

### COMPANY UPDATE

## Sembcorp Industries (SCI SP)

Full Steam Ahead With Two Renewables Acquisitions

**SCI announced the acquisition of 390MW of net solar assets in China and a portfolio of 583MW of solar and wind assets in India. On a gross installed capacity basis, this would increase the company's capacity from 7.2GW to 8.5GW which is not far from its 2025 target of 10GW. SCI disclosed that these assets were bought at "low teens PE multiples" which we view as fair. Maintain BUY. Target price: S\$4.10.**

### WHAT'S NEW

- Expanding its solar capacity in China.** On 11 Nov 22, Sembcorp Industries (SCI) announced that its 49%-owned JV would acquire 795MW of operational solar assets in Hebei, China, for a total consideration of Rmb1.163b (or S\$225m) – this comprises an initial equity consideration of Rmb15m (S\$3m) followed by a subsequent capital injection of Rmb1.148b (S\$222m). This acquisition will be funded by internal cash resources and external borrowings with estimated completion in 1Q23.
- Diversifying its renewables portfolio in India.** On 14 Nov 22, SCI announced the acquisition of 100% equity interest in Vector Green Energy which owns a portfolio of solar and wind assets for INR27.8b (S\$474m). The acquisition will be funded through internal cash resources and external borrowings with expected completion in 1Q23. The renewable power generation assets span across 13 states in India and comprise 64MW solar projects under development, and 495MW of operational solar capacity and 24MW of operational wind capacity.
- Moving the company closer to its goal.** The acquisitions add over 1.3GW of gross installed renewables capacity to SCI's portfolio and bring its current total to 8.5GW and a bit closer to its 10GW renewables target by 2025. Importantly, as both the Chinese and Indian acquisitions are currently operational, they will be immediately earnings-accretive in 2023.
- Key positives of the China acquisition.** SCI's partner in the JV that is acquiring the three solar projects is Beijing Energy International (BEI) which is wholly-owned by China's State-owned Assets Supervision and Administration Commission (SASAC) of the State Council. With this strong partner, SCI appears well placed to continue its long-term growth in China. Importantly, the three projects in south Hebei (which only started operations in Sep 22) are located in a tight power market where reserve margins are <10% and thus needs to import around 30% of its power consumption. In addition, its proximity to Beijing means that no coal power plants can be set up due to pollution concerns and thus curtailment risk is very low.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	5,447	7,795	10,613	9,259	9,468
EBITDA	1,022	1,127	1,452	1,285	1,313
Operating profit	443	670	985	808	826
Net profit (rep./act.)	(997)	279	732	544	564
Net profit (adj.)	(997)	279	732	544	564
EPS (S\$ cent)	(55.9)	15.4	40.0	29.7	30.8
PE (x)	n.m.	19.7	7.6	10.2	9.9
P/B (x)	1.6	1.5	1.3	1.2	1.1
EV/EBITDA (x)	11.0	10.0	7.7	8.7	8.5
Dividend yield (%)	1.3	1.6	4.0	3.0	3.1
Net margin (%)	(18.3)	3.6	6.9	5.9	6.0
Net debt/(cash) to equity (%)	200.5	160.5	131.1	107.4	95.8
Interest cover (x)	1.0	1.7	2.5	2.0	2.1
ROE (%)	n.a.	7.9	18.1	12.1	11.5
Consensus net profit	-	-	817	634	624
UOBKH/Consensus (x)	-	-	0.90	0.86	0.90

Source: Sembcorp Industries, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E reflected as "n.m."

## BUY

(Maintained)

Share Price	S\$3.02
Target Price	S\$4.10
Upside	+35.8%

### COMPANY DESCRIPTION

The company is a Singapore-based industrial conglomerate, with businesses encompassing energy, utilities, water and waste treatment, and industrial parks.

### STOCK DATA

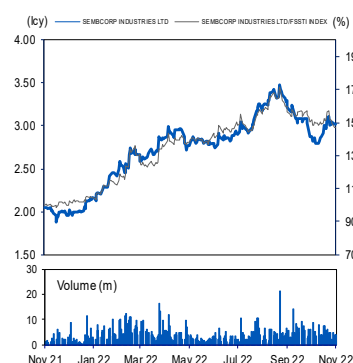
GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,778.6
Market cap (S\$m):	5,406.9
Market cap (US\$m):	3,921.7
3-mth avg daily t'over (US\$m):	12.0
<b>Price Performance (%)</b>	
52-week high/low	S\$3.48/S\$1.88

1mth	3mth	6mth	1yr	YTD
0.3	(6.5)	9.0	48.3	52.0

Major Shareholders	%
Temasek Hldgs	48.9
-	-
-	-
FY22 NAV/Share (S\$)	2.38
FY22 Net Debt/Share (S\$)	3.12

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

#### SAMPLE OF RENEWABLES ACQUISITIONS IN 2021 & 2022

Acquirer	Location	Type	Status	Net MW acquired	Cost US\$m	Cost US\$/MW
SCI	India	Solar & wind	Operational/development	583	345	0.59
SCI	China	Solar	Operational	389.6	164	0.42
SCI	China	Solar & wind	Operational	658	1,300*	1.98
AEW Energie	Switzerland	Hydro	Operational	27.6	163	5.89
China Three Gorges	Spain	Wind	Operational	181	351	1.94
Ignitis	Poland	Solar	Development	80	57	0.71
Taaleri	Spain	Solar	Development	50	NA	NA

Note: Assuming 40% equity and 60% debt

Source: renewablesnow.com

- Key positives of the India acquisition.** Prior to the announced acquisition, SCI's Indian renewables portfolio was 95% wind; however after the acquisition, this would become 65:35 wind and solar, thus rebalancing its portfolio and arguably bringing stability into it. In addition, the operational solar projects are subject to Power Purchase Agreements with remaining life of another 19 years, while the smaller 24MW wind asset does not have one. SCI also highlighted that the credit quality in India has improved markedly in the past 12 months as all receivables are being paid on time, with non-paying customers being disconnected from the IEX.
- Longer-term growth plans in green hydrogen production.** On 25 October, SCI entered into strategic partnerships with the Japanese government and various companies to explore hydrogen and other decarbonisation initiatives. These include: a) an MOU with Japan Bank for International Cooperation (JBIC) to assist SCI in its hydrogen project, b) MOU with Sojitz Corporation for green hydrogen production, battery energy storage and net zero industrial parks, and c) MOU with IHI Corporation to build out an integrated green ammonia supply chain.

### EARNINGS REVISION/RISK

- None.

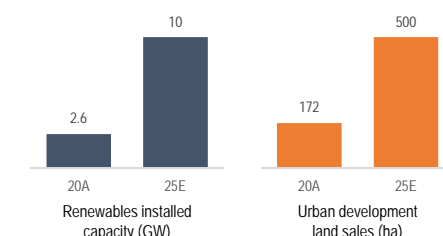
### VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$4.10 based on a target PE multiple of 13.6x.** This target PE multiple is 1SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2023 EPS estimate. SCI remains one of our top picks in Singapore for the quality of its earnings as well as its growth prospects in the near to medium term.

### SHARE PRICE CATALYST

- Sustained economic recovery after the peak of COVID-19, thus leading to increased energy and utilities usage.
- Positive EPS revision momentum as consensus upgrades earnings in 2H22.

### SCI TARGETS: 2020-25



Source: SCI

### LIST OF PROJECTS OWNED BY VECTOR GREEN

Type	Name	Gross capacity (MW)
Solar	Solar Energy Corporation of India	130
	National Thermal Power Corporation	120
	Telangana Southern Power Distribution Company Limited	110
	Andhra Pradesh Southern Power Distribution Company Limited	80
	Uttar Gujarat Vij Company Limited	64*
	Punjab State Power Corporation Limited	40
	Maharashtra State Electricity Distribution Limited	4
	Madhyanchal Vidyut Vitran Nigam Limited	2
Wind	Adani Electricity Mumbai Limited, Kreate Energy (I) Private Limited	24
Rooftop Solar	Commercial and industrial customers	9
<b>Total</b>		<b>583</b>

Note: \* under development

Source: SCI

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	7,795	10,613	9,259	9,468
EBITDA	1,127	1,452	1,285	1,313
Deprec. & amort.	457	467	477	487
EBIT	670	985	808	826
Total other non-operating income	(56)	65	3	4
Associate contributions	206	288	294	300
Net interest income/(expense)	(397)	(397)	(397)	(397)
<b>Pre-tax profit</b>	<b>423</b>	<b>941</b>	<b>707</b>	<b>733</b>
Tax	(123)	(188)	(141)	(147)
Minorities	(21)	(21)	(22)	(22)
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>279</b>	<b>732</b>	<b>544</b>	<b>564</b>
Net profit (adj.)	279	732	544	564

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,094	6,887	6,670	6,443
Other LT assets	3,368	4,011	4,135	4,462
Cash/ST investment	1,344	1,749	2,334	2,476
Other current assets	2,589	3,004	2,622	2,682
<b>Total assets</b>	<b>14,395</b>	<b>15,651</b>	<b>15,761</b>	<b>16,063</b>
ST debt	754	754	754	754
Other current liabilities	2,151	2,812	2,491	2,335
LT debt	6,637	6,637	6,637	6,637
Other LT liabilities	871	886	901	916
Shareholders' equity	3,767	4,303	4,708	5,127
Minority interest	151	172	194	216
<b>Total liabilities &amp; equity</b>	<b>14,395</b>	<b>15,651</b>	<b>15,761</b>	<b>16,063</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>1,219</b>	<b>849</b>	<b>1,353</b>	<b>917</b>
Pre-tax profit	423	941	707	733
Tax	(36)	(77)	(195)	(124)
Deprec. & amort.	457	467	477	487
Associates	(206)	(288)	(294)	(300)
Working capital changes	(49)	(563)	289	(247)
Non-cash items	0	0	0	0
Other operating cashflows	630	369	369	369
<b>Investing</b>	<b>(100)</b>	<b>148</b>	<b>(232)</b>	<b>(234)</b>
Capex (growth)	(282)	(300)	(300)	(300)
Capex (maintenance)	0	(2)	0	(2)
Investments	48	381	0	0
Proceeds from sale of assets	17	40	40	40
Others	117	29	28	28
<b>Financing</b>	<b>(855)</b>	<b>(593)</b>	<b>(537)</b>	<b>(542)</b>
Dividend payments	(124)	(221)	(165)	(170)
Issue of shares	(13)	25	25	25
Proceeds from borrowings	0	0	0	0
Loan repayment	(349)	0	0	0
Others/interest paid	(369)	(397)	(397)	(397)
<b>Net cash inflow (outflow)</b>	<b>264</b>	<b>404</b>	<b>585</b>	<b>141</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,009</b>	<b>1,297</b>	<b>1,701</b>	<b>2,286</b>
Changes due to forex impact	24	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,297</b>	<b>1,701</b>	<b>2,286</b>	<b>2,427</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	14.5	13.7	13.9	13.9
Pre-tax margin	5.4	8.9	7.6	7.7
Net margin	3.6	6.9	5.9	6.0
ROA	2.0	4.9	3.5	3.5
ROE	7.9	18.1	12.1	11.5
<b>Growth</b>				
Turnover	43.1	36.1	(12.8)	2.3
EBITDA	10.3	28.8	(11.5)	2.2
Pre-tax profit	100.5	122.6	(24.9)	3.6
Net profit	n.a.	162.3	(25.6)	3.7
Net profit (adj.)	n.a.	162.3	(25.6)	3.7
EPS	n.a.	159.0	(25.7)	3.6
<b>Leverage</b>				
Debt to total capital	65.4	62.3	60.1	58.0
Debt to equity	196.2	171.8	157.0	144.1
Net debt/(cash) to equity	160.5	131.1	107.4	95.8
Interest cover (x)	1.7	2.5	2.0	2.1

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