

# Sembcorp Industries

## Acquisition of another 1.38GW of renewable assets

### SINGAPORE | ENERGY | UPDATE

- Sembcorp Industries (SCI) announced the acquisition of 1.38GW of renewable assets in China and India.
- The acquisition of BEI Energy and Vector Green will be accretive to earnings upon completion in 1Q23 as it will be funded by debt and internal cash.
- China and Indian assets are supported by mid- to long- term power purchase agreements (PPAs) that will ensure stability in earnings and cash flows.
- **We upgrade to BUY from ACCUMULATE with unchanged target price of \$3.68.** Our earnings are unchanged and our target price is maintained at \$3.68, still based on 1.2x P/BV, the average of its peers. But we upgrade to BUY due to the recent pull back in its share price.

#### The news

SCI announced acquisition of 795MW of solar assets in China and 583MW of renewable assets in India.

SCI's 49%-owned JV Beijing Energy Sembcorp (Hainan) International has entered into share purchase agreements with BEI Energy Development (Beijing) Co., Ltd. to acquire three solar projects, for an initial equity consideration of ~RMB15mn (approximately S\$3mn) and future capital injection of up to RMB1,148mn (approximately S\$222mn).

SCI will also acquire 100% of Vector Green Energy for a base equity consideration of ~INR27.8bn (~S\$474mn).

#### The Positives

**+ Acquisition of BEI Energy and Vector Green will be accretive to earnings.** The valuation was not disclosed, but management guided that this was done at low double digit P/E. SCI will fund the acquisition through internal cash resources and external borrowings. Completion is expected in 1Q23 and both acquisitions are expected to be accretive to earnings, financials however, were not provided.

**+ China and Indian assets supported by mid- to long- term PPAs.** The assets in China have PPAs ranging from three to five years. As the power market in China is regulated, this provides greater stability to tariff rates. Management is confident of renewing the PPAs when they become due as the solar assets are located in the south of Hebei Province, one of China's main energy demand centres. The assets are contracted to the State Grid Corporation of China, a Chinese state-owned electric utility and grid operator.

The Indian assets, which comprise mainly solar assets, are covered by long-term PPAs averaging 19 years. With recent changes to the regulation on the payment of receivables in India, credit quality has improved and the receivables issue has been mostly resolved.

**+ The two acquisitions will bring the Group's gross renewable energy capacity to 8.5GW.** This will bring it closer to its 2025 target of 10GW of gross installed renewable capacity (Figure 1). Its acquisition of Vector Green will also bring significant utility-scale solar capacity to its India business.

15 November 2022

#### BUY (UPGRADED)

LAST CLOSE PRICE	SGD 3.020
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 3.680
TOTAL RETURN	27.2%

#### COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN) :	1,779
MARKET CAP (USD mn / SGD mn) :	3910 / 5371
52 - WK HI/LO (SGD) :	3.51 / 1.87
3M Average Daily T/O (mn) :	5.20

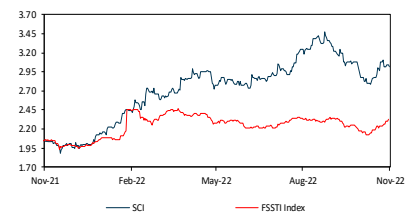
#### MAJOR SHAREHOLDERS (%)

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

	1MTH	3MTH	1YR
COMPANY	0.3	(5.3)	51.7
STI RETURN	4.3	(1.2)	4.0

#### 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)	1.6	1.4	1.1	1.0
P/E (x)	34.4	19.3	6.0	7.5
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

Shareholders have approved the sale of Sembcorp Energy India Limited (SEIL) to Tanweer Infra fund. We believe management will further deploy the proceeds to grow its renewables portfolio to beyond its 10GW target.

For FY22e, we expect continued high electricity prices in Singapore and India to lift over earnings. We expect SCI to pay out 16 cents of dividends (split between final and special due to the special circumstances for FY22) for FY22e, translating to a ~5.3% dividend yield.

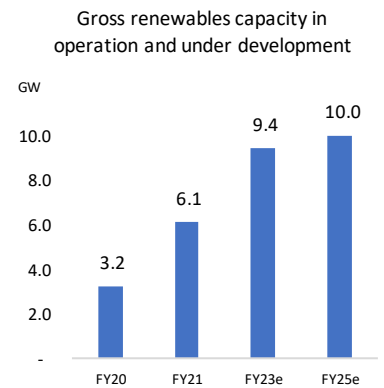
### ESG

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.

### Upgrade to BUY from 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. But we upgrade to BUY due to the recent pullback in the share price.

Figure 1: Gross renewables capacity growth is tracking ahead of our estimates as management embark on aggressive expansion plans



Source: Company, PSR

## Financials

## Income Statement

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

## 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
<b>CFO</b>					
<b>Net income</b>	<b>333</b>	<b>179</b>	<b>300</b>	<b>911</b>	<b>742</b>
Adjustments	1,122	872	1,004	1,648	1,695
WC changes	(379)	(453)	(49)	(521)	1
<b>Cash generated from ops</b>	<b>1,076</b>	<b>598</b>	<b>1,255</b>	<b>2,039</b>	<b>2,438</b>
Others	(99)	(103)	(36)	(192)	(166)
<b>Cashflow from ops</b>	<b>977</b>	<b>495</b>	<b>1,219</b>	<b>1,846</b>	<b>2,273</b>
<b>CFI</b>					
CAPEX, net	(925)	(318)	(282)	(510)	(1,108)
Others	474	(963)	182	(577)	127
<b>Cashflow from investments</b>	<b>(451)</b>	<b>(1,281)</b>	<b>(100)</b>	<b>(1,087)</b>	<b>(981)</b>
<b>CCF</b>					
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)	-	-
<b>Cashflow from financing</b>	<b>(692)</b>	<b>56</b>	<b>(855)</b>	<b>(603)</b>	<b>(760)</b>
<b>Net change in cash</b>	<b>(166)</b>	<b>(730)</b>	<b>264</b>	<b>156</b>	<b>532</b>
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	-	-	-	-	-
<b>Ending cash</b>	<b>1,739</b>	<b>1,013</b>	<b>1,297</b>	<b>1,453</b>	<b>1,985</b>

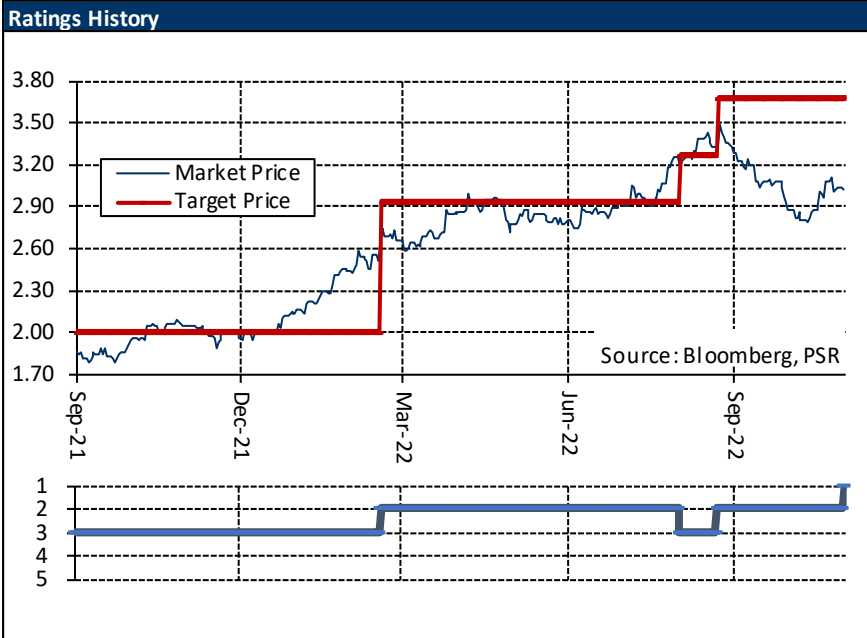
\*nm - not meaningful

## Balance Sheet

Y/E Dec, (\$'mn)	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
PPE & Investment Properties	11,867	7,339	7,232	8,142	8,750
Others	5,290	3,219	3,230	4,608	4,956
<b>Total non-current assets</b>	<b>17,157</b>	<b>10,558</b>	<b>10,462</b>	<b>12,750</b>	<b>13,706</b>
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
<b>Total current assets</b>	<b>6,095</b>	<b>3,004</b>	<b>3,933</b>	<b>4,274</b>	<b>4,562</b>
<b>Total Assets</b>	<b>23,252</b>	<b>13,562</b>	<b>14,395</b>	<b>17,024</b>	<b>18,268</b>
<b>LIABILITIES</b>					
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
<b>Total current liabilities</b>	<b>6,012</b>	<b>2,127</b>	<b>2,905</b>	<b>4,404</b>	<b>5,418</b>
LT borrowings	8,627	7,350	6,881	6,681	6,481
Others	734	609	691	1,074	886
<b>Total non-current liabilities</b>	<b>9,361</b>	<b>7,959</b>	<b>7,572</b>	<b>7,755</b>	<b>7,367</b>
<b>Total liabilities</b>	<b>15,373</b>	<b>10,086</b>	<b>10,477</b>	<b>12,159</b>	<b>12,786</b>
<b>EQUITY</b>					
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
<b>Total equity</b>	<b>7,875</b>	<b>3,476</b>	<b>3,918</b>	<b>4,865</b>	<b>5,482</b>
<b>Total equity and liabilities</b>	<b>23,248</b>	<b>13,562</b>	<b>14,395</b>	<b>17,024</b>	<b>18,268</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY19 #	FY20	FY21	FY22e	FY23e
P/E (x)	17.7	34.4	19.3	6.0	7.5
P/B (x)	0.7	1.6	1.4	1.1	1.0
EV/EBITDA (x)	21.1	9.9	9.1	6.8	6.9
Dividend yield (%)	1.7%	1.3%	1.7%	5.3%	4.3%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
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%

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.



### 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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