

# Sembcorp Industries

Exceptional margin from conventional energy

## SINGAPORE | ENERGY | 1H23 RESULTS

- 1H23 net profit beat our estimates, due to the surge in Singapore power prices (USEP), which peaked in May to S\$492/MWh, and widening margins from lower gas prices. USEP has retreated to about S\$200/MWh in July. Together with temporary price controls implemented by the Energy Market Authority (EMA) from 1 July, we think 2H23e conventional energy margin would normalize.
- SCI began to accrue interest income of S\$122mn from S\$2bn deferred payment note it received from the sale of Indian power plants in Jan 2023. This includes a S\$38mn fair value gain from a stronger Rupee. But it also booked a one-time non-cash accounting loss of S\$78mn on reversal of currency translation and capital reserves.
- We raise FY23e net profit estimates by 19.8% to factor in the stronger 1H23. We also lift TP to S\$6.00 (previously S\$5.06), based on an average 9x EV/EBITDA of FY24e estimates for the renewable energy players. Downgrade to ACCUMULATE due to recent price performance.

### Results at a glance

Y/E 31 Dec (S\$m)	1H22	1H23	Comments
Renewables	76	117	Acquisitions in China and India, new energy storage systems, higher electricity prices for solar business in Singapore, offset by lower wind resource in India
Integrated Urban Solutions	62	48	Expiry of solid waste management agreement for Central-South District in Singapore, lower land sales in Vietnam and China, higher land sales in Indonesia
Conventional Energy	296	435	Surge in power prices, lower price of gas feedstock
Other Businesses	10	15	
Corporate	(55)	(135)	Higher finance cost for funding of acquisitions
Deferred payment note (DPN) income	-	122	Interest income accrued from DPN and S\$38mn fair value gain from stronger Rupee
<b>Net profit before EI</b>	<b>389</b>	<b>602</b>	
Exceptional items		6	
Discontinued operations	101	(78)	Reversal of currency translation and capital reserves from the sale of Indian power plant
<b>Total Net Profit</b>	<b>490</b>	<b>530</b>	

Source: Company, PSR

### The Positives

- Surge in Singapore power price in 2Q and lower gas prices boost profit from conventional energy.** The Uniform Singapore Energy Price (USEP) rose to a peak of S\$492/MWh in May due to scheduled maintenance at some power plants. SCI had lower contracted capacity in 2Q and hence was able to enjoy higher pool gains. The USEP has since retreated to about S\$200/MWh in July, and margins are expected to normalise. Two-thirds of its capacity has been locked-in through long term contracts from 2H23. This helps to lock in volume and protect margins.
- EMA implements temporary price controls from 1 July.** The measures works to smoothen out any spike in USEP and still ensure a positive margin for the power



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7 August 2023

### ACCUMULATE (DOWNGRADE)

LAST CLOSE PRICE	SGD 5.600
FORECAST DIV	SGD 0.118
TARGET PRICE	SGD 6.000
TOTAL RETURN	9.3%

### COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN) :	1,786
MARKET CAP (USD mn / SGD mn) :	7480 / 10001
52 - WK HI/LO (SGD) :	5.82 / 2.74
3M Average Daily T/O (mn) :	5.78

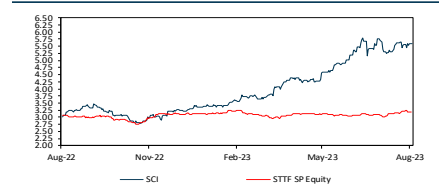
### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%
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### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(1.4)	21.7	91.9
STTF RETURN	3.4	2.4	5.7

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (S\$ 'mn)	FY21	FY22	FY23e	FY24e
Revenue	6,408	7,825	7,261	6,903
Gross Profit	1,227	1,666	1,540	1,525
EBIT	767	1,184	1,421	1,310
NPAT	279	848	912	837
P/NAV (x)	2.7	2.5	2.2	1.9
P/E (x)	35.8	11.8	10.9	11.9
ROE (%)	7.4	21.9	21.2	16.9

Source: Company, PSR

### VALUATION METHOD

EV/EBITDA Multiple @ 9x FY24e

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producers. We believe the impact on SCI would be marginal. Profit from conventional energy would be shaved by 13.8% (S\$60m) if it were implemented in 1H23. Net profit margin would be 2.1%pt lower at 13.1% (1H22: 9.5%).

- **Renewable energy segment books profits from new acquisitions** in China and India, and the new energy storage system in Singapore. The solar infrastructure in Singapore also benefitted from higher electricity prices, offset by lower wind resources in India. Renewables make up 61% of the group's total gross capacity. Current capacity of 11.9GW (including 3.3GW under development) well exceeds its target of 10GW by 2025.
- **SCI recognises accrued interest income of S\$122mn** from the S\$2bn deferred payment note it received from the buyer of the Indian power plants. This amount includes S\$38mn in fair value gain from a stronger Rupee. This is offset by a S\$78mm non-cash accounting loss from the reversal of currency translation and capital reserves. In our earnings estimates, we assume these notes would be repaid over 20 years. SCI has received S\$47mn in 1H23.

#### The Negatives

- **Weaker contributions from Integrated Urban Solutions** was due to 1) expiry of solid waste management agreement for the Central-South district in Singapore; 2) lower land sale in Vietnam. SCI expects more land sales in 2H23 when the development permits are received from Vietnamese authorities; mitigated by 3) higher land sales in Indonesia. The sale of the solid waste management business has been called off.
- **Net gearing has risen to 1.38x (net debt S\$6.6bn)** with acquisitions of renewable energy portfolios in China and India, and the ground-breaking of a new 600MW hydrogen-ready combined cycle plant in Singapore which will be operational in 2026. The average cost of debt edged up by 0.6% pt to 4.7% from end 2022.

#### Outlook

While conventional energy will provide a stable stream of earnings, renewable energy will be the key earnings driver for the next two years as more projects are completed and become operational. Any improvement in land sales in China and Vietnam in 2H will give an uplift to our earnings estimates.

#### Downgrade to ACCUMULATE and raised TP to S\$6.00 (prev. S\$5.06)

Our TP is based on EV/EBITDA of 9x FY24e estimates, in line with the peers in the renewable energy sector. We downgrade our call due to recent price performance.

## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>5,447</b>	<b>6,408</b>	<b>7,825</b>	<b>7,261</b>	<b>6,903</b>
Cost of sales	(4,660)	(5,589)	(6,598)	(5,595)	(5,363)
<b>Gross Profit</b>	<b>787</b>	<b>819</b>	<b>1,227</b>	<b>1,666</b>	<b>1,540</b>
General and Administrative expenses	(344)	(393)	(499)	(514)	(540)
Other operating income	126	114	169	19	50
Other items	(127)	(197)	(7)	-	-
<b>EBIT</b>	<b>442</b>	<b>343</b>	<b>890</b>	<b>1,171</b>	<b>1,050</b>
Net finance expenses	(464)	(275)	(273)	(173)	(242)
Share of results of associates and joint ve	233	206	248	250	260
<b>Profit before tax</b>	<b>211</b>	<b>274</b>	<b>865</b>	<b>1,248</b>	<b>1,068</b>
Taxation	(32)	(123)	(138)	(225)	(192)
<b>Net Profit</b>	<b>179</b>	<b>151</b>	<b>727</b>	<b>1,024</b>	<b>876</b>
Minority interests	(21)	(21)	(23)	(33)	(39)
Discontinued operations	(1,154)	149	144	(78)	
<b>Profit attributable to owners</b>	<b>(997)</b>	<b>279</b>	<b>848</b>	<b>912</b>	<b>837</b>

### Per share data (\$ cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	187.1	211.1	223.1	260.3	295.4
DPS	4.0	5.0	12.0	14.0	11.8
EPS	(55.9)	15.6	47.6	51.2	46.9

### Cash Flow

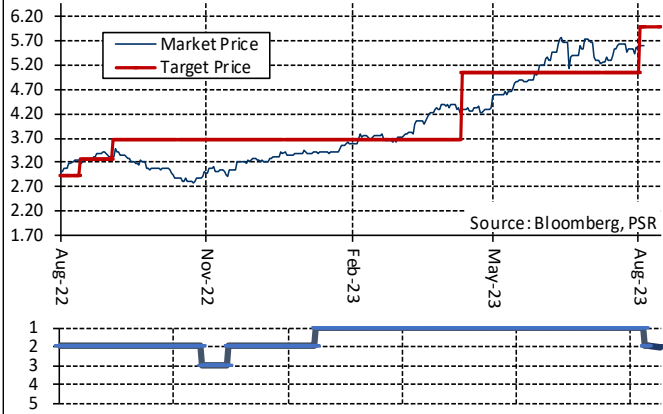
Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Net income</b>	<b>179</b>	<b>151</b>	<b>727</b>	<b>1,024</b>	<b>876</b>
Adjustments	1,248	878	556	325	445
WC changes	(379)	(453)	(49)	(107)	5
<b>Cash generated from ops</b>	<b>1,048</b>	<b>576</b>	<b>1,234</b>	<b>1,242</b>	<b>1,326</b>
Others	(99)	(103)	(36)	(292)	(367)
<b>Cashflow from ops</b>	<b>949</b>	<b>473</b>	<b>1,198</b>	<b>950</b>	<b>959</b>
<b>CFI</b>					
CAPEX, net	(925)	(318)	(282)	(510)	(510)
Others	474	(963)	182	-	-
<b>Cashflow from investments</b>	<b>(451)</b>	<b>(1,281)</b>	<b>(100)</b>	<b>(510)</b>	<b>(510)</b>
<b>CFF</b>					
Dividends paid to owners	(71)	(54)	(107)	(250)	(211)
Proceeds from borrowings, net	86	862	(364)	(100)	(100)
Others	(707)	(752)	(384)	97	97
<b>Cashflow from financing</b>	<b>(692)</b>	<b>56</b>	<b>(855)</b>	<b>(253)</b>	<b>(214)</b>
<b>Net change in cash</b>	<b>(194)</b>	<b>(752)</b>	<b>243</b>	<b>187</b>	<b>235</b>
Cash at the start of the period	1,879	1,668	920	1,276	1,331
Currency translation	(27)	(27)	(27)	(27)	(27)
Others	-	-	-	-	-
<b>Ending cash</b>	<b>1,668</b>	<b>920</b>	<b>1,276</b>	<b>1,331</b>	<b>1,504</b>

\*nm - not meaningful

### Balance Sheet

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE & Investment Properties	11,867	7,339	7,232	5,553	5,786
Others	5,290	3,219	3,230	6,204	6,273
<b>Total non-current assets</b>	<b>17,157</b>	<b>10,558</b>	<b>10,462</b>	<b>11,757</b>	<b>12,059</b>
Cash and cash equivalents	1,767	1,032	1,344	1,441	1,676
Inventories	386	196	222	113	107
Trade and other receivables	2,048	1,571	1,986	1,393	1,324
Others	1,894	205	381	121	121
<b>Total current assets</b>	<b>6,095</b>	<b>3,004</b>	<b>3,933</b>	<b>3,068</b>	<b>3,228</b>
<b>Total Assets</b>	<b>23,252</b>	<b>13,562</b>	<b>14,395</b>	<b>14,825</b>	<b>15,288</b>
<b>LIABILITIES</b>					
Trade and other payables	2,844	1,159	1,708	1,412	1,343
ST borrowings	2,643	627	765	996	896
Others	525	341	432	522	489
<b>Total current liabilities</b>	<b>6,012</b>	<b>2,127</b>	<b>2,905</b>	<b>2,930</b>	<b>2,728</b>
LT borrowings	8,627	7,350	6,881	5,974	5,974
Others	734	609	691	1,009	1,009
<b>Total non-current liabilities</b>	<b>9,361</b>	<b>7,959</b>	<b>7,572</b>	<b>6,983</b>	<b>6,983</b>
<b>Total liabilities</b>	<b>15,373</b>	<b>10,086</b>	<b>10,477</b>	<b>9,913</b>	<b>9,711</b>
<b>EQUITY</b>					
Share Capital	566	566	566	566	566
Retained profits	5,827	3,153	3,349	4,713	5,338
Others	1,482	(243)	3	(367)	(328)
<b>Total equity</b>	<b>7,875</b>	<b>3,476</b>	<b>3,918</b>	<b>4,912</b>	<b>5,577</b>
<b>Total equity and liabilities</b>	<b>23,248</b>	<b>13,562</b>	<b>14,395</b>	<b>14,825</b>	<b>15,288</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	-10.0	35.8	11.8	10.9	11.9
P/B (x)	3.0	2.7	2.5	2.2	1.9
EV/EBITDA (x)	14.5	18.1	12.1	9.6	10.0
Dividend yield (%)	0.7	0.9	2.1	2.5	2.1
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-53.4%	17.6%	22.1%	-7.2%	-4.9%
Gross profit	-14.5%	-16.6%	55.9%	35.8%	-7.6%
EBIT	-33.7%	-22.4%	159.5%	31.5%	-10.3%
PBT	-49.8%	29.9%	215.7%	44.3%	-14.4%
<b>Margins</b>					
Gross profit margin	14.4%	12.8%	15.7%	22.9%	22.3%
EBIT margin	8.1%	5.4%	11.4%	16.1%	15.2%
<b>Net profit margin</b>	<b>-18.3%</b>	<b>4.4%</b>	<b>10.8%</b>	<b>12.6%</b>	<b>12.1%</b>
<b>Key Ratios</b>					
ROE (%)	-21.2	7.4	21.9	21.2	16.9
ROA (%)	6.2	6.1	8.6	10.4	10.0
Net Gearing (%)	120.7%	199.8%	160.8%	112.6%	93.1%

**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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