

### COMPANY RESULTS

## Sembcorp Industries (SCI SP)

2023: Strong Results With More Capacity Growth In Renewables To Come

SCI reported strong 2023 results with net profit before exceptional items up 45% yoy to over S\$1b — a historical high for the company. Equally impressive was its free cash flow of nearly S\$2b which implies a P/FCF of 5.2x. Both conventional energy and renewables saw impressive profit growth in 2023 with capacity additions for the latter segment likely to be a key share price driver in the next 12-18 months, in our view. **Maintain BUY. Target price: S\$7.49.**

### 2023 RESULTS

Year to 31 Dec (S\$m)	2022A	2023A	yoy %	Remarks
Revenue	7,825	7,042	-10.0%	Due to lower gas and power prices
EBITDA	1,308	1,789	36.8%	Solid contribution from all segments
Associates	248	264	6.5%	
Adjusted EBITDA	1556	2053	31.9%	
Pre-tax profit	865	1,230	42.2%	
Net profit b/f exceptionals	704	1,020	44.9%	Excludes currency translation loss from SEIL
EBITDA margin	16.7%	25.4%	+8.7ppt	
Net profit margin	9.0%	14.5%	+5.5ppt	

Source: Sembcorp Industries, UOB Kay Hian

### RESULTS

- Better-than-expected results and a historical high.** Sembcorp Industries (SCI) reported a strong 45% yoy increase in net profit (before exceptional items) to S\$1.02b, the highest in its history as a listed company. Free cash flow of nearly S\$2b generated during 2023 was also a highlight, up 14% yoy. As a result, the company reported an ROE before exceptional items of 23.8% for 2023, and declared a final dividend of S\$0.08, bringing total dividend for 2023 to S\$0.13, representing a payout ratio of 23%.
- Conventional energy remains a strong contributor.** After witnessing a 30% yoy increase in net profit for this segment in 2023, SCI remains bullish, guiding for this business to “remain robust” in 2024 underpinned by its significantly contracted position. Note that on a group-wide basis, 62% of its gas portfolio is contracted while in Singapore this is a significant 74% (with average tenure of 12 years) which generates cashflow certainty over the long term. This however will be offset slightly by a 60-day planned shutdown of its Singapore cogeneration assets to ensure its continued efficiency and high reliability.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	7,825	7,042	7,068	7,283	7,504
EBITDA	1,185	1,609	1,547	1,458	1,419
Operating profit	728	1,141	1,069	970	921
Net profit (rep./act.)	704	1,020	998	1,042	1,090
Net profit (adj.)	704	1,020	998	1,042	1,090
EPS (S\$ cent)	38.6	56.3	54.2	56.5	59.1
PE (x)	14.9	10.2	10.6	10.2	9.7
P/B (x)	2.6	2.3	1.9	1.7	1.5
EV/EBITDA (x)	13.9	10.2	10.6	11.3	11.6
Dividend yield (%)	2.1	2.3	2.3	2.3	2.4
Net margin (%)	9.0	14.5	14.1	14.3	14.5
Net debt/(cash) to equity (%)	146.2	141.4	109.3	84.7	66.3
Interest cover (x)	2.7	3.2	3.7	3.5	3.6
ROE (%)	18.2	23.8	20.0	18.0	16.4
Consensus net profit	-	-	949	888	906
UOBKH/Consensus (x)	-	-	1.05	1.17	1.20

Source: Sembcorp Industries, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$5.81
Target Price	S\$7.49
Upside	+28.9%
(Previous TP)	S\$7.20)

### COMPANY DESCRIPTION

The company is a Singapore-based industrial conglomerate, with businesses encompassing wind, solar and conventional energy, utilities, water and waste treatment, and industrial parks. It divested of its stake in Semb Marine in 3Q20.

### STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,780.0
Market cap (S\$m):	10,252.7
Market cap (US\$m):	7,615.4
3-mth avg daily t'over (US\$m):	11.4

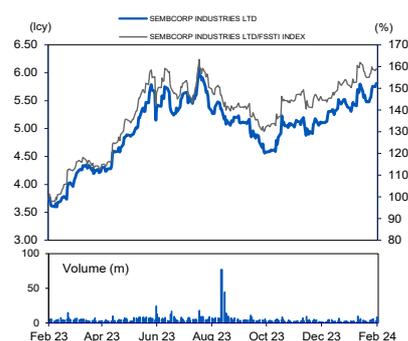
### Price Performance (%)

52-week high/low	S\$6.09/S\$3.60			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
6.7	13.0	6.9	54.8	8.3

### Major Shareholders

Temasek Hldgs	48.9
FY24 NAV/Share (S\$)	2.96
FY24 Net Debt/Share (S\$)	3.24

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Renewables the growth engine.** In the 13 months to Feb 24, SCL grew its gross and installed renewables capacity by 4.0GW to 13.8GW and in our view should comfortably achieve its stated target of 25GW by 2028. While it acquired portfolios totalling 292MW in China and a further 228MW in India in 2023, it was also heartening to note that it saw organic growth in key partnership platforms. Of note was the company's acquisition of a 245MW portfolio in Vietnam which comprised solar, wind and hydro.
- Integrated urban solutions saw a 19% decline in net profit** due to the loss of one public waste collection contract in Singapore and lower ASP for industrial land in Indonesia. However, this was offset somewhat by higher volume of industrial land sales in both Indonesia and Vietnam where SCL believes the outlook remains positive for the continued build out of supply chains. The company also highlighted that its water business saw a joy improvement in earnings due to cost savings.
- A new segment.** For the first time, SCL reported its decarbonisation solutions, introduced at its Nov 23 Investor Day, as a separate segment. It includes GoNetZero revenues (eg sale of carbon credits), renewable energy imports (eg 1.2GW from Vietnam to Singapore), green ammonia and green hydrogen projects, as well as the retrofitting of existing plants with ammonia capabilities. Management stated that as this segment builds scale up, it will incur near-term costs and investments and has forecast for profitability in 2028.
- Balance sheet remains under control.** Although net debt/equity appears high at 1.3x as at end-23, the company stated that the refinancing for its S\$1.3b that is due this year (see chart on RHS) has been completed. For its debt that is due two years out, SCL remains sanguine given its, and the market's, belief that 2024 and 2025 will see rate cuts and thus it does not want to commit at present. Importantly, the company's debt metrics remain healthy with EBITDA/interest of 4.4x (2022: 4.2x) and net debt/EBITDA of 3.6x (2022: 4.4x).
- Deferred payment notes (DPN) – some positives and some negatives.** During the analyst briefing, management stated that the DPN that it received as consideration for the sale of Sembcorp Energy India Limited (SEIL) was getting paid down faster than it had previously expected, and that this note should be extinguished at the end of its 10-year tenor. During 2023, SCL received S\$133m in payments from the DPN which includes S\$179m in interest but degraded slightly by S\$46m in a non-cash revaluation loss due to the depreciation of the Indian rupee vs the Singapore dollar.

### EARNINGS REVISION/RISK

- Mild earnings changes.** We have made mild net profit upgrades of around 1% for both 2024 and 2025 taking into account: a) the completion of the company's recent renewables acquisitions, b) a major maintenance shutdown of its Singapore cogeneration plants for around 60 days in 1H24 (S\$70m-80m negative impact on our estimates), and c) the end of Term of Operation at the Phu My 3 plant on 29 Feb 24 (around S\$10m negative impact).

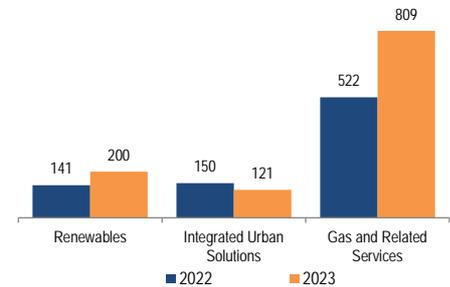
### VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of S\$7.49 (\$7.20 previously)** based on a target PE multiple of 13.6x (previously 13.1x). The higher target price is a result of our higher EPS estimates for 2024 as well as a slightly higher target PE multiple which is 1.5SD above the company's 2018-24 average PE of 8.8x (excluding 2020 where the company reported impairment-related losses).
- One of our top picks.** SCL remains one of our top stock picks in Singapore with its strong momentum in renewables growth towards achieving its 2028 target being the major share price catalyst over the next 12-18 months. In our view, the stock remains inexpensive, trading at 2024 PE of 10.6x and a trailing 12-month P/FCF of 5.2x.

### SHARE PRICE CATALYST

- Execution of its renewables energy targets via organic and inorganic means; capital recycling in its energy portfolio; rejuvenation of its urban solutions business.

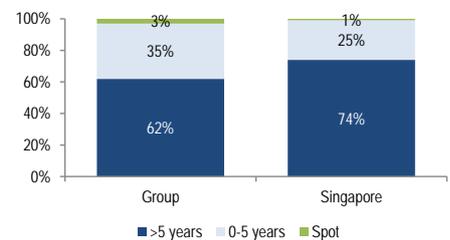
### NET PROFIT BY SEGMENT (\$M)



Note: Before exceptional items

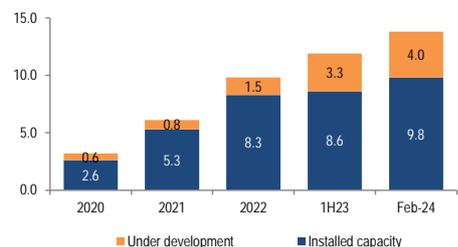
Source: SCL

### CONTRACTED POSITION OF GAS PORTFOLIO AS AT END-23



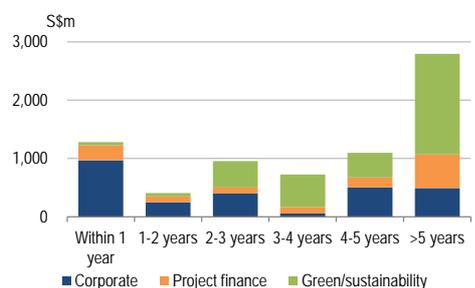
Source: SCL

### GROSS RENEWABLES CAPACITY (GW)



Source: SCL

### DEBT PROFILE



Source: SCL

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	7,042	7,068	7,283	7,504
EBITDA	1,609	1,547	1,458	1,419
Deprec. & amort.	468	478	488	498
EBIT	1,141	1,069	970	921
Total other non-operating income	177	94	144	139
Associate contributions	264	349	436	525
Net interest income/(expense)	(352)	(290)	(276)	(254)
<b>Pre-tax profit</b>	<b>1,230</b>	<b>1,222</b>	<b>1,275</b>	<b>1,331</b>
Tax	(182)	(196)	(204)	(213)
Minorities	(28)	(28)	(29)	(29)
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>1,020</b>	<b>998</b>	<b>1,042</b>	<b>1,090</b>
Net profit (adj.)	1,020	998	1,042	1,090

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>1,481</b>	<b>1,184</b>	<b>1,315</b>	<b>1,250</b>
Pre-tax profit	1,230	1,222	1,275	1,332
Tax	(190)	(163)	(178)	(186)
Deprec. & amort.	468	478	488	498
Associates	(264)	(349)	(436)	(525)
Working capital changes	(16)	(235)	(50)	(65)
Non-cash items	0	0	0	0
Other operating cashflows	253	231	217	196
<b>Investing</b>	<b>(878)</b>	<b>(73)</b>	<b>(201)</b>	<b>(204)</b>
Capex (growth)	(1,476)	(300)	(300)	(300)
Capex (maintenance)	0	(2)	0	(2)
Investments	131	130	0	(1)
Proceeds from sale of assets	40	40	40	40
Others	427	59	59	59
<b>Financing</b>	<b>(1,099)</b>	<b>(501)</b>	<b>(492)</b>	<b>(480)</b>
Dividend payments	(236)	(236)	(241)	(252)
Issue of shares	30	25	25	26
Proceeds from borrowings	0	0	0	0
Loan repayment	(416)	0	0	0
Others/interest paid	(477)	(290)	(276)	(254)
<b>Net cash inflow (outflow)</b>	<b>(496)</b>	<b>610</b>	<b>623</b>	<b>566</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,246</b>	<b>732</b>	<b>1,342</b>	<b>1,964</b>
Changes due to forex impact	(18)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>732</b>	<b>1,342</b>	<b>1,964</b>	<b>2,530</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	6,465	6,247	6,019	5,781
Other LT assets	6,326	6,686	7,202	7,812
Cash/ST investment	767	1,378	2,001	2,566
Other current assets	1,939	1,818	1,876	1,936
<b>Total assets</b>	<b>15,497</b>	<b>16,129</b>	<b>17,098</b>	<b>18,095</b>
ST debt	1,281	1,281	1,281	1,281
Other current liabilities	2,195	1,996	2,093	2,180
LT debt	5,973	5,973	5,973	5,973
Other LT liabilities	1,111	1,126	1,141	1,156
Shareholders' equity	4,588	5,376	6,201	7,066
Minority interest	284	312	341	371
<b>Total liabilities &amp; equity</b>	<b>15,497</b>	<b>16,129</b>	<b>17,098</b>	<b>18,095</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	22.8	21.9	20.0	18.9
Pre-tax margin	17.5	17.3	17.5	17.7
Net margin	14.5	14.1	14.3	14.5
ROA	6.5	6.3	6.3	6.2
ROE	23.8	20.0	18.0	16.4
<b>Growth</b>				
Turnover	(10.0)	0.4	3.0	3.0
EBITDA	35.8	(3.9)	(5.7)	(2.6)
Pre-tax profit	42.2	(0.6)	4.3	4.4
Net profit	44.9	(2.1)	4.4	4.6
Net profit (adj.)	44.9	(2.1)	4.4	4.6
EPS	45.7	(3.7)	4.3	4.5
<b>Leverage</b>				
Debt to total capital	59.8	56.1	52.6	49.4
Debt to equity	158.1	134.9	117.0	102.7
Net debt/(cash) to equity	141.4	109.3	84.7	66.3
Interest cover (x)	3.2	3.7	3.5	3.6

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