

Sembcorp Industries (SCI SP)

Recycling capital

BUY

Share Price	SGD 5.02
12m Price Target	SGD 6.00 (+19%)
Previous Price Target	SGD 6.00

Accretive divestment of non-core business, BUY

On Friday, SCI announced sale of SembEnviro, a waste management services provider, for SGD405m, at a 43% premium over book value. SCI will use the sales proceeds to invest further in the energy business to achieve the 2028 strategic roadmap. Based on divestment gains and financial cost savings from debt repayment, we estimate mid-single digit earnings accretion. Notwithstanding the higher yields and uncertainty over the energy transition policy, we maintain our rating and estimates given the steady execution of strategy and fair valuation of the stock.

Waste to energy

A wholly owned subsidiary of PT TBS Energi Utama (TOBA IJ, NR, IDR520) will acquire 100% of the business from SCI. The sale price has been arrived at on a "willing buyer, willing seller" basis and will expand the buyer's regional waste management platform in Indonesia and Singapore as it undergoes the green business journey for its diverse business portfolio. SCI will use the proceeds to further its strategic plan to sharpen its focus on growth in the energy sector and drive energy transition.

Aligning with strategic targets

Earlier, SCI had proposed purchase of 30% stake in local power producer, Senoko Energy. We believe part of the proceeds may be used to finance the purchase. Based on pro-forma disclosures, the transaction will be 3.4% accretive to NTA and 13.4% to EPS. This includes divestment gain of SGD114m. Excluding the gains and factoring in financing savings, we estimate c.4-5% earnings accretion. Further, SCI had announced in the 1H results the cessation of the public cleaning contract for the Central-North region from end-Sep 2024. As such, the proposed sale should mitigate any adverse business impact from the non-renewal of the contract.

Maintain BUY

Our estimates are unchanged pending completion of the sale. Healthy growth of monthly peak electricity demand YTD at 3.7% YoY, the highest since 2011 (excl. 2021 reopening), is beneficial. Valuation at 10x FY25E PE and 1.5x PB is below historical mean (10.7x and 1.9x).

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	7,825	7,042	6,724	6,468	6,470
EBITDA	1,189	1,604	1,446	1,421	1,451
Core net profit	871	970	943	911	998
Core FDEPS (cts)	48.4	53.9	52.4	50.6	55.5
Core FDEPS growth(%)	190.3	11.4	(2.8)	(3.4)	9.7
Net DPS (cts)	12.0	13.0	12.0	12.0	12.0
Core FD P/E (x)	7.0	9.9	9.6	9.9	9.0
P/BV (x)	1.5	2.1	1.7	1.5	1.3
Net dividend yield (%)	3.6	2.4	2.4	2.4	2.4
ROAE (%)	22.5	22.7	19.1	16.2	15.7
ROAA (%)	5.7	6.2	6.3	6.3	6.7
EV/EBITDA (x)	10.2	10.2	9.7	9.7	9.3
Net gearing (%) (incl perps)	138.9	134.5	89.6	75.7	63.5
Consensus net profit	-	-	957	1,017	1,074
MIBG vs. Consensus (%)	-	-	(1.5)	(10.5)	(7.0)

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Company Description

Sembcorp Industries is a conglomerate providing mainly utilities services, sustainable solutions and urban development

Statistics

52w high/low (SGD)	5.81/4.45
3m avg turnover (USDm)	13.0
Free float (%)	50.0
Issued shares (m)	1,788
Market capitalisation	SGD9.0B USD6.7B

Major shareholders:

Temasek Holdings	49.5%
Citibank Nominees Singapore Pte Ltd	10.5%
Raffles Nominees (Pte) Limited	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	6	(1)
Relative to index (%)	(12)	(7)	(17)

Source: FactSet

Abbreviation:

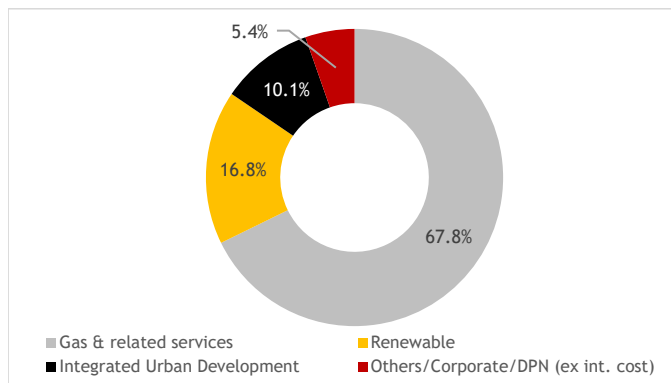
NTA: Net Tangible Asset

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- SCI is Singapore’s leading sustainable solutions provider with ~14GW of capacity in renewables and over 12000ha of project portfolio across Asia.
- Temasek’s 49.5% ownership offers SCI backing and helps to secure attractive financing terms when SCI bids for projects around the world.
- SCI targets to increase sustainable solutions to 70% of net profit by FY25E, increase installed renewables to 10GW and develop sustainable urban solutions to 500ha.
- Portfolio scale and diversity will differentiate it from other power generation companies in Singapore in terms of reliability, flexibility and its comprehensive ability to offer energy, urban and water solutions.

PATMI by segments (as of Dec 2023) excluding interest cost

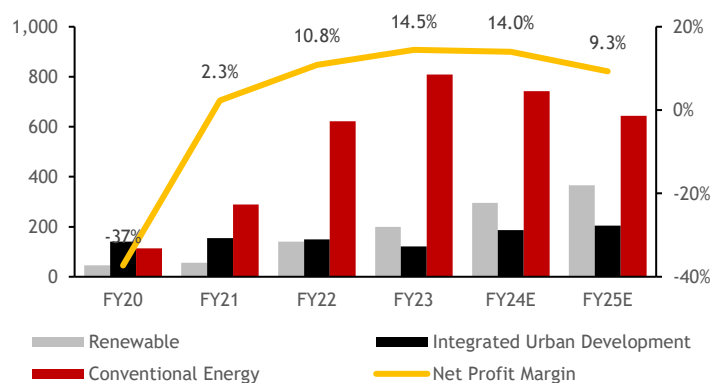


Source: Company

Financial Metrics

- We forecast FY24E profit to fall 8% YoY as lower power prices in Singapore and contribution from renewables is partly offset by optimization of gas/energy trading and higher revenue from land sales and other businesses.
- We forecast FY23E-25E ROIC for the overall business to increase from 5.0% to 10%. Overseas projects, when fully ramped up, may help to expand ROE.
- Our SOTP-based TP of SGD5.5 implies 11.2x FY24E P/E, which is in between the range of China and Asean utilities.

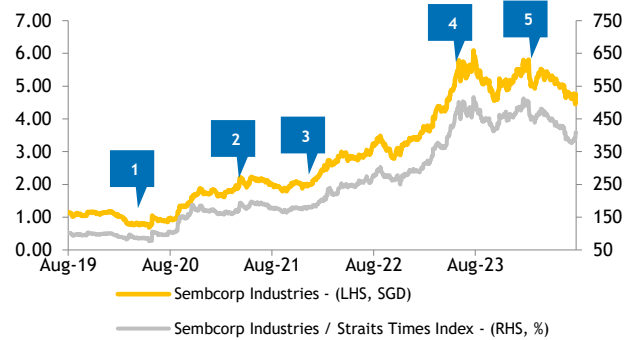
Core net income (SGDm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. SCI announced material impairments of SGD245m in its 4Q19 financial statements.
2. Singapore Public Utilities Board and Sembcorp Industries jointly announced they will build one of the world’s largest inland floating PV system at the Tengah reservoir.
3. Announced acquisition of 98% stake in a portfolio of operational wind and PV assets in China, followed by its purchase of 35% of SDIC New Energy in Dec’21.
4. Peak wholesale power prices in Singapore.
5. News on excess renewable supply in China and higher curtailment rates.

Swing Factors

Upside

- Stronger-than-expected order wins from its key sectors.
- Margins improve due to continued cost controls and economies of scale.
- Higher dividend payout due to better earnings and/or cash flow outlook.

Downside

- Sharp reduction in energy prices.
- Slower contract wins resulting in lower order book.
- Unexpected margin pressure from rising raw material and labour costs.
- Execution misstep leading to project delays or even termination of contracts.

Risk Rating & Score ¹	33.5
Score Momentum ²	-2.7
Last Updated	08 May 2022
Controversy Score ³ (Updated: 08 May 2022)	1 - Operational Incident and Business Ethics Incidents

Business Model & Industry Issues

- SCI is a leading energy and urban solutions provider. It aims to transform its portfolio towards a greener future and be a leading provider of sustainable solutions.
- In order to transform its portfolio from brown to green, SCI targets to increase Group net profit contribution from sustainable solutions to 70% by FY25E. This is done through: 1) increasing gross installed RE capacity to 10GW; 2) triple land sales to 500 hectares by providing a full suite of sustainable urban solution; and 3) reduce GHG emission intensity by 25% to 0.40 tonnes of carbon dioxide equivalent per megawatt hour.
- The company has a balanced energy portfolio of 18.5GW, with 11GW of gross RE capacity comprising solar, wind and energy storage globally. SCI also has a proven track record of transforming raw land into sustainable urban developments, with a project portfolio spanning over 12,000 hectares across Asia.

Material E issues

- SCI aims to reduce GHG emission intensity by 25% to 0.4 tonnes of carbon dioxide equivalent per megawatt hour (tCO₂e/MWh) by FY25E. In FY22, the GHG emission intensity was 0.31tCO₂e/MWh compared to 0.51tCO₂e/MWh in FY21.
- Gross installed RE capacity comprising wind, solar and energy storage assets grew significantly from 2.8GW in FY21 to over 10.3GW as at June22 (figures exclude acquisitions pending completion and projects under development). SCI's global energy portfolio mix stands at 54% conventional energy, 45% renewables and 1% energy-from-waste.
- In FY22, SCI generated 2.7m tonnes of waste, a 13% increase from the previous year due to higher electricity production of thermal plants in India. 95% of non-hazardous waste was recycled into bricks and cement, which were used in the filling of low-lying areas, construction of roads and flyovers, and the raising of dykes.

Material S issues

- Both lost time injury rate and total recordable injury rate were reduced from FY21. This is largely due to SCI's effort to reduce workspace incidents.
- Employee turnover was 13.3% in FY22 compared to 15.7% in FY21, largely due to decrease in the voluntary turnover rate, which was 12.5% in FY21, up from 9.0% in FY20, mirroring the global trend of resignations.
- Each employee received an average of 26.7 hours of training in FY22, of which 31% were sustainability skills learning.

Key G metrics and issues

- Temasek Holdings (Temasek) is SCI's substantial shareholder. As a Temasek company, SCI is committed to sound corporate governance practices that include having an independent and high-calibre board.
- SCI is led by a 9-member board, including Chairman Tow Heng Tan and Group President & CEO Wong Kim Yin. The average tenure of the independent directors is 5-13 years. There is one woman on the board of directors.
- The board, which largely comprises independent non-executive directors, leverages its diversity and experience to provide sound leadership to management.
- To date, SCI has never received or been the subject of any legal action in relation to anti-competitive behaviour and violations of anti-trust and monopoly legislation. There were no reported cases of bribery and corruption in 2021.
- The changes of CEO and CFO in the past 5 years are a point to note in terms of strategic direction. That said, we should note that the current CEO is more intent on increasing SCI's renewable energy mix. We think this should work in SCI's favour if this strategy is executed well.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Valuation

We value SCI using sum-of-the-parts method and applying a 10% holding company discount. We apply a P/E of 10x for gas & related services and renewable. We adjust our revenue for gas-related business and urban solutions higher and lower interest costs slightly.

Fig 1: Sum of the parts valuation

	Basis	Effective value (SGD m)	per share (SGD)
Conventional Energy	10x FY24E PE	7,619	4.27
Renewables	10x FY24E PE	3,072	1.72
Integrated Urban Solution	NAV, 1H24	2,112	1.18
Decarbonization Solutions	NAV, 1H24	30	0.02
Other business / Corporate	NAV, 1H24	(1,411)	(0.79)
Total Equity Value		11,422	6.40
Post 10% conglo disc		10,280	
Diluted no. of shares		1,785	
Value per share (SGD)		6.0	

Source: Maybank IBG Research

2. Risks

Risks include: lower wholesale energy prices in Singapore; higher natural gas prices; and demand-supply imbalance of renewable energy in China and India, leading to lower capacity utilization factors. Other risks include: implementation of centralized natural gas purchase for power generation in Singapore; and higher capex for transmission and storage, especially for renewables.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	5.9	8.7	9.5	9.8	9.0
Core P/E (x)	6.9	9.8	9.5	9.8	9.0
Core FD P/E (x)	7.0	9.9	9.6	9.9	9.0
P/BV (x)	1.5	2.1	1.7	1.5	1.3
P/NTA (x)	1.8	2.6	1.9	1.7	1.5
Net dividend yield (%)	3.6	2.4	2.4	2.4	2.4
FCF yield (%)	nm	4.9	22.5	4.3	9.2
EV/EBITDA (x)	10.2	10.2	9.7	9.7	9.3
EV/EBIT (x)	16.7	14.3	14.4	14.5	13.9
INCOME STATEMENT (SGD m)					
Revenue	7,825.0	7,042.0	6,723.6	6,468.3	6,470.3
EBITDA	1,189.0	1,604.3	1,446.4	1,420.9	1,451.2
Depreciation	(461.0)	(463.3)	(467.9)	(467.9)	(472.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	728.0	1,141.0	978.4	953.0	978.6
Net interest income / (exp)	(273.0)	(352.0)	(330.7)	(340.7)	(284.0)
Associates & JV	248.0	264.0	313.5	328.4	345.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	162.0	177.0	158.9	142.6	127.7
Pretax profit	865.0	1,230.0	1,120.1	1,083.3	1,167.7
Income tax	(138.0)	(182.0)	(143.1)	(176.3)	(176.3)
Minorities	(23.0)	(28.0)	(20.0)	(20.0)	(20.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	871.0	970.0	942.6	910.5	998.5
Core net profit	871.0	970.0	942.6	910.5	998.5
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	1,283.0	782.0	1,404.7	1,353.7	1,354.1
Accounts receivable	1,564.0	1,674.0	1,757.7	1,845.6	1,937.9
Inventory	137.0	135.0	276.3	265.2	264.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5,305.0	6,465.0	6,214.1	5,958.4	5,698.1
Intangible assets	697.0	952.0	690.1	690.1	690.1
Investment in Associates & JVs	2,287.0	2,396.0	2,709.5	3,037.9	3,383.4
Other assets	4,747.0	3,093.0	1,242.7	1,412.6	1,694.5
Total assets	16,020.0	15,497.0	14,295.1	14,563.5	15,022.0
ST interest bearing debt	1,096.0	1,281.0	687.5	776.7	877.4
Accounts payable	1,871.0	1,819.0	1,370.6	1,315.8	1,310.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	6,043.0	6,053.0	5,634.9	5,246.0	4,884.4
Other liabilities	2,794.0	1,472.0	1,112.0	1,056.0	1,007.0
Total Liabilities	11,804.0	10,625.0	8,804.9	8,394.6	8,078.8
Shareholders Equity	3,977.0	4,588.0	5,288.5	5,974.8	6,749.1
Minority Interest	239.0	284.0	201.7	194.0	194.1
Total shareholder equity	4,216.0	4,872.0	5,490.2	6,168.9	6,943.2
Total liabilities and equity	16,020.0	15,497.0	14,295.1	14,563.5	15,022.0
CASH FLOW (SGD m)					
Pretax profit	865.0	1,230.0	1,120.1	1,083.3	1,167.7
Depreciation & amortisation	461.0	463.3	467.9	467.9	472.6
Adj net interest (income)/exp	273.0	352.0	330.7	340.7	284.0
Change in working capital	663.0	(116.0)	(592.3)	(2.6)	(86.8)
Cash taxes paid	(138.0)	(182.0)	(143.1)	(176.3)	(176.3)
Other operating cash flow	(2,717.0)	(124.8)	1,082.5	(990.1)	(487.7)
Cash flow from operations	(869.0)	1,317.5	2,236.1	598.4	1,042.6
Capex	(672.0)	(856.0)	(217.0)	(217.0)	(217.0)
Free cash flow	(1,541.0)	461.5	2,019.1	381.4	825.6
Dividends paid	(125.0)	(214.2)	(232.1)	(214.2)	(214.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(326.0)	195.0	(1,011.6)	(55.6)	(505.0)
Other invest/financing cash flow	1,903.0	(943.3)	(152.7)	(162.6)	(106.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(89.0)	(501.0)	622.7	(51.0)	0.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.1	(10.0)	(4.5)	(3.8)	0.0
EBITDA growth	34.7	34.9	(9.8)	(1.8)	2.1
EBIT growth	70.9	56.7	(14.2)	(2.6)	2.7
Pretax growth	215.7	42.2	(8.9)	(3.3)	7.8
Reported net profit growth	190.3	11.4	(2.8)	(3.4)	9.7
Core net profit growth	190.3	11.4	(2.8)	(3.4)	9.7
Profitability ratios (%)					
EBITDA margin	15.2	22.8	21.5	22.0	22.4
EBIT margin	9.3	16.2	14.6	14.7	15.1
Pretax profit margin	11.1	17.5	16.7	16.7	18.0
Payout ratio	24.6	23.9	22.7	23.5	21.5
DuPont analysis					
Net profit margin (%)	11.1	13.8	14.0	14.1	15.4
Revenue/Assets (x)	0.5	0.5	0.5	0.4	0.4
Assets/Equity (x)	4.0	3.4	2.7	2.4	2.2
ROAE (%)	22.5	22.7	19.1	16.2	15.7
ROAA (%)	5.7	6.2	6.3	6.3	6.7
Liquidity & Efficiency					
Cash conversion cycle	(9.9)	(29.7)	(2.3)	24.5	30.8
Days receivable outstanding	81.7	82.8	91.9	100.3	105.3
Days inventory outstanding	9.8	9.0	13.9	19.1	18.8
Days payables outstanding	101.3	121.4	108.2	94.9	93.2
Dividend cover (x)	4.1	4.2	4.4	4.3	4.7
Current ratio (x)	1.3	0.8	1.5	1.5	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.6	1.7	1.9
Net gearing (%) (incl perps)	138.9	134.5	89.6	75.7	63.5
Net gearing (%) (excl. perps)	138.9	134.5	89.6	75.7	63.5
Net interest cover (x)	2.7	3.2	3.0	2.8	3.4
Debt/EBITDA (x)	6.0	4.6	4.4	4.2	4.0
Capex/revenue (%)	8.6	12.2	3.2	3.4	3.4
Net debt/ (net cash)	5,856.0	6,552.0	4,917.7	4,669.1	4,407.7

Source: Company; Maybank IBG Research

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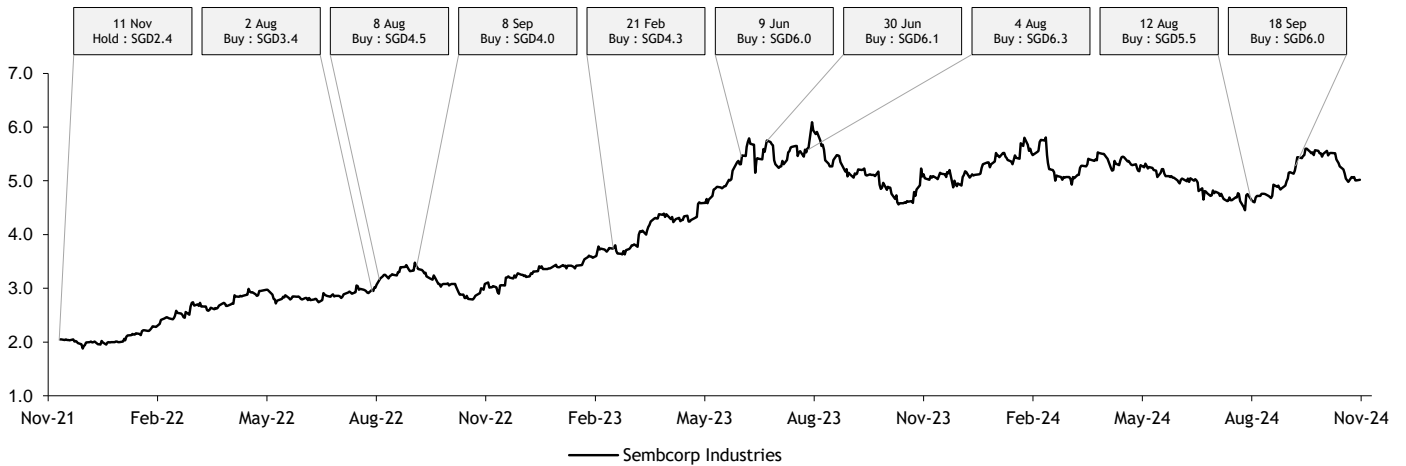
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