

Sembcorp Industries (SCI SP)

Driving energy transition

BUY

Share Price	SGD 5.75
12m Price Target	SGD 6.30 (+10%)
Previous Price Target	SGD 6.30

Strong finish to the fiscal year, BUY

Transferring coverage to Krishna Guha. SCI reported FY23 net profit of SGD970m, +11% and marginally ahead of MIBG/street. 2H profit of SGD426m grew 15% YoY. Revenue for 2H fell 14% YoY due to lower power prices; this was partly offset by higher revenue from renewable and other business segments. Bottom-line growth was driven by higher EBITDA across conventional energy and renewables. Renewables capacity is halfway towards its 2028 target of 25GW. While near-term earnings have likely peaked, the green transition theme is intact with a de-risked revenue profile. We reiterate BUY with an unchanged SOTP-based TP of SGD6.30.

Continued growth for renewables segment

Net profit before EI for the renewables segment grew 42% to SGD200m, from SGD141m in FY22, driven by contributions from acquisitions in China and India, as well as higher contributions from energy storage and solar operations in Singapore. FY revenue from renewables grew 40% YoY to SGD703m while segment adjusted EBITDA grew 45% YoY to SGD601m. Over the year, SCI secured 4GW of gross renewables capacity through organic growth and M&As, bringing group's renewable capacity to 13.8GW, at 55% of its 2025 target of 25GW. Integrated Urban Solutions revenue fell 6% YoY to SGD418m due to cessation of a public waste collection contract.

Receding tailwind of elevated power prices

Net profit before EI for conventional energy increased 30% to SGD809m in FY23 from SGD622m in FY22 driven by higher power prices. However, 2H saw a slowdown in revenue as power prices came off the peaks sequentially. During the year, SCI secured multiple PPAs for Singapore generation assets, enhancing earnings certainty. 62% of the group's conventional generation capacity has more than 5 years' contract tenure.

Likely near-term earnings peak, green theme intact

End of term of operation of Phu My 3 power plant in Vietnam (c. SGD10m profit impact), maintenance downtime of 2 months for Singapore cogen (c.50m of profit impact), lower power prices and higher funding cost should weigh on FY24 earnings with partial offset from higher renewable revenue. That said, SCI's de-risked revenue profile (lower merchant risk, long-term PPAs) and ongoing green transition keeps us on BUY with relatively unchanged earnings estimate and TP of SGD6.30.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E
Revenue	7,825	7,042	6,821	6,601
EBITDA	1,189	1,604	1,597	1,659
Core net profit	871	970	857	891
Core FDEPS (cts)	48.4	53.9	47.6	49.5
Core FDEPS growth(%)	190.3	11.4	(11.6)	3.9
Net DPS (cts)	12.0	13.0	8.0	8.0
Core FD P/E (x)	7.0	9.9	12.1	11.6
P/BV (x)	1.5	2.1	2.0	1.7
Net dividend yield (%)	3.6	2.4	1.4	1.4
ROAE (%)	22.5	22.7	17.5	16.0
ROAA (%)	5.7	6.2	5.8	6.2
EV/EBITDA (x)	10.2	10.2	9.6	9.1
Net gearing (%) (incl perps)	138.9	134.5	90.4	75.5
Consensus net profit	-	-	925	989
MIBG vs. Consensus (%)	-	-	(7.3)	(9.9)

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Company Description

Sembcorp Industries is a conglomerate providing mainly utilities services, sustainable solutions and urban development

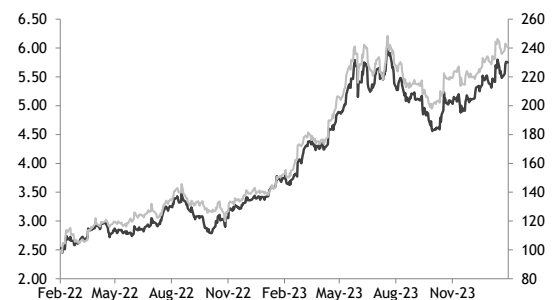
Statistics

52w high/low (SGD)	6.09/3.63
3m avg turnover (USDm)	11.6
Free float (%)	50.0
Issued shares (m)	1,788
Market capitalisation	SGD10.3B
	USD7.6B

Major shareholders:

Temasek Holdings	49.5%
Citibank Nominees Singapore Pte Ltd	10.5%
Raffles Nominees (Pte) Limited	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	13	53
Relative to index (%)	4	10	58

Source: FactSet

Abbreviations explained

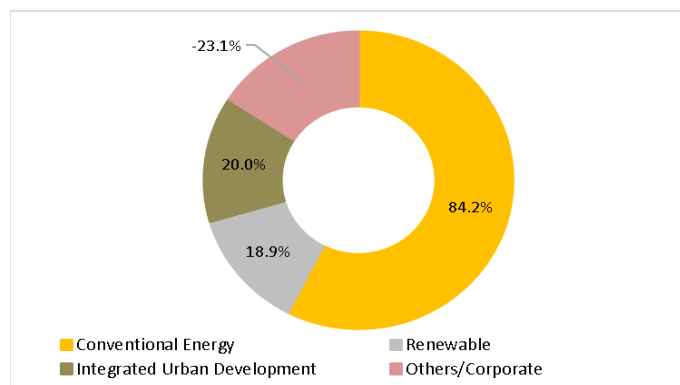
EI - Exceptional items

PPAs - Power Purchase Agreements

Value Proposition

- SCI is Singapore’s leading sustainable solutions provider with ~11GW of capacity in renewables and over 12000ha of project portfolio across Asia.
- Temasek’s 49.5% ownership offers SCI backing and help to secure attractive financing terms when SCI bids for projects around the world.
- SCI targets to increase sustainable solutions to 70% of net profit by FY25E, increase installed renewables to 10GW and develop sustainable urban solutions to 500ha.
- Portfolio scale and diversity will differentiate it from other power generation companies in Singapore in terms of reliability, flexibility and its comprehensive ability to offer energy, urban and water solutions.

PATMI by segments (as of Dec 2022) after sale of SEIL

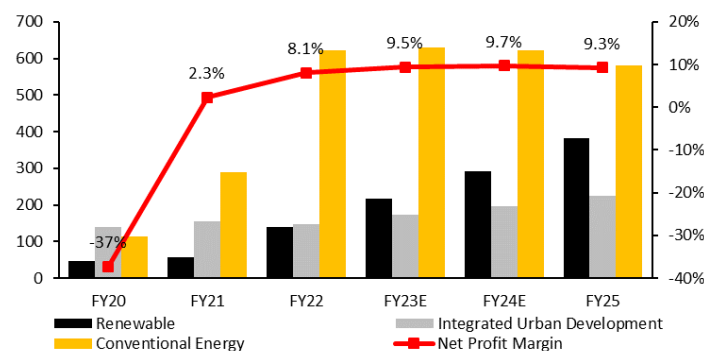


Source: Company

Financial Metrics

- We forecast FY24E profit to decline 12% YoY due to lower power prices, termination of Vietnam power plant and maintenance downtime which offsets higher revenue contributions from RE projects that should become operational within FY24E.
- We forecast FY23E-25E ROIC for the overall business to increase from 5.0% to 10%. Overseas projects, when fully ramped up, may help to expand ROE.
- Our SOTP-based TP of SGD6.00 implies 10.6x FY24E P/E, slightly below the lower bound for regional peers at c17x.

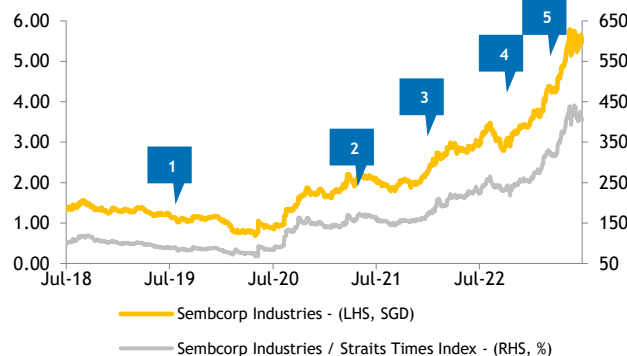
Core net income (SGDm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Start of decline in the share price of 61%-owned SMM due to downturn in oil prices.
2. SCI announced material impairments of SGD245m in its 4Q19 financial statements.
3. Singapore Public Utilities Board and Sembcorp Industries jointly announced they will build one of the world’s largest inland floating PV system at the Tengoh reservoir.
4. Announced the acquisition of 98% stake in a portfolio of operational wind and PV assets in China, followed by its purchase of a 35% stake in SDIC New Energy in December 2021.
5. 1HFY22 registered excellent results due to large increase in energy prices.

Swing Factors

Upside

- Stronger-than-expected order wins from its key sectors.
- Margins improve due to continued cost controls and economies of scale.
- Higher dividend payout due to better earnings and/or cashflow outlook.

Downside

- Sharp reduction in energy prices.
- Slower contract wins resulting in lower order book.
- Unexpected margin pressure from rising raw material and labour costs.
- Execution misstep leading to project delays or even termination of contracts.

Risk Rating & Score ¹	33.5
Score Momentum ²	-2.7
Last Updated	08 May 2022
Controversy Score ³ (Updated: 08 May 2022)	1 - Operational Incident and Business Ethics Incidents

Business Model & Industry Issues

- SCI is a leading energy and urban solutions provider. It aims to transform its portfolio towards a greener future and be a leading provider of sustainable solutions.
- In order to transform its portfolio from brown to green, SCI targets to increase Group net profit contribution from sustainable solutions to 70% by FY25E. This is done through: 1) increasing gross installed RE capacity to 10GW; 2) triple land sales to 500 hectares by providing a full suite of sustainable urban solution; and 3) reduce GHG emission intensity by 25% to 0.40 tonnes of carbon dioxide equivalent per megawatt hour.
- The company has a balanced energy portfolio of 18.5GW, with 11GW of gross RE capacity comprising solar, wind and energy storage globally. SCI also has a proven track record of transforming raw land into sustainable urban developments, with a project portfolio spanning over 12,000 hectares across Asia.

Material E issues

- SCI aims to reduce GHG emission intensity by 25% to 0.4 tonnes of carbon dioxide equivalent per megawatt hour (tCO₂e/MWh) by FY25E. In FY22, the GHG emission intensity was 0.31tCO₂e/MWh compared to 0.51tCO₂e/MWh in FY21.
- Gross installed RE capacity comprising wind, solar and energy storage assets grew significantly from 2.8GW in FY21 to over 10.3GW as at June22 (figures exclude acquisitions pending completion and projects under development). SCI's global energy portfolio mix stands at 54% conventional energy, 45% renewables and 1% energy-from-waste.
- In FY22, SCI generated 2.7m tonnes of waste, a 13% increase from the previous year due to higher electricity production of thermal plants in India. 95% of non-hazardous waste was recycled into bricks and cement, which were used in the filling of low-lying areas, construction of roads and flyovers, and the raising of dykes.

Material S issues

- Both lost time injury rate and total recordable injury rate were reduced from FY21. This is largely due to SCI's effort to reduce workspace incidents.
- Employee turnover was 13.3% in FY22 compared to 15.7% in FY21, largely due to decrease in the voluntary turnover rate, which was 12.5% in FY21, up from 9.0% in FY20, mirroring the global trend of resignations.
- Each employee received an average of 26.7 hours of training in FY22, of which 31% were sustainability skills learning.

Key G metrics and issues

- Temasek Holdings (Temasek) is SCI's substantial shareholder. As a Temasek company, SCI is committed to sound corporate governance practices that include having an independent and high-calibre board.
- SCI is led by a 7-member board, including Chairman Tow Heng Tan and Group President & CEO Wong Kim Yin. The average tenure of the independent directors is 5-13 years. There is one woman on the board of directors.
- The board, which largely comprises independent non-executive directors, leverages its diversity and experience to provide sound leadership to management.
- To date, SCI has never received or been the subject of any legal action in relation to anti-competitive behaviour and violations of anti-trust and monopoly legislation. There were no reported cases of bribery and corruption in 2021.
- The changes of CEO and CFO in the past 5 years are a point to note in terms of strategic direction. That said, we should note that the current CEO is more intent on increasing SCI's renewable energy mix. We think this should work in SCI's favour if this strategy is executed well.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 65)						
Particulars	Unit	2020	2021	2022	JSW Energy (JSW IN, FY22)	
Scope 1	m tCO2e	26.3	25.9	25.2	15.1	
Scope 2	m tCO2e	0.2	0.2	0.2	0.0	
Total	m tCO2e	26.5	26.2	25.5	15.1	
Scope 3	m tCO2e	9.7	8.9	8.0	1.3	
Total	m tCO2e	36.2	35.0	33.5	16.3	
Scope 1 emission intensity	tCO2e/MWh	0.5	0.5	0.5	0.68	
E Green energy share of capacity	%	21.6%	22.5%	22.5%	30%	
Net water consumption	m m3	50.34	52.22	56.28	25.7	
% of fly ash recycled/treated	%	NA	NA	NA	100%	
% of recycled material used	%	NA	NA	NA	NA	
% of debt from green instruments	%	NA	14.5%	0.5%	55%	
Gross installed renewable capacity	GW	2.6	2.8	6.8	4.6	
Intensity of Energy Generating Assets	GJ/MWh	3.4	3.0	3.0	NA	
S % of women in workforce	%	NA	NA	18.5%	4.0%	
% of women in management roles	%	NA	NA	23.4%	14.0%	
Lost time injury frequency rate	number	0.9	1.50	0.3	0.10	
G MD/CEO salary as % of net profit	%	<100%	1.6%	0.7%	0.3%	
Top 10 employees salary as % of profit	%	<100%	7.3%	2.95%	2.9%	
Independent director tenure <10 years	%	66%	50%	50%	67%	
Women directors on board	%	8%	10%	10%	17%	

Qualitative Parameters (Score: 100)	
a) Is there an ESG policy in place and is there a standalone ESG Committee or is it part of the Risk committee?	<i>The company has various policies covering different aspects of ESG. There are KPIs, business objectives, governance enablers and risks for each of the segments.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes, management's incentives are linked to fulfilling ESG targets.</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, SCI has developed full scope 3 indirect GHG emissions inventory and baseline for operations.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>SCI is committed to its strategic plan to transform its portfolio by growing renewables and integrated solution business.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 100)		
Particulars	Target	Achieved
Renewable share of NPAT by 2025	70%	41%
Reach to 10GW of installed renewable capacity	10	6.8
Reduce GHG emission intensity by 25% by 2025 to 0.4tCO2e/MWh	0.4	0.3
Increase sustainable urban developments to 500ha by 2025	500	172
Carbon neutral before 2050		
Reduce GHG emissions to 2.7tCO2e by 2030	2.7	10.4
Impact		
Assuming a carbon price of USD10/50/100 and absolute annual reduction of 0.9m tCO2e to reach net zero by 2050, the impact calculated on FY22 EBITDA works out to 0.6-5.7% and on FY22 net profit works out to 1.1-10.6%. The impact will change depending on the carbon price and basis on calculation of carbon tax - absolute emission or carbon emission intensity		
Overall Score: 82		
As per our ESG matrix SCI has an overall score of 82		

ESG score	Weights	Score	Final score
Quantitative	50%	65	32
Qualitative	25%	100	25
Target	25%	100	25
Total			82

As per our ESG assessment, SCI has established sustainability policies and time-bound targets. Its quantitative disclosures on 'E' parameters on emissions, resource usage as well as 'S' parameters on workforce and management diversity are limited. SCI's overall ESG score is 82, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

1. Result summary

Fig 1: 2HFY23 Result summary

Income Statement for continuing operations FYE Dec (SGD m)	2H23	1H23	2H22	1H22	2H21	1H21
Revenue	3,384	3,658	3,924	4,755	3,825	3,290
Cost of goods sold	(2,643)	(2,826)	(3,184)	(4,078)	(3,364)	(2,760)
Gross Profit	741	832	740	677	461	530
Total SGA	(224)	(208)	(336)	(180)	(240)	(176)
EBIT	517	624	404	497	221	354
Non-Op. Income	51	133	45	143	82	68
Non-Op. Expense	(5)	(2)	(13)	(3)	(4)	(214)
Interest Income	28	29	24	16	10	14
Interest Expense	(204)	(205)	(175)	(194)	(147)	(215)
Associates/JV Income	118	146	115	133	102	104
EBT	487	743	350	592	264	111
Taxation	(61)	(121)	(71)	(93)	(66)	(57)
Minority Interest	(14)	(14)	(14)	(9)	(13)	(8)
Net Profit after EI	412	530	315	490	185	46
Segmental Revenue (SGD m) for continuing operations						
Conventional Energy	2,599	2,858	3,246	4,155	3,243	2,756
Renewables	324	379	284	222	208	146
Integrated Urban Solution	212	206	227	217	247	218
Other Businesses and Corporate	249	215	169	161	127	170
Total Revenue	3,384	3,658	3,924	4,755	3,825	3,290
Segmental Net Profit (SGD m) for continuing operations						
Conventional Energy	374	435	307	397	201	-27
Renewables	83	117	56	76	32	24
Integrated Urban Solution	73	48	78	62	92	69
Other Businesses and Corporate	21	-120	-126	-45	-92	-20
Total net profit	312	530	315	490	233	46

Source: Maybank IBG Research, Company Data

2. SOTP Valuation

Fig 2: SCI SOTP

	Stake	Basis	Effective value (SGD m)	per share (SGD)
Conventional Energy	100%	12x FY24E P/E	7,606.89	4.26
Renewables	100%	12x FY24E P/E	7,112.53	3.98
Integrated Urban Solution	100%	Book Value	2,050.76	1.15
Other business / Corporate	100%	Book Value	(2,696.00)	(1.51)
Minority interest	NM	Estimates	(28.00)	(0.02)
Total Value			14,046	7.87
Post 10% conglo disc			12,642	
Diluted no. of shares			1,785	
Value per share (SGD)			6.30	

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E
Key Metrics				
P/E (reported) (x)	5.9	8.7	12.0	11.5
Core P/E (x)	6.9	9.8	12.0	11.5
Core FD P/E (x)	7.0	9.9	12.1	11.6
P/BV (x)	1.5	2.1	2.0	1.7
P/NTA (x)	1.8	2.6	2.3	2.0
Net dividend yield (%)	3.6	2.4	1.4	1.4
FCF yield (%)	nm	4.9	19.4	3.3
EV/EBITDA (x)	10.2	10.2	9.6	9.1
EV/EBIT (x)	16.7	14.3	13.6	12.7
INCOME STATEMENT (SGD m)				
Revenue	7,825.0	7,042.0	6,820.8	6,601.5
EBITDA	1,189.0	1,604.3	1,596.9	1,659.0
Depreciation	(461.0)	(463.3)	(467.9)	(467.9)
Amortisation	0.0	0.0	0.0	1.0
EBIT	728.0	1,141.0	1,129.0	1,192.1
Net interest income / (exp)	(273.0)	(352.0)	(276.4)	(367.7)
Associates & JV	248.0	264.0	302.1	174.1
Exceptionals	0.0	0.0	0.0	0.0
Other pretax income	162.0	177.0	(39.0)	(49.0)
Pretax profit	865.0	1,230.0	1,115.6	949.4
Income tax	(138.0)	(182.0)	(118.6)	(176.3)
Minorities	(23.0)	(28.0)	(185.0)	(185.0)
Perpetual securities	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0
Reported net profit	871.0	970.0	857.4	890.7
Core net profit	871.0	970.0	857.4	890.7
Preferred Dividends	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)				
Cash & Short Term Investments	1,283.0	782.0	1,424.2	1,380.3
Accounts receivable	1,564.0	1,674.0	1,757.7	1,845.6
Inventory	137.0	135.0	296.3	281.6
Reinsurance assets	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5,305.0	6,465.0	6,214.1	5,958.4
Intangible assets	697.0	952.0	690.1	690.1
Investment in Associates & JVs	2,287.0	2,396.0	2,698.1	3,037.0
Other assets	4,747.0	3,093.0	1,215.2	1,415.8
Total assets	16,020.0	15,497.0	14,295.6	14,608.7
ST interest bearing debt	1,096.0	1,281.0	676.4	772.4
Accounts payable	1,871.0	1,819.0	1,461.9	1,391.8
Insurance contract liabilities	0.0	0.0	0.0	0.0
LT interest bearing debt	6,043.0	6,053.0	5,634.9	5,246.0
Other liabilities	2,794.0	1,472.0	1,114.0	1,059.0
Total Liabilities	11,804.0	10,625.0	8,887.6	8,469.5
Shareholders Equity	3,977.0	4,588.0	5,203.4	5,941.2
Minority Interest	239.0	284.0	204.6	198.0
Total shareholder equity	4,216.0	4,872.0	5,408.0	6,139.2
Perpetual securities	0.0	0.0	0.0	0.0
Total liabilities and equity	16,020.0	15,497.0	14,295.6	14,608.7
CASH FLOW (SGD m)				
Pretax profit	865.0	1,230.0	1,115.6	949.4
Depreciation & amortisation	461.0	463.3	467.9	466.9
Adj net interest (income)/exp	273.0	352.0	276.4	367.7
Change in working capital	663.0	(116.0)	(521.0)	(14.3)
Cash taxes paid	(138.0)	(182.0)	(118.6)	(176.3)
Other operating cash flow	(2,717.0)	(124.8)	999.6	(913.5)
Cash flow from operations	(869.0)	1,317.5	2,212.2	554.6
Capex	(672.0)	(856.0)	(217.0)	(217.0)
Free cash flow	(1,541.0)	461.5	1,995.2	337.6
Dividends paid	(125.0)	(214.2)	(232.1)	(142.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0
Change in Debt	(326.0)	195.0	(1,022.7)	(48.9)
Perpetual securities distribution	0.0	0.0	0.0	0.0
Other invest/financing cash flow	1,903.0	(943.3)	(98.3)	(189.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0
Net cash flow	(89.0)	(501.0)	642.2	(43.9)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E
Key Ratios				
Growth ratios (%)				
Revenue growth	22.1	(10.0)	(3.1)	(3.2)
EBITDA growth	34.7	34.9	(0.5)	3.9
EBIT growth	70.9	56.7	(1.1)	5.6
Pretax growth	215.7	42.2	(9.3)	(14.9)
Reported net profit growth	190.3	11.4	(11.6)	3.9
Core net profit growth	190.3	11.4	(11.6)	3.9
Profitability ratios (%)				
EBITDA margin	15.2	22.8	23.4	25.1
EBIT margin	9.3	16.2	16.6	18.1
Pretax profit margin	11.1	17.5	16.4	14.4
Payout ratio	24.6	23.9	16.7	16.0
DuPont analysis				
Net profit margin (%)	11.1	13.8	12.6	13.5
Revenue/Assets (x)	0.5	0.5	0.5	0.5
Assets/Equity (x)	4.0	3.4	2.7	2.5
ROAE (%)	22.5	22.7	17.5	16.0
ROAA (%)	5.7	6.2	5.8	6.2
Liquidity & Efficiency				
Cash conversion cycle	(9.9)	(29.7)	0.4	22.5
Days receivable outstanding	81.7	82.8	90.6	98.2
Days inventory outstanding	9.8	9.0	13.6	19.2
Days payables outstanding	101.3	121.4	103.8	95.0
Dividend cover (x)	4.1	4.2	6.0	6.2
Current ratio (x)	1.3	0.8	1.4	1.4
Leverage & Expense Analysis				
Asset/Liability (x)	1.4	1.5	1.6	1.7
Net gearing (%) (incl perps)	138.9	134.5	90.4	75.5
Net gearing (%) (excl. perps)	138.9	134.5	90.4	75.5
Net interest cover (x)	2.7	3.2	4.1	3.2
Debt/EBITDA (x)	6.0	4.6	4.0	3.6
Capex/revenue (%)	8.6	12.2	3.2	3.3
Net debt/ (net cash)	5,856.0	6,552.0	4,887.2	4,638.1

Source: Company; Maybank IBG Research

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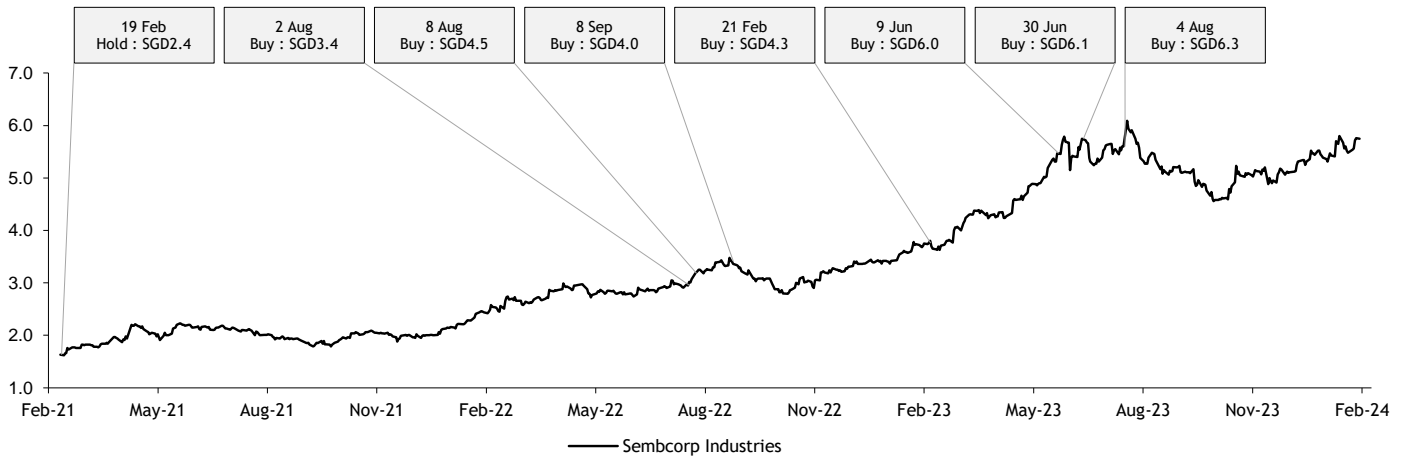
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