

Sembcorp Industries

Conventional and Renewable Energy lift 1H22 profits

SINGAPORE | ENERGY | UPDATE

- 1H22 profit ahead of our expectations, at 99% of FY22e as Conventional Energy and Renewable Energy beat. One-off hedging gain of \$92mn also lifted overall profits.
- Renewables profit continues to grow, +217% YoY lifted by performance in key markets and new acquisitions. Its gross renewables capacity stands at 7.1GW as at 1H22.
- Management continued to guide for a stronger 2H22, despite this, we expect energy markets to moderate slightly in 2H22 before reaching normalisation in FY23e.
- We maintain NEUTRAL with higher target price of \$3.27 (prev. \$2.96).** We raise FY22e and FY23e PATMI by 86% and 61% as we bake in higher profits from Conventional Energy and Renewable Energy. Our target price is raised to \$3.27, still based on 1.2x FY22e P/BV, the average of its peers.

Results at a glance

SGD 'mn	1H22	1H21	YoY	Comments
Revenue	4,755	3,290	45%	Driven by Conventional Energy and Renewables segment.
- Conventional Energy	4,155	2,756	51%	Driven by higher electricity price in Singapore and India and realised gains from favourable gas hedges.
- Renewables	222	146	52%	Higher wind resource in India and contributions from newly acquired projects in China.
Adjusted EBITDA	998	744	34%	Same as revenue.
Net Profit from continuing operations	490	(42)	nm	Reverse back into the black after S\$212mn impairment of Chongqing Songzao in the same period last year.
Free cash flow	593	562	6%	
Net gearing (x)	1.66	1.54	8%	Inched up from acquisition of Chinese renewables and consolidation of Shenzhen Huiyang New Energy.
Dividend per share (SG cents)	4.0	2.0	100%	Payout ratio of 14% vs. 18% last year

Source: Company, PSR

The Positives

+ 1H22 profit ahead of our expectations, at 99% of FY22e as Conventional Energy and Renewable Energy beat. The surge in power prices and margins in Singapore and India drove Conventional Energy beat for the period (+115% YoY). Average USEP prices for 1H22 surged to S\$324/MWh, higher than the S\$295/MWh average in 2H21 and spark spreads have increased to \$6.30/MWh YTD (Figure 1) as average USEP prices have moved ahead of HSFO in the last nine months. A one-off hedging gain of \$92mn from gas hedges during the period also lifted profits, but we do not expect this to recur in 2H22. Contributions from newly acquired projects in 1H22, SDIC New Energy and Shenzhen Huiyang in China lifted Renewables profit.

+ Battery segment as key growth driver in medium- to long-term. The management re-affirmed its battery business as a key growth driver for the company, in line with its strategic plan announced at its Analyst Day in 2021. It currently has 120MW of energy storage in the UK which holds an important role in helping to stabilise the grid as the UK continues its pivot towards renewables.

17 August 2022

NEUTRAL (MAINTAINED)

LAST CLOSE PRICE	SGD 3.220
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 3.270
TOTAL RETURN	6.5%

COMPANY DATA

BLOOMBERG CODE:	SGD 3.220	SCI SP
O/S SHARES (MN) :	1,786	
MARKET CAP (USD mn / SGD mn) :	4167 / 5750	
52 - WK HI/LO (SGD) :	3.26 / 1.78	
3M Average Daily T/O (mn) :	3.19	

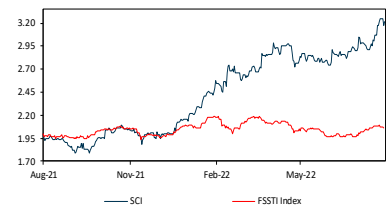
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	11.0	16.2	62.7
STI RETURN	6.4	3.4	7.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$, 'mn)	FY20	FY21e	FY22e	FY23e
Revenue	5,447	7,795	9,909	10,888
Gross Profit	787	1,102	1,383	1,507
EBIT	442	614	988	919
NPAT	179	300	911	870
P/NAV (x)	1.7	1.5	1.2	1.0
P/E (x)	36.7	20.6	6.4	6.8
ROE (%)	3.2%	8.1%	20.8%	16.6%

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 1.2x FY22e

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SCI is currently in the process of building a 360MW battery facility at Teesside, UK. When completed, it will boost the Group's capacity to take advantage of more volatile, uncertain markets with the rise of intermittent renewables.

+ Renewables profit at 74% of FY22e, lifted by better performance in key markets. Better wind resources in India and higher spot prices for its solar business in Singapore lifted profits (+217% YoY). SCI's gross renewables capacity in operation and under development globally now stands at 7.1GW in 1H22 from 6.1GW as at end-2021. Its acquisition of a 98% stake in HYNE assets will contribute ~\$50mn per year to its profits.

The Negatives

- Lower land sales dragged Integrated Urban Solutions business, offset by higher ASPs. Higher contribution from Wilton 11 in the UK was offset by higher operating costs for the waste business in Singapore. Despite lower land sales, the Group remain confident of hitting its target of 500ha of land sales by FY25 as it plans the development of the 481-hectare Quang Tri Industrial Park in Vietnam and the 1,000ha of VSIP Binh Duong III.

Outlook

Management continued to guide for the Conventional Energy segment to perform well in the second half of this year as global energy markets remain firm. Despite this, we expect energy markets to moderate slightly in 2H22. USEP prices in July were ~9% lower than 1H22's average. We expect some normalisation in FY23e.

Planned maintenance shutdowns for Sembcorp Biomass Power Station in the UK (~6 weeks) and India SEIL Project 2 (~45 days) in 2H22 will also put a drag on Conventional Energy earnings in 2H22.

We also modelled in a full half-year contribution from the newly acquired SDIC New Energy and Shenzhen Huiyang in China for its Renewables segment.

For dividends, we model a ~30% payout ratio, in line with FY21's payout. We expect SCI to pay out 16 cents of dividends for FY22e, translating to a ~4.9% dividend yield.

ESG

SCI's environmental score of 1.28 lags behind its peers according to data from Bloomberg. We believe the Group's transition from brown to green has the potential to lift its environmental score rating over time. The Group has committed to grow its profit contribution from its sustainable solutions to 70% by 2025 (35% in 2021) which could see greater interest from institutional investors looking for high ESG ranked companies.

Maintain NEUTRAL with higher target price of \$3.27 (prev. \$2.96)

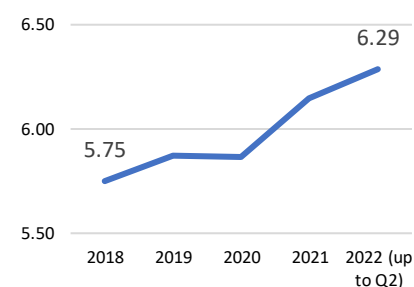
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Why are electricity prices rising in Singapore?

Natural gas accounts for 95% of the production of electricity in Singapore. As Singapore relies on imported natural gas for its power generation needs, constraints in supply will impact Singapore's electricity prices. While generation companies (gencos) have the option to switch from piped natural gas to alternatives such as liquefied natural gas (LNG), the gencos still have to grapple with the global shortage of LNG supplies and the high spot prices.

The recent spot price volatility in the Singapore Wholesale Electricity Market (SWEM) has been attributed to higher than usual electricity demand following the re-opening of borders and businesses, the outage of multiple generation units and the conflict in Ukraine. Planned and unplanned supply disruptions to Singapore's long-term natural gas supplies from West Natuna and South Sumatra also contributed to that volatility.

Figure 1: Spark spreads hit a high after USEP surged ahead of HSFO



Source: SingPower, PSR

Financials
Income Statement

Y/E Dec, (\$'mn)	FY19 #	FY20	FY21	FY22e	FY23e
Revenue	6,735	5,447	7,795	9,909	10,888
Cost of sales	(5,753)	(4,660)	(6,693)	(8,525)	(9,381)
Gross Profit	982	787	1,102	1,383	1,507
General and Administrative expe	(356)	(344)	(432)	(535)	(588)
Other operating income	189	126	140	137	-
Other items	(109)	(127)	(196)	3	-
EBIT	706	442	614	988	919
Net finance expenses	(444)	(464)	(397)	(398)	(385)
Share of results of associates an	186	233	206	513	524
Profit before tax	448	211	423	1,104	1,058
Taxation	(115)	(32)	(123)	(192)	(188)
Net Profit	333	179	300	911	870
Net Profit (excl. SCM from FY20e)	333	179	300	911	870
Profit attributable to owners	305	157	279	893	852

Per share data (\$\$ cents)

Y/E Dec	FY19 #	FY20	FY21	FY22e	FY23e
BVPS	4.4	1.9	2.2	2.7	3.1
DPS	5.0	4.0	5.0	16.0	15.0
EPS	17.1	8.8	15.6	50.0	47.7

Cash Flow

Y/E Dec, (\$'mn)	FY19 #	FY20	FY21	FY22e	FY23e
CFO					
Net income	333	179	300	911	870
Adjustments	1,122	872	1,004	1,648	1,696
WC changes	(379)	(453)	(49)	(521)	(2)
Cash generated from ops	1,076	598	1,255	2,039	2,565
Others	(99)	(103)	(36)	(192)	(188)
Cashflow from ops	977	495	1,219	1,846	2,377
CFI					
CAPEX, net	(925)	(318)	(282)	(510)	(1,108)
Others	474	(963)	182	(577)	127
Cashflow from investments	(451)	(1,281)	(100)	(1,087)	(981)
CFF					
Dividends paid to owners	(71)	(54)	(107)	18	(143)
Proceeds from borrowings, net	86	862	(364)	(200)	(200)
Interest paid	(544)	(515)	(330)	(421)	(417)
Others	(163)	(237)	(54)	-	-
Cashflow from financing	(692)	56	(855)	(603)	(760)
Net change in cash	(166)	(730)	264	156	636
Cash at the start of the period	1,922	1,739	1,013	1,297	1,453
Currency translation	(27)	(27)	(27)	(27)	(26)
Others	-	-	-	-	-
Ending cash	1,739	1,013	1,297	1,453	2,089

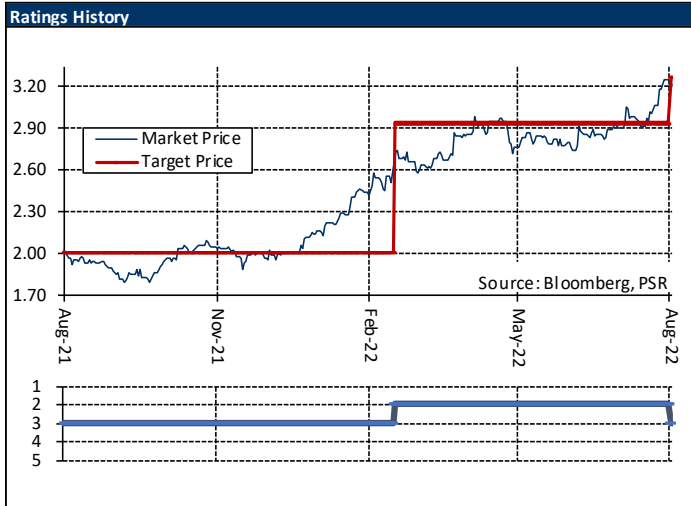
*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

On September 11, 2020, the Company distributed its holdings of ordinary shares in the capital of a subsidiary, Sembcorp Marine (SCM) to its shareholders. Consequent to the distribution, the performance of the marine segment in the current financial year, for the period from Jan 1, 2020 to Sept 11, 2020 is reported as a discontinued operation with comparative information re-presented accordingly.

Balance Sheet

Y/E Dec, (\$'mn)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE & Investment Properties	11,867	7,339	7,232	8,142	8,750
Others	5,290	3,219	3,230	4,608	5,315
Total non-current assets	17,157	10,558	10,462	12,750	14,065
Cash and cash equivalents	1,767	1,032	1,344	1,429	1,982
Inventories	386	196	222	341	375
Trade and other receivables	2,048	1,571	1,986	2,123	2,332
Others	1,894	205	381	381	381
Total current assets	6,095	3,004	3,933	4,274	5,071
Total Assets	23,252	13,562	14,395	17,024	19,136
LIABILITIES					
Trade and other payables	2,844	1,159	1,708	2,171	2,386
ST borrowings	2,643	627	765	768	768
Others	525	341	432	1,465	2,713
Total current liabilities	6,012	2,127	2,905	4,404	5,866
LT borrowings	8,627	7,350	6,881	6,681	6,481
Others	734	609	691	1,074	1,178
Total non-current liabilities	9,361	7,959	7,572	7,755	7,659
Total liabilities	15,373	10,086	10,477	12,159	13,525
EQUITY					
Share Capital	566	566	566	566	566
Retained profits	5,827	3,153	3,349	4,278	5,006
Others	1,482	(243)	3	21	39
Total equity	7,875	3,476	3,918	4,865	5,611
Total equity and liabilities	23,248	13,562	14,395	17,024	19,136
Valuation Ratios					
Y/E Dec	FY19 #	FY20	FY21	FY22e	FY23e
P/E (x)	18.9	36.7	20.6	6.4	6.8
P/B (x)	0.7	1.7	1.5	1.2	1.0
EV/EBITDA (x)	21.6	10.2	9.4	7.0	6.0
Dividend yield (%)	1.6%	1.2%	1.6%	5.0%	4.7%
Growth & Margins (%)					
Growth					
Revenue	-42.4%	-19.1%	43.1%	27.1%	9.9%
Gross profit	6.7%	-19.9%	40.0%	25.5%	8.9%
EBIT	5.8%	-37.4%	38.9%	60.9%	-7.0%
PBT	6.7%	-52.9%	100.5%	161.0%	-4.1%
Margins					
Gross profit margin	14.6%	14.4%	14.1%	14.0%	13.8%
EBIT margin	10.5%	8.1%	7.9%	10.0%	8.4%
Net profit margin	4.9%	3.3%	3.8%	9.2%	8.0%
Key Ratios					
ROE	4.2%	3.2%	8.1%	20.8%	16.6%
ROA	1.4%	1.0%	2.1%	5.8%	4.8%
Net Gearing (%)	120.7%	199.8%	160.8%	123.7%	93.9%



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
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