

Sembcorp Industries

Energy bill cap expected to have subdued impact

SINGAPORE | ENERGY | UPDATE

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- The UK's new leader, Liz Truss, has capped consumer energy bills at £2,500 (\$\$4,081) for two years to cushion rising energy prices. The price cap imposed, limits the amount energy suppliers can charge for its tariffs.
- Impact on SCI expected to be subdued as the price cap will be funded by the UK government. The UK is also not a significant contributor to its overall portfolio of energy assets.
- Review of the UK's net zero strategy is underway, which could slow move to renewables. Liz Truss has announced dozens of new North Sea licenses in an effort to boost domestic oil and gas production.
- **We maintain ACCUMULATE with unchanged target price of \$3.68.** Our earnings and call is unchanged while our target price is maintained at \$3.68, still based on 1.2x P/BV, the average of its peers.

The news

The UK's new leader, Liz Truss, has capped consumer energy bills at £2,500 (\$\$4,081) for two years to cushion rising energy prices. For businesses and public sector bodies, a sixth-month scheme will offer equivalent support to that for households, with a review in three months about how it could be better targeted.

SCI has 1.3GW of energy assets in the UK, consisting of energy generation and battery storage. The UK is not a significant contributor to its overall portfolio of energy assets, which are concentrated in South-east Asia, China and India.

The Positives

+ Impact on SCI expected to be subdued as cap will be funded by UK government. SCI's contract with the national grid of the UK means that it generates electricity through a portfolio of diesel and gas generators. The price cap imposed, limits the amount that it can charge for its tariffs. The difference between the power in the wholesale markets, and the capped consumer price, however, is expected to be borne by the UK government.

+ Energy bill cap will not be financed by energy suppliers. Despite calls by the opposition Labour Party to partly fund the scheme by a windfall tax on energy suppliers, PM Liz Truss has ruled this out, favouring the entire bailout to be funded through more government borrowings instead.

The Negatives

- Review of the UK's net zero strategy underway; could slow move to renewables. Liz Truss has announced a review of the government's net zero strategy, which she argued is necessary under the current landscape. The review could potentially impact demand for energy storage, though this is still uncertain at this stage. Liz Truss has announced schemes she said would increase energy resilience, including launching about 100 new oil and gas licenses along with dozens of new North Sea licenses in an effort to boost domestic oil and gas production.

In the last 10 years, the UK has made significant progress to decarbonise its power sector (Figure 1). It has grown its renewable share of electricity generation from 7% to 43%. This has led to increased demand for energy storage, in which SCI is operating one of the largest energy storage portfolios in the UK at 120MWh.

ACCUMULATE (MAINTAINED)

LAST CLOSE PRICE	SGD 3.280
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 3.680
TOTAL RETURN	17.1%

COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN) :	1,786
MARKET CAP (USD mn / SGD mn) :	4172 / 5857
52 - WK HI/LO (SGD) :	3.51 / 1.78
3M Average Daily T/O (mn) :	4.06

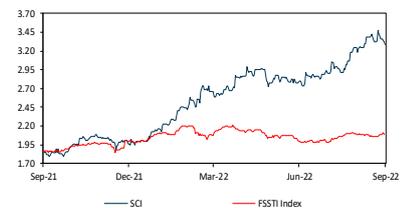
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.4	20.5	81.7
STI RETURN	1.1	6.3	11.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$, 'mn)	FY20	FY21	FY22e	FY23e
Revenue	5,447	7,795	9,909	8,844
Gross Profit	787	1,102	1,383	1,224
EBIT	442	614	988	746
NPAT	179	300	911	742
P/NAV (x)	1.7	1.5	1.2	1.1
P/E (x)	37.3	21.0	6.6	8.1
ROE (%)	3.2%	8.1%	20.8%	14.3%

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 1.2x FY23e

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Outlook

The impact of UK PM Liz Truss' moves on the energy sector are still uncertain at the moment as the finer details are lacking. The impact on SCI is expected to be subdued as the contribution from UK is not large. That said, we are monitoring the developments, and will provide an update when more details are available.

SCI is currently in the midst of building a 360MW energy storage system at Wilton International on Teesside, which will help the UK achieve its net zero target.

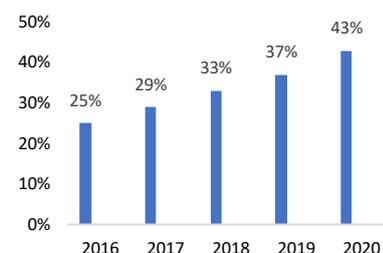
ESG

SCI's environmental score of 1.28 still 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 ACCUMULATE with unchanged target price of \$3.68

Our earnings and call is unchanged while our target price is maintained at \$3.68, still based on 1.2x P/BV.

Figure 1: Renewable share of electricity generation in the UK has risen



Source: UK Department of Business, Energy and Industrial Strategy, PSR

Financials

Income Statement

Y/E Dec, (\$'mn)	FY19 #	FY20	FY21	FY22e	FY23e
Revenue	6,735	5,447	7,795	9,909	8,844
Cost of sales	(5,753)	(4,660)	(6,693)	(8,525)	(7,620)
Gross Profit	982	787	1,102	1,383	1,224
General and Administrative expenses	(356)	(344)	(432)	(535)	(478)
Other operating income	189	126	140	137	-
Other items	(109)	(127)	(196)	3	-
EBIT	706	442	614	988	746
Net finance expenses	(444)	(464)	(397)	(398)	(385)
Share of results of associates and joint v	186	233	206	513	546
Profit before tax	448	211	423	1,104	907
Taxation	(115)	(32)	(123)	(192)	(166)
Net Profit	333	179	300	911	742
Net Profit (excl. SCM from FY20e)	333	179	300	911	742
Profit attributable to owners	305	157	279	893	724

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	13.0
EPS	17.1	8.8	15.6	50.0	40.5

Cash Flow

Y/E Dec, (\$'mn)	FY19 #	FY20	FY21	FY22e	FY23e
CFO					
Net income	333	179	300	911	742
Adjustments	1,122	872	1,004	1,648	1,695
WC changes	(379)	(453)	(49)	(521)	1
Cash generated from ops	1,076	598	1,255	2,039	2,438
Others	(99)	(103)	(36)	(192)	(166)
Cashflow from ops	977	495	1,219	1,846	2,273
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	532
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	1,985

*nm - not meaningful

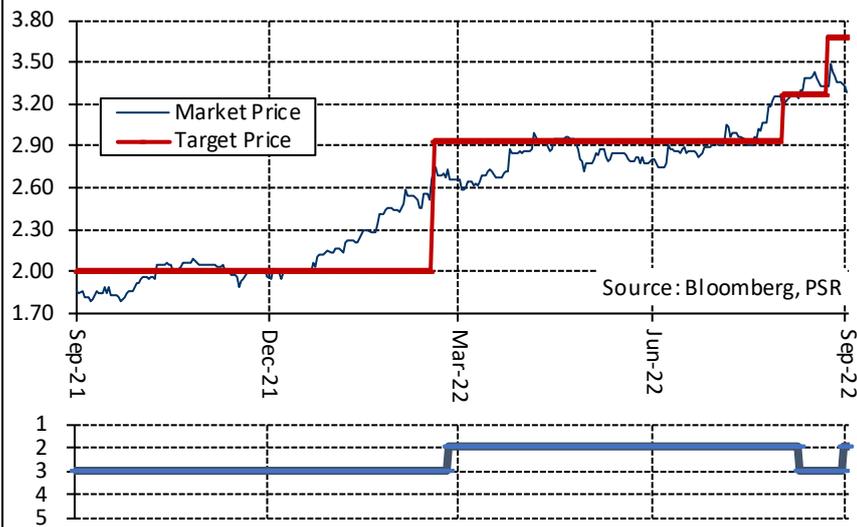
Source: Company, Phillip Securities Research (Singapore) Estimates

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	4,956
Total non-current assets	17,157	10,558	10,462	12,750	13,706
Cash and cash equivalents	1,767	1,032	1,344	1,429	1,982
Inventories	386	196	222	341	305
Trade and other receivables	2,048	1,571	1,986	2,123	1,894
Others	1,894	205	381	381	381
Total current assets	6,095	3,004	3,933	4,274	4,562
Total Assets	23,252	13,562	14,395	17,024	18,268
LIABILITIES					
Trade and other payables	2,844	1,159	1,708	2,171	1,938
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	5,418
LT borrowings	8,627	7,350	6,881	6,681	6,481
Others	734	609	691	1,074	886
Total non-current liabilities	9,361	7,959	7,572	7,755	7,367
Total Liabilities	15,373	10,086	10,477	12,159	12,786
EQUITY					
Share Capital	566	566	566	566	566
Retained profits	5,827	3,153	3,349	4,278	4,877
Others	1,482	(243)	3	21	39
Total equity	7,875	3,476	3,918	4,865	5,482
Total equity and liabilities	23,248	13,562	14,395	17,024	18,268
Valuation Ratios					
Y/E Dec	FY19 #	FY20	FY21	FY22e	FY23e
P/E (x)	19.2	37.3	21.0	6.6	8.1
P/B (x)	0.7	1.7	1.5	1.2	1.1
EV/EBITDA (x)	21.8	10.3	9.4	7.1	7.2
Dividend yield (%)	1.5%	1.2%	1.5%	4.9%	4.0%
Growth & Margins (%)					
Growth					
Revenue	-42.4%	-19.1%	43.1%	27.1%	-10.7%
Gross profit	6.7%	-19.9%	40.0%	25.5%	-11.5%
EBIT	5.8%	-37.4%	38.9%	60.9%	-24.5%
PBT	6.7%	-52.9%	100.5%	161.0%	-17.8%
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%	8.4%
Key Ratios					
ROE	4.2%	3.2%	8.1%	20.8%	14.3%
ROA	1.4%	1.0%	2.1%	5.8%	4.2%
Net Gearing (%)	120.7%	199.8%	160.8%	123.7%	96.1%

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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