

Sembcorp Industries

Conventional Energy to lift 1H22 profits


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SINGAPORE | ENERGY | UPDATE
21 July 2022

- The average Uniform Singapore Energy Price (USEP) prices rose 239% YoY in 1H22 driven by the conflict in Ukraine. Spark spreads have increased as average USEP prices have moved ahead of high sulfur fuel oil (HSFO) in the last nine months. Tariffs for power in Tamil Nadu and Gujarat in India also rose ~88% YoY as higher temperatures in the country drove up power demand.
- Sembcorp Industries (SCI) gross renewables capacity in operation and under development globally now stands at 6.8GW in 1H22 from 6.1GW as at end-2021. This is ahead of our FY22e target of 7.3GW. Accordingly, we revise our FY22e capacity to 7.6GW on account of the Group's aggressive buildup of its renewables portfolio.
- **We downgrade to NEUTRAL from ACCUMULATE with a higher target price of \$2.96 (prev. \$2.94).** We raise FY22e PATMI by 6% as we bake in higher profits from Conventional Energy and Renewable Energy for FY22. Our target price is raised to \$2.96, still based on 1.2x FY22e P/BV, the average of its peers. But we downgrade to Neutral after the recent run-up in its price.

The news

SCI financial results are expected to be materially higher for 1H22 vs. last year, driven by the Conventional Energy segment.

Contrary to a report that Myanmar's central bank has ordered a halt on repayment of foreign loans, its subsidiary in Myanmar has not received such a directive. It has also received prompt payment from its offtaker and continues to operate its Myanmar power plant.

The Positives

+ Average USEP prices up 239% YoY or 9.8% HoH to lift SCI's 1H22 Conventional Energy. The global energy crunch since September 2021 lifted SCI's Conventional Energy segment in 2H21. The conflict in Ukraine at the beginning of the year has further exacerbated the risk of disruptions in oil and gas. As a result, average USEP prices for 1H22 surged to S\$324/MWh, higher than the S\$295/MWh average in 2H21 and spark spreads have increased to 6.3 YTD (Figure 1) as average USEP prices have moved ahead of HSFO in the last nine months.

+ Tariffs for power in India's Tamil Nadu and Gujarat rose ~88% YoY in 1H22. Based on data from IEX, tariffs for power at Tamil Nadu and Gujarat rose to ~6.36Rs/kWh from ~3.39Rs/kWh from the same period last year. The higher tariff was driven by high global oil prices and higher temperatures in the country. The International Energy Agency (IEA) recently revised upward India's electricity demand to 7% from negative previously in light of the intense heatwave in the country.

On the back of this, we revise FY22e Conventional Energy revenue up marginally from \$8.6bn to \$8.8bn to account for better spark spreads for Sembcorp Cogen and India (Figure 3).

NEUTRAL (DOWNGRADED)

| | |
|------------------|-----------|
| LAST CLOSE PRICE | SGD 3.040 |
| FORECAST DIV | SGD 0.050 |
| TARGET PRICE | SGD 2.960 |
| TOTAL RETURN | -1.0% |

COMPANY DATA

| | |
|--------------------------------|-------------|
| BLOOMBERG CODE: | SCI SP |
| O/S SHARES (MN) : | 1,786 |
| MARKET CAP (USD mn / SGD mn) : | 3900 / 5428 |
| 52 - WK HI/LO (SGD) : | 3.1 / 1.78 |
| 3M Average Daily T/O (mn) : | 3.24 |

MAJOR SHAREHOLDERS (%)

| | |
|------------------|-------|
| TEMASEK HOLDINGS | 49.5% |
|------------------|-------|

PRICE PERFORMANCE (%)

| | 1MTH | 3MTH | 1YR |
|------------|------|-------|------|
| COMPANY | 11.3 | 3.1 | 48.9 |
| STI RETURN | 0.6 | (4.4) | 4.1 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec ('\$,'mn) | FY20 | FY21e | FY22e | FY23e |
|-------------------|-------|-------|--------|--------|
| Revenue | 5,447 | 7,795 | 10,815 | 11,871 |
| Gross Profit | 787 | 1,102 | 1,568 | 1,733 |
| EBIT | 442 | 614 | 992 | 1,092 |
| NPAT | 179 | 300 | 489 | 540 |
| P/NAV (x) | 1.6 | 1.4 | 1.2 | 1.1 |
| P/E (x) | 34.6 | 19.5 | 11.6 | 10.5 |
| ROE (%) | 3.2% | 8.1% | 11.8% | 11.6% |

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 1.2x FY22e

Terence Chua (+65 6212 1852)
Senior Research Analyst
terencechuatl@phillip.com.sg

Figure 3: Revision to Revenue and earnings estimates following Group’s strong Conventional Energy performance in 1H22

| Revision to Revenue and Earnings estimates | | | |
|--|------------|-----------------|----------|
| SGD 'mn | 1H22 (new) | 1H22 (previous) | Change % |
| Revenue | 5,192 | 4,912 | 5.7% |
| - Conventional Energy | 4,551 | 4,276 | 6.4% |
| - Renewables | 232 | 226 | 2.7% |
| Net Profit | 245 | 231 | 5.8% |

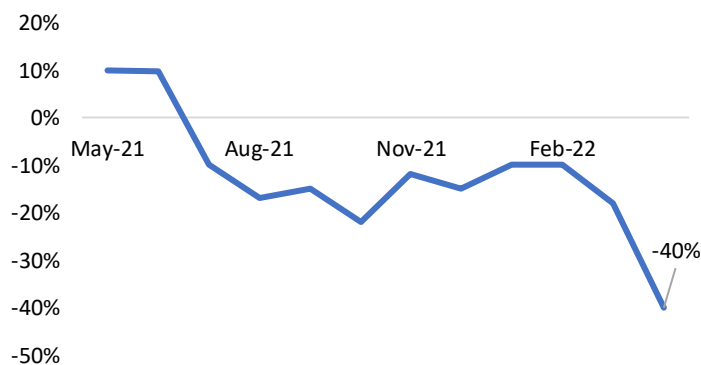
Source: PSR

+ On track to building up its green energy portfolio. SCI’s gross renewables capacity in operation and under development globally now stands at 6.8GW in 1H22 from 6.1GW as at end-2021 (Figure 2). This is ahead of our FY22e target of 7.3GW, accordingly, we revise our FY22e gross renewables capacity to 7.6GW on account of the Group’s aggressive build up of its renewables portfolio. We believe the company is on track to achieve its plans of increasing its renewable capacity to 10GW by 2025. We see the company’s transition toward green energy as an important driver of its re-rating.

The Negatives

- Headwinds in China property market to put a drag on Group’s Urban development business. China’s property market has weakened sharply in the past year as a result of a government clampdown on excessive borrowings by developers, and a Covid-19 induced economic slowdown (Figure 4). We believe this will hurt the Group’s land sales in China, though the impact is not expected to be significant as China account for just 6% of the Group’s total saleable land.

Figure 4: China Property sales declined at an accelerated pace in April 2022 as lockdown across cities cooled demand



Source: Company, PSR

Outlook

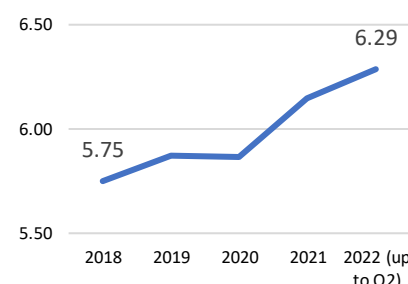
We expect the group to continue with its transition to sustainable solutions and sustainable development. Despite its ambitious growth plans, it will not require any equity fund-raising, relying entirely on internal sources.

Why are electricity prices rising in Singapore?

Natural gas accounts for 95% of the production of electricity in Singapore. As Singapore relies on imported natural gas for its power generation needs, constraints in supply will impact Singapore’s electricity prices. While generation companies (gencos) have the option to switch from piped natural gas to alternatives such as liquefied natural gas (LNG), the gencos still have to grapple with the global shortage of LNG supplies and the high spot prices.

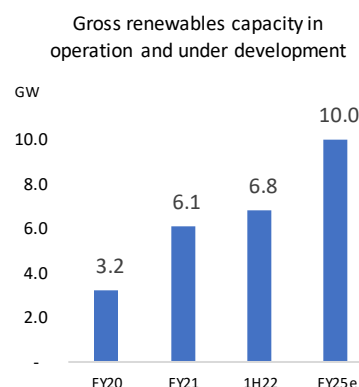
The recent spot price volatility in the Singapore Wholesale Electricity Market (SWEM) has been attributed to higher than usual electricity demand following the re-opening of borders and businesses, the outage of multiple generation units and the conflict in Ukraine. Planned and unplanned supply disruptions to Singapore’s long-term natural gas supplies from West Natuna and South Sumatra also contributed to that volatility.

Figure 1: Spark spreads hit a high after USEP surged ahead of HSFO



Source: SingPower, PSR

Figure 2: Gross renewables capacity growth is tracking ahead of our estimates as management embarks on an aggressive expansion plan



Source: Company, PSR

The Conventional Energy segment continued to perform well in the first half of this year as global energy markets rose in tandem with commodity prices. For the rest of 2022, we expect this segment to be supported by energy markets and the continued uncertainty brought about by the Ukraine conflict.

However, we expect the slowdown in the Chinese property market to offset some of the growth from the Conventional Energy and Renewable Energy segment.

The Group continues to actively seek deals in India, China and the UK by leveraging its partnerships and platforms for their acquisitions.

Downgrade to NEUTRAL from ACCUMULATE with higher target price of \$2.96 (prev. \$2.94)

We raise FY22e PATMI by 6% as we bake in higher profits from Conventional Energy and Renewable Energy for FY22. Our target price is raised to \$2.96 (prev. \$2.94), still based on 1.2x FY22e P/BV, the average of its peers (Figure 5). But we downgrade to Neutral from Accumulate after the recent run-up in its share price.

Figure 5: 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 (%) | FY21 EV/EBITDA (x) | FY21 Dividend yield (%) |
|-----------------------------|------------------|--------------|---------------------|------------------------|------------|--------------|--------------------|-------------------------|
| Adani Green Energy Ltd | 2,894,599 | N/A | N/A | 6.7% | 78.5 | 9.2% | 87.4 | N/A |
| NHPC Ltd | 278,750 | 8.6 | 12.9 | 42.6% | 0.7 | 9.9% | 8.8 | 6.0 |
| SJVN Ltd | 112,982 | 6.9 | 5.1 | 66.2% | 0.8 | 13.2% | 6.2 | 5.4 |
| Jaiprakash Power Venture | 49,139 | N/A | N/A | 8.1% | 0.2 | 2.6% | 4.1 | N/A |
| Rattanindia Power Ltd | 29,536 | N/A | N/A | -60.4% | N/A | N/A | 20.9 | N/A |
| Orient Green Power Ltd | 8,070 | N/A | N/A | -22.6% | 0.3 | -11.9% | 8.2 | N/A |
| Urja Global Ltd | 8,516 | 493.3 | N/A | 1.2% | 2.1 | 1.1% | #N/A | N/A |
| Indowind Energy Ltd | 1,387 | 772.5 | 100.0 | 1.2% | 0.1 | 0.1% | 9.1 | N/A |
| Average (India) | 422,872 | 320.3 | 39.3 | 5.4% | 0.8 | 3.5% | 20.7 | 5.7 |
| CGN Power Co Ltd | 136,389 | 7.4 | -6.0 | 13.5% | 0.7 | 10.3% | 10.8 | 4.5 |
| Huaneng Power International | 111,405 | 59.6 | -33.3 | 1.4% | 0.3 | 0.6% | 9.2 | 4.8 |
| China Longyuan Power | 173,531 | 11.1 | 9.3 | 17.5% | 1.0 | 9.5% | 8.6 | 0.9 |
| China Resources Power | 66,740 | 5.3 | 15.3 | 10.9% | 0.5 | 9.6% | 4.2 | 3.8 |
| China Resources Gas | 63,911 | 17.9 | -0.4 | 9.2% | 2.6 | 16.3% | 9.8 | 2.7 |
| China Gas Holdings | 55,792 | 15.8 | 14.2 | 15.0% | 3.4 | 22.9% | 14.4 | 4.4 |
| Average (China) | 101,295 | 19.5 | -0.2 | 0.1 | 1.4 | 11.5% | 9.5 | 3.5 |
| Sembcorp Industries | 5,357 | 19.2 | 77.7% | 3.8% | 1.4 | 8.1% | 6.2 | 1.7 |
| Overall average | | 128.9 | 11.8 | 0.1 | 1.2 | 7.3% | 14.8 | 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 | 10,815 | 11,871 |
| Cost of sales | (5,753) | (4,660) | (6,693) | (9,247) | (10,138) |
| Gross Profit | 982 | 787 | 1,102 | 1,568 | 1,733 |
| General and Administrative expenses | (356) | (344) | (432) | (584) | (641) |
| Other operating income | 189 | 126 | 140 | 8 | - |
| Other items | (109) | (127) | (196) | - | - |
| EBIT | 706 | 442 | 614 | 992 | 1,092 |
| Net finance expenses | (444) | (464) | (397) | (393) | (373) |
| Share of results of associates and joint ventures | 186 | 233 | 206 | 70 | 14 |
| Profit before tax | 448 | 211 | 423 | 670 | 734 |
| Taxation | (115) | (32) | (123) | (180) | (194) |
| Net Profit | 333 | 179 | 300 | 489 | 540 |
| Net Profit (excl. SCM from FY20e) | 333 | 179 | 300 | 489 | 540 |
| Profit attributable to owners | 305 | 157 | 279 | 468 | 519 |

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 | 26.2 | 29.0 |

Cash Flow

| Y/E Dec, (\$'mn) | FY19 # | FY20 | FY21 | FY22e | FY23e |
|----------------------------------|--------------|----------------|--------------|--------------|----------------|
| CFO | | | | | |
| Net income | 333 | 179 | 300 | 489 | 540 |
| Adjustments | 1,122 | 872 | 1,004 | 1,160 | 1,109 |
| WC changes | (379) | (453) | (49) | (520) | (1) |
| Cash generated from ops | 1,076 | 598 | 1,255 | 1,129 | 1,647 |
| Others | (99) | (103) | (36) | (180) | (194) |
| Cashflow from ops | 977 | 495 | 1,219 | 949 | 1,453 |
| 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 | (200) | (403) |
| Cash at the start of the period | 1,922 | 1,739 | 1,013 | 1,297 | 1,097 |
| Currency translation | (27) | (27) | (27) | (27) | (26) |
| Others | - | - | - | - | - |
| Ending cash | 1,739 | 1,013 | 1,297 | 1,097 | 694 |

*nm - not meaningful

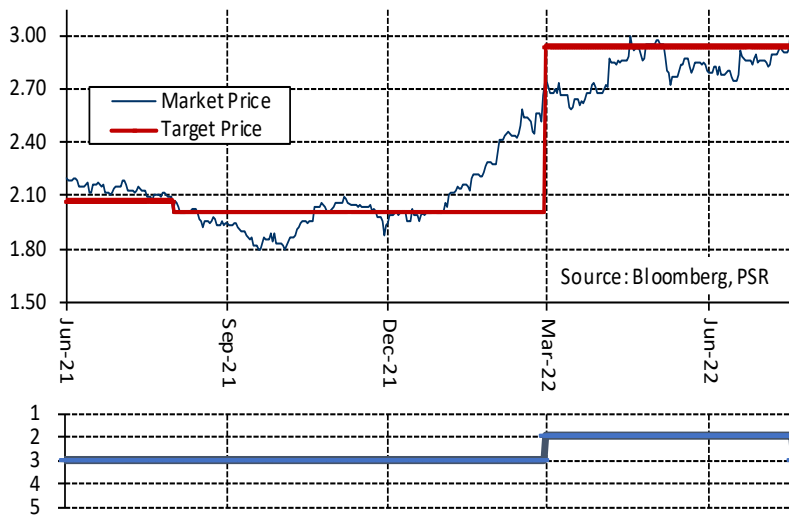
Source: Company, Phillip Securities Research (Singapore) Estimates

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 | 4,334 | 4,546 |
| Total non-current assets | 17,157 | 10,558 | 10,462 | 11,699 | 12,085 |
| Cash and cash equivalents | 1,767 | 1,032 | 1,344 | 1,733 | 2,740 |
| Inventories | 386 | 196 | 222 | 370 | 406 |
| Trade and other receivables | 2,048 | 1,571 | 1,986 | 2,317 | 2,543 |
| Others | 1,894 | 205 | 381 | 381 | 381 |
| Total current assets | 6,095 | 3,004 | 3,933 | 4,801 | 6,069 |
| Total Assets | 23,252 | 13,562 | 14,395 | 16,500 | 18,154 |
| LIABILITIES | | | | | |
| Trade and other payables | 2,844 | 1,159 | 1,708 | 2,370 | 2,601 |
| ST borrowings | 2,643 | 627 | 765 | 768 | 768 |
| Others | 525 | 341 | 432 | 1,465 | 2,713 |
| Total current liabilities | 6,012 | 2,127 | 2,905 | 4,602 | 6,082 |
| 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 | 12,090 | 13,254 |
| EQUITY | | | | | |
| Share Capital | 566 | 566 | 566 | 566 | 566 |
| Retained profits | 5,827 | 3,153 | 3,349 | 3,821 | 4,289 |
| Others | 1,482 | (243) | 3 | 24 | 45 |
| Total equity | 7,875 | 3,476 | 3,918 | 4,411 | 4,900 |
| Total equity and liabilities | 23,248 | 13,562 | 14,395 | 16,500 | 18,154 |
| Valuation Ratios | | | | | |
| Y/E Dec | FY19 # | FY20 | FY21 | FY22e | FY23e |
| P/E (x) | 17.8 | 34.6 | 19.5 | 11.6 | 10.5 |
| P/B (x) | 0.7 | 1.6 | 1.4 | 1.2 | 1.1 |
| EV/EBITDA (x) | 21.1 | 9.9 | 9.1 | 6.3 | 5.4 |
| Dividend yield (%) | 1.6% | 1.3% | 1.6% | 2.6% | 3.0% |
| Growth & Margins (%) | | | | | |
| Growth | | | | | |
| Revenue | -42.4% | -19.1% | 43.1% | 38.7% | 9.8% |
| Gross profit | 6.7% | -19.9% | 40.0% | 42.3% | 10.5% |
| EBIT | 5.8% | -37.4% | 38.9% | 61.6% | 10.1% |
| PBT | 6.7% | -52.9% | 100.5% | 58.3% | 9.6% |
| 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% | 4.5% | 4.5% |
| Key Ratios | | | | | |
| ROE | 4.2% | 3.2% | 8.1% | 11.8% | 11.6% |
| ROA | 1.4% | 1.0% | 2.1% | 3.2% | 3.1% |
| Net Gearing (%) | 120.7% | 199.8% | 160.8% | 129.6% | 92.0% |

Ratings History



PSR Rating System

| Total Returns | Recommendation | Rating |
|---------------|----------------|--------|
| > +20% | Buy | 1 |
| +5% to +20% | Accumulate | 2 |
| -5% to +5% | Neutral | 3 |
| -5% to -20% | Reduce | 4 |
| < -20% | Sell | 5 |

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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| Contact Information (Singapore Research Team) | |
| Head of Research Paul Chew – paulchewkl@phillip.com.sg | Research Admin Qystina Azli – qystina@phillip.com.sg |
| Construction Industrial Conglomerates Terence Chua – terencechuatl@phillip.com.sg | Banking & Finance Glenn Thum – glennthumjc@phillip.com.sg |
| US Technology Analyst (Internet) Jonathan Woo – jonathanwookj@phillip.com.sg | US Technology Analyst (Software/Services) Amrish Shah – amshah@phillipcapital.in |
| | Credit Analyst Shawn Sng – shawnsngkh@phillip.com.sg |

Contact Information (Regional Member Companies)

| | | |
|---|---|---|
| <p>SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poe.ms.com.sg</p> | <p>MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poe.ms.com.my</p> | <p>HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk</p> |
| <p>JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp</p> | <p>INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id</p> | <p>CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn</p> |
| <p>THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th</p> | <p>FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com</p> | <p>UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com</p> |
| <p>UNITED STATES Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com</p> | <p>AUSTRALIA Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 8633 9803 Fax +61-03 8633 9899 Website: www.phillipcapital.com.au</p> | <p>CAMBODIA Phillip Bank Plc Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh</p> |
| <p>INDIA PhillipCapital (India) Private Limited No.1, 18th Floor, Urmi Estate 95, Ganpatrao Kadam Marg Lower Parel West, Mumbai 400-013 Maharashtra, India Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969 Website: www.phillipcapital.in</p> | <p>TURKEY PhillipCapital Menkul Degerler Dr. Cemil Bengü Cad. Hak Is Merkezi No. 2 Kat. 6A Caglayan 34403 Istanbul, Turkey Tel: 0212 296 84 84 Fax: 0212 233 69 29 Website: www.phillipcapital.com.tr</p> | <p>DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGCX) Unit No 601, Plot No 58, White Crown Bldg, Sheikh Zayed Road, P.O.Box 212291 Dubai-UAE Tel: +971-4-3325052 / Fax: + 971-4-3328895</p> |

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