

# Singapore Company Update

# Sembcorp Industries

Bloomberg: SCI SP | Reuters: SCIL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

## BUY

Last Traded Price (23 Feb 2022): S\$2.46 (STI : 3,393.00)  
Price Target 12-mth: S\$3.20 (30% upside) (Prev S\$3.00)

### Analyst

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### What's New

- FY21 core profit surged 57% y-o-y to S\$472m with strong showings in Singapore and India
- Renewable growth remains key re-rating catalyst
- Declared final dividend of 3 Scts, bringing full year payout to 5 Scts or 2.3% yield
- Reiterate BUY; TP adjusted to S\$3.20 after earnings revisions

### Price Relative



### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	5,447	7,795	7,535	7,931
EBITDA	1,263	1,470	1,463	1,559
Pre-tax Profit	211	423	603	703
Net Profit	157	279	422	492
Net Pft (Pre Ex.)	301	472	422	492
Net Pft Gth (Pre-ex) (%)	(36.0)	56.8	(10.6)	16.6
EPS (S cts)	8.78	15.6	23.6	27.5
EPS Pre Ex. (S cts)	16.8	26.4	23.6	27.5
EPS Gth Pre Ex (%)	(36)	57	(11)	17
Diluted EPS (S cts)	8.78	15.6	23.6	27.5
Net DPS (S cts)	4.00	5.00	5.00	6.00
BV Per Share (S cts)	187	211	229	251
PE (X)	28.0	15.8	10.4	8.9
PE Pre Ex. (X)	14.6	9.3	10.4	8.9
P/Cash Flow (X)	9.0	3.6	4.9	5.5
EV/EBITDA (X)	8.9	7.2	6.9	6.3
Net Div Yield (%)	1.6	2.0	2.0	2.4
P/Book Value (X)	1.3	1.2	1.1	1.0
Net Debt/Equity (X)	1.9	1.5	1.3	1.1
ROAE (%)	3.1	7.9	10.7	11.5
Earnings Rev (%):			14	22
Consensus EPS (S cts):			23.5	26.2
Other Broker Recs:		B: 9	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Good results, better outlook

### Investment Thesis:

**Renewable transformation taking shape.** Sembcorp Industries (SCI)'s green transformation is advancing ahead of target since the announcement in May-2021. Within a year, its gross installed renewable capacity has more than doubled to 6.1GW (4.3GW attributable to SCI) from 2.6GW as of end-2020 and looks set to achieve its 10GW target much sooner than 2025.

**Multiple re-rating catalysts.** The continuous progress of renewable strategy warrants further re-rating. Decarbonisation initiatives such as divestment of coal-fired power plants in China and India could provide another catalyst. Meanwhile, improving supply/demand fundamentals of the power market in Singapore and India prompt potential earnings upgrades in the upcoming results.

### Valuation:

Our fair value of S\$ 3.20 is based on 1.4x FY22 P/BV, against 10-12% normalised ROE. Successful execution of its renewable energy plan, translating into earnings growth, would further lift valuations.

### Where we differ:

We are positive on SCI's longer-term prospects as its growing renewable portfolio should continue to drive its valuation re-rating. Growth is expected to be funded by debt and internal cash flow.

### Key Risks to Our View:

Key risks to earnings are deterioration of Singapore's power spark spreads and execution hiccups of its renewable plans.

### At A Glance

Issued Capital (m shrs)	1,780
Mkt. Cap (S\$m/US\$m)	4,378 / 3,254
Major Shareholders (%)	
Temasek Holdings Pte Ltd	49.5
Free Float (%)	50.5
3m Avg. Daily Val (US\$m)	6.4
GIC Industry : Industrials / Capital Goods	



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## Sembcorp Industries

### WHAT'S NEW

#### A stellar FY2021

**Strong showings in 2021.** Sembcorp Industries reported a promising set of FY21 results. Excluding exceptional losses totaled S\$193m (largely due to impairment for Chongqing power plant of S\$212m in 1H21), core earnings surged 57% y-o-y to S\$472m, implying core ROE of 12.9% (after EI: 7.9%).

**Driven by strong earnings for conventional energy business in Singapore, India and UK** on the back of higher demand and margins. In Singapore, spark spread expanded alongside q-o-q, tripling in Average monthly uniform Singapore energy price (USEP) in 4Q. Similarly in India, demand and tariff were also very firm. UK flex battery business also benefited from the high volatility of renewable supply.

**2H earnings could have been higher than 1H.** Recall that SCI's core net profit came in way above expectation at S\$252m in 1H with strong operational improvement in Singapore and India. Management had guided a sequentially lower 2H on high base in anticipation of tariff and demand moderation as well as loss of income from plant maintenance in India.

Singapore and India power markets turned out to be better than expected, as tariff skyrocketed in 4Q unexpectedly. SCI's 2H core profit of S\$220m could have been higher than 1H, if not for provisions and one-off cost (such as provision for transformation fund, impairment for remediation work for a UK legacy site etc) totaling over

S\$50m based on our estimate, as well as loss of income of plant maintenance in India (29-45 days).

**India – plant 2 turning profitable and no requirement for impairment.** India's recent secure of long-term PPAs for plant 2 was a significant milestone. It not only stabilises cash flow of the plant but should turn around earnings to contribute positively going forward. In addition, based on current assessment, there is no requirement for further impairment for India plants given the steadier cash flow.

**Sustainable solutions account for ~35% of core earnings in FY21.** Of which, Renewable contributed S\$56m (or S\$71m excluding one-off costs – development cost arising from China acquisitions and deferred tax expense charge in UK) while integrated Urban Solutions S\$155m. We expect renewable contribution to accelerate next few years as the new capacity progressively comes online.

**SCI declared final dividend of 3 sct,** bringing full year payout to 5sct, translating dividend yield of ~2.3%. We project similar 5-6 Scts dividend next 2-years.

**Earnings revisions.** We are raising our FY22/23 net profit by 14/22% after factoring in earnings turnaround of India Plant 2 and contribution of recent acquisitions of renewable assets in China. Revised net profit this year implies ~10% y-o-y decline as we conservatively assume normalization of exceptional profits in Singapore and UK, as well as unforeseen cost or provisions.

#### Segmental breakdown:

FY Dec (m)	1H20	2H20	1H21	2H21	FY20	FY21	YoY Chg
<b>Profit Breakdown</b>							
<b>Headline Net Profit</b>							
Renewables	33	13	24	32	46	56	22%
Integrated Urban Solutions	66	74	69	92	140	161	15%
Conventional Energy	(36)	149	(27)	201	113	174	54%
Other Business & Corporate	(104)	(38)	(20)	(92)	(142)	(112)	-21%
<b>Total</b>	<b>(41)</b>	<b>198</b>	<b>46</b>	<b>233</b>	<b>157</b>	<b>279</b>	<b>78%</b>
<b>Net Profit before EI (\$m)</b>							
Renewables	33	13	24	32	46	56	22%
Integrated Urban Solutions	64	49	63	92	113	155	37%
Conventional Energy	127	118	185	188	245	373	52%
Other Business & Corporate	(75)	(29)	(20)	(92)	(104)	(112)	8%
<b>Total</b>	<b>149</b>	<b>151</b>	<b>252</b>	<b>220</b>	<b>300</b>	<b>472</b>	<b>57%</b>

Source of all data: Company, DBS Bank

## Sembcorp Industries

### Company Background

Sembcorp Industries (SCI) is a trusted provider of essential energy and water solutions to both industrial and municipal customers. It has facilities with over 13,000MW of gross power capacity and c.9m cubic metres of water per day in operation and under development. It is also an established brand name in urban development (comprising industrial parks as well as business, commercial and residential space) in Vietnam, China and Indonesia.

### Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg_yoy	% chg_hoh
Revenue	2,830	3,290	4,505	59.2	36.9
Cost of Goods Sold	(2,444)	(2,554)	(3,946)	61.5	54.5
<b>Gross Profit</b>	<b>386</b>	<b>736</b>	<b>559</b>	<b>44.8</b>	<b>(24.0)</b>
Other Oper. (Exp)/Inc	(78)	(126)	(166)	112.8	31.7
<b>Operating Profit</b>	<b>308</b>	<b>610</b>	<b>393</b>	<b>27.6</b>	<b>(35.6)</b>
Other Non Opg (Exp)/Inc	(20)	(196)	0	nm	nm
Associates & JV Inc	115	104	102	(11.3)	(1.9)
Net Interest (Exp)/Inc	(227)	(201)	(196)	13.7	2.5
Exceptional Gain/(Loss)	47	(206)	13	(72.3)	(106.3)
<b>Pre-tax Profit</b>	<b>223</b>	<b>111</b>	<b>312</b>	<b>39.9</b>	<b>181.1</b>
Tax	(9)	(57)	(66)	633.3	15.8
Minority Interest	(15)	(8)	(13)	13.3	62.5
<b>Net Profit</b>	<b>199</b>	<b>46</b>	<b>233</b>	<b>17.1</b>	<b>406.5</b>
Net profit bef Except.	152	252	220	44.7	(12.7)
EBITDA	403	518	495	22.8	(4.4)
<b>Margins (%)</b>					
Gross Margins	13.6	22.4	12.4		
Opg Profit Margins	10.9	18.5	8.7		
Net Profit Margins	7.0	1.4	5.2		

Source of all data: Company, DBS Bank

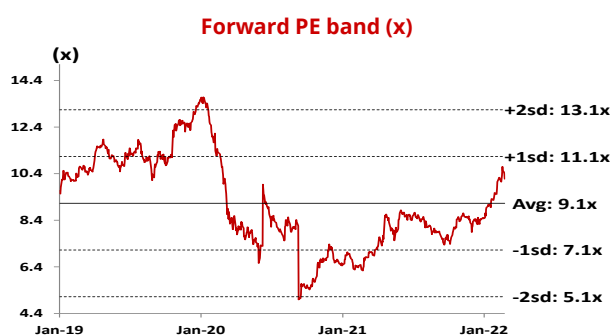
## Sembcorp Industries

### Peer comparison table

Company	Market cap (US\$m)	P/E ratio (x)			P/B (x)			Core ROE (%)			Net Debt-to-Equity (x)		Dividend Yield	
		CY20	CY21F	CY22F	CY20	CY21F	CY22F	CY20	CY21F	CY22F	Net Debt-to-Equity (x)	Debt-to-EBITDA (x)	CY21F	CY22F
<b>Power Producer</b>														
ORSTED A/S	42,483	34.5x	24.5x	24.3x	6.4x	3.1x	3.1x	19.6%	11.1%	16.0%	0.3x	1.1x	1.9%	2.0%
NEXTERA ENERGY	141,946	33.4x	28.6x	26.1x	4.1x	3.3x	3.3x	7.9%	11%	13%	1.2x	7.6x	2.1%	2.3%
RWE AG	28,410	27.2x	18.2x	18.0x	1.3x	1.4x	1.3x	5.9%	8%	8%	-0.2x	2.0x	2.4%	2.4%
BROOKFIELD RENEW	15,684	na	na	470.4x	1.6x	1.5x	1.6x	-2.9%	-1.7%	1.0%	0.9x	7.6x	3.6%	3.8%
CHINA LONGYUAN-H	25,660	11.1x	15.9x	13.4x	1.0x	1.6x	1.4x	9.5%	10.4%	11.0%	1.3x	4.5x	1.2%	1.5%
CHINA DATANG C-H	2,563	8.1x	11.4x	8.6x	0.6x	1.3x	0.9x	8.1%	7%	8%	1.8x	6.0x	2.0%	2.7%
CECEP WIND POW-A	4,406	24.7x	29.2x	20.7x	1.7x	2.3x	2.0x	7.2%	8%	9%	1.6x	na	1.3%	1.8%
GUANGXI GUIGAN-A	7,265	16.0x	22.1x	19.1x	2.3x	na	na	14.7%	10.8%	na	1.1x	na	1.7%	2.7%
TATA POWER CO	9,458	26.6x	33.6x	27.8x	1.5x	3.2x	2.9x	5.4%	9%	10%	1.6x	5.7x	0.8%	0.9%
TORRENT POWER LT	3,051	15.8x	16.4x	14.7x	2.0x	2.1x	1.9x	13.4%	13%	13%	0.7x	2.1x	2.1%	2.2%
SEMBCORP INDUS	3,253	21.8x	15.7x	10.7x	0.9x	1.3x	1.1x	-21.2%	8.3%	10.9%	2.0x	4.6x	1.9%	2.7%

Source: Bloomberg Finance L.P., DBS Bank

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Sembcorp Industries

### Segmental Breakdown

FY Dec	2020A	2021A	2022F	2023F
<b>Revenues (\$m)</b>				
Renewables	281	354	389	428
Conventional Energy	4,571	6,679	6,345	6,662
Integrated Urban	422	465	488	513
Others / Corporate	173	297	312	327
<b>Total</b>	<b>5,447</b>	<b>7,795</b>	<b>7,535</b>	<b>7,931</b>
<b>EBITDA (\$m)</b>				
Renewables	603	225	251	276
Conventional Energy	0.0	892	964	868
Integrated Urban	102	107	143	150
Others / Corporate	1.00	(40.0)	(70.0)	(73.5)
<b>Total</b>	<b>706</b>	<b>1,184</b>	<b>1,288</b>	<b>1,220</b>
<b>EBITDA Margins (%)</b>				
Renewables	214.6	63.6	64.5	64.5
Conventional Energy	0.0	13.4	15.2	13.0
Integrated Urban	24.2	23.0	29.3	29.3
Others / Corporate	0.6	(13.5)	(22.4)	(22.4)
<b>Total</b>	<b>13.0</b>	<b>15.2</b>	<b>17.1</b>	<b>15.4</b>

### Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	6,735	5,447	7,795	7,535	7,931
Cost of Goods Sold	(5,629)	(4,516)	(6,500)	(6,178)	(6,482)
<b>Gross Profit</b>	<b>1,106</b>	<b>931</b>	<b>1,295</b>	<b>1,356</b>	<b>1,449</b>
Other Opng (Exp)/Inc	(255)	(218)	(292)	(360)	(376)
<b>Operating Profit</b>	<b>851</b>	<b>713</b>	<b>1,003</b>	<b>997</b>	<b>1,073</b>
Other Non Opng (Exp)/Inc	20.0	(127)	(196)	(196)	(196)
Associates & JV Inc	186	233	206	196	208
Net Interest (Exp)/Inc	(444)	(464)	(397)	(394)	(382)
Exceptional Gain/(Loss)	(165)	(144)	(193)	0.0	0.0
<b>Pre-tax Profit</b>	<b>448</b>	<b>211</b>	<b>423</b>	<b>603</b>	<b>703</b>
Tax	(115)	(32.0)	(123)	(151)	(176)
Minority Interest	(28.0)	(22.0)	(21.0)	(30.2)	(35.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>305</b>	<b>157</b>	<b>279</b>	<b>422</b>	<b>492</b>
Net Profit before Except.	470	301	472	422	492
EBITDA	1,494	1,263	1,470	1,463	1,559
<b>Growth</b>					
Revenue Gth (%)	N/A	(19.1)	43.1	(3.3)	5.3
EBITDA Gth (%)	nm	(15.5)	16.4	(0.5)	6.6
Opg Profit Gth (%)	nm	(16.2)	40.7	(0.6)	7.6
Net Profit Gth (Pre-ex) (%)	nm	(36.0)	56.8	(10.6)	16.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	16.4	17.1	16.6	18.0	18.3
Opg Profit Margin (%)	12.6	13.1	12.9	13.2	13.5
Net Profit Margin (%)	4.5	2.9	3.6	5.6	6.2
ROAE (%)	8.9	3.1	7.9	10.7	11.5
ROA (%)	2.6	0.9	2.0	2.9	3.3
ROCE (%)	0.3	(1.0)	0.6	0.2	0.8
Div Payout Ratio (%)	29.3	45.5	32.1	21.2	21.8
Net Interest Cover (x)	1.9	1.5	2.5	2.5	2.8

Source: Company, DBS Bank

## Sembcorp Industries

### Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,884	2,617	2,830	3,290	4,505
Cost of Goods Sold	(1,310)	(2,072)	(2,444)	(2,554)	(3,946)
<b>Gross Profit</b>	<b>574</b>	<b>545</b>	<b>386</b>	<b>736</b>	<b>559</b>
Other Oper. (Exp)/Inc	(78.0)	(140)	(78.0)	(126)	(166)
<b>Operating Profit</b>	<b>496</b>	<b>405</b>	<b>308</b>	<b>610</b>	<b>393</b>
Other Non Op (Exp)/Inc	19.0	(107)	(20.0)	(196)	0.0
Associates & JV Inc	87.0	118	115	104	102
Net Interest (Exp)/Inc	(222)	(237)	(227)	(201)	(196)
Exceptional Gain/(Loss)	(165)	(191)	47.0	(206)	13.0
<b>Pre-tax Profit</b>	<b>215</b>	<b>(12.0)</b>	<b>223</b>	<b>111</b>	<b>312</b>
Tax	(81.0)	(23.0)	(9.0)	(57.0)	(66.0)
Minority Interest	(20.0)	(7.0)	(15.0)	(8.0)	(13.0)
<b>Net Profit</b>	<b>114</b>	<b>(42.0)</b>	<b>199</b>	<b>46.0</b>	<b>233</b>
Net profit bef Except.	279	149	152	252	220
EBITDA	602	416	403	518	495

### Growth

Revenue Gth (%)	(61.2)	38.9	8.1	16.3	36.9
EBITDA Gth (%)	32.3	(30.9)	(3.1)	28.5	(4.4)
Opp Profit Gth (%)	39.7	(18.3)	(24.0)	98.1	(35.6)
Net Profit Gth (%)	(40.3)	(136.8)	(573.8)	(76.9)	406.5

### Margins

Gross Margins (%)	30.5	20.8	13.6	22.4	12.4
Opp Profit Margins (%)	26.3	15.5	10.9	18.5	8.7
Net Profit Margins (%)	6.1	(1.6)	7.0	1.4	5.2

### Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	12,203	7,204	7,094	7,055	7,008
Invts in Associates & JVs	1,696	1,588	1,600	1,696	1,804
Other LT Assets	3,258	1,766	1,768	1,741	1,714
Cash & ST Invts	1,767	1,032	1,344	2,052	2,650
Inventory	386	196	222	199	208
Debtors	2,048	1,571	1,986	1,337	1,408
Other Current Assets	1,894	205	381	381	381
<b>Total Assets</b>	<b>23,252</b>	<b>13,562</b>	<b>14,395</b>	<b>14,461</b>	<b>15,173</b>
ST Debt	2,643	593	754	754	754
Creditor	2,844	1,159	1,708	1,363	1,430
Other Current Liab	525	375	443	292	317
LT Debt	8,157	7,135	6,637	6,837	7,037
Other LT Liabilities	1,204	824	935	935	935
Shareholder's Equity	6,871	3,339	3,767	4,100	4,485
Minority Interests	1,008	137	151	181	216
<b>Total Cap. &amp; Liab.</b>	<b>23,252</b>	<b>13,562</b>	<b>14,395</b>	<b>14,461</b>	<b>15,173</b>
Non-Cash Wkg. Capital	959	438	438	263	251
Net Cash/(Debt)	(9,033)	(6,696)	(6,047)	(5,539)	(5,141)
Debtors Turn (avg days)	55.5	121.3	83.3	80.5	63.2
Creditors Turn (avg days)	100.0	179.4	86.6	98.1	84.8
Inventory Turn (avg days)	13.6	26.1	12.6	13.4	12.4
Asset Turnover (x)	0.6	0.3	0.6	0.5	0.5
Current Ratio (x)	1.0	1.4	1.4	1.6	1.9
Quick Ratio (x)	0.6	1.2	1.1	1.4	1.6
Net Debt/Equity (X)	1.1	1.9	1.5	1.3	1.1
Net Debt/Equity ex MI (X)	1.3	2.0	1.6	1.4	1.1
Capex to Debt (%)	8.3	3.9	3.6	5.3	5.1
Z-Score (X)	1.0	1.0	1.0	1.0	1.0

Source: Company, DBS Bank

## Sembcorp Industries

### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	448	211	423	603	703
Dep. & Amort.	437	444	457	466	474
Tax Paid	78.0	(25.0)	123	(181)	(151)
Assoc. & JV Inc/(loss)	(186)	(233)	(206)	(196)	(208)
Chg in Wkg.Cap.	(379)	(453)	(49.0)	206	(13.0)
Other Operating CF	579	547	471	0.0	0.0
<b>Net Operating CF</b>	<b>977</b>	<b>491</b>	<b>1,219</b>	<b>897</b>	<b>806</b>
Capital Exp.(net)	(898)	(304)	(265)	(400)	(400)
Other Invt.(net)	(64.0)	(15.0)	18.0	0.0	0.0
Invt. in Assoc. & JV	(11.0)	(2.0)	0.0	0.0	0.0
Div from Assoc & JV	229	198	95.0	100	100
Other Investing CF	293	(1,158)	52.0	0.0	0.0
<b>Net Investing CF</b>	<b>(451)</b>	<b>(1,281)</b>	<b>(100.0)</b>	<b>(300)</b>	<b>(300)</b>
Div Paid	(71.0)	(54.0)	(107)	(89.4)	(107)
Chg in Gross Debt	121	890	(349)	200	200
Capital Issues	(21.0)	(219)	0.0	0.0	0.0
Other Financing CF	(694)	(566)	(375)	0.0	0.0
<b>Net Financing CF</b>	<b>(665)</b>	<b>51.0</b>	<b>(831)</b>	<b>111</b>	<b>92.7</b>
Currency Adjustments	(17.0)	4.00	24.0	0.0	0.0
Chg in Cash	(156)	(735)	312	708	598
Opg CFPS (S cts)	75.9	52.8	70.9	38.7	45.8
Free CFPS (S cts)	4.42	10.5	53.3	27.8	22.7

Source: Company, DBS Bank

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Feb 21	1.66	1.85	BUY
2:	28 May 21	2.20	2.40	BUY
3:	10 Aug 21	2.01	2.40	BUY
4:	15 Feb 22	2.45	3.00	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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**Sembcorp Industries**

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