

Sembcorp Industries Ltd

Earnings visibility further improves



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SINGAPORE | CONGLOMERATE | 1H24 RESULTS

12 August 2024

- 1H24 revenue was within expectations, but net profit exceeded. 1H24 revenue and PATMI were 47%/64% of our FY24e forecast. Associate and DPN income were higher than expected due to urban land sales and foreign exchange gains.
- 1H24 normalised PATMI declined 11.6% to S\$532mn. The absence of large spot gains (\$60mn) and plant maintenance (S\$50mn) was the main drag on earnings. Power curtailment in China negatively impacted renewables. However, more than 80% of the gas power earnings have been contracted or not on spot rates (1H23: ~50%).
- We raised our FY24e earnings by 10% to S\$912mn, from higher associate and DPN income. We upgraded our recommendation from ACCUMULATE to BUY due to the recent weakness in share price. Our target price is raised from S\$6.00 to S\$6.27. We value the underlying gas and renewables business to similar peers at 8x EV/EBITDA FY24e. The associate and DPN are valued at book value with a 30% discount. SCI will enjoy stable earnings and cash flow from gas operations, while renewables will benefit from the 52% growth in capacity under construction.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 4.750
FORECAST DIV	SGD 0.140
TARGET PRICE	SGD 6.270
TOTAL RETURN	34.9%

COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN):	1,784
MARKET CAP (USD mn / SGD mn):	6401 / 8472
52 - WK HI/LO (SGD):	6.03 / 4.35
3M Average Daily T/O (mn):	3.25

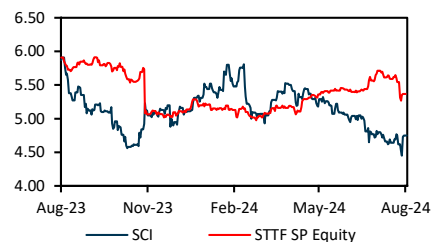
MAJOR SHAREHOLDERS

TEMASEK HOLDINGS	49.4%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.6	(8.5)	(18.1)
STTF RETURN	(3.7)	0.9	3.3

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$mn)	FY22	FY23	FY24e	FY25e
Revenue	7,825	7,042	6,885	7,140
Gross Profit	1,227	1,573	1,547	1,577
EBIT	1,184	1,449	1,337	1,400
NPAT	848	942	912	945
P/NAV (x)	2.1	1.8	1.6	1.4
P/E (x)	10.0	9.0	9.3	9.0
Dividend Yield (%)	2.5	2.7	2.9	3.2
ROE (%)	21.9	22.0	18.5	16.9

Source: Company, PSR

VALUATION METHOD

EV/Adj. EBITDA@8x FY24e + Assoc/DPN 30% disc.

Paul Chew (+65 6212 1851)

Head Of Research
paulchewkl@phillip.com.sg

Results at a glance

\$\$mn	1H24	1H23	YoY	Comments
Revenue	3,208	3,658	-12.3%	
- Gas	2,338	2,858	-18.2%	
- Renewables	371	374	-0.8%	
- Integrated Urban	209	206	1.5%	
- Decarbonisation	22	5	340.0%	
- Others	268	215	24.7%	
PATMI	532	602	-11.6%	
- Gas	339	435	-22.1%	Less pool gains and maintenance costs.
- Renewables	104	120	-13.3%	Curtailment of demand from China.
- Integrated Urban	70	48	45.8%	Industrial land sales in Vietnam and Indonesia.
- Decarbonisation	-10	-3	233.3%	
- Others	29	2	n.m.	
EBITDA	889	993	-10.5%	DPN is part of Gas earnings
EBITDA - excl. DPN	761	871	-12.6%	
PATMI	540	608	-11.2%	
- Exceptionals	8	6	33.3%	
Normalised PATMI	532	602	-11.6%	
DPS - Interim (cents)	6.0	5.0	20.0%	
Operational Data				
Singapore gas power gen. (GWh)	2521	2755	-8.5%	
Renewables capacity (GW)	6.6	5.6	18.7%	
Land sales (ha)	129	85	51.8%	

Source: Company, PSR

The Positive

+ Growth in renewable capacity. Attributable capacity in renewables has expanded 19.6% YoY to 6.64GWh. The bulk of the capacity growth was in India, where renewables capacity spiked 236% to 1.93GW. Despite the capacity growth, revenue declined due to grid curtailment (i.e. connected grids rejecting renewable supply due to lack of demand) in China. Curtailment in 1H24 rose around 2% points to 5.5% to 6.0%.

The Negative

- Weakness in gas power earnings. 1H24 PATMI from gas contracted 22% due to the absence of exceptional pool or spot contract gains last year (S\$60mn) and planned maintenance (S\$50mn). Both were well-flagged weak spots in prior results briefing. Separately, normalized margins did improve due to opportunities to tap into the wholesale market to meet existing

contracts at essentially lower effective gas costs and higher margins. The unutilised gas could then be sold for an extra margin uplift.

Outlook

- (i) **Gas:** 2H24 stronger than 1H24 due to the completion of planned major maintenance in Singapore plus long-term contracted power contracts with fixed dollar spark spreads. Growth will only occur with the completion of the new 600MW power plant in Jurong by 2026. Separately, no impairment triggers in Bangladesh and Myanmar because payments have been on schedule.
- (ii) **Renewables:** 2H24 is expected to record a seasonally weaker recovery but offset by new project completion of 2GW of capacity. Most will be in 4Q24 and fully impact on earnings in 2025. The target of almost doubling gross renewables capacity from 12.9GW in 2023 to 25GW in 2028 is unchanged.
- **India:** The environment to grow capacity is positive. Bidding activity has seen higher tariffs, and the authorities are introducing more renewable energy implementing entities (from one to four) to award renewable capacity. In addition, SCI has built up local expertise to secure transmission connectivity and land rights themselves. The competitive edge is especially in executing and completing wind power projects.
 - **China:** Despite the weak power demand and curtailment issues in the near term, there remain opportunities to expand renewables capacity in China. There is excess capacity of renewable equipment, government policy to reduce imported energy is intact, renewables investment is a source of economic growth and higher demand of foreign capital for investment. SCI partners with local state entities and will focus on provinces with better demand-supply renewable dynamics, especially net importers of energy.
- (iii) **Urban:** SCI unveiled its long-term urban strategy. The targeted land for development is to grow by around 30% from a cumulative 14,000 ha in 1H24 to 18,000 ha by 2028. The target growth for industrial properties (or ready-built factories and warehouses) is from 130,000 in March 2024 to 1.5mn by 2028. The three key markets are Vietnam, China, and Indonesia.

Upgrade to BUY from ACCUMULATE with a higher TP of S\$6.27 (prev. S\$6.00)

We raised our FY24e earnings by 10% to S\$912mn, from higher associate and DPN income. We upgrade our recommendation from ACCUMULATE to BUY due to recent share price weakness. Our target price is raised from S\$6.00 to S\$6.27. We value the underlying gas and renewables business similar to peers at 8x EV/EBITDA FY24e. The associate and DPN are valued at book value with a 30% discount.

DPN – The deferred payment note was the consideration received from selling Sembcorp Energy India Limited (SEI) in January 2023. It is to be repaid in 24 years. Income is fair value change or interest rate of 1.8% p.a. plus benchmark rate equal to 10-year Indian government bond minus GHG emission intensity reduction incentive. As at Jun24, DPN receivable is S\$1.756bn.

Financials

Income Statement

Y/E Dec (\$\$mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	6,408	7,825	7,042	6,885	7,140
Cost of sales	(5,589)	(6,598)	(5,469)	(5,338)	(5,563)
Gross Profit	819	1,227	1,573	1,547	1,577
General & Admin. expenses	(393)	(499)	(432)	(540)	(567)
Associates	206	248	264	280	340
EBITDA	885	1,308	1,789	1,917	2,014
EBIT	767	1,184	1,449	1,337	1,400
Net finance expenses	(275)	(273)	(219)	(199)	(227)
Profit before tax	492	911	1,230	1,139	1,172
Taxation	(123)	(138)	(182)	(194)	(199)
Minority interest	(21)	(23)	(28)	(33)	(28)
Net Profit	348	750	1,020	912	945
Discontinued operations	149	144	(78)	-	-
Profit attributable to owners	279	848	942	912	945

Per share data (\$\$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	211.1	223.1	257.4	294.5	332.6
DPS	5.0	12.0	13.0	14.0	15.0
EPS	15.6	47.6	52.8	51.2	53.0

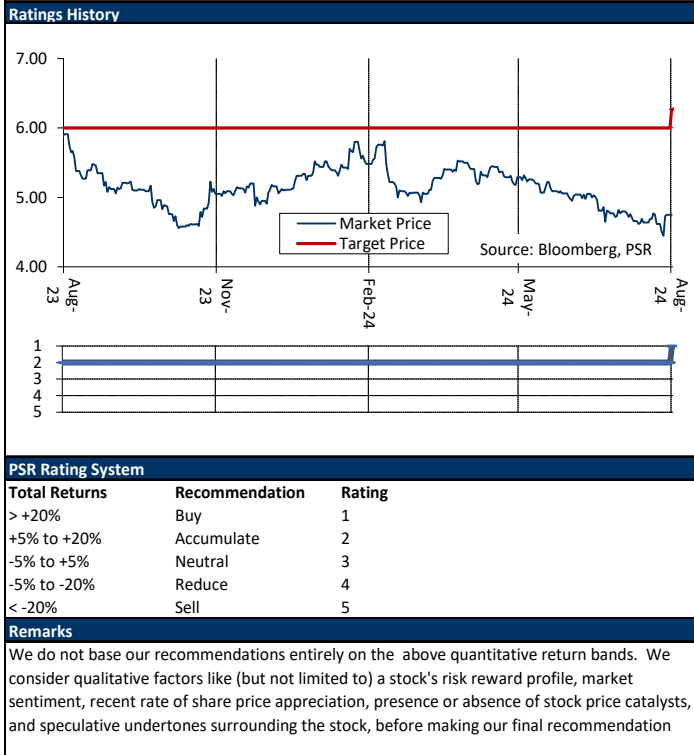
Cash Flow

Y/E Dec (\$\$mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	492	911	1,230	1,139	1,172
Adjustments	793	781	457	419	365
WC changes	(30)	24	(16)	12	0
Cash generated from ops	1,255	1,716	1,671	1,570	1,537
Others	(241)	(304)	(322)	(381)	(321)
Cashflow from ops	1,014	1,412	1,349	1,190	1,217
CFI					
CAPEX, net	(282)	(608)	(826)	(510)	(510)
Others	57	(923)	(276)	222	222
Cashflow from investments	(225)	(1,531)	(1,102)	(288)	(288)
CFF					
Dividends paid	(124)	(137)	(236)	(250)	(267)
Proceeds from borrowings, net	(388)	326	(476)	-	-
Others	(13)	(6)	(31)	-	-
Cashflow from financing	(525)	183	(743)	(250)	(267)
Net change in cash	264	64	(496)	652	661
CCE, end	1,344	1,254	767	1,419	2,080

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec (\$\$mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	7,094	5,305	6,465	6,515	6,542
Others	3,368	4,207	6,326	6,290	6,313
Total non-current assets	10,462	9,512	12,791	12,804	12,855
Cash and cash equivalents	1,344	1,254	767	1,419	2,080
Inventories	222	137	135	117	122
Trade and other receivables	1,986	1,564	1,674	1,637	1,697
Others	381	3,553	130	130	130
Total current assets	3,933	6,508	2,706	3,303	4,030
Total Assets	14,395	16,020	15,497	16,107	16,885
LIABILITIES					
Trade and other payables	1,708	1,715	1,630	1,587	1,653
ST borrowings	754	1,096	1,281	1,281	1,281
Others	443	2,010	565	523	528
Total current liabilities	2,905	4,821	3,476	3,391	3,462
LT borrowings	6,637	5,974	5,973	5,973	5,973
Others	935	1,009	1,176	1,176	1,176
Total non-current liabilities	7,572	6,983	7,149	7,149	7,149
Total liabilities	10,477	11,804	10,625	10,540	10,611
EQUITY					
Share Capital	566	566	566	566	566
Retained profits	3,349	4,050	4,726	5,389	6,066
Others	(148)	(639)	(704)	(704)	(704)
Total equity	3,767	3,977	4,588	5,251	5,928
Minority interests	151	239	284	317	345
Total equity and liabilities	14,395	16,020	15,497	16,107	16,885
Valuation Ratios					
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	30.4	10.0	9.0	9.3	9.0
P/B (x)	2.3	2.1	1.8	1.6	1.4
EV/EBITDA (x)	16.4	10.9	9.1	9.5	8.9
Dividend yield (%)	1.1%	2.5%	2.7%	2.9%	3.2%
Growth & Margins					
Growth					
Revenue	-17.8%	22.1%	-10.0%	-2.2%	3.7%
Gross profit	-25.7%	49.8%	28.2%	-1.6%	1.9%
EBIT	-24.5%	54.4%	22.4%	-7.7%	4.7%
PBT	-20.5%	85.2%	35.0%	-7.4%	3.0%
Margins					
Gross profit margin	12.8%	15.7%	22.3%	22.5%	22.1%
EBIT margin	12.0%	15.1%	20.6%	19.4%	19.6%
Net profit margin	4.4%	10.8%	13.4%	13.2%	13.2%
Key Ratios					
ROE	7.4%	21.9%	22.0%	18.5%	16.9%
ROA	1.9%	5.6%	6.0%	5.8%	5.7%
Net Gearing	154.3%	138.0%	133.1%	104.8%	82.5%



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

US Tech Analyst (Digital Entertainment/Semicons)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – helenawang@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
JI Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCC)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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