

COMPANY RESULTS

Sembcorp Industries (SCI SP)

1H22: Strong Set Of Results – Outlook Remains Bullish

SCI's 1H22 results were significantly better than expected, easily beating both our and consensus' expectations. Both the renewables and conventional energy segments benefited from volume growth and margin expansion and this is expected to continue in the medium term, thus resulting in the rest of 2022 likely remain strong. An interim dividend of S\$0.04 was declared. We upgrade our earnings forecasts for 2022-24. Maintain BUY and raise target price to S\$4.10.

1H22 RESULTS

6M to 30 Jun (S\$m)	1H21	1H22	% yoy chg	Comments
Revenue	3,290	4,755	44.5%	Contribution from new assets in China and strong electricity prices in Singapore & India
Gross profit	530	677	27.7%	
Adjusted EBITDA	744	998	34.1%	
Pre-tax profit	111	592	NM	
NPAT	46	490	NM	Large exceptional item in 1H21
Gross profit margin	16.1%	14.2%	+1.9ppt	
Pre-tax margin	3.4%	12.5%	+9.1ppt	
Net margin	1.4%	10.3%	+8.9ppt	

Source: Sembcorp Industries, UOB Kay Hian

RESULTS

- Blow out numbers.** Sembcorp Industries (SCI) reported an extremely strong 1H22 with revenue increasing 45% yoy to S\$4.8b. Its pre-exceptional NPAT of S\$490m, double that of the year-ago period, was much better than expected, with the company's renewables and conventional energy segments seeing strong net profit growth on a yoy basis. SCI's 1H22 revenue and EBITDA formed 56% and 87% of our full-year estimates respectively. An interim dividend of \$0.04 (payout ratio of 15%) was declared vs \$0.05 for 2021.
- Continued positive guidance on its outlook.** In its outlook statement, the company continued to paint a rosy 2H22 with results for the full year "expected to be significantly higher" on a yoy basis. SCI expects its conventional energy segment to maintain its strong revenue performance while the renewables segment will exhibit sequential earnings growth due to a full half-year contribution from its new acquisitions in China, although the latter should be tempered somewhat by higher corporate and financing costs arising from the acquisitions. In addition, the company has two assets – Sembcorp Biomass Power Station in the UK and India's SEIL Project 2 – that will be offline for maintenance shutdowns in 2H22.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	5,447	7,795	10,613	9,259	9,468
EBITDA	1,022	1,127	1,452	1,285	1,313
Operating profit	443	670	985	808	826
Net profit (rep./act.)	(997)	279	732	544	564
Net profit (adj.)	(997)	279	732	544	564
EPS (S\$ cent)	(55.9)	15.4	40.0	29.7	30.8
PE (x)	n.m.	19.9	7.7	10.3	10.0
P/B (x)	1.6	1.5	1.3	1.2	1.1
EV/EBITDA (x)	11.1	10.0	7.8	8.8	8.6
Dividend yield (%)	1.3	1.6	4.0	3.0	3.1
Net margin (%)	(18.3)	3.6	6.9	5.9	6.0
Net debt/(cash) to equity (%)	200.5	160.5	131.1	107.4	95.8
Interest cover (x)	1.0	1.7	2.5	2.0	2.1
ROE (%)	n.a.	7.9	18.1	12.1	11.5
Consensus net profit	-	-	495	526	554
UOBKH/Consensus (x)	-	-	1.48	1.03	1.02

Source: Sembcorp Industries, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

BUY

(Maintained)

Share Price	S\$3.07
Target Price	S\$4.10
Upside	+33.6%
(Previous TP)	S\$3.59

COMPANY DESCRIPTION

The company is a Singapore-based industrial conglomerate, with businesses encompassing energy, utilities, water and waste treatment, and industrial parks.

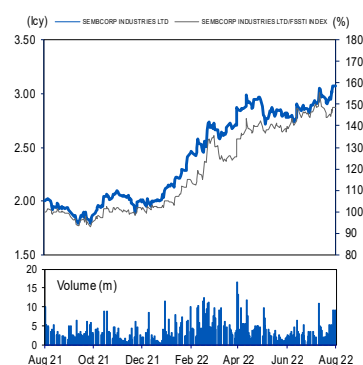
STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,785.6
Market cap (S\$m):	5,481.9
Market cap (US\$m):	3,983.9
3-mth avg daily t'over (US\$m):	6.5
Price Performance (%)	
52-week high/low	S\$3.07/S\$1.79

1mth	3mth	6mth	1yr	YTD
7.7	3.4	27.4	51.2	53.5

Major Shareholders	%
Temasek Hldgs	48.9
-	-
-	-
FY22 NAV/Share (S\$)	2.38
FY22 Net Debt/Share (S\$)	3.12

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **The major profit contributors in 1H22 were the conventional and renewables segments** (see chart on RHS) with a 115% and 217% yoy increase in net profit respectively. Conventional energy benefited from higher electricity prices in both Singapore and India, as well as a one-off gain from gas hedging. In our view, the highlight was the renewables segment which saw broad-based growth from all of its three key markets: a) solar operations in Singapore benefited from high spot electricity prices, b) its newly-acquired projects in China started contributing in 1H22, and c) higher wind-power generation in India.
- **Battery business – an important sub-segment of its renewables and energy storage portfolio to look out for.** During the analyst briefing, SCI's management identified its battery business as being a key growth driver for the company in the medium to long term. Currently, it has 120MW of energy storage in the UK which plays an important role in helping to stabilise the grid as renewables penetration increases. In the past six months, SCI has further announced plans to construct a 200MW facility at Jurong Island as well as a 360MW battery facility at Teesside, UK. Assuming that the latter comes online in 2024, this would represent an approximate 10-fold increase in the size of its energy storage business over a four-year period.
- **Debt levels still manageable in our view.** SCI's net debt/equity fell to 175% at end-1H22 from 192% at end-21. Importantly, the company has increased its weighted average debt maturity from 4.8 years to 5.1 years and lowered its weighted average cost of debt marginally from 4.8% to 4.7% in the past six months. The key issue in the near to medium term for the management is to refinance its corporate debt that is due in the next 1-2 years (see chart on RHS) which we believe is manageable. One important change in SCI's debt profile in the past year is the infusion of green and sustainability-linked borrowings which now constitute a material 32% of its total debt – we expect the company to increase its borrowings for this segment in the next 12-18 months.

EARNINGS REVISION/RISK

- **We upgrade earnings for 2022-24** with the largest upgrade of 47% for 2022 (see table on RHS). Note that the company booked "hedging gain and other income" of \$92m in 1H22, which was a one-off and thus unlikely to be repeated. We were also conservative in our 2023-24 forecasts to account for higher operating expenses and interest income post the inclusion of the new China renewables acquisitions.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$4.10** (+14% from S\$3.59 previously) based on an unchanged target PE multiple of 13.6x. This target PE multiple is 1SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2023 EPS estimate which we believe is a better reflection of the company's "normalized" earnings compared to 2022's earnings. We note that on both PE and P/B basis, SCI trades at a discount to its utilities peers in developed Asia. We continue to foresee an upward re-rating of the company's valuation multiples due to the scarcity value of solid ESG companies in Singapore, and as the company continues to build out its green energy portfolio. SCI remains one of our top picks in Singapore for the quality of its earnings as well as its growth prospects in the near to medium term.

SHARE PRICE CATALYST

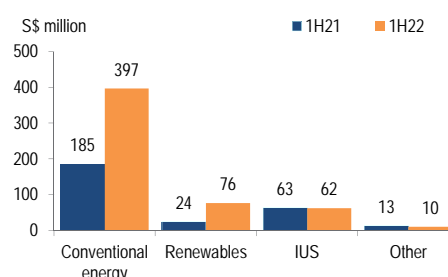
- Sustained economic recovery after the peak of COVID-19, thus leading to increased energy and utilities usage.
- Positive EPS revision momentum as consensus upgrades earnings in 2H22.

FIVE-YEAR P/B



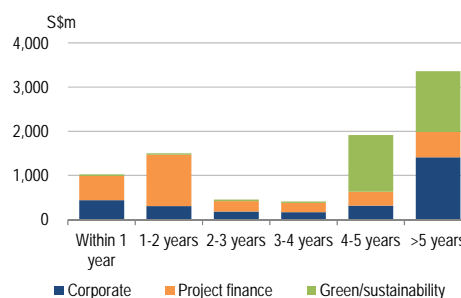
Source: Bloomberg, UOB Kay Hian

1H22 NET PROFIT CONTRIBUTION BY SEGMENT



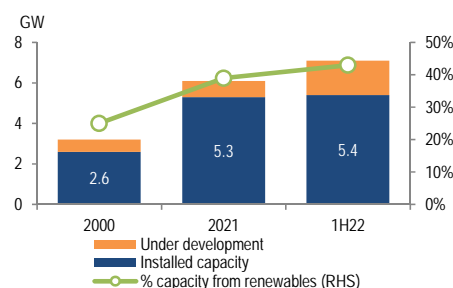
Source: SCI

DEBT MATURITY PROFILE



Source: SCI

SCI'S GROSS RENEWABLES CAPACITY



Source: xxx

CHANGES TO EARNINGS FORECASTS

S\$m	2022E	2023E	2024E
Net profit - was	499	515	537
Net profit - is	732	544	564
Change	46.6%	5.7%	5.2%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	7,795	10,613	9,259	9,468
EBITDA	1,127	1,452	1,285	1,313
Deprec. & amort.	457	467	477	487
EBIT	670	985	808	826
Total other non-operating income	(56)	65	3	4
Associate contributions	206	288	294	300
Net interest income/(expense)	(397)	(397)	(397)	(397)
Pre-tax profit	423	941	707	733
Tax	(123)	(188)	(141)	(147)
Minorities	(21)	(21)	(22)	(22)
Preferred dividends	0	0	0	0
Net profit	279	732	544	564
Net profit (adj.)	279	732	544	564

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,094	6,887	6,670	6,443
Other LT assets	3,368	4,011	4,135	4,462
Cash/ST investment	1,344	1,749	2,334	2,476
Other current assets	2,589	3,004	2,622	2,682
Total assets	14,395	15,651	15,761	16,063
ST debt	754	754	754	754
Other current liabilities	2,151	2,812	2,491	2,335
LT debt	6,637	6,637	6,637	6,637
Other LT liabilities	871	886	901	916
Shareholders' equity	3,767	4,303	4,708	5,127
Minority interest	151	172	194	216
Total liabilities & equity	14,395	15,651	15,761	16,063

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	1,219	849	1,353	917
Pre-tax profit	423	941	707	733
Tax	(36)	(77)	(195)	(124)
Deprec. & amort.	457	467	477	487
Associates	(206)	(288)	(294)	(300)
Working capital changes	(49)	(563)	289	(247)
Non-cash items	0	0	0	0
Other operating cashflows	630	369	369	369
Investing	(100)	148	(232)	(234)
Capex (growth)	(282)	(300)	(300)	(300)
Capex (maintenance)	0	(2)	0	(2)
Investments	48	381	0	0
Proceeds from sale of assets	17	40	40	40
Others	117	29	28	28
Financing	(855)	(593)	(537)	(542)
Dividend payments	(124)	(221)	(165)	(170)
Issue of shares	(13)	25	25	25
Proceeds from borrowings	0	0	0	0
Loan repayment	(349)	0	0	0
Others/interest paid	(369)	(397)	(397)	(397)
Net cash inflow (outflow)	264	404	585	141
Beginning cash & cash equivalent	1,009	1,297	1,701	2,286
Changes due to forex impact	24	0	0	0
Ending cash & cash equivalent	1,297	1,701	2,286	2,427

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.5	13.7	13.9	13.9
Pre-tax margin	5.4	8.9	7.6	7.7
Net margin	3.6	6.9	5.9	6.0
ROA	2.0	4.9	3.5	3.5
ROE	7.9	18.1	12.1	11.5
Growth				
Turnover	43.1	36.1	(12.8)	2.3
EBITDA	10.3	28.8	(11.5)	2.2
Pre-tax profit	100.5	122.6	(24.9)	3.6
Net profit	n.a.	162.3	(25.6)	3.7
Net profit (adj.)	n.a.	162.3	(25.6)	3.7
EPS	n.a.	159.0	(25.7)	3.6
Leverage				
Debt to total capital	65.4	62.3	60.1	58.0
Debt to equity	196.2	171.8	157.0	144.1
Net debt/(cash) to equity	160.5	131.1	107.4	95.8

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