

Sembcorp Industries (SCI SP)

Optimised performance

BUY

Share Price	SGD 4.75
12m Price Target	SGD 5.50 (+16%)
Previous Price Target	SGD 6.30

Company Description

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

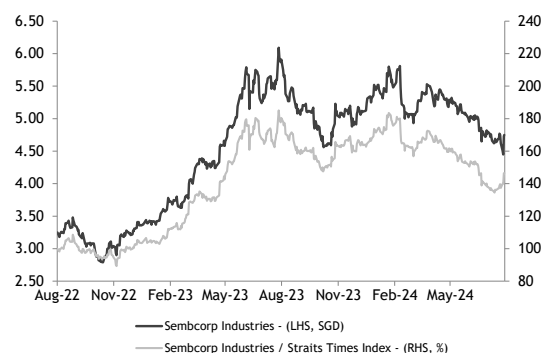
Statistics

52w high/low (SGD)	5.91/4.45
3m avg turnover (USDm)	12.1
Free float (%)	50.0
Issued shares (m)	1,788
Market capitalisation	SGD8.5B
	USD6.4B

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 (%)	0	(8)	(20)
Relative to index (%)	5	(8)	(19)

Source: FactSet

Navigating lower power prices and China weakness

1H PATMI of SGD540m +31% HoH/-11% YoY. Top line and bottom line declined by low teens due to lower gas offtake and gas prices, lower power prices in Singapore and demand-supply imbalance in China. This was partly offset by higher land sales and nimble execution of its contracting strategy. Management raised its Vietnam and Indonesia industrial land sales target. Notwithstanding higher gearing, 1H dividend rose to 6c (5c 1HFY23). While near-term uncertainty prevails, SCI is executing its energy transition strategy well. We apply a lower PE multiple and cut our SOTP-based TP to SGD5.50, but maintain BUY.

Contracted power portfolio provides resilience

SCI posted 1H revenue and PATMI before exceptional items of SGD3.2b and SGD532m, down 12% YoY. Group net profit after exceptional items and discontinued operation was SGD540m, +2% YoY. Lower turnover resulted from the aforementioned reasons. Net profit for gas and related services was SGD339m, -22% YoY, due to planned maintenance of its Singapore power plant and lower revenue, mitigated by portfolio optimization. Profit from renewables fell 13% YoY to SGD104m due to higher curtailment rates in China and lower profitability in the UK. Weakness in the key business segments was partly offset by higher land sales and other businesses.

Focusing on land sales in Indonesia and Vietnam

Management revealed an intensified focus on industrial park rental income and Indonesia and Vietnam land sales while managing its existing China portfolio for value. By 2028, Vietnam is expected to account for half of equity investments, shifting the mix away from China. RoE is expected to grow to 10% from 6%. The 2H outlook is relatively better. Completion of the maintenance in SG and significantly contracted revenue stream should see higher earnings for gas and related services. This will be partly offset by weaker renewables due to seasonality and weak China macro.

Applying a lower PE multiple, maintain BUY

We leave FY24 and FY25 forecasts relatively unchanged as we factor in slower ramp up of renewables earnings, offset by less steep fall in earnings from gas and related services due to the group's contracting strategy. However, we apply a lower PE multiple of 10x (vs. 12x) due to demand-supply imbalance in China renewables and the evolving energy landscape in Singapore. In the long term, SCI is the prime beneficiary of the shift to clean energy. Maintain BUY with a lower TP of SGD5.50.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	7,825	7,042	6,608	6,365	6,372
EBITDA	1,189	1,604	1,429	1,406	1,438
Core net profit	871	970	888	885	984
Core FDEPS (cts)	48.4	53.9	49.4	49.2	54.7
Core FDEPS growth(%)	190.3	11.4	(8.4)	(0.3)	11.2
Net DPS (cts)	12.0	13.0	12.0	12.0	12.0
Core FD P/E (x)	7.0	9.9	9.6	9.7	8.7
P/BV (x)	1.5	2.1	1.6	1.4	1.3
Net dividend yield (%)	3.6	2.4	2.5	2.5	2.5
ROAE (%)	22.5	22.7	18.1	15.9	15.7
ROAA (%)	5.7	6.2	6.0	6.2	6.7
EV/EBITDA (x)	10.2	10.2	9.5	9.5	9.1
Net gearing (%) (incl perps)	138.9	134.5	90.8	76.9	64.5
Consensus net profit	-	-	960	1,043	1,073
MIBG vs. Consensus (%)	-	-	(7.5)	(15.1)	(8.3)

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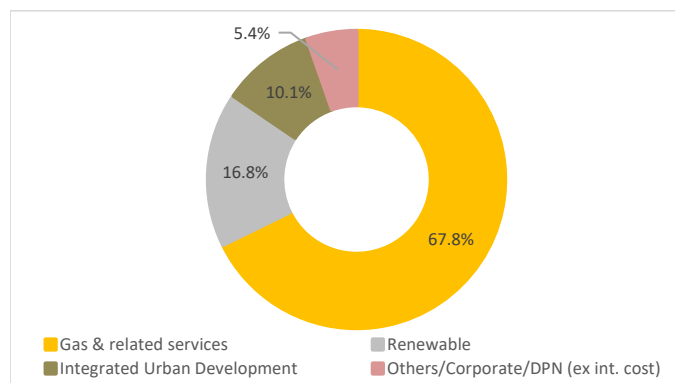
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Tear Sheet Insert

Value Proposition

- SCI is Singapore’s leading sustainable solutions provider with ~14GW of capacity in renewables and over 12000ha of project portfolio across Asia.
- Temasek’s 49.5% ownership offers SCI backing and helps 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 2023) excluding interest cost

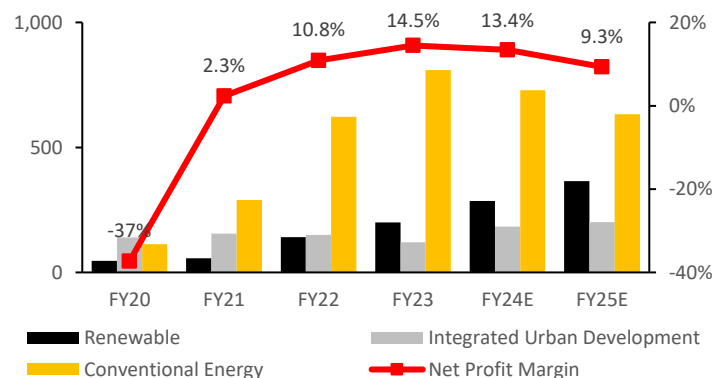


Source: Company

Financial Metrics

- We forecast FY24E profit to fall 8%yoy as lower power prices in Singapore and contribution from renewables is partly offset by optimization of gas/energy trading and higher revenue from land sales and other businesses.
- 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 SGD5.5 implies 11.2x FY24E P/E, which is in between the range of China and Asean utilities.

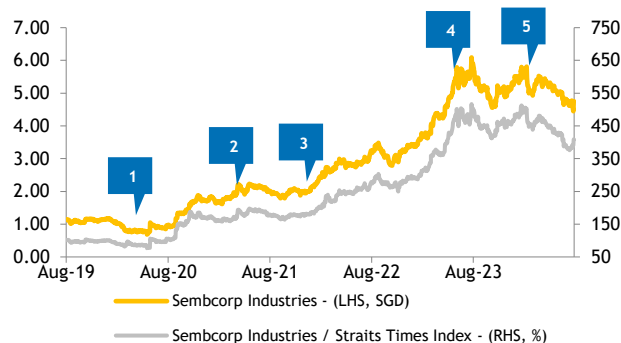
Core net income (SGDm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. SCI announced material impairments of SGD245m in its 4Q19 financial statements.
2. Singapore Public Utilities Board and Semcorp Industries jointly announced they will build one of the world’s largest inland floating PV system at the Tengah reservoir.
3. Announced acquisition of 98% stake in a portfolio of operational wind and PV assets in China, followed by its purchase of 35% of SDIC New Energy in Dec’21.
4. Peak wholesale power prices in Singapore.
5. News on excess renewable supply in China and higher curtailment rates.

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 cash flow 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 9-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).

1. Results highlight

Fig 1: 1H results

SGDm	1H24	2H23	1H23	% HoH	% YoY
Revenue	3,208	3,384	3,658	-5	-12
Cost of goods sold	(2,481)	(2,643)	(2,826)	-6	-12
Gross Profit	727	741	832	-2	-13
Total SGA	(210)	(224)	(208)	-6	1
Operating profit	517	517	624	0	-17
Non-Op. Income	139	51	133		
Non-Op. Expense	0	(5)	(2)		
Interest Income	35	28	29		
Interest Expense	(201)	(204)	(205)	-1	-2
Associates/JV Income	153	118	146	30	5
EBT	657	487	743	35	-12
Taxation	(107)	(61)	(121)		
Profit from continuing ops	550	426	622	29	-12
Profit/(loss) from discontinued ops	0		(78)		
Minority Interest	(10)	(14)	(14)		
PATMI	540	412	530	31	2
Before Exceptional Items					
PATMI from continuing operations	540	412	608	31	-11
Exceptional items (EI)	8	(4)	6		
PATMI from continuing ops before EI	532	416	602		
Profit/(loss) from discontinued op	0	0	(78)		
PATMI before EI	532	416	524	28	2

Source: Maybank IBG Research, Company Data

Fig 2: 1H results of the various divisions

SGDm.	1H24	2H23	1H23	% HoH	% YoY
Revenue from continuing ops					
Gas & Related Services	2,338	2,599	2,858	-10	-18
Renewables	371	329	374	13	-1
Integrated Urban Solution	209	212	206	-1	1
Decarbonisation solutions	22	11	5		
Other Businesses and Corporate	268	233	215	15	25
Total Revenue	3,208	3,384	3,658	-5	-12
EBITDA from continuing ops	1H24	2H23	1H23	% HoH	% YoY
Gas & Related Services	428	507	581	-16	-26
Renewables	278	250	263	11	6
Integrated Urban Solutions	62	65	55	-5	13
Decarbonisation Solutions	-11	-11	-3		
Other Businesses and Corporate	132	-15	97	-980	36
Total EBITDA	889	796	993	12	-10
Net Profit for continuing ops, before EI	1H24	2H23	1H23	% HoH	% YoY
Gas & Related Services	339	374	435	-9	-22
Renewables	114	81	119	41	-4
Integrated Urban Solution	70	72	49	-3	43
Decarbonisation solutions	-10	-10	-3		
Other Businesses and Corporate	-99	-112	-120		
DPN Income	128	11	122		
Total net profit	542	416	602	30	-10
EBITDA Margin, %	1H24	2H23	1H23		
Gas & Related Services	18.3	19.5	20.3		
Renewables	74.9	76.0	70.3		
integrated Urban Solution	29.7	30.7	26.7		
Decarbonisation solutions	NM	NM	NM		
Other Businesses and Corporate	49.3	NM	45.1		
Group	27.7	23.5	27.1		

Source: Maybank IBG Research, Company Data

2. Forecast changes

Fig 3: Changes to our forecasts

SGDm	NEW			OLD			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gas & related services	4,951	4,461	4,260	4,784	4,217	4,027	-2.3	5.3	8.6
Renewables	697	871	1,045	1,136	1,420	1,704	-38.6	-38.6	-38.6
Urban solutions	456	479	502	498	523	549	0.0	0.0	0.0
Other businesses & corporates	504	553	564	403	443	451	25.0	25.0	25.0
Revenue	6,608	6,365	6,372	6,821	6,601	6,731	-6.6	-3.2	-3.0
COGS	(5,218)	(5,013)	(4,992)	(5,514)	(5,238)	(5,304)			
Gross Profit	1,391	1,352	1,380	1,306	1,364	1,427	2.9	-0.1	-0.7
SGA	(430)	(414)	(414)	(375)	(363)	(370)			
Operating Profit	961	938	966	931	1,001	1,056	-0.2	-5.4	-6.1
Non-operating income/(loss)	159	143	128	159	142	127			
EBITDA	1,429	1,406	1,438	1,399	1,469	1,529	-0.1	-3.7	-4.2
Finance income	70	80	71	71	80	70			
Finance expense	(424)	(430)	(353)	(347)	(447)	(319)			
Share of income of JVs & associates	299	324	340	302	339	278	-0.9	-4.5	22.2
PBT	1,065	1,056	1,151	1,116	1,114	1,213	-6.9	-4.5	-3.1
PAT	888	885	984	857	891	1,051	0.9	0.2	-4.3
PATMI	868	865	964	837	871	1,031	0.9	0.2	-4.4

Source: Maybank IBG Research

3. Valuation

We value SCI using sum of the parts method and applying a 10% holding company discount. We apply a lower P/E of 10x for gas & related services and renewable because of changing energy policies in Singapore (centralized natural gas purchase and shift to renewables) as well as demand-supply imbalance of renewables in China. Coupled with the lack of national power grids in China, it is leading to higher curtailment rates. Our PATMI forecasts are relatively unchanged. We adjust our revenue for gas-related business higher and revenue from renewables segment lower due to optimization of the conventional energy business and selective investments in the renewables business in China going forward.

Fig 4: Sum-of-the-parts valuation

	Basis	Effective value (SGD m)	per share (SGD)
Gas & related services	10x FY24E PE	7,285	4.08
Renewables	10x FY24E PE	3,072	1.72
Integrated Urban Solution	Net Asset Value, 1H24	2,112	1.18
Decarbonisation Solutions	Net Asset Value, 1H24	30	0.02
Other business / Corporate	Net Asset Value, 1H24	(1,411)	(0.79)
Total Equity Value		11,088	6.21
Post 10% holdco. disc		9,979	
No. of shares		1,785	
Value per share (SGD)		5.50	

Source: Maybank IBG Research

4. Risks

Risks include: lower wholesale energy prices in Singapore; higher natural gas prices; and demand-supply imbalance of renewable energy in China and India, leading to lower capacity utilization factors. Other risks include: implementation of centralized natural gas purchase for power generation in Singapore; and higher capex for transmission and storage, especially for renewables.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	5.9	8.7	9.5	9.6	8.6
Core P/E (x)	6.9	9.8	9.5	9.6	8.6
Core FD P/E (x)	7.0	9.9	9.6	9.7	8.7
P/BV (x)	1.5	2.1	1.6	1.4	1.3
P/NTA (x)	1.8	2.6	1.9	1.6	1.4
Net dividend yield (%)	3.6	2.4	2.5	2.5	2.5
FCF yield (%)	nm	4.9	23.9	4.7	9.7
EV/EBITDA (x)	10.2	10.2	9.5	9.5	9.1
EV/EBIT (x)	16.7	14.3	14.2	14.2	13.6

INCOME STATEMENT (SGD m)

Revenue	7,825.0	7,042.0	6,608.3	6,364.6	6,371.8
EBITDA	1,189.0	1,604.3	1,429.0	1,406.3	1,438.3
Depreciation	(461.0)	(463.3)	(467.9)	(467.9)	(472.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	728.0	1,141.0	961.0	938.4	965.7
Net interest income / (exp)	(273.0)	(352.0)	(354.2)	(349.1)	(282.1)
Associates & JV	248.0	264.0	299.4	323.7	340.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	162.0	177.0	159.0	142.7	127.8
Pretax profit	865.0	1,230.0	1,065.3	1,055.6	1,151.4
Income tax	(138.0)	(182.0)	(143.4)	(176.3)	(176.3)
Minorities	(23.0)	(28.0)	(20.0)	(20.0)	(20.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	871.0	970.0	888.3	885.2	984.4
Core net profit	871.0	970.0	888.3	885.2	984.4

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,283.0	782.0	1,381.7	1,332.9	1,334.4
Accounts receivable	1,564.0	1,674.0	1,757.7	1,845.6	1,937.9
Inventory	137.0	135.0	271.6	260.9	259.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5,305.0	6,465.0	6,214.1	5,958.4	5,698.1
Intangible assets	697.0	952.0	690.1	690.1	690.1
Investment in Associates & JVs	2,287.0	2,396.0	2,695.4	3,019.1	3,359.1
Other assets	4,747.0	3,093.0	1,193.5	1,339.5	1,610.9
Total assets	16,020.0	15,497.0	14,204.1	14,446.6	14,890.2
ST interest bearing debt	1,096.0	1,281.0	680.4	766.4	865.2
Accounts payable	1,871.0	1,819.0	1,347.3	1,294.6	1,289.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	6,043.0	6,053.0	5,634.9	5,246.0	4,884.4
Other liabilities	2,794.0	1,472.0	1,109.0	1,053.0	1,004.0
Total Liabilities	11,804.0	10,625.0	8,771.6	8,360.4	8,043.8
Shareholders Equity	3,977.0	4,588.0	5,234.2	5,895.2	6,655.3
Minority Interest	239.0	284.0	198.2	190.9	191.2
Total shareholder equity	4,216.0	4,872.0	5,432.4	6,086.1	6,846.5
Total liabilities and equity	16,020.0	15,497.0	14,204.1	14,446.6	14,890.2

CASH FLOW (SGD m)

Pretax profit	865.0	1,230.0	1,065.3	1,055.6	1,151.4
Depreciation & amortisation	461.0	463.3	467.9	467.9	472.6
Adj net interest (income)/exp	273.0	352.0	354.2	349.1	282.1
Change in working capital	663.0	(116.0)	(611.0)	(0.9)	(86.2)
Cash taxes paid	(138.0)	(182.0)	(143.4)	(176.3)	(176.3)
Other operating cash flow	(2,717.0)	(124.8)	1,137.7	(958.2)	(469.1)
Cash flow from operations	(869.0)	1,317.5	2,243.6	612.5	1,043.5
Capex	(672.0)	(856.0)	(217.0)	(217.0)	(217.0)
Free cash flow	(1,541.0)	461.5	2,026.6	395.5	826.5
Dividends paid	(125.0)	(214.2)	(232.1)	(214.2)	(214.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(326.0)	195.0	(1,018.7)	(58.9)	(506.8)
Other invest/financing cash flow	1,903.0	(943.3)	(176.2)	(171.1)	(104.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(89.0)	(501.0)	599.7	(48.7)	1.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.1	(10.0)	(6.2)	(3.7)	0.1
EBITDA growth	34.7	34.9	(10.9)	(1.6)	2.3
EBIT growth	70.9	56.7	(15.8)	(2.4)	2.9
Pretax growth	215.7	42.2	(13.4)	(0.9)	9.1
Reported net profit growth	190.3	11.4	(8.4)	(0.3)	11.2
Core net profit growth	190.3	11.4	(8.4)	(0.3)	11.2
Profitability ratios (%)					
EBITDA margin	15.2	22.8	21.6	22.1	22.6
EBIT margin	9.3	16.2	14.5	14.7	15.2
Pretax profit margin	11.1	17.5	16.1	16.6	18.1
Payout ratio	24.6	23.9	24.1	24.2	21.8
DuPont analysis					
Net profit margin (%)	11.1	13.8	13.4	13.9	15.4
Revenue/Assets (x)	0.5	0.5	0.5	0.4	0.4
Assets/Equity (x)	4.0	3.4	2.7	2.5	2.2
ROAE (%)	22.5	22.7	18.1	15.9	15.7
ROAA (%)	5.7	6.2	6.0	6.2	6.7
Liquidity & Efficiency					
Cash conversion cycle	(9.9)	(29.7)	(1.7)	26.2	32.5
Days receivable outstanding	81.7	82.8	93.5	101.9	106.9
Days inventory outstanding	9.8	9.0	14.0	19.1	18.8
Days payables outstanding	101.3	121.4	109.2	94.9	93.2
Dividend cover (x)	4.1	4.2	4.1	4.1	4.6
Current ratio (x)	1.3	0.8	1.5	1.5	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.6	1.7	1.9
Net gearing (%) (incl perps)	138.9	134.5	90.8	76.9	64.5
Net gearing (%) (excl. perps)	138.9	134.5	90.8	76.9	64.5
Net interest cover (x)	2.7	3.2	2.7	2.7	3.4
Debt/EBITDA (x)	6.0	4.6	4.4	4.3	4.0
Capex/revenue (%)	8.6	12.2	3.3	3.4	3.4
Net debt/ (net cash)	5,856.0	6,552.0	4,933.7	4,679.5	4,415.3

Source: Company; Maybank IBG Research

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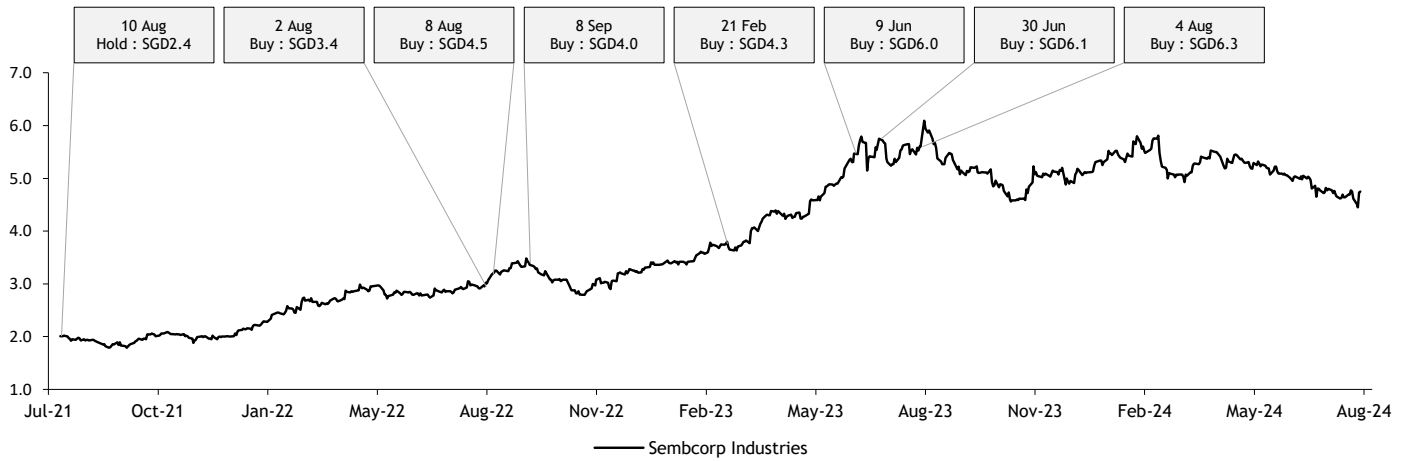
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