# IR Presentation

November 2018

SAMSUNG HEAVY INDUSTRIES

# Contents

# 1. 3rd Quarter Earnings of 2018

## Quarterly operating loss continued

- **Revenue : KRW 1.3t**

 - Revenue slightly decreased from 2nd quarter due to reduced working days

- **Operating Loss : KRW -127b**

 - Increase in loss(QoQ) mainly due to material cost hikes in spite of one-off gain from Egina project while fixed cost burden continues

* KRW -138b from steel cost, KRW -40b from material cost, KRW -90b from wage negotiation

(KRW b)

| | 3Q 2017 (YoY) | 2Q 2018 (QoQ) | **3Q 2018** | QoQ |
|---|---|---|---|---|
| Revenue | 1,752 | 1,347 | **1,314** | -2.4% |
| Operating Profit (Margin) | 24 (1.3%) | -101 (-7.5%) | **-127 (-9.7%)** | -26.7% |
| Pretax Income (Margin) | 22 (1.3%) | -173 (-12.9%) | **-116 (-8.8%)** | 33.0% |

# 2. Earnings Outlook in 2018

## Steel cost hikes depress annual operating income outlook

■ **Revenue : KRW 5.5t**

- Revenue decreases mainly due to the lowest new orders of USD 0.5b in 2016
  * -30% YoY
- Forecasted annual revenue slightly increased due to change order from offshore projects
  * (Existing) KRW 5.1t → (Adjusted) KRW 5.5t

■ **Operating Loss : KRW -420b**

- Increased fixed cost burden because of decreased revenue in 2018
- Forecasted operating loss increased due to unexpected one-off expenses arising from steel cost hikes, wage negotiation, etc.
  * (Existing) KRW -240b → (Adjusted) KRW -420b

〈 **Earnings trend(2014~2018)** 〉

| | Unit | 2004-2013 (Avg.) | 2014 | 2015 | 2016 | 2017 | 2018(F) |
|---|---|---|---|---|---|---|---|
| Revenue | KRW trillion | 10.5 | 12.9 | 9.7 | 10.4 | 7.9 | 5.5 |
| Operating Income (Ratio) | KRW billion (%) | 690 (6.6) | 183 (1.4) | - 1,502 (-15.5) | - 147 (-1.4) | - 524 (-6.6) | - 420 (-7.6) |

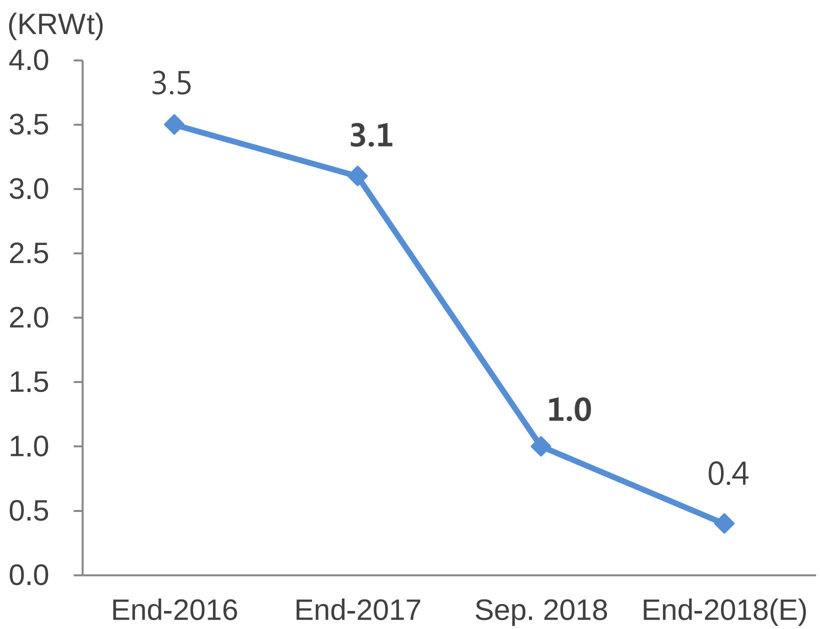
# 3. Enhanced Financial Stability

## Successful capital increase and positive cash flow from operation enhanced company's financial stability significantly

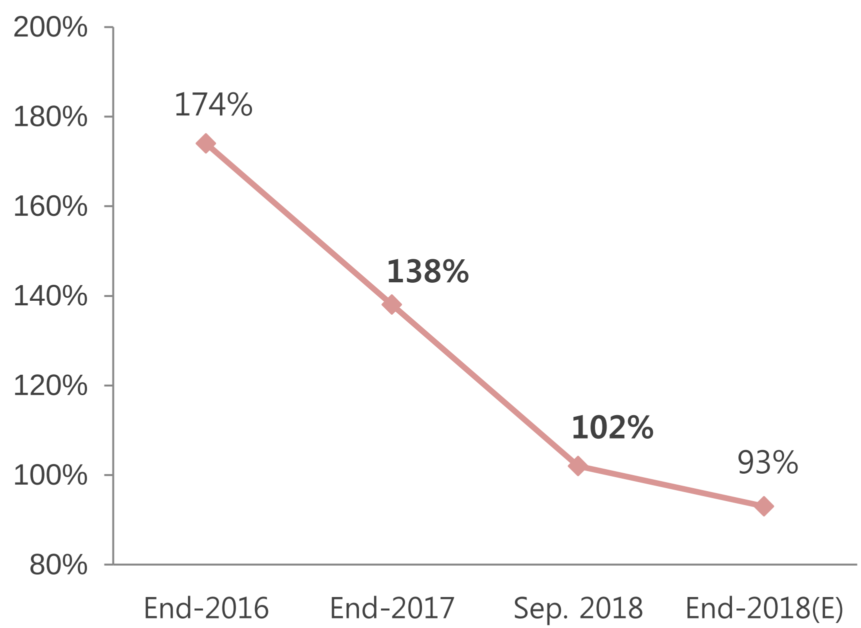
* KRW 1.4t (New shares listed in May 2018)

- **Net debt : KRW 3.1t at end-2017 → KRW 1.0t in September 2018**
- **Debt-to-equity ratio : 138% at end-2017 → 102% in September 2018**

〈 Net Debt 〉




〈 Debt-to-equity Ratio〉



# 4. Drilling Rig Backlogs

## Reducing risks through resale in the market

■ **1 Semi-rig sold, 3 Drillships for resale**
* Jan. 2018

(USD b)

| | Project | Contract Price | Cash Received(%) | Delivery | Remark |
|---|---|---|---|---|---|
| Resale Completed | Stena | 0.51 | 0.23(45) | Dec. 2018 | · Sold at 70% of initial contract price * USD 0.72b |
| For Resale | PDC | 0.52 | 0.18(35) | - | · Inventory (Fair value : 60% of the contract price) |
| | Seadrill #11 | 0.52 | 0.16(30) | - | |
| | Seadrill #12 | 0.52 | 0.16(30) | - | |
| Under Construction | OCR #9 | 0.72 | 0.34(48) | Sep. 2019 | |
| | OCR #10 | 0.71 | 0.18(25) | Sep. 2020 | |
| **Total** | | **3.50** | **1.25(36)** | | |

■ **Arbitral proceedings are underway regarding Stena and PDC rigs**

- Around 50% of cash received for each rig was recognized as provision

# 5. Offshore Facility Backlogs

## Risks eliminated as Egina project completed

- **Egina FPSO sailed away from SHI's Nigerian yard in August 2018**

- **BP Maddog FPU, which is only EPC project in the backlog, is well under construction with application of all Lessons Learned in the past projects**
  * Engineering, Procurement, Construction

- PC projects have been successful because of less complexity
  * Procurement, Construction

**〈 Offshore Projects under Construction 〉**

(USD b)

| | Type | Contract Price | Progress | Delivery | Remark |
|---|---|---|---|---|---|
| Johan Sverdrup | P/F | 0.6 | 92% | Dec. 2018 | PC |
| Petronas | FLNG | 1.6 | 85% | Jul. 2020 | Topside: PC |
| ENI Coral | FLNG | 2.5 | 3% | Jun. 2022 | Topside: PC |
| BP Maddog | FPU | 1.3 | 23% | Sep. 2020 | EPC |
| **Total** | | **6.0** | | | |

* Progress : As of end of September 2018

# 6. New Orders

## Pursuing additional new orders of LNGC, SHTL, FPSO in 4Q
* shuttle tanker

■ **New order(as of October 31, 2018) : USD 4.9b**

- 11 LNGCs(USD 2.0b), 13 Containerships(1.6), 17 Tankers & Others(1.3)

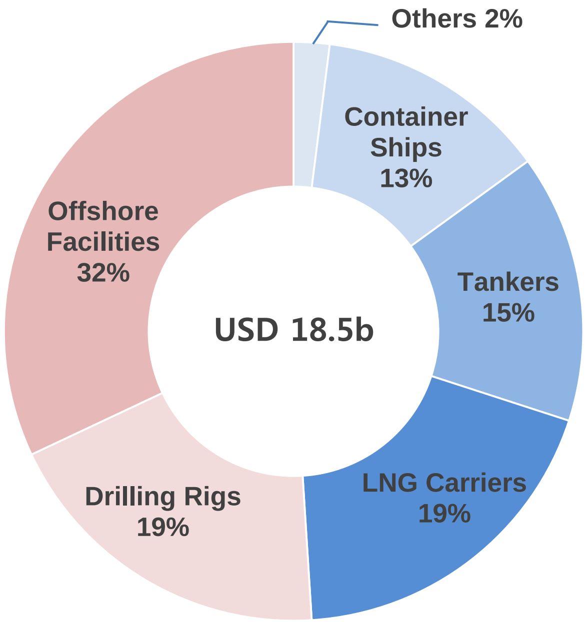
※ New order target in 2018 : USD 8.2b

**〈 New Orders as of October 31, 2018 〉**

(USD b)

| | No | Amount |
|---|---|---|
| LNGCs | 11 | 2.0 |
| Containerships | 13 | 1.6 |
| Tankers | 14 | 0.9 |
| Others | 3 | 0.4 |
| Commercial Vessels | 41 | 4.9 |
| Offshore Facilities | - | - |
| **Total** | **41** | **4.9** |

**〈 Order Backlog as of October 31, 2018 〉**



Ⅰ. Business Status

# Ⅱ. Market Outlook

Ⅲ. Appendix

# 1. Market Recovery Continues

## Market recovery continues its momentum

■ **Demand of SHI’s core products such as LNGCs, mega containerships and offshore facilities will continue in 2019**

- LNGC : Demand is strong as global LNG export increases
- Containerships : Demand of 10,000TEU+ vessels is sustainable because of “Economy of scale” and “Slow steaming” in the market
- Offshore facilities : New investment increases due to lack of CAPEX in 2015-2017

**〈 Forecasted Global New Order Trend 〉**

| | 2011~2015 Average | 2016 | 2017 | 2018 | 2019 | 2020~2023 Average | 2024~2027 Average |
|---|---|---|---|---|---|---|---|
| Sum of LNGCs, Containerships and Tankers | 100% | 32% | 64% | 84% | 93% | 126% | 122% |

* Source : Clarksons (2011~2015 yearly average new order in 100%)

# 2. LNGCs

## Strong demand for new LNGCs continues

■ **Long-term demand for LNGCs is solid and yearly 35~40 LNGC orders are expected as LNG trade grows and ton miles increase**

* 4,140miles/ton in 2018 → 4,609miles in 2021(11%↑)

| | 2017 | 2020 | 2030 |
|---|---|---|---|
| LNG trade(mtpa) | 290 | 350 | 550~600 |
| LNGC Fleet(No.) | 502 | 605 | 952~1,039<br>(Avg. 35~40 vessels/year) |

* Forecasts by Gaslog, BP, etc.

■ **Demand of new LNGC is expected to be strong in 2019 considering global LNG export plans in 2021-2024**

* 220Mtpa(US 115, Australia 37, Qatar 23, etc.)

- Spot rate is skyrocketing to USD 150,000 per day due to lack of vessels

* 160,000㎥ LNGC, End of Oct. 2018

• Over 40 LNGC could be ordered in 2019

# 3. Containerships

## Demand of bigger vessels continues because of replacement demand and slower shipping speed to comply with IMO 2020

* Lower sulfur cap regulation

■ **Smaller vessels will continue to be replaced by bigger vessels ("Economy of Scale")**

- Vessels under 10,000TEU in Asia/Europe and Asia/North American routes are being replaced by 10,000TEU+ vessels

* 3.7 millionTEU as of end of 2017

■ **Additional demand of vessels are expected due to slower shipping speed to comply with IMO 2020 ("Slow steaming")**

- While major shipping companies are expected to use low sulfur fuel oil(LSFO), they need to slow down the shipping speed to save fuel costs

→ Additional vessels are necessary

• Demand of 10,000TEU+ containerships will continue, especially, from shipping companies with smaller fleet of big boxships

# 4. Regulations

## Environmental regulations trigger expansion of new building demands

* BWTS, SOx & $CO_2$ emissions

### ■ SOx & BWTS Regulations will stimulate replacement of old vessels

| | Tankers | Bulkers | Containerships | Gas Carriers |
|---|---|---|---|---|
| Units (18yr~) | 4,896 | 2,247 | 1,655 | 765 |
| (%) | 48% | 20% | 32% | 41% |

### ■ SOx & $CO_2$ Emission Regulations will require more LNG-fueled vessels and other LNG related solutions

- New orders applying LNG-fueled engines or Scrubbers to comply with regulations

- Replacement of old vessels will improve supply and demand
- Expansion of LNG Value-Chain such as LNG fueled, LNG bunkering, FSRU where SHI has competitive advantages will lead to enhanced profitability

# 5. Offshore Facilities

## IOC's lack of investments in 2015-2017 will lead to remarkable rebound of new offshore investments

■ **IOC's radical Capex Cuts will return with enormous pressure for New Investments**

* USD 100b in 2014 → USD 48b in 2017(52%↓)

- New offshore investments(forecasted) : USD 80b in 2018 → USD 170b in 2022

* Clarksons

■ **Increase of new offshore orders are expected in 2019**

- The number of market inquiries : 3(1H 2016) → 35 (Current)

* 1 FLNG, 2 FPUs

* 18 FPSOs, 5 FLNGs, 6 FPUs, 6 Platforms

- Increase of new orders will ease the burden of competition
- SHI maintains core competence and know-hows through continuous execution of offshore projects, which provide advantages in future biz opportunities

# 1. 3Q Earnings & Financial Status



〈Earnings〉

(KRWb)

| | | **2Q 2018** | 1Q 2018 | QoQ (%) | 3Q 2017 | YoY (%) |
|---|---|---|---|---|---|---|
| Revenue | Qr. | **1,314** | 1,347 | -2.4 | 1,752 | -25.0 |
| | Acc. | **3,901** | - | - | 6,489 | -39.9 |
| Operating Profit | Qr. | **-127** | -101 | -26.7 | 24 | Turn (-) |
| | Acc. | **-276** | - | - | 72 | Turn (-) |
| Pretax Income | Qr. | **-116** | -173 | 33.0 | 22 | Turn (-) |
| | Acc. | **-380** | - | - | 101 | Turn (-) |
| Net Income | Qr. | **-80** | -143 | 43.7 | 23 | Turn (-) |
| | Acc. | **-283** | - | - | 105 | Turn (-) |

〈Financial Status〉

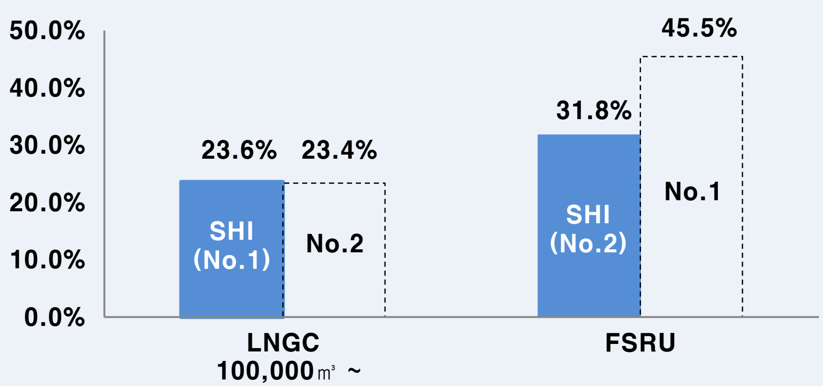
(KRWb)

| | **End of Sep. 2018** | End of 2017 | Difference |
|---|---|---|---|
| Total Assets | **13,997** | 13,818 | 179 |
| Cash & Cash Equiv. | **1,562** | 1,123 | 439 |
| Total Liabilities | **7,074** | 8,021 | -947 |
| Borrowings | **2,594** | 4,246 | -1,652 |
| Advance Payment | **1,783** | 1,514 | 269 |
| Total Equity | **6,923** | 5,798 | 1,125 |
| Capital Stock | **3,151** | 1,951 | 1,200 |
| Retained Earnings | **2,887** | 3,198 | -311 |

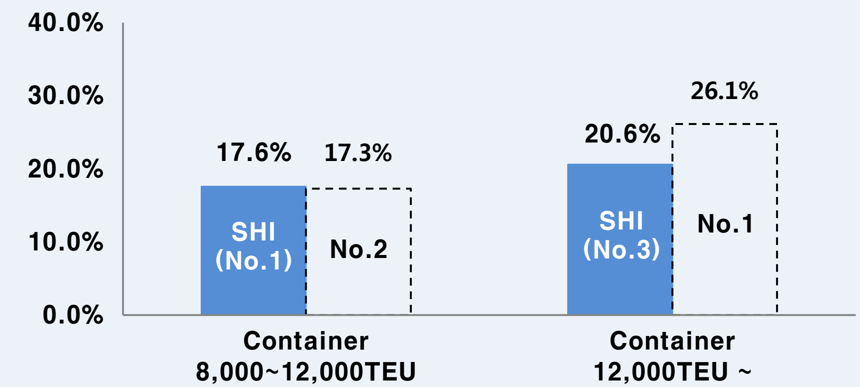
# 2. Market Share (SHI-built vessels / Global Fleet, As of End-2017)

## Global Top-tier Shipbuilder in Major Products

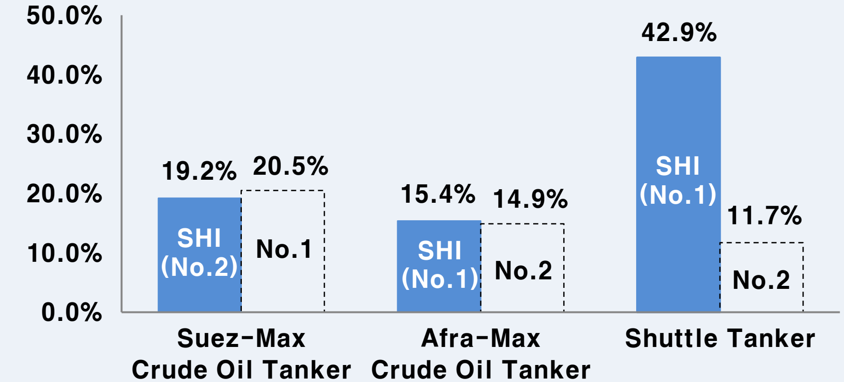
### LNGCs/FSRUs



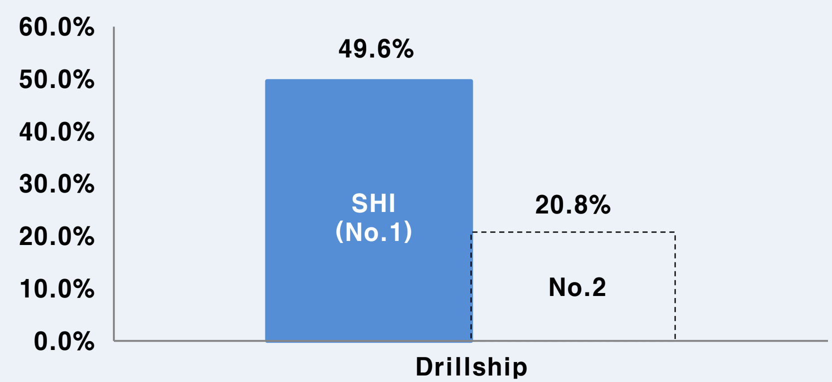

### Containerships




### Oil Tankers




### Drillships




* Source : Clarksons

# 3. Major Offshore Projects

## Continuity in Offshore Biz over the last 7 years

**Prelude FLNG**
(2011~2017, delivered)

**Ichthys CPF**
(2012~2017, delivered)

**Martin Linge**
(2012~2018, delivered)

**Egina FPSO**
(2013~2018, delivered)

**Petronas FLNG**
(2014~2020)

**Appomattox**
(2015~2017, delivered)

**Johan Sverdrup P/F(2 units)**
(2015~2018, 1 unit delivered)

**Mad Dog Ⅱ FPU**
(2017~2020)

**ENI FLNG**
(2017~2023)

Under Construction

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