

COMPANY UPDATE

Sembcorp Industries (SCI SP)

Busy Adding To Its Renewables Portfolio

Since the announcement of its intention to move from brown to green energy, SCI has been very active on the business development front with over S\$1b worth of deals done in China alone. Apart from China, the company has also signed up to another six renewables deals in Asia as well as in the UK, with likely more to come. SCI remains a key blue-chip holding in any Singapore portfolio in our view. Maintain BUY. Increase target price to S\$3.59 (previously S\$2.95).

WHAT'S NEW

- **Active on the business development front.** In the past six months, Sembcorp Industries (SCI) has been notably active on the business development front with nearly one deal every month since Jul 21. Importantly, all of these deals have been focused on expanding SCI's renewables footprint as can be seen in the table below. We believe the company will remain busy with more renewables deals for the remainder of 2022.

RECENT BUSINESS DEVELOPMENT ACTIVITIES HAVE BEEN FOCUSED ON RENEWABLES

Date	Details	Sector	Country
Jul 21	Launch of Singapore's first solar-powered EV charging hub for industrial vehicles	Solar	Singapore
Oct 21	Awarded 180MW wind in Karnataka with 25-year PPA	Wind	India
Oct 21	Joint development for a 1GWp solar and energy storage project	Solar & battery storage	Indonesia
Nov 21	Acquisition of 658MW of operational wind and solar assets	Wind & solar	China
Dec 21	Development of 550MW portfolio of nearshore and offshore wind assets	Wind	Vietnam
Dec 21	Acquisition of a 35% stake in 1.9GW of operational wind and solar assets	Wind & solar	China
Feb 22	15-year contract for 150MW battery storage	Battery storage	United Kingdom
Mar 22	Commenced construction of a new industrial park with a 50ha solar farm	Industrial park with solar	Vietnam

Source: SCI, UOB Kay Hian

- **Well on target to build up its green energy portfolio.** While a number of the projects above are still in the planning stage, we highlight that SCI has built up its renewables portfolio quite aggressively from 2.6GW gross installed capacity at the start of 2021 to 5.3GW at present – this excludes another 1.1GW that is currently under development. Thus, we believe that the company is on target to achieve its plans of increasing its renewable capacity to 10GW by 2025. In Oct 21 and Apr 22, SCI raised a total of S\$975m in sustainability-linked notes, all of which were well subscribed and thus underlining the market's confidence in the company's strategy.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	5,447	7,795	8,226	8,922	9,113
EBITDA	1,022	1,127	1,184	1,332	1,379
Operating profit	443	670	717	855	892
Net profit (rep./act.)	(997)	279	455	518	552
Net profit (adj.)	(997)	279	455	518	552
EPS (S\$ cent)	(55.9)	15.4	24.9	28.3	30.2
PE (x)	n.m.	18.4	11.4	10.0	9.4
P/B (x)	1.5	1.4	1.2	1.1	1.0
EV/EBITDA (x)	10.4	9.5	9.0	8.0	7.7
Dividend yield (%)	1.4	1.8	2.7	3.1	3.2
Net margin (%)	(18.3)	3.6	5.5	5.8	6.1
Net debt/(cash) to equity (%)	200.5	160.5	131.7	113.1	99.0
Interest cover (x)	1.0	1.7	1.8	2.2	2.2
ROE (%)	n.a.	7.9	11.6	12.1	11.7
Consensus net profit	-	-	424	481	496
UOBKH/Consensus (x)	-	-	1.07	1.08	1.11

Source: Sembcorp Industries Ltd, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$2.86
Target Price	S\$3.59
Upside	+25.5%
(Previous TP)	S\$2.95

COMPANY DESCRIPTION

The company is a Singapore-based industrial conglomerate, with businesses encompassing energy, utilities, water and waste treatment, and industrial parks.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,785.0
Market cap (S\$m):	5,069.4
Market cap (US\$m):	3,717.4
3-mth avg daily t'over (US\$m):	10.9

Price Performance (%)

52-week high/low	S\$2.87/S\$1.79			
1mth	3mth	6mth	1yr	YTD
6.8	32.1	51.1	47.9	42.0

Major Shareholders

Temasek Hldgs	48.9%
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FY22 NAV/Share (S\$) 2.27

FY22 Net Debt/Share (S\$) 2.99

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Conventional power assets – Not great for SCI's ESG score but solid returns at present.** While the company has plans to reduce the contribution of its conventional power assets to its bottom line as it moves towards renewables, we expect conventional energy to have an outsized contribution in 1Q22 and 1H22 due to the current high prevailing electricity prices in India and Singapore. In India, SCI has long-term Power Purchase Agreements (PPA) in place and thus is not likely to face regulatory risk of having lower power prices unilaterally imposed on them.
- India – Becoming less of a headache.** With the signing two long-term supply contracts for 825MW from its P2 plant in Jan and Feb 22, 85% of Sembcorp Energy India Limited's (SEIL) 2.6GW capacity will be under mid- or long-term contracts. This puts SCI's India business in a stronger position financially in 2022, and more importantly has made its India thermal portfolio more attractive to potential acquirers. Going forward, the company has stated that it will look to sign more PPAs to ensure 100% coverage for its P2 asset.
- ROE expansion in SCI's renewables business.** A key aspect to look out for in SCI's results going forward is the ROE for its renewables business. Its 2021 results show an ROE of 4.6%. However, this is expected to increase as these assets mature. Currently, with an average age of 4-5 years for its renewables assets, an ROE of around 5-7% is to be expected. However as assets mature and earnings and cashflow contribution increases, coupled with the paying down of project debt, ROE is expected to trend up to 10% and head northwards to 20% as they get older.

5-YEAR P/B



Source: Bloomberg, UOB Kay Hian

CHANGES TO EARNINGS FORECASTS

S\$m	2022E	2023E	2024E
Net profit - was	402	479	495
Net profit - is	444	508	551
Change	10.5%	6.1%	11.3%

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- We upgrade earnings for 2022-24 by 6-11%** to take into account: a) better-than-expected contribution from the Singapore power market, and b) a turnaround to profitability at its Indian power business in 2022.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of S\$3.59 based on a target PE of 13.6x.** This target PE multiple is 1SD above SCI's past five-year average PE of 11.2x (excluding 2020 where the company reported impairment-related losses). We have elected to change our target price methodology from the previous P/B multiple basis to using a target PE multiple as we believe using the latter more fairly and accurately reflects the company's forward valuations given that we have moved past the peak of the COVID-19 pandemic.
- Inexpensive vs developed Asia utilities companies.** We note that on both PE and P/B bases, SCI trades at a discount to its utilities peers in developed Asia as shown in the table below. The valuation gap between SCI and its Emerging Asian peers is slightly larger at as its comparable companies trade at average 2022F PE and P/B of 16.8x and 1.5x respectively. We continue to foresee an upward re-rating of SCI's valuation multiples due to the scarcity value of solid ESG companies in Singapore. We also highlight that listed renewables companies trade at 3-4x P/B, which are at a substantial premium to SCI.

SHARE PRICE CATALYST

- Sustained economic recovery post COVID-19,** thus leading to increased energy and utilities usage.

COMPARABLE UTILITIES COMPANIES – DEVELOPED ASIA

Company	Ticker	Curr	Price 14 Apr	Mkt Cap	P/E			P/B			EV/EBITDA			2021 net gearing
					2021	2022	2023	2021	2022	2023	2022	2022	2022	
Sembcorp Ind	SCI SP	SGD	2.86	3,740	18.4	11.4	10.0	1.4	1.2	1.1	9.7	11.1	2.2	160.9
Origin Energy	ORG AU	AUD	6.44	8,423	n.a.	20.6	13.3	1.2	1.1	1.1	7.5	5.6	4.4	50.5
AGL Energy	AGL AU	AUD	8.58	4,286	n.a.	18.3	13.8	1.0	0.9	0.9	6.5	5.2	3.7	47.7
Trustpower	TPW NZ	NZD	7.31	1,562	21.2	27.8	26.1	2.6	3.2	3.1	17.3	8.1	6.5	58.8
Tokyo Gas Co	9531 JP	JPY	2240.00	7,861	12.6	10.3	9.6	0.8	0.8	0.7	5.8	7.7	2.9	84.8
Osaka Gas Co	9532 JP	JPY	2082.00	6,903	11.4	9.8	9.9	0.8	0.7	0.7	6.6	7.4	2.8	49.1
Average*					15.1	17.4	14.5	1.3	1.3	1.3	8.7	6.8	4.1	58.2

* Excluding SCI

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Net turnover	7,795	8,226	8,922	9,113
EBITDA	1,127	1,184	1,332	1,379
Deprec. & amort.	457	467	477	487
EBIT	670	717	855	892
Total other non-operating income	(56)	65	3	4
Associate contributions	206	210	214	219
Net interest income/(expense)	(397)	(397)	(397)	(397)
Pre-tax profit	423	595	675	718
Tax	(123)	(119)	(135)	(144)
Minorities	(21)	(21)	(22)	(22)
Preferred dividends	0	0	0	0
Net profit	279	455	518	552
Net profit (adj.)	279	455	518	552

BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	7,094	6,887	6,670	6,443
Other LT assets	3,368	3,632	3,934	4,178
Cash/ST investment	1,344	1,979	2,308	2,536
Other current assets	2,589	2,330	2,524	2,578
Total assets	14,395	14,828	15,436	15,734
ST debt	754	754	754	754
Other current liabilities	2,151	2,202	2,381	2,230
LT debt	6,637	6,637	6,637	6,637
Other LT liabilities	871	886	901	916
Shareholders' equity	3,767	4,110	4,496	4,907
Minority interest	151	172	194	216
Total liabilities & equity	14,395	14,828	15,436	15,734

CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Operating	1,219	996	1,090	999
Pre-tax profit	423	595	675	718
Tax	(36)	(110)	(97)	(116)
Deprec. & amort.	457	467	477	487
Associates	(206)	(210)	(214)	(219)
Working capital changes	(49)	(116)	(120)	(240)
Non-cash items	0	0	0	0
Other operating cashflows	630	369	369	369
Investing	(100)	148	(232)	(234)
Capex (growth)	(282)	(300)	(300)	(300)
Capex (maintenance)	0	(2)	0	(2)
Investments	48	381	0	0
Proceeds from sale of assets	17	40	40	40
Others	117	29	28	28
Financing	(855)	(509)	(529)	(538)
Dividend payments	(124)	(137)	(157)	(166)
Issue of shares	(13)	25	25	25
Proceeds from borrowings	0	0	0	0
Loan repayment	(349)	0	0	0
Others/interest paid	(369)	(397)	(397)	(397)
Net cash inflow (outflow)	264	634	329	227
Beginning cash & cash equivalent	1,009	1,297	1,931	2,260
Changes due to forex impact	24	0	0	0
Ending cash & cash equivalent	1,297	1,931	2,260	2,486

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.5	14.4	14.9	15.1
Pre-tax margin	5.4	7.2	7.6	7.9
Net margin	3.6	5.5	5.8	6.1
ROA	2.0	3.1	3.4	3.5
ROE	7.9	11.6	12.1	11.7
Growth				
Turnover	43.1	5.5	8.5	2.1
EBITDA	10.3	5.1	12.5	3.5
Pre-tax profit	100.5	40.8	13.4	6.3
Net profit	n.a.	63.1	13.9	6.5
Net profit (adj.)	n.a.	63.1	13.9	6.5
EPS	n.a.	61.0	13.9	6.5
Leverage				
Debt to total capital	65.4	63.3	61.2	59.1
Debt to equity	196.2	179.8	164.4	150.6
Net debt/(cash) to equity	160.5	131.7	113.1	99.0
Interest cover (x)	1.7	1.8	2.2	2.2

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