

Company Initiation

Sembcorp Industries Ltd

Company Results

Geo Energy Resources Ltd

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Geo Energy Resources Ltd

Temporary headwinds are limited

Chen Guangzhi

Phillip Securities Research Pte Ltd

29 May 2017

Geo Energy Resources Ltd

(Buy (maintained), TP:S\$0.45, Last:S\$0.27)

Results at a glance

(US\$ mn)	1Q17	1Q16	y-y (%)	Comments
Revenue	99.3	11.9	735.2	Substantial increase in coal sales volume (2.21mn tonnes in 1Q17 vs 0.48mn tonnes in 1Q16) and average selling price (US\$39.45/tonne in 1Q17 vs US\$30.55/tonne in 1Q16); new revenue from coal trading and mining management
Gross profit	25.3	0.2	N.M	In line with the above
EBIT	19.9	(3.0)	N.M	Increase in other expenses due to FX difference on S\$MTN against the US\$
PAT	14.6	(2.6)	N.M	Increase in income tax expenses
PATMI	14.6	(2.6)	N.M	In line with the above

Source: Company , Phillip Securities Research (Singapore)

N.M: Not Meaningful

Early redemption of MTN awaited to be approved (Par value: S\$100mn)

- Consent fee of 0.5%
- Existing MTN stopped further borrowing from other sources
- Expect refinancing to expand business

Risks of curtailment on imported coal to China loom

- Restraint on the imported lower grade coal (5% to 10% drop in FY17)
- Impact more on price side rather volume side
- Coal price is resilient

What's next

- Expanding Indonesia domestic demand
- 10mn tonnes sales target on track

Company Initiation

Sembcorp Industries Ltd

Enjoy your yield as positive catalyst unravels



Chen Guangzhi

Phillip Securities Research Pte Ltd

29 May 2017

SCI Snapshot

Previous Close (26th May 2017): \$3.15

Target Price : \$3.5 (“Accumulate”)

Forecasted Dividend (FY17) : 8 Cents

52-week range : \$2.44 – \$3.38

Market Capitalisation : \$5.63 billion

SCI vs FSTAS over last one year



source: Bloomberg

1. Turnaround awaits in India

- TPCIL has secured long-term power purchase agreements (PPA) for its 86% of total 1,320MW capacity.
- SGPL commenced commercial operation in Feb-17. Currently, one third of its total 1,320MW capacity is under short-term PPAs. Lacking long-term PPAs, it is currently facing start-up losses. SCI has been working hard to secure more PPAs, especially for long run.

2. Stable growth in China

- Well diversified portfolio: thermal power plants, water treatment plants, wind farms, land, and properties.
- Government highly directs the utilities sector, so the each project's yield is capped but profit margin is protected, over a cycle.

3. Strategic review that could remove conglomerate discount

- Not see the value of marine business being part of the group
- Incorporates a discount (PSR: 10%) to SCI sum-of—the-parts (SOTP) valuations

Company Background

Utilities segment

- Thermal, wind, solar, biomass, natural gas, water, and electricity.
- On-site logistics
- Solid waste solutions and management

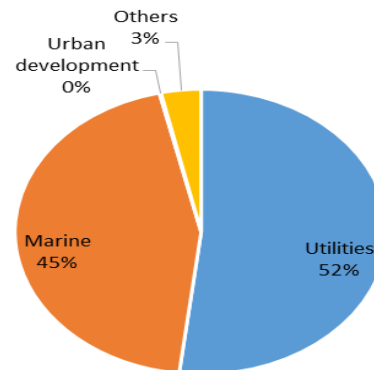
Marine segment (61% ownership in Sembcorp Marine)

- Rigs
- Floaters
- Platform building
- Repair

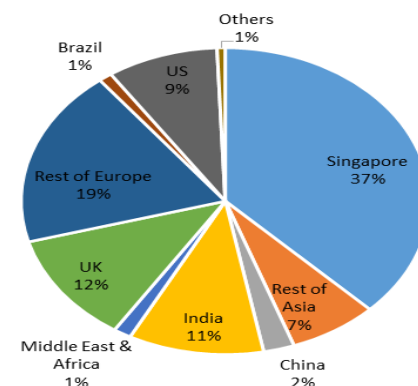
Urban development segment

- Land development
- Property development

Revenue segmental breakdown



Revenue geographic breakdown



Source: Company/PSR

Geographic segment update

- 1. India: Underdeveloped electricity conditions are improving**
- 2. Singapore: Fierce competition in electricity sector until 2019/20**
- 3. China: Strong demand for waste water treatment**
Electricity supply maintain a positive growth

Imbalance of power distribution in India

Actual power supply position for the year 2015-2016

State/Region	Energy			Peak		
	Requirement (MU)	Availability (MU)	Surplus(+)/ Deficit(-)	Demand (MW)	Met (MW)	Surplus(+)/ Deficit(-)
Northern	340,475	324,009	-4.8%	54,474	50,622	-7.1%
Western	346,767	345,967	-0.2%	48,640	48,199	-0.9%
Southern	288,025	283,494	-1.6%	40,030	39,875	-0.4%
Eastern	124,653	123,646	-0.8%	18,169	18,056	-0.6%
North-Eastern	14,488	13,735	-5.2%	2,573	2,367	-8.0%
All India	1,114,408	1,090,851	-2.1%	153,366	148,463	-3.2%

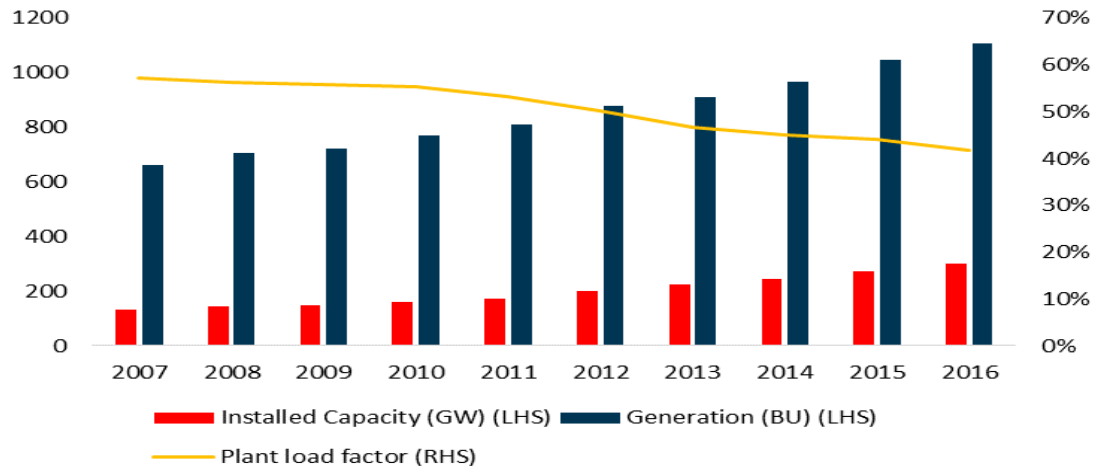
Anticipated all India power supply position for the year 2016-17

State/Region	Energy			Peak		
	Requirement (MU)	Availability (MU)	Surplus(+)/ Deficit(-)	Demand (MW)	Met (MW)	Surplus(+)/ Deficit(-) (%)
Northern	357,459	351,009	-1.8%	55,800	54,900	-1.6%
Western	379,087	405,370	6.9%	51,436	56,715	10.3%
Southern	310,564	320,944	3.3%	44,604	40,145	-10.0%
Eastern	151,336	135,713	-10.3%	21,387	22,440	4.9%
North-Eastern	16,197	14,858	-8.3%	2,801	2,695	-3.8%
All India	1,214,643	1,227,894	1.1%	165,253	169,503	2.6%

Source: CEA/PSR

Low utilisation of power plants

- Installed capacity CAGR: 9.6%
- Actual electricity generation CAGR: 5.9%
- Low plant load factor



Source: National Electricity Plan 2016/CEA/PSR

Reasons of lower PLF and power shortage

Insufficient or intermittent feedstock supply

- Lack of cheaper coal and gas supply
- Lack of water

Some power retailers refused to supply power to poor rural areas

- Thin usage from household and below-cost tariffs

Power theft issues

- Poor technical facilities and commercial regulations

Weak financial position of distribution companies

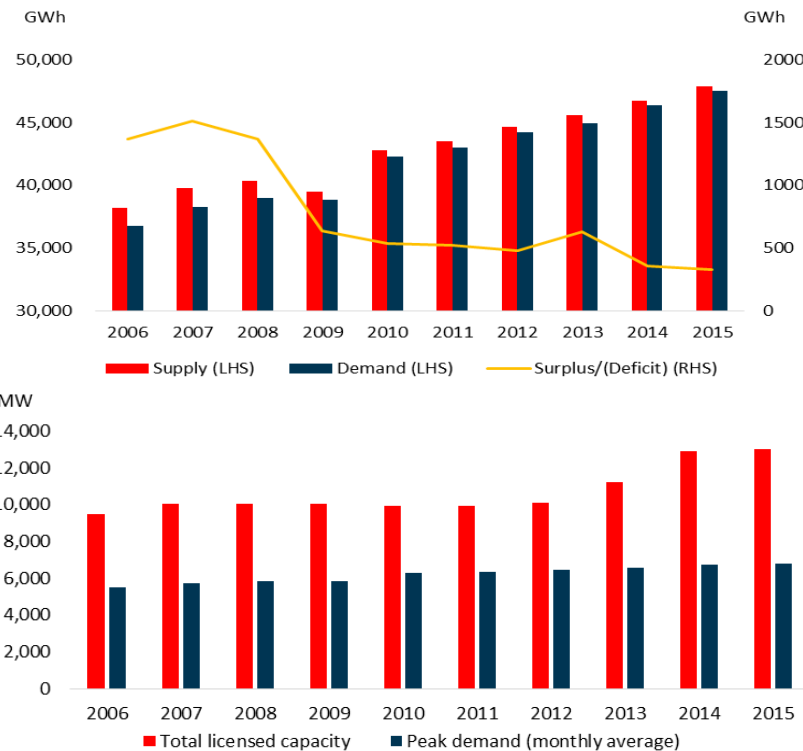
- Deferment of payment to power generation companies
- Default on off-take agreements or power purchase agreements

Fierce competition in electricity sector until 2019/20 in SG

- Supply glut consisted over a decade
- Total licensed generation capacity CAGR: 3.6%
- Peak demand CAGR: 2.9%
- In 4 years, the projected installed capacity will reach 13,700 MW, and 700 MW of it will be retired

Year	Annual System Demand (GWh)	Annual System Peak Demand (MW)	Total Electricity Supply (MW)
2017	51,500	7,205	13,700
2018	52,250	7,315	13,700
2019	53,100	7,435	13,000
2020	53,950	7,530	13,000

Source: EMA/PSR



Reasons and results for severe competition PhillipCapital

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Reasons:

- CCGT/Co-Gen/Tri-Gen plants took up 97% of total units as of 2016
- “Take-or-pay” structure leads power companies to take in the excess gas to generate electricity
- Decline in the vesting level has increased generation companies’ exposure to USEP

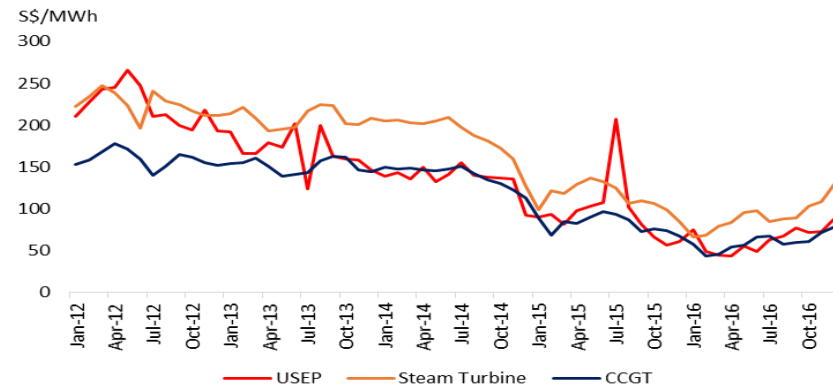
Results:

- Thin margin or even loss-making

Vesting contract levels	
Jan-13 to Jun-13	55%
Jul-13 to Dec-13	50%
Jan-14 to Dec-14	40%
Jan-15 to Jun-15	30%
Jul-15 to Dec-15	25%
Jan-16 to Dec-16	20%

Source: EMA/PSR

Downtrend USEP and short run marginal cost

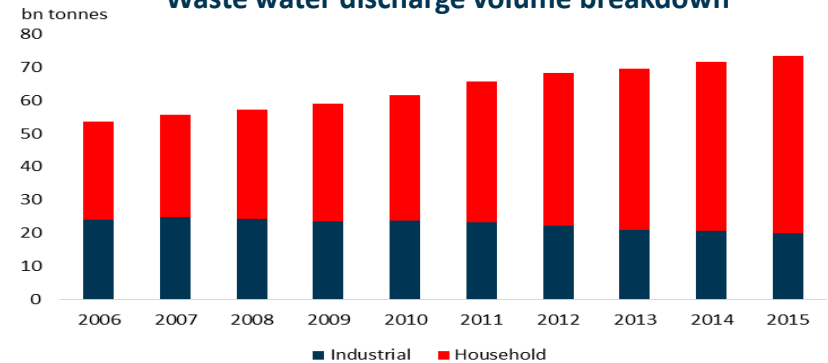


Source: EMC/SPD/PSR

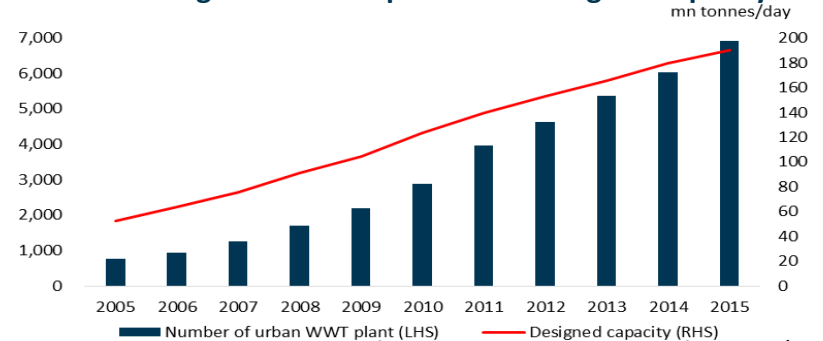
Strong demand for waste water treatment in China

- Total waste water discharge volume grew to 73.53bn tonnes (CAGR: 4%)
- WWT plants surged from 939 in 2006 to 6,910 in 2015
- Designed capacity tripled up from 64mn tonnes/day to 190mn tonnes/day (CAGR: 2.9%)

Waste water discharge volume breakdown



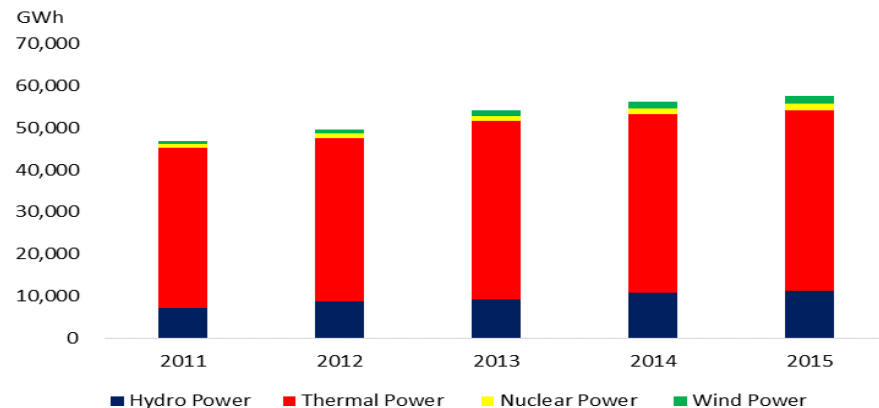
Growing urban WWT plants and designed capacity



Source: Ministry of Environmental Protection of the PRC/PSR

Electricity supply maintains a positive growth in China

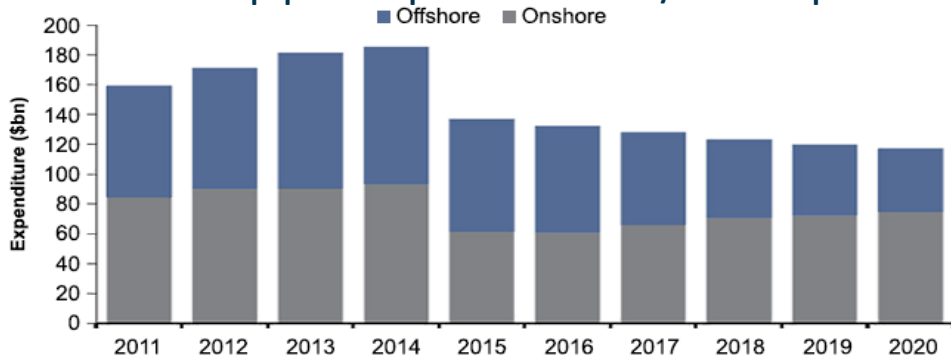
- Thermal power (mainly coal-fired) still dominated the overall output, taking up 73.8% as of Dec-15
- Wind energy CAGR: 27.6%
- Possible consolidation of SOE power generation companies in China



Source: NBS/PSR

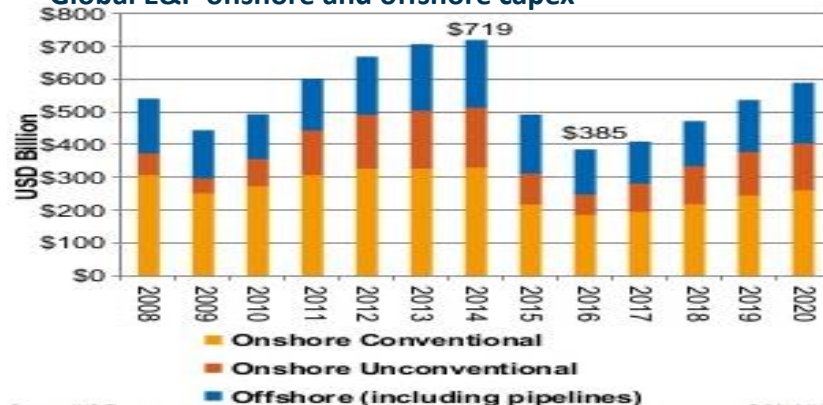
Less likely recovery from offshore sector in 2017

Global Oilfield Equipment Expenditure Onshore/Offshore Split 2011-2020



Source: Douglas-Westwood

Global E&P onshore and offshore capex



Source: IHS Energy

May see turnaround next year in India

- TPCIL: 86% of 1,320MW of capacity has been contracted under long-term power purchase agreement (PPA)
- SGPL: 1) Commence commercial operation in Feb-17
 - 2) 388MW short-term PPAs will be expired in May-17
 - 3) Refinancing to lower interest burden to 13% or below
 - 4) Working on securing other PPAs, especially long-term ones

Diversified portfolio offset power losses in Singapore

- Loss-making in power generation
- Other businesses such as steam, natural gas, waste water treatment, and on-site logistics buffered power losses
- Low oil price resulted in low cost, enhancing margin

Highly regulated operation provides margin safety in China

Strategic review: 3 options to enhance value

Monetise mature utility assets via spinning out into special purpose vehicle (SPV), yieldco or business trust.

De-merge marine business via dividend in specie to existing shareholders

Privatisation of marine business by the ultimate shareholder

- Valuation method: Sum-of-the-parts
- Valuation of S\$4,065mn for utilities segment based on the weighted average P/B ratio of 1.2x, which is the peers' average in power sector
- SCI utilities segment should even trade at higher premium due to its superior ROE of 7.0%

Net asset by segment

Y/E Dec (S\$m)	2014	2015	2016	2017e	2018e
Utilities	3,033	2,683	2,626	2,667	2,704
Marine	3,497	4,254	4,418	4,673	5,143
Urban development	743	813	766	674	722
Others	(40)	293	352	406	454

Valuation table

(S\$)	Multiples	BVPS	PPS	Holdings	Market Value
Utilities	PB of 1.2x	1.90	2.28		4,065
Others	PB of 1.0x	0.44	0.44		783
Marine	PE of 23.9x	1.08	1.58	61%	2,014
Gallant Venture	Market value			12%	79
Total					6,941
					3.9
TP					3.5

Industrial peers' valuation

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	P/E	P/B	Net D/E (%)	ROA (%)	ROE (%)
Sembcorp Industries Ltd	SCI SP	5,621.1	15,494.3	12.4	15.3	0.9	89.5	1.8	7.0
Electricity									
India									
Tata Power Co Ltd	TPWR IN	4,690.0	13,569.4	11.2	29.4	1.7	259.9	0.9	5.2
Reliance Power Ltd	RPWR IN	2,616.5	8,683.5	9.2	11.1	0.6	131.9	1.7	5.2
CESC Ltd	CESC IN	2,546.3	5,326.0	7.7	17.3	1.1	98.9	2.1	8.2
Adani Power Ltd	ADANI IN	2,384.7	12,397.3	7.5	N/A	1.3	717.7	0.8	7.5
JSW Energy Ltd	JSW IN	2,264.9	4,877.4	6.3	16.7	1.0	117.0	2.2	6.7
Torrent Power Ltd	TPW IN	2,000.9	3,305.0	6.2	21.8	1.2	96.8	4.4	12.3
Market Capitalisation Weighted Average		3,038.5	8,916.1	8.6	17.7	1.2	241.5	1.8	7.1
China									
Huaneng Power International Inc	902 HK	21,681.2	65,576.0	7.6	9.1	0.9	164.7	2.8	10.3
Datang International Power Generation Co Ltd	991 HK	11,786.7	42,184.1	7.5	7.2	0.8	247.6	-1.0	-6.5
Huadian Power International Corp Ltd	1071 HK	9,055.9	33,300.5	7.7	20.7	0.7	192.4	0.7	3.5
Huadian Fuxin Energy Corp Ltd	816 HK	2,638.2	16,465.2	8.7	6.7	0.7	278.7	2.0	11.7
GD Power Development Co Ltd	600795 CH	13,893.7	46,858.7	9.9	17.9	1.4	212.9	1.5	7.9
SDIC Power Holdings Co Ltd	600886 CH	10,525.6	41,322.9	10.6	14.5	1.8	221.3	1.8	12.6
Beijing Jingneng Power Co Ltd	600578 CH	5,775.9	8,903.7	11.1	15.3	1.2	79.2	2.7	6.6
Shanghai Electric Power Co Ltd	600021 CH	5,499.9	11,319.7	14.3	41.6	2.6	205.7	1.2	6.3
Shenzhen Energy Group Co Ltd	000027 CH	5,302.7	9,578.0	13.6	21.0	1.2	91.4	2.0	5.8
Market Capitalisation Weighted Average		12,691.8	40,789.8	9.4	15.3	1.2	189.5	1.5	6.4
Water									
Singapore									
China Everbright Water Ltd	CEWL SP	1,226.7	2,016.0	13.7	19.1	1.0	41.5	2.5	5.1
SIIC Environment Holdings Ltd	SIIC SP	1,407.6	3,822.1	19.9	12.5	1.0	102.2	2.7	8.2
China Jinjiang Environment Holding Co Ltd	CJE SP	1,076.9	1,739.8	6.0	8.0	1.2	59.3	6.8	15.5
Hyflux Ltd	HYF SP	431.9	2,500.3	20.9	N/A	0.6	81.5	0.1	-7.5
Market Capitalisation Weighted Average		1,166.3	2,608.3	14.6	12.0	1.0	70.9	3.4	7.5
China									
Beijing Enterprises Water Group Ltd	371 HK	9,479.6	16,106.6	15.2	16.5	3.2	94.3	4.5	19.7
CT Environmental Group Ltd	1363 HK	1,578.9	1,955.6	10.8	14.8	2.4	55.6	8.4	17.0
China Water Affairs Group Ltd	855 HK	1,375.4	3,026.3	8.4	10.7	1.4	63.5	3.6	14.7
Beijing Originwater Technology Co Ltd	300070 CH	11,715.9	11,202.5	26.5	28.8	3.7	3.7	8.0	13.7
Chongqing Water Group Co Ltd	601158 CH	7,348.4	6,932.8	24.0	27.7	2.6	Net Cash	6.6	9.5
Guangxi Nanning Waterworks Co Ltd	601368 CH	1,431.8	1,968.7	18.6	24.5	2.5	82.5	4.0	10.8
Tianjin Capital Environmental Protection Group Co Ltd	600874 CH	4,473.9	4,730.0	6.1	58.3	5.7	24.9	4.5	10.2
Jiangsu Jiangnan Water Co Ltd	601199 CH	1,311.2	1,169.2	12.0	21.5	2.5	Net Cash	7.4	13.3
Wuhan Sanzhen Industry Holding Co Ltd	600168 CH	1,252.1	1,660.4	16.9	21.6	1.4	34.7	3.4	6.5
Heilongjiang Interchina Water Treatment Co Ltd	600187 CH	1,675.8	1,702.7	82.6	338.2	2.4	38.4	0.5	0.7
Market Capitalisation Weighted Average		7,532.4	8,946.8	21.3	39.7	3.3	34.8	5.9	13.3
Integrated									
Singapore									
Keppel Corp Ltd	KEP SP	11,801.6	19,298.8	22.9	14.2	1.0	54.3	2.9	7.2
Market Capitalisation Weighted Average		11,801.6	19,298.8	22.9	14.2	1.0	54.3	2.9	7.2

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Investment risks

Risks	Remarks
Upside	
Business	If SCI can secure long-term PPA for SGPL, the turnaround is expected to substantially enhance the profitability. If SMM secures large-size contracts, the drag will be alleviated relatively.
FX risk	Strengthened foreign currencies such as US\$, INR and RMB will increase the reporting earnings in S\$.
Policy	Favourable policies such as cooling measures to lower feedstock prices can improve profit margin.
Downside	
Business	If SCI fails to secure long-term PPA for SGPL, the start-up issues will continue to deteriorate performance. Order books for SMM continue to drain.
FX risk	Weakened foreign currencies such as US\$, INR and RMB will decrease the reporting earnings in S\$.
Policy	Utilities investments, especially from foreign capital, are subject to different extents of regulation. Unfavourable policies hamper the operations.

[RECAP] SCI (Accumulate, TP: S\$3.5, Last: S\$3.15)

Previous Close (26th May 2017): \$3.15

Target Price : \$3.5 (“Accumulate”)

Forecasted Dividend (FY17) : 8 Cents

52-week range : \$2.44 – \$3.38

Market Capitalisation : \$5.63 billion



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