquiring additional assets.

Key data	SEAM IN
52-week high / low	Rs1240 / 562
Sensex / Nifty	73872 / 22406
3-m average volume	\$1.8m
Market cap	Rs28bn / \$342m
Shares outstanding	25m

Shareholding pattern (%)	Dec'23	Sep'23	Mar'23
Promoters	72.0	72.0	72.0
- of which, Pledged	-	-	-
Free Float	28.0	28.0	28.0
- Foreign institutions	3.1	2.7	2.7
- Domestic institutions	1.8	0.0	0.0
- Public	23.1	25.3	25.3

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21	FY22	FY23
Sales (Rs m)	3,137	3,841	2,568	3,496	4,372
Net profit (Rs m)	819	1,332	367	832	330
EPS (Rs)	32.2	52.4	14.4	32.7	13.0
Growth %		62.8	-72.5	126.9	-60.3
PE (x)	35.0	21.5	78.2	34.5	86.9
EV / EBITDA (x)	25.5	17.2	43.3	22.9	22.5
PBV (x)	6.7	5.1	4.3	3.8	3.6
RoE (%)	-	26.9	6.0	11.8	4.3
RoCE (%)	-	19.4	1.3	5.6	2.0
Net debt / equity (x)	-0.0	0.1	0.1	0.1	-0.0

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
Net revenues	3,137	3,841	2,568	3,496	4,372
Growth (%)	62.0	22.4	-33.1	36.1	25.1
Direct costs	1,667	1,926	1,688	1,799	2,664
SG&A	350	224	204	400	441
EBITDA	1,120	1,691	676	1,298	1,268
EBITDA margins (%)	35.7	44.0	26.3	37.1	29.0
Depreciation	519	546	566	839	1,120
Other income	296	299	390	460	200
Interest expenses	40	57	57	71	72
PBT	857	1,387	444	848	276
Effective tax rates (%)	4.5	3.9	16.8	1.3	-21.6
+ Associates / (Minorities)	-	-	-2	-5	-6
Net income	819	1,332	986	832	330
Adjusted income	819	1,332	367	832	330
WANS	25.43	25.43	25.43	25.43	25.43
FDEPS (Rs)	32.2	52.4	14.4	32.7	13.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
PBT	857	1,387	1,062	848	276
+ Non-cash items	451	386	303	659	1,065
Oper. prof. before WC	1,308	1,773	1,366	1,507	1,341
- Incr. / (decr.) in WC	313	-594	267	507	849
Others incl. taxes	26	31	35	60	-41
Operating cash-flow	968	2,336	1,063	939	533
- Capex (tang. + intang.)	1,191	591	1,018	2,055	2,919
Free cash-flow	-223	1,745	45	-1,115	-2,386
Acquisitions					
- Div. (incl. buyback & taxes)	-	25	25	-	-
+ Equity raised					
+ Debt raised	649	4	168	331	145
- Fin investments	632	1,407	263	-600	-2,326
- Misc. (CFI + CFF)	-131	-72	-35	-186	-543
Net cash-flow	-74	389	-40	2	628

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

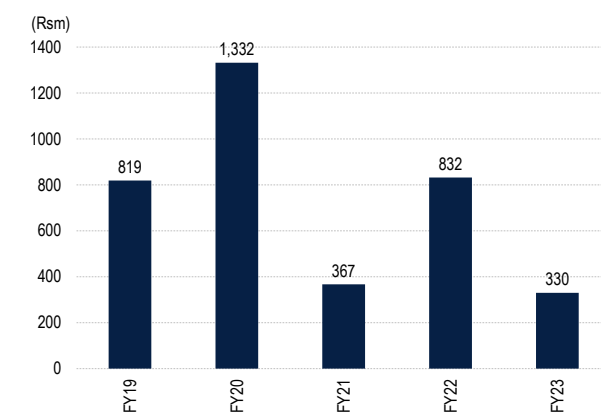
Year-end: Mar	FY19	FY20	FY21	FY22	FY23
Share capital	254	254	254	254	254
Net worth	4,297	5,611	6,621	7,485	7,903
Debt	722	726	894	1,225	1,370
Minority interest	-	-	23	27	12
DTL / (Assets)	5	23	51	61	2
Capital employed	5,024	6,360	7,590	8,798	9,287
Net tangible assets	2,357	2,482	2,908	4,107	5,849
Net intangible assets					
Goodwill					
CWIP (tang. & intang.)	-	11	0	19	-
Investments (strategic)	949	1,716	2,225	2,692	1,309
Investments (financial)	222	70	-	-	-
Current assets (excl. cash)	2,485	3,926	3,257	2,729	1,938
Cash	624.6	280.8	276.5	237.6	1,546.0
Current liabilities	1,614	2,124	1,078	987	1,355
Working capital	871	1,801	2,179	1,742	583
Capital deployed	5,024	6,360	7,590	8,798	9,287
Contingent liabilities	288	187	172	187	187

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
P/E (x)	35.0	21.5	78.2	34.5	86.9
EV / EBITDA (x)	25.5	17.2	43.3	22.9	22.5
EV / Sales (x)	9.1	7.6	11.4	8.5	6.5
P/B (x)	6.7	5.1	4.3	3.8	3.6
RoE (%)		26.9	6.0	11.8	4.3
RoCE (%) - after tax		19.4	1.3	5.6	2.0
Gross margins		21.7	1.4	5.8	2.2
DPS (Rs)	-	1.0	1.0	-	-
Dividend yield (%)	-	0.1	0.1	-	-
Dividend payout (%) - incl. DDT	-	1.9	6.9	-	-
Net debt / equity (x)	-0.0	0.1	0.1	0.1	-0.0
Receivables (days)		152	167	62	61
Inventory (days)		16	27	25	29
Payables (days)		130	132	31	35
CFO : PAT %	118.3	175.3	289.8	112.9	161.4

Source: Company, Anand Rathi Research

Fig 6 – PAT has been volatile for company



Source: Company

Dominant offshore supports the vessel provider

Impressive growth opportunities

Established in 1964, the company, part of the M.M. Agarwal group, has over the years emerged as the leading provider of diving support vessels (DSVs) and multi-support vessels (MSVs), important for subsea inspection, repair, maintenance and light construction required for efficient and productive support of offshore oil production.

DSVs are specially designed to facilitate offshore diving and include dedicated facilities for divers, advanced diving equipment and control systems, facilitating maintenance, removal, installations, pipeline repairs, etc.

The company's five MSVs, three bulk carriers and one barge are leased to E&P players on multi-year contracts; it has provided services to clients in the Middle East, southeast Asia, west Africa and the Gulf of Mexico. Besides, it has three bulk carriers.

It operates in two sub-segments: offshore support vessels and chartered bulk carriers. It offers underwater engineering services for

- **Oil & gas.** Inspection, repair, maintenance and construction services for offshore oil rigs, pipelines and platforms
- **Shipping.** Underwater hull cleaning, inspection and maintenance for ships and vessels
- **Defence.** Support services for naval operations, including inspection and repair of military vessels and installations
- **Infrastructure.** Underwater construction and maintenance of ports, bridges and other marine structures

Fig 7 – Seamec fleet details

		Procurement year	Built year	Contract	Contract value
SEAMEC II	DSV	1993	1982	2020-25	Mar 26
SEAMEC III	DSV	1993	1983	Non monsoon short term	
SEAMEC PRINCESS	DSV	2006	1984	Non monsoon short term	
SEAMEC PALADIN	DSV	2021	2008	2023-2028	\$64m for 5 yrs
SUBTECH SWORDFISH	DSV	2023	2007	New LT contract from likely from Oct 24	
SEAMEC GLORIOUS	Accommodation Barge	2021	2006	2023-2025	2 years (\$32m)
Sea diamond	OSV	2023	2011		3 yrs
Sea pearl	OSV	2024			3 yrs

Source: Company

Age cap to scrap three vessels. The Indian government recently released norms to restrict age limit of OSVs to 25 years, effective Feb'26. This could lead to three vessels being scrapped. To cover this, the company is scouting for assets and will acquire them once it has clarity on back-to-back contracts for them. In recent years, it added five vessels (since 2021) incl. a barge.

- Seamec Paladin (DSV), FY21, \$17.3m
- Seamec Swordship (DSV), FY23, \$24m
- Seamec Glorious (accommodation barge), FY21, \$3.3m
- Sea Diamond (OSV), Dec'23, \$7m.
- Sea Pearl (OSV).

Growing market opportunities

ONGC's offshore activities to drive the market

The Indian market for OSVs and DSVs can be classified into three

DSVs (engineering services)

The Indian market requires seven vessels, of which two are owned by ONGC, four by Seamec and HAL while one is a foreign company. Contracts are for a whole year. Besides, an additional DSV for ONGC's east-coast block may be required.

DSVs (building infra)

Contracts here are primarily executed by L&T with help from sub-contractors like Seamec. Depending on contract specifications, the contractor distributes them among sub-contractors.

There could be additional requirements for east-coast infra.

OSVs

These are smaller, with ~50-60 domestically used for cargos, oil-spill responses, etc., with day rates of \$8,000 to \$9,000.

~15% near-term earnings growth target

The company aims at ~15% near-term earnings growth. aided by

- Deployment of Subtech Swordship, leading to long-term contracts by Oct'24. The company is LI for the contract with ONGC.
- Deployment of two OSVs: Sea Diamond and Sea Pearl in FY25 (contracted for \$8,750 a day each for three years).
- Plans to add a vessel in FY25 for the east-coast contract once there is better visibility.

Oil exploration gathers pace globally

After a decade of low prices, rising crude oil prices led to increased demand for offshore vessels. Volatile crude-oil prices hampered market growth in recent years, leading to an oversupply of vessels. However, the rise in deepwater activity and the de-commissioning of ageing offshore infrastructure present promising opportunities for OSVs.

Asia Pacific, comprising major economies such as China, India, Indonesia, Malaysia, Vietnam and Thailand, is seeing a significant focus on expanding offshore E&P capital expenditure, likely to drive demand for OSVs.

Financials and Valuation

Seamec's financials have been volatile, depending on duration and contract rates for vessels. The ordering process is lengthy and starts a few months prior to the start of work. However, the strong relation with ONGC has helped the company secure contracts. In 9M FY24, its EBITDA was Rs1.8bn (up 72% y/y) and PAT, Rs1.1bn (up 164% y/y).

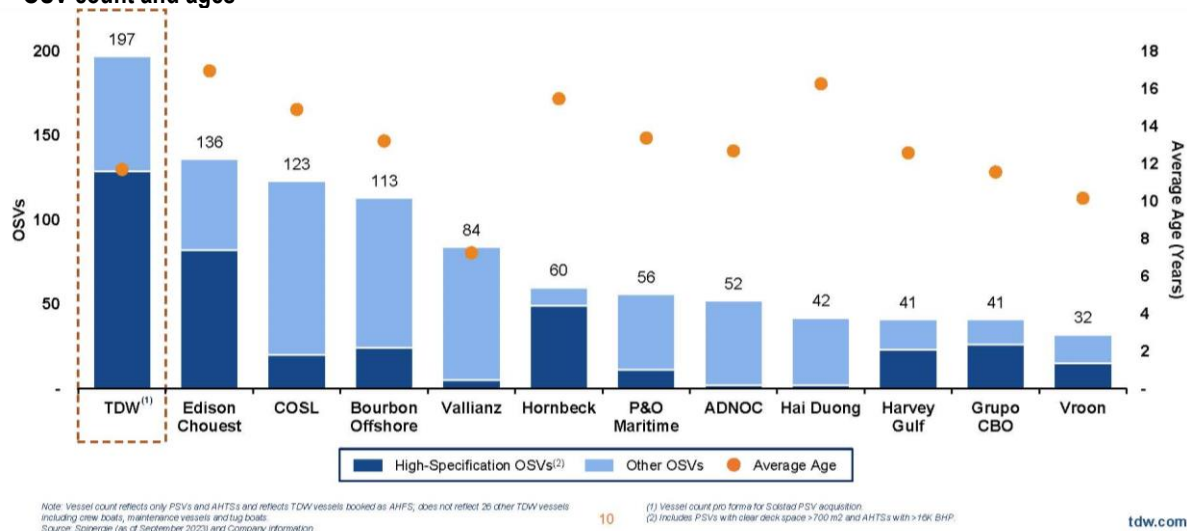
The company is confident of raising its PAT ~15%, boosted by higher-value contracts and vessels added. The Rs880m net debt at end-Q3 provides financial headroom to acquire large assets.

Valuation

Based on current price of Rs1,102, stock trades at ~16x PER FY24 annualised numbers and ~13x FY26x PER factoring in ~15% earnings growth.

Annexure

Fig 8 – OSV count and ages



Source: Industry

Fig 9 - Global offshore commitments by water depth (\$ bn)



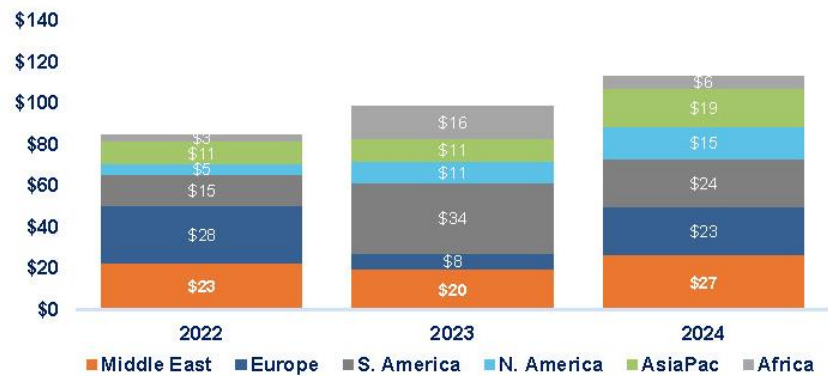
Source: Industry

Fig 10 - Capital commitments by breakeven oil price (\$ bn)



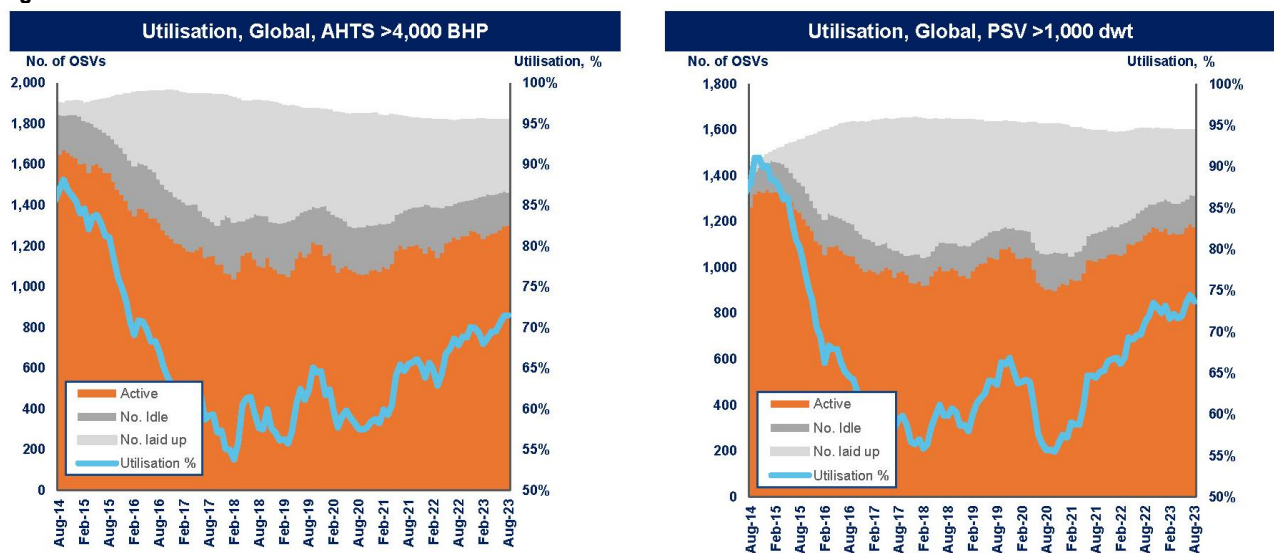
Source: Industry

Fig 11 - Offshore commitments by region (\$ bn)



Source: Industry

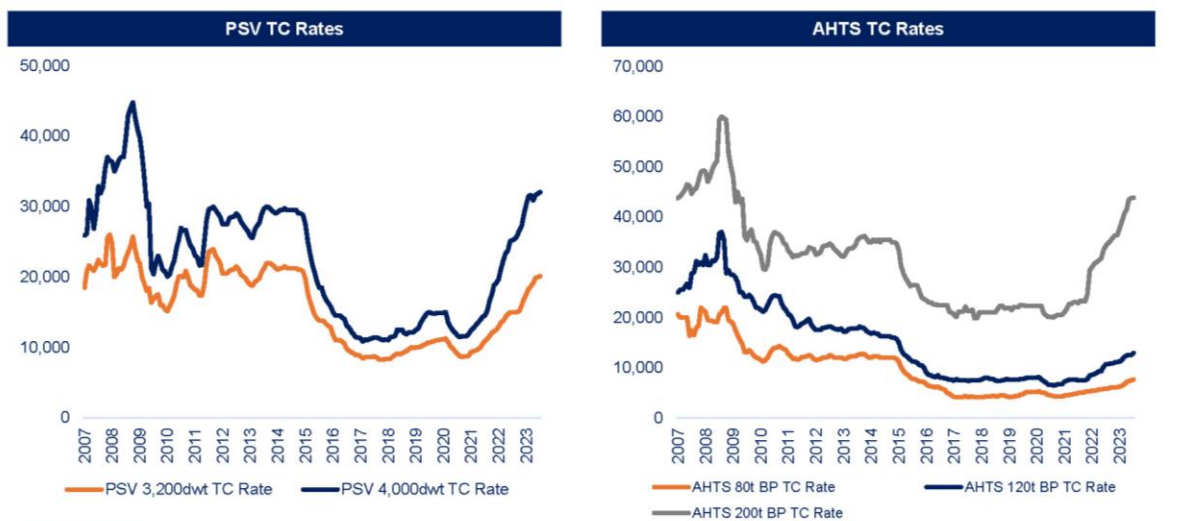
Fig 12



Lay-up includes units confirmed to be in lay-up and out of service for an extended period. Excludes idle.

Source: Industry

Fig 13

Source: Clarksons (July 2023)
Note: Average of SE Asia, Mid East, Latin Am, WAFR and Med, weighted by fleet deployment.

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tdw.com

Source: Industry

Appendix

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