

Sembcorp Industries

Conventional Energy drive improved operational performance



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SINGAPORE | ENERGY | RESULTS

3 March 2022

- FY21 net profit of \$300mn was above our estimates, at 146% of FY21e. The beat came from higher revenue from Conventional Energy, which surpassed our expectations on the back of better spark and dark spreads particularly in 4Q21.
- 85% of SEIL's thermal plant capacity now comprises mid- and long- term power purchase agreements (PPAs). We have penciled in a reversal of the losses from its SEIL 2 plant from FY23e.
- Net gearing declined by more than 20% of our FY21e forecasts. Free cash flow rose 71% YoY as better operating performance drove higher net cash from operating activities, which were used to amortise its loans.
- We upgrade to ACCUMULATE from NEUTRAL with higher target price of \$2.94.** We raise FY22e PATMI by 6.8% as we bake in higher profits from Conventional Energy for FY22. Our target price is raised to \$2.94 as we roll forward our valuation to 1.2x FY22e P/BV, the average of its peers.

ACCUMULATE (UPGRADED)

LAST CLOSE PRICE	SGD 2.730
FORECAST DIV	SGD 0.050
TARGET PRICE	SGD 2.940
TOTAL RETURN	9.5%

COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN) :	1,780
MARKET CAP (USD mn / SGD mn) :	3576 / 4861
52 - WK HI/LO (SGD) :	2.74 / 1.73
3M Average Daily T/O (mn) :	4.29

MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%
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Results at a glance

SGD 'mn	2H21	2H20	YoY	Comments
Revenue	4,505	2,830	59%	Driven by Conventional Energy segment with improvement in power demand.
- Conventional Energy	3,923	2,358	66%	Increase attributable to better performance in India, Singapore and the UK on higher energy demand and margins in 4Q21.
- Renewables	208	144	44%	Higher due to increased contribution from wind and energy storage businesses.
Adjusted EBITDA	750	765	-2%	Lower from absence of contribution from the divested water business in Panama.
Net Profit before Exceptional items	220	151	46%	Driven by higher contribution from all business segments.
Net Profit from continuing operations	233	198	18%	
Free cash flow	773	452	71%	Boosted by cash flow from operating activities.
Net gearing (x)	1.6	2.0	n.m.	Lower on repayment of project finance debt for Sembcorp Energy India and Sembcorp Green Infra.

Source: Company, PSR

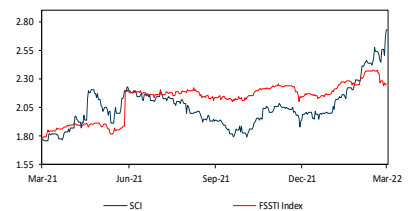
The Positives

+ FY21 net profit of \$300mn was above our estimates, at 146% of FY21e. The beat came from higher revenue from Conventional Energy, which surpassed our expectations on the back of better spark and dark spreads particularly in 4Q21. The better spreads arose from stronger commodity price and better demand-supply dynamics. Net profit before exceptional items was 69% higher YoY, lifted by higher contributions from all key revenue segments: Renewables, Integrated Urban Solutions and Conventional Energy. Its coal business in India - Thermal Power Project I (P1) and Thermal Power Project II (P2) - also performed better than expected with higher demand lifting turnover. This segment remained the key contributor to turnover, accounting for 84% of overall revenue.

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	16.7	37.8	54.6
STI RETURN	1.1	6.2	14.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$S, 'mn)	FY20	FY21	FY22e	FY23e
Revenue	5,447	7,795	10,058	10,880
Gross Profit	787	1,102	1,458	1,588
EBIT	442	614	923	1,001
NPAT	179	300	461	507
P/NAV (x)	1.4	1.2	1.1	1.0
P/E (x)	31.1	17.5	11.1	10.1
ROE (%)	3.2%	8.1%	11.1%	11.0%

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 1.2x FY21e

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+ 85% of SEIL's thermal plant capacity now mid- and long- term PPA. SCI's subsidiary, SEIL, recently signed two long-term PPAs, bringing 85% of SEIL's thermal plant capacity (previously 50%) to be secured by mid- and long- term PPA. The first PPA is to supply 625MW of power to Andhra Pradesh state power distribution companies for 12 years. The contract is expected to commence by FY23e. The second PPA is to supply 200MW of power to Bangladesh till May 2033. The contract is expected to commence in 1H22.

We view these developments positively for SCI's India operations. SEIL has two projects in India, SEIL 1 and SEIL 2, with total gross installed capacities of 1.32GW each. Historically, SEIL 2 has been recording losses since FY16 due mainly to the absence of long-term PPA's. We believe these contracts will reverse the losses from SEIL 2 from FY23e onwards.

+ Net gearing declined by more than 20% of our FY21e forecast. Free cash flow rose 71% YoY as better operating performance drove higher net cash from operating activities. The repayment of its project finance debt for Sembcorp Energy India and Sembcorp Green Infra drove net gearing lower to 160.8% from 199.8% in the same period last year. This compares favourably with the 184% we initially pencilled in.

The Negatives

- Major maintenance shutdowns in 2022 for Phu My 3 to impact revenue. The tariffs from the maintenance of its Vietnam power plant will be further reduced as its PPA approaches expiry in 2024.

- FY21 land sales slightly below our forecasts. The Group achieved total land sales of 168 hectares in 2021, below our 180 hectares forecast. Nonetheless, SCI still saw better contribution from the urban business on higher prices achieved for land sales and contribution from the waste and waste-to-resource businesses. Despite the miss, management remains confident in achieving its 2025 target of 500 hectares land sales.

Outlook

We expect the group to continue with its transition to sustainable solutions and sustainable development. Despite its ambitious growth plans, it will not require any equity fund-raising, relying entirely on internal sources.

The Conventional Energy segment continued to perform well in January this year as global energy markets rose in tandem with commodity prices. For FY22e, we expect this segment to be supported by firmer commodity prices and energy markets.

The Group is on track to achieve 10GW gross installed renewables capacity by 2025. The Group secured 2.9GW of new renewable energy projects across key markets in 2021. Upon completion of the 658MW portfolio acquisition in China in 1H22, the gross renewables capacity installed and under development will reach 6.1GW. The Group is actively seeking deals in India, China and the UK by leveraging on its partnerships and platforms for their acquisitions.

Upgrade to ACCUMULATE from NEUTRAL with higher target price of \$2.94

We raise FY22e PATMI by 6.8% as we bake in higher profits from Conventional Energy for FY22. Our target price is raised to \$2.94 as we roll forward our valuation to 1.2x FY22e P/BV, the average of its peers (Figure 2).

Figure 2: India and China comparables

Comparables									
Company	Mkt cap (CCY mn)	PE Yr 0	FY21 EPS growth (%)	FY21 net profit margin	P/BV Yr 0	FY21 ROE (%)	ROE Yr 1 (%)	FY21 EV/EBITD A (x)	FY21 Dividend yield (%)
Adani Green Energy Ltd	2,894,599	N/A	N/A	6.7%	78.5	9.2%	N/A	87.4	N/A
NHPC Ltd	278,750	8.6	12.9	42.6%	0.7	9.9%	N/A	8.8	6.0
SJVN Ltd	112,982	6.9	5.1	66.2%	0.8	13.2%	N/A	6.2	5.4
Jaiprakash Power Venture	49,139	N/A	N/A	8.1%	0.2	2.6%	N/A	4.1	N/A
Rattanindia Power Ltd	29,536	N/A	N/A	-60.4%	N/A	N/A	N/A	20.9	N/A
Orient Green Power Ltd	8,070	N/A	N/A	-22.6%	0.3	-11.9%	N/A	8.2	N/A
Urja Global Ltd	8,516	493.3	N/A	1.2%	2.1	1.1%	N/A	N/A	N/A
Indowind Energy Ltd	1,387	772.5	100.0	1.2%	0.1	0.1%	N/A	9.1	N/A
Average (India)	422,872	320.3	39.3	5.4%	0.8	3.5%	N/A	20.7	5.7
CGN Power Co Ltd	136,389	7.4	-6.0	13.5%	0.7	10.3%	N/A	10.8	4.5
Huaneng Power International	111,405	59.6	-33.3	1.4%	0.3	0.6%	N/A	9.2	4.8
China Longyuan Power	173,531	11.1	9.3	17.5%	1.0	9.5%	N/A	8.6	0.9
China Resources Power	66,740	5.3	15.3	10.9%	0.5	9.6%	N/A	4.2	3.8
China Resources Gas	63,911	17.9	-0.4	9.2%	2.6	16.3%	N/A	9.8	2.7
China Gas Holdings	55,792	15.8	14.2	15.0%	3.4	22.9%	N/A	14.4	4.4
Average (China)	101,295	19.5	-0.2	0.1	1.4	11.5%	N/A	9.5	3.5
Sembcorp Industries	4,861	17.5	77.7%	3.8%	1.2	8.1%	11.1%	6.4	1.8
Overall average		128.7	11.8	0.1	1.2	7.3%	N/A	14.9	3.8

Source: Bloomberg, PSR

P/B average for Indian companies adjusted for outliers

Financials

Income Statement

Y/E Dec, (\$'mn)	FY19 #	FY20	FY21	FY22e	FY23e
Revenue	6,735	5,447	7,795	10,058	10,880
Cost of sales	(5,753)	(4,660)	(6,693)	(8,600)	(9,291)
Gross Profit	982	787	1,102	1,458	1,588
General and Administrative expe	(356)	(344)	(432)	(543)	(588)
Other operating income	189	126	140	8	-
Other items	(109)	(127)	(196)	-	-
EBIT	706	442	614	923	1,001
Net finance expenses	(444)	(464)	(397)	(393)	(373)
Share of results of associates an	186	233	206	102	62
Profit before tax	448	211	423	632	690
Taxation	(115)	(32)	(123)	(171)	(184)
Net Profit	333	179	300	461	507
Net Profit (excl. SCM from FY20e)	333	179	300	461	507
Profit attributable to owners	305	157	279	440	486

Per share data (\$\$ cents)

Y/E Dec	FY19 #	FY20	FY21	FY22e	FY23e
BVPS	4.4	1.9	2.2	2.5	2.7
DPS	5.0	4.0	5.0	8.0	9.0
EPS	17.1	8.8	15.6	24.6	27.2

Cash Flow

Y/E Dec, (\$'mn)	FY19 #	FY20	FY21	FY22e	FY23e
CFO					
Net income	333	179	300	461	507
Adjustments	1,122	872	1,004	1,183	1,146
WC changes	(379)	(453)	(49)	(519)	(1)
Cash generated from ops	1,076	598	1,255	1,125	1,652
Others	(99)	(103)	(36)	(171)	(184)
Cashflow from ops	977	495	1,219	954	1,468
CFI					
CAPEX, net	(925)	(318)	(282)	(633)	(1,307)
Others	474	(963)	182	123	139
Cashflow from investments	(451)	(1,281)	(100)	(510)	(1,168)
CFF					
Dividends paid to owners	(71)	(54)	(107)	(18)	(71)
Proceeds from borrowings, net	86	862	(364)	(200)	(200)
Interest paid	(544)	(515)	(330)	(421)	(417)
Others	(163)	(237)	(54)	-	-
Cashflow from financing	(692)	56	(855)	(639)	(688)
Net change in cash	(166)	(730)	264	(195)	(388)
Cash at the start of the period	1,922	1,739	1,013	1,297	1,102
Currency translation	(27)	(27)	(27)	(27)	(26)
Others	-	-	-	-	-
Ending cash	1,739	1,013	1,297	1,102	714

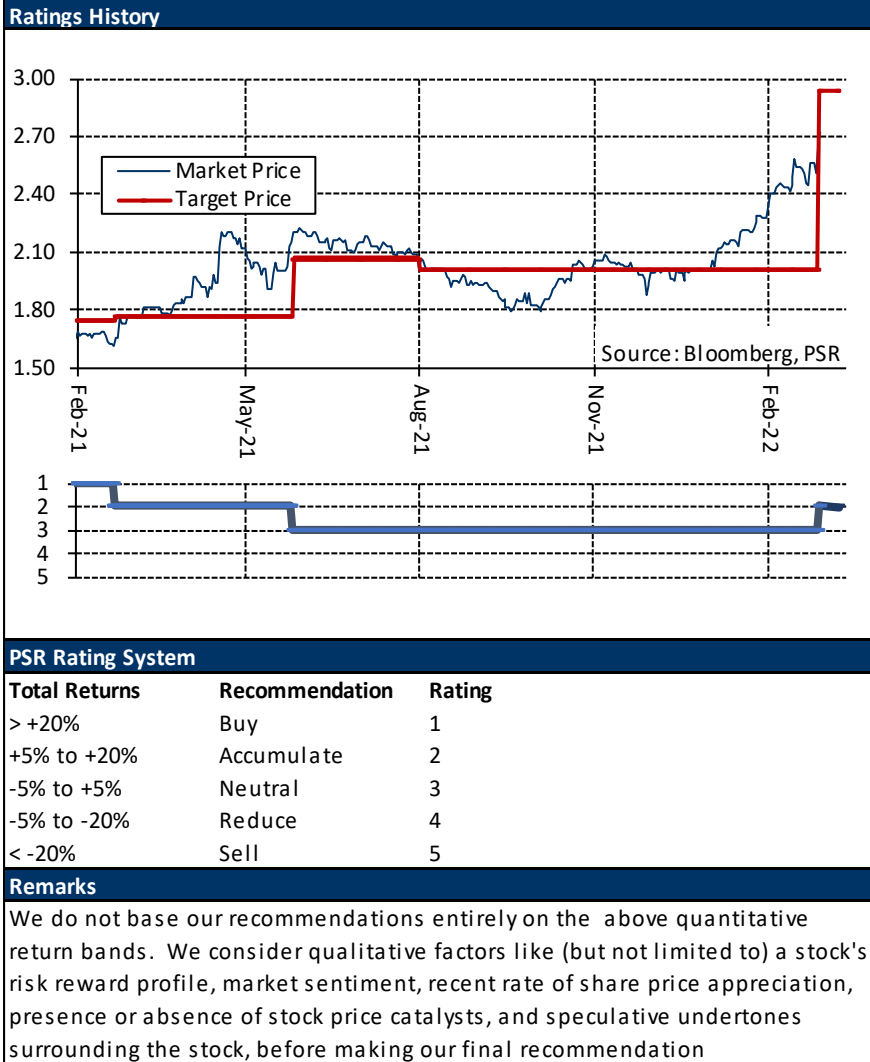
*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

On September 11, 2020, the Company distributed its holdings of ordinary shares in the capital of a subsidiary, Sembcorp Marine (SCM) to its shareholders. Consequent to the distribution, the performance of the marine segment in the current financial year, for the period from Jan 1, 2020 to Sept 11, 2020 is reported as a discontinued operation with comparative information re-presented accordingly.

Balance Sheet

Y/E Dec, (\$'mn)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE & Investment Properties	11,867	7,339	7,232	7,365	7,539
Others	5,290	3,219	3,230	4,225	4,440
Total non-current assets	17,157	10,558	10,462	11,590	11,979
Cash and cash equivalents	1,767	1,032	1,344	1,733	2,740
Inventories	386	196	222	344	372
Trade and other receivables	2,048	1,571	1,986	2,155	2,331
Others	1,894	205	381	381	381
Total current assets	6,095	3,004	3,933	4,613	5,823
Total Assets	23,252	13,562	14,395	16,203	17,802
LIABILITIES					
Trade and other payables	2,844	1,159	1,708	2,204	2,384
ST borrowings	2,643	627	765	768	768
Others	525	341	432	1,361	2,639
Total current liabilities	6,012	2,127	2,905	4,333	5,791
LT borrowings	8,627	7,350	6,881	6,681	6,481
Others	734	609	691	806	691
Total non-current liabilities	9,361	7,959	7,572	7,487	7,172
Total liabilities	15,373	10,086	10,477	11,820	12,963
EQUITY					
Share Capital	566	566	566	566	566
Retained profits	5,827	3,153	3,349	3,792	4,227
Others	1,482	(243)	3	24	45
Total equity	7,875	3,476	3,918	4,382	4,838
Total equity and liabilities	23,248	13,562	14,395	16,203	17,802
Valuation Ratios					
Y/E Dec	FY19 #	FY20	FY21	FY22e	FY23e
P/E (x)	16.0	31.1	17.5	11.1	10.1
P/B (x)	0.6	1.4	1.2	1.1	1.0
EV/EBITDA (x)	20.4	9.4	8.7	6.4	5.5
Dividend yield (%)	1.8%	1.5%	1.8%	2.9%	3.3%
Growth & Margins (%)					
Growth					
Revenue	-42.4%	-19.1%	43.1%	29.0%	8.2%
Gross profit	6.7%	-19.9%	40.0%	32.3%	8.9%
EBIT	5.8%	-37.4%	38.9%	50.4%	8.4%
PBT	6.7%	-52.9%	100.5%	49.5%	9.1%
Margins					
Gross profit margin	14.6%	14.4%	14.1%	14.5%	14.6%
EBIT margin	10.5%	8.1%	7.9%	9.2%	9.2%
Net profit margin	4.9%	3.3%	3.8%	4.6%	4.7%
Key Ratios					
ROE	4.2%	3.2%	8.1%	11.1%	11.0%
ROA	1.4%	1.0%	2.1%	3.0%	3.0%
Net Gearing (%)	120.7%	199.8%	160.8%	130.4%	93.2%



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