

# 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

8 Aug 2022

### BUY

Last Traded Price (5 Aug 2022): S\$3.07 (STI : 3,282.88)  
Price Target 12-mth: S\$3.80 (24% upside) (Prev S\$3.70)

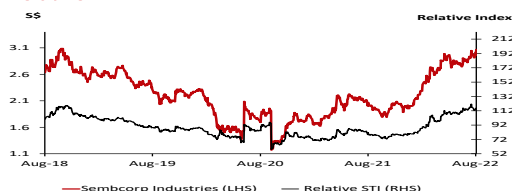
#### Analyst

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### What's New

- 1H22 earnings blew past our estimates; net profit of S\$490m formed 93% of our previous above-consensus full year forecast
- Raised FY22/23F earnings by 46%/18%; renewable to account for 32% of FY23 profit
- Declared 4 Scts interim dividend; expect special dividend in 2H, bringing full year DPS to 10Scts or 3.3% yield
- Reiterate BUY; TP lifted slightly to S\$3.80 following our earnings upgrade

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	5,447	7,795	9,872	8,649
EBITDA	1,263	1,470	1,830	1,692
Pre-tax Profit	211	423	971	836
Net Profit	157	279	767	602
Net Pft (Pre Ex.)	301	472	767	602
Net Pft Gth (Pre-ex) (%)	(36.0)	56.8	62.5	(21.5)
EPS (S cts)	8.78	15.6	42.9	33.6
EPS Pre Ex. (S cts)	16.8	26.4	42.9	33.6
EPS Gth Pre Ex (%)	(36)	57	62	(22)
Diluted EPS (S cts)	8.78	15.6	42.9	33.6
Net DPS (S cts)	4.00	5.00	10.0	8.00
BV Per Share (S cts)	187	211	243	269
PE (X)	35.0	19.7	7.2	9.1
PE Pre Ex. (X)	18.2	11.6	7.2	9.1
P/Cash Flow (X)	11.2	4.5	4.5	6.3
EV/EBITDA (X)	9.8	8.0	6.0	6.3
Net Div Yield (%)	1.3	1.6	3.3	2.6
P/Book Value (X)	1.6	1.5	1.3	1.1
Net Debt/Equity (X)	1.9	1.5	1.2	1.0
ROAE (%)	3.1	7.9	18.9	13.1

Earnings Rev (%): 46 18  
Consensus EPS (S cts): 27.8 30.8  
Other Broker Recs: B: 10 S: 0 H: 2

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

## A burgeoning renewable play

### Investment Thesis:

**Steady progress of renewable transformation.** Sembcorp Industries (SCI)'s green transformation is advancing ahead of target since the announcement in May-2021. Its gross installed renewable capacity has more than doubled to 7.1GW (5.1 GW attributable to SCI) as of end-June 2022 from 2.6GW as of end-2020, and looks set to achieve its 10GW target ahead of 2025.

**Multiple re-rating catalysts.** The good progress of its 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, improved supply/demand fundamentals of the power market in Singapore and India should boost its near term earnings.

### Valuation:

Our target price is lifted to S\$3.80, following earnings upgrade, still based on a 1.6x FY22 P/B, in line with peers' average in China & India. This is fair against mid-teens 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 flows.

### Key Risks to Our View:

Key risks to earnings are unexpected sharp turn of Singapore and India's power spark spreads and execution hiccups of its renewable plans.

### At A Glance

Issued Capital (m shrs)	1,786
Mkt. Cap (S\$m/US\$m)	5,482 / 3,969
Major Shareholders (%)	
Temasek Holdings Pte Ltd	49.4
Free Float (%)	50.6
3m Avg. Daily Val (US\$m)	6.7
GIC Industry : Industrials / Capital Goods	



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**WHAT'S NEW****An astounding 1H22**

**1H22 earnings blew past estimates.** Net profit of S\$490m made up **93% of our previous 5% above consensus full year** forecast. The impressive performance was driven by its Conventional Energy segment, especially in Singapore and India that saw a spike in tariffs and spreads. This was further boosted by gains from gas hedges (S\$68m) and other income (S\$24m) totalling **S\$92m that are not recurring**. The unwinding of gas hedges occurred due to the cancellation of the cargo expected in 1H22.

Other income included settlement with customers on late payment of S\$15m (1H2021: S\$15m) and with O&M contractors of S\$8m in India and cancellation fee of S\$12m received from a supplier in Singapore.

**Earnings revisions.** We are raising our FY22/23F net profit **by 46/18%** after factoring in the stronger 1H performance, earnings improvement of India Plant 2 and higher contribution of recent acquisitions of renewable assets in China.

We expect profit to normalize in 2H22, though still stronger y-o-y taking into consideration the potential slowdown in economic activities but improved fundamentals of the power markets in Singapore and India.

**Potential Special Dividend in 2H; Declared interim dividend of 4 Scts**, double that of 1H21's 2 Scts, translating to a dividend yield of ~1.3%. We revised up our projection for **final dividend to 4 Scts** and assume a **special dividend of 2 Scts**, bringing full year DPS to **10 Scts or 3.3% yield**. This implies a **23% payout** ratio, at the higher end of the 19-24% range in the past 3-years.

Management shared during the briefing that SCI adopts a dividend principal that **rewards shareholders** with steady returns while balancing with **capital requirements for capex and growth**. A special dividend in 2H could be considered on the back of strong financial performance.

**Gross renewable capacity has grown to 7.1GW** as of end Jun-22, from 6.1GW end last year, look set to achieve its 10GW target ahead of 2025. This Includes 1.7GW generation capacity that is currently under development.

**Renewable profits surged 138% h-o-h** to S\$76m in 1H22 with **maiden contribution from recent acquisitions in China**. Acquisitions of SDIC (35% stake) and Shenzhen Huiyang New Energy (HYNE, 98% stake) were completed in Jan and Jun 2022. They contributed profit of S\$23m and S\$7m (excluding interest expense) respectively in 1H22. Renewable segment now accounts for 16% of group headline profit.

**Myanmar – low risk of provisions/ impairments.** Based on our assessment of the situation, management expects **low risk of operational disruption and provisions/impairment**. While the Central Bank has announced a halt on foreign loan payments, SCI continues to receive prompt payments for its power generation in Myanmar and believes it should not be impacted being an essential service. SCI's power plant in Myanmar has a book value of c.S\$100m and outstanding loan of ~S\$200m.

**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	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	3,290	4,505	4,755	44.5	5.5
Cost of Goods Sold	(2,554)	(3,946)	(4,078)	59.7	3.3
<b>Gross Profit</b>	<b>736</b>	<b>559</b>	<b>677</b>	<b>(8.0)</b>	<b>21.1</b>
Other Oper. (Exp)/Inc	(126)	(166)	(43)	(65.9)	(74.1)
<b>Operating Profit</b>	<b>610</b>	<b>393</b>	<b>634</b>	<b>3.9</b>	<b>61.3</b>
Other Non Opg (Exp)/Inc	(196)	0	3	nm	nm
Associates & JV Inc	104	102	133	27.9	30.4
Net Interest (Exp)/Inc	(201)	(196)	(178)	11.4	9.2
Exceptional Gain/(Loss)	(206)	13	0	nm	nm
<b>Pre-tax Profit</b>	<b>111</b>	<b>312</b>	<b>592</b>	<b>433.3</b>	<b>89.7</b>
Tax	(57)	(66)	(93)	63.2	40.9
Minority Interest	(8)	(13)	(9)	(12.5)	(30.8)
<b>Net Profit</b>	<b>46</b>	<b>233</b>	<b>490</b>	<b>965.2</b>	<b>110.3</b>
Net profit bef Except.	252	220	490	94.4	122.7
EBITDA	518	495	770	48.6	55.6
<b>Margins (%)</b>					
Gross Margins	22.4	12.4	14.2		
Opg Profit Margins	18.5	8.7	13.3		
Net Profit Margins	1.4	5.2	10.3		

Source of all data: Company, DBS Bank

## Segmental Breakdown

FY Dec (m)	1H20	2H20	1H21	2H21	1H22	YoY chg	HoH Chg
<b>Profit Breakdown</b>							
<b>Headline Net Profit</b>							
Renewables	33	13	24	32	76	217%	138%
Integrated Urban Solutions	66	74	69	92	62	-10%	-33%
Conventional Energy	(36)	149	(27)	201	397	nm	98%
Other Business & Corporate	(104)	(38)	(20)	(92)	(45)	125%	-51%
<b>Total</b>	<b>(41)</b>	<b>198</b>	<b>46</b>	<b>233</b>	<b>490</b>	<b>965%</b>	<b>110%</b>
<b>Net Profit before EI (\$m)</b>							
Renewables	33	13	24	32	76	217%	138%
Integrated Urban Solutions	64	49	63	92	62	-2%	-33%
Conventional Energy	127	118	185	188	397	115%	111%
Other Business & Corporate	(75)	(29)	(20)	(92)	(45)	125%	-51%
<b>Total</b>	<b>149</b>	<b>151</b>	<b>252</b>	<b>220</b>	<b>490</b>	<b>94%</b>	<b>123%</b>

Source: Company, DBS Bank

## Peer comparison

Company	Market cap (US\$m)	P/E ratio (x)		EV-to-EBITDA (x)		P/B (x)		Core ROE (%)		Net Debt-to- Equity (x)	Net Debt-to- EBITDA (x)	Dividend Yield		1-year performance
		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F			CY22F	CY23F	
Power Producer														
ORSTED A/S	47,474	23.5x	37.1x	13.3x	16.9x	4.2x	3.9x	20.7%	10.6%	0.3x	1.1x	1.5%	1.6%	-12%
NEXTERA ENERGY	172,861	30.7x	28.5x	20.6x	18.2x	4.1x	3.9x	13%	13%	1.2x	9.4x	1.7%	1.9%	11%
RWE AG	28,405	15.0x	21.9x	8.1x	9.5x	1.6x	1.6x	14%	8%	0.2x	0.7x	2.2%	2.2%	38%
BROOKFIELD RENEW	18,448	nm	282.5x	29.6x	27.5x	2.5x	2.7x	1.2%	2.4%	0.9x	7.3x	3.1%	3.3%	8%
CHINA LONGYUAN-H	19,805	11.5x	9.5x	10.3x	9.6x	1.3x	1.1x	11.5%	12.1%	1.2x	4.5x	1.5%	1.7%	-17%
CHINA DATANG C-H	1,798	7.3x	6.1x	8.8x	8.6x	0.8x	0.6x	9%	11%	1.8x	6.1x	2.6%	2.5%	-4%
CECEP WIND POW-A	3,721	16.7x	14.8x	nm	nm	1.9x	1.7x	15%	15%	1.9x	nm	1.4%	2.6%	17%
GUANGXI GUIGAN-A	6,936	19.8x	17.9x	nm	nm	nm	nm	13.1%	14.8%	1.0x	nm	1.6%	2.7%	22%
TATA POWER CO	9,342	25.0x	23.4x	14.6x	13.1x	3.0x	2.7x	12%	12%	1.7x	5.9x	0.8%	0.8%	73%
TORRENT POWER LT	3,274	17.6x	16.1x	8.9x	8.3x	2.4x	2.1x	14%	14%	0.9x	2.4x	2.2%	2.0%	16%
SEMBCORP INDUS	3,969	11.0x	10.2x	9.2x	8.9x	1.3x	1.1x	12.3%	12.0%	1.6x	5.2x	1.5%	2.2%	57%

## Average:

China & India	17.4x	15.4x	10.8x	9.9x	2.0x	1.7x	12%	13%	1.4x	4.7x	2%	2%	30%
Europe	22.1x	27.9x	13.4x	14.0x	3.1x	2.9x	15.5%	10.8%	0.6x	3.9x	2.0%	2.1%	8%

Source: Bloomberg Finance L.P., DBS Bank

## Historical PE and PB band [Pls always check if PE/ PB band is correctly represented]



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



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

## Sembcorp Industries

## Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (\$m)</b>					
Renewables	6,138	281	354	389	428
Conventional Energy	0.0	4,571	6,679	8,683	7,380
Integrated Urban	280	422	465	488	513
Others / Corporate	317	173	297	312	327
<b>Total</b>	<b>6,735</b>	<b>5,447</b>	<b>7,795</b>	<b>9,872</b>	<b>8,649</b>
<b>EBITDA (\$m)</b>					
Renewables	0.0	603	225	251	271
Conventional Energy	0.0	0.0	892	964	974
Integrated Urban	0.0	102	107	143	147
Others / Corporate	0.0	1.00	(40.0)	(70.0)	(73.5)
<b>Total</b>	<b>0.0</b>	<b>706</b>	<b>1,184</b>	<b>1,288</b>	<b>1,319</b>
<b>EBITDA Margins (%)</b>					
Renewables	0.0	214.6	63.6	64.5	63.3
Conventional Energy	N/A	0.0	13.4	11.1	13.2
Integrated Urban	0.0	24.2	23.0	29.3	28.7
Others / Corporate	0.0	0.6	(13.5)	(22.4)	(22.4)
<b>Total</b>	<b>0.0</b>	<b>13.0</b>	<b>15.2</b>	<b>13.0</b>	<b>15.2</b>

## Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	6,735	5,447	7,795	9,872	8,649
Cost of Goods Sold	(5,629)	(4,516)	(6,500)	(8,513)	(7,374)
<b>Gross Profit</b>	<b>1,106</b>	<b>931</b>	<b>1,295</b>	<b>1,359</b>	<b>1,275</b>
Other Opng (Exp)/Inc	(255)	(218)	(292)	(264)	(332)
<b>Operating Profit</b>	<b>851</b>	<b>713</b>	<b>1,003</b>	<b>1,095</b>	<b>942</b>
Other Non Opg (Exp)/Inc	20.0	(127)	(196)	5.00	5.00
Associates & JV Inc	186	233	206	265	270
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>971</b>	<b>836</b>
Tax	(115)	(32.0)	(123)	(175)	(209)
Minority Interest	(28.0)	(22.0)	(21.0)	(29.1)	(25.1)
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>767</b>	<b>602</b>
Net Profit before Except.	470	301	472	767	602
EBITDA	1,494	1,263	1,470	1,830	1,692
<b>Growth</b>					
Revenue Gth (%)	N/A	(19.1)	43.1	26.6	(12.4)
EBITDA Gth (%)	nm	(15.5)	16.4	24.5	(7.6)
Opg Profit Gth (%)	nm	(16.2)	40.7	9.2	(14.0)
Net Profit Gth (Pre-ex) (%)	nm	(36.0)	56.8	62.5	(21.5)
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	16.4	17.1	16.6	13.8	14.7
Opg Profit Margin (%)	12.6	13.1	12.9	11.1	10.9
Net Profit Margin (%)	4.5	2.9	3.6	7.8	7.0
ROAE (%)	8.9	3.1	7.9	18.9	13.1
ROA (%)	2.6	0.9	2.0	5.2	3.9
ROCE (%)	0.3	(1.0)	0.6	2.9	1.6
Div Payout Ratio (%)	29.3	45.5	32.1	23.3	23.8
Net Interest Cover (x)	1.9	1.5	2.5	2.8	2.5

Source: Company, DBS Bank

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

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	2,617	2,830	3,290	4,505	4,755
Cost of Goods Sold	(2,072)	(2,444)	(2,554)	(3,946)	(4,078)
<b>Gross Profit</b>	<b>545</b>	<b>386</b>	<b>736</b>	<b>559</b>	<b>677</b>
Other Oper. (Exp)/Inc	(140)	(78.0)	(126)	(166)	(43.0)
<b>Operating Profit</b>	<b>405</b>	<b>308</b>	<b>610</b>	<b>393</b>	<b>634</b>
Other Non Op (Exp)/Inc	(107)	(20.0)	(196)	0.0	3.00
Associates & JV Inc	118	115	104	102	133
Net Interest (Exp)/Inc	(237)	(227)	(201)	(196)	(178)
Exceptional Gain/(Loss)	(191)	47.0	(206)	13.0	0.0
<b>Pre-tax Profit</b>	<b>(12.0)</b>	<b>223</b>	<b>111</b>	<b>312</b>	<b>592</b>
Tax	(23.0)	(9.0)	(57.0)	(66.0)	(93.0)
Minority Interest	(7.0)	(15.0)	(8.0)	(13.0)	(9.0)
<b>Net Profit</b>	<b>(42.0)</b>	<b>199</b>	<b>46.0</b>	<b>233</b>	<b>490</b>
Net profit bef Except.	149	152	252	220	490
EBITDA	416	403	518	495	770

**Growth**

Revenue Gth (%)	38.9	8.1	16.3	36.9	5.5
EBITDA Gth (%)	(30.9)	(3.1)	28.5	(4.4)	55.6
Op (Profit) Gth (%)	(18.3)	(24.0)	98.1	(35.6)	61.3
Net Profit Gth (%)	(136.8)	(573.8)	(76.9)	406.5	110.3

**Margins**

Gross Margins (%)	20.8	13.6	22.4	12.4	14.2
Op (Profit) Margins (%)	15.5	10.9	18.5	8.7	13.3
Net Profit Margins (%)	(1.6)	7.0	1.4	5.2	10.3

**Balance Sheet (\$\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	12,203	7,204	7,094	7,055	7,008
Invt in Associates & JVs	1,696	1,588	1,600	1,765	1,935
Other LT Assets	3,258	1,766	1,768	1,741	1,714
Cash & ST Invt	1,767	1,032	1,344	2,286	2,911
Inventory	386	196	222	274	237
Debtors	2,048	1,571	1,986	1,752	1,535
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>15,254</b>	<b>15,721</b>
ST Debt	2,643	593	754	754	754
Creditor	2,844	1,159	1,708	1,877	1,626
Other Current Liab	525	375	443	316	350
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	4,355	4,813
Minority Interests	1,008	137	151	180	205
<b>Total Cap. &amp; Liab.</b>	<b>23,252</b>	<b>13,562</b>	<b>14,395</b>	<b>15,254</b>	<b>15,721</b>
Non-Cash Wkg. Capital	959	438	438	214	177
Net Cash/(Debt)	(9,033)	(6,696)	(6,047)	(5,305)	(4,880)
Debtors Turn (avg days)	55.5	121.3	83.3	69.1	69.4
Creditors Turn (avg days)	100.0	179.4	86.6	81.3	92.7
Inventory Turn (avg days)	13.6	26.1	12.6	11.2	13.5
Asset Turnover (x)	0.6	0.3	0.6	0.7	0.6
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	1.2	1.0
Net Debt/Equity ex MI (X)	1.3	2.0	1.6	1.2	1.0
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

## Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	448	211	423	971	836
Dep. & Amort.	437	444	457	466	474
Tax Paid	78.0	(25.0)	123	(181)	(175)
Assoc. & JV Inc/(loss)	(186)	(233)	(206)	(265)	(270)
Chg in Wkg.Cap.	(379)	(453)	(49.0)	231	2.62
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>1,221</b>	<b>868</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)	(179)	(143)
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>21.2</b>	<b>56.9</b>
Currency Adjustments	(17.0)	4.00	24.0	0.0	0.0
Chg in Cash	(156)	(735)	312	942	625
Opg CFPS (S cts)	75.9	52.8	70.9	55.4	48.4
Free CFPS (S cts)	4.42	10.5	53.3	45.9	26.2

Source: Company, DBS Bank

## Target Price &amp; 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:	10 Aug 21	2.01	2.40	BUY
2:	15 Feb 22	2.45	3.00	BUY
3:	19 Jul 22	3.05	3.70	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

Completed Date: 8 Aug 2022 07:00:50 (SGT)

Dissemination Date: 8 Aug 2022 08:09:23 (SGT)

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

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