

COMPANY UPDATE

**Sembcorp Industries (SCI SP)**

Setting A Solid Foundation For Growth From Now Till 2028

SCI had a busy two months following its Investor Day on 6 Nov 23, announcing over 1GW in renewables deals. These were well spread out across Singapore, China, India and Vietnam with most of the new projects focused on wind. As at end-23, the company had 13GW of gross installed and under-development capacity, which places SCI in a good position to attain its target of 25GW by 2028. Maintain BUY. Target price: S\$7.20.

WHAT'S NEW

- **Quickly out of the starting blocks.** Since its Investor Day on 6 Nov 23, Sembcorp Industries (SCI) has announced 753MW of acquisitions and/or tender wins in the renewables space (see table below). Thus, as at end-23, the company had 13GW of gross renewables capacity which we believe places it in a strong position to attain its target of 25GW by 2028. With the completion of its three acquisitions in China, India and Vietnam expected to happen by end-1H24, we expect positive EPS revision momentum for SCI over the next 3-6 months.

ANNOUNCED OVER 1GW IN RENEWABLES DEALS OVER NOV-DEC 23

Date	Country	Capacity (MW)	Long-term PPA	Type
10 Nov 23	Vietnam	245	Yes	S\$218m in equity consideration for between 73-100% of various Gelex subsidiaries (comprising 138MW wind, 58MW solar, 49MW hydroelectric)
27 Nov 23	China	200		S\$130m in equity consideration for 100% of Qinzhou Yuanneng Wind Power Co
27 Nov 23	India	228	Yes	S\$70m for 100% of two special purpose vehicles with wind assets
12 Dec 23	Singapore	80*	Yes	Won tender to solarize 60ha of interim vacant land and rooftops of five buildings on Jurong Island
14 Dec 23	India	300	Yes	Awarded 300MW solar project; start-up in 2026

Note: \*translates to 117 megawatts peak  
Source: SCI

- **We expect more solar exposure in the next 12-24 months.** As can be seen in the table above, wind constitutes approximately 54% of its newly-announced capacity additions. However, given SCI's previously stated desire to balance out its portfolio to add more solar relative to wind, we should expect more solar acquisitions over the next 12-24 months. As at end-1H23, SCI's wind:solar ratio within its renewables portfolio was 53:39 (the remaining 8% being energy storage).

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	7,795	7,825	7,350	7,609	7,840
EBITDA	1,127	1,185	1,636	1,549	1,495
Operating profit	670	728	1,169	1,072	1,008
Net profit (rep./act.)	279	704	988	989	1,035
Net profit (adj.)	279	704	988	989	1,035
EPS (S\$ cent)	15.4	38.6	53.1	53.1	55.5
PE (x)	34.6	13.8	10.1	10.1	9.6
P/B (x)	2.6	2.4	2.1	1.8	1.6
EV/EBITDA (x)	11.1	10.5	7.6	8.1	8.4
Dividend yield (%)	0.9	2.2	3.1	3.1	3.2
Net margin (%)	3.6	9.0	13.4	13.0	13.2
Net debt/(cash) to equity (%)	160.5	146.2	54.6	49.9	35.4
Interest cover (x)	1.7	2.7	4.3	3.9	3.7
ROE (%)	7.9	18.2	22.8	19.6	17.9
Consensus net profit	-	-	932	861	885
UOBKH/Consensus (x)	-	-	1.06	1.15	1.17

Source: Sembcorp Industries, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$5.34
Target Price	S\$7.20
Upside	+34.8%

COMPANY DESCRIPTION

The company is a Singapore-based industrial conglomerate, with businesses encompassing wind, solar and conventional energy, utilities, water and waste treatment, and industrial parks. It divested of its stake in Semb Marine in 3Q20.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,779.3
Market cap (S\$m):	9,501.2
Market cap (US\$m):	7,159.9
3-mth avg daily t'over (US\$m):	13.0

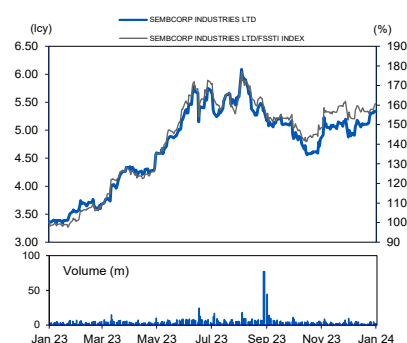
Price Performance (%)

52-week high/low	S\$6.09/S\$3.34			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
2.7	8.3	(6.6)	56.7	0.6

Major Shareholders

Temasek Hldgs	48.9
FY24 NAV/Share (S\$)	2.97
FY24 Net Debt/Share (S\$)	1.48

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Diversifying its geographic exposure.** In addition, we highlight SCI's plans to increase its exposure to India and Southeast Asia relative to China given that it is currently relatively heavily weighted towards China. At end-1H23, 51% of the company's renewables assets were in China vs 24% in India and 14% in Southeast Asia.
- A recap of its renewables capacity target.** At its Investor Day on 6 Nov 23, SCI upgraded its target gross installed renewables capacity from the previous 10GW by 2023 (which it easily achieved) to 25GW by 2028. This implies a 22% CAGR over 2023-28 which is higher than its peers' average CAGR of 17% over the same period.
- Furthering its decarbonisation strategy via ammonia.** In mid-Dec 23, SCI signed an MOU with Sojitz and Kyushu Electric Power to pursue exporting green ammonia to Japan from a potential production facility in India that will be owned and developed by SCI itself. While this is still at an MOU stage and may not eventuate into anything in the near to medium term, it at least shows the company's intent and focus in its decarbonisation strategy which is critical to its continued growth.
- Green shoots in Vietnam.** In late-Dec 23, SCI announced that it had been awarded the licence for a 190ha business park in Ha Tinh province in Vietnam's North Economic Zone. The Vietnam Singapore Industrial Park (VSIP) Ha Tinh (phase 1) is located near the Vung Ang Son Duong port, thus giving SCI's clients easy access to the planned cargo consolidation point and international logistics hub. In addition, SCI also disclosed that it has received in-principle approval to develop VSIP Quang Ngai II in Central Vietnam. We highlight that during its 1H23 analyst briefing in early-Aug 23, management stated that it expects growth in this segment to come through due to pent-up demand in the country, and it does not expect to reduce its targeted land sales of 500ha by 2025.
- Funding of its acquisitions is not an issue, in our view.** SCI has stated that funding for its Nov 23 acquisitions will be via a mix of internal cash resources and external funding. As at 30 Jun 23, around 71% of its gross debt of S\$7.5b was at fixed rates. We highlight that SCI has been able to keep its funding costs relatively low due to its ability to tap green loans and sustainability financing. In the medium term, the company sees opportunities to lower its average cost of debt (4.7% at end-1H23) through efforts in India and China. During its 1H23 results, it was notable that SCI's debt ratios had improved over the past 12 months: a) net debt/EBITDA fell from 4.4x at end-22 to 3.3x at end-1H23, while b) its adjusted EBITDA/interest rose from 5.0x to 5.6x over the same period.

EARNINGS REVISION/RISK

- None.

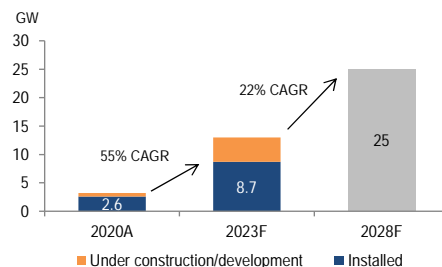
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$7.20** based on a target PE multiple of 13.6x. Our target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 when the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's "normalised" earnings compared to 2022's earnings. SCI, cognisant of its funding needs for growth, will likely keep its dividend payout ratio at 25%.

SHARE PRICE CATALYST

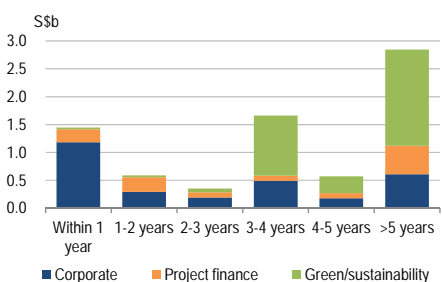
- a) Execution of its renewables energy targets via organic and inorganic means; b) capital recycling in its energy portfolio; c) rejuvenation of its urban solutions business.

PLANNED GROWTH IN RENEWABLES PORTFOLIO



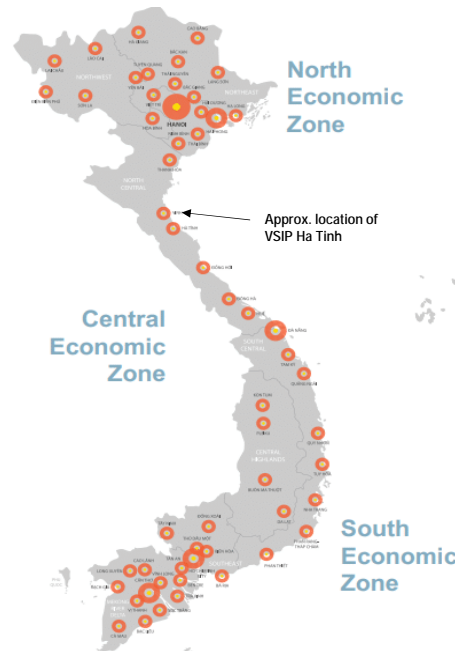
Source: SCI

DEBT MATURITY PROFILE



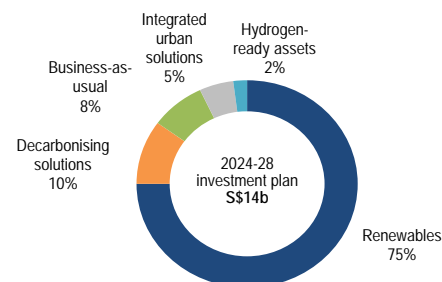
Source: SCI

LOCATION OF VSIP HA TINH, VIETNAM



Source: SCI

CAPEX PLAN FOR 2024-28



Source: SCI

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	7,825	7,350	7,609	7,840
EBITDA	1,185	1,636	1,549	1,495
Deprec. & amort.	457	467	477	487
EBIT	728	1,169	1,072	1,008
Total other non-operating income	162	35	47	81
Associate contributions	248	333	420	508
Net interest income/(expense)	(273)	(273)	(273)	(273)
<b>Pre-tax profit</b>	<b>865</b>	<b>1,264</b>	<b>1,266</b>	<b>1,324</b>
Tax	(138)	(253)	(253)	(265)
Minorities	(23)	(23)	(24)	(24)
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>704</b>	<b>988</b>	<b>989</b>	<b>1,035</b>
Net profit (adj.)	704	988	989	1,035

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>1,692</b>	<b>449</b>	<b>612</b>	<b>1,285</b>
Pre-tax profit	865	1,264	1,266	1,324
Tax	(64)	(56)	(238)	(231)
Deprec. & amort.	457	467	477	487
Associates	(248)	(333)	(420)	(508)
Working capital changes	24	(1,111)	(690)	(4)
Non-cash items	0	0	0	0
Other operating cashflows	658	217	217	217
<b>Investing</b>	<b>(1,385)</b>	<b>3,349</b>	<b>(206)</b>	<b>(204)</b>
Capex (growth)	(1,588)	(300)	(300)	(300)
Capex (maintenance)	(2)	0	(2)	0
Investments	55	3,553	0	0
Proceeds from sale of assets	40	40	40	40
Others	110	56	56	56
<b>Financing</b>	<b>(203)</b>	<b>(545)</b>	<b>(545)</b>	<b>(560)</b>
Dividend payments	(137)	(297)	(297)	(312)
Issue of shares	21	25	25	25
Proceeds from borrowings	310	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(397)	(273)	(273)	(273)
<b>Net cash inflow (outflow)</b>	<b>104</b>	<b>3,253</b>	<b>(139)</b>	<b>521</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,297</b>	<b>1,322</b>	<b>4,575</b>	<b>4,436</b>
Changes due to forex impact	(79)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,322</b>	<b>4,575</b>	<b>4,436</b>	<b>4,956</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	5,305	5,098	4,881	4,654
Other LT assets	4,207	4,488	4,937	5,470
Cash/ST investment	1,254	4,507	4,369	4,890
Other current assets	5,254	1,588	1,646	1,699
<b>Total assets</b>	<b>16,020</b>	<b>15,681</b>	<b>15,833</b>	<b>16,712</b>
ST debt	1,095	1,095	1,095	1,095
Other current liabilities	3,726	2,636	2,031	2,121
LT debt	5,974	5,974	5,974	5,974
Other LT liabilities	947	962	977	992
Shareholders' equity	3,977	4,693	5,410	6,158
Minority interest	239	262	286	310
<b>Total liabilities &amp; equity</b>	<b>16,020</b>	<b>15,681</b>	<b>15,833</b>	<b>16,712</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	15.1	22.3	20.4	19.1
Pre-tax margin	11.1	17.2	16.6	16.9
Net margin	9.0	13.4	13.0	13.2
ROA	4.6	6.2	6.3	6.4
ROE	18.2	22.8	19.6	17.9
<b>Growth</b>				
Turnover	0.4	(6.1)	3.5	3.0
EBITDA	5.1	38.1	(5.3)	(3.5)
Pre-tax profit	104.5	46.2	0.1	4.6
Net profit	152.3	40.4	0.1	4.7
Net profit (adj.)	152.3	40.4	0.1	4.7
EPS	150.2	37.3	0.0	4.6
<b>Leverage</b>				
Debt to total capital	62.6	58.8	55.4	52.2
Debt to equity	177.7	150.6	130.7	114.8
Net debt/(cash) to equity	146.2	54.6	49.9	35.4
Interest cover (x)	2.7	4.3	3.9	3.7

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