

COMPANY UPDATE

Sembcorp Industries (SCI SP)

Sale Of Indian Assets: Moving Decisively Towards A Greener Future

SCI will sell all of its Indian coal-fired power plants to an Omani party for S\$2.1b via a 15-year Deferred Payment Note. The acquisition price implies an annualised 2022F PE of 10.2x and P/NTA of 1.03x, which we view as largely fair given the current market environment around coal-related assets. We view this sale in a favourable light given the strategic imperative for SCI to progress towards being a greener company. Maintain BUY. Target price unchanged at S\$4.10.

WHAT'S NEW

- **Ridding itself of brown energy.** Sembcorp Industries (SCI) has announced that it will sell 100% of Sembcorp Energy India (SEIL), operator of two supercritical coal-fired plants totalling 2.6GW, to Tanweer Infrastructure for a consideration of INR117b or S\$2.1b. The acquisition price implies an annualised 2022E PE of 10.2x and P/NTA of 1.03x, which we view as largely fair given the current market environment around coal-related assets. The price also implies S\$0.8b/GW of gross installed capacity, which is towards the high end of comparable transactions of S\$0.5 to 1.0b/GW.
- **Not cash, but a Deferred Payment Note (DPN).** Importantly, SCI will not get cash up front but instead the consideration will be via a 15-year Deferred Payment Note which will bear an interest rate of 1.8% p.a. plus the Indian government 10-year bond yield spot rate, less a greenhouse gas emissions intensity reduction incentive rate. Given the materiality of the divestment, SCI will need to convene an EGM by Nov 22 to seek shareholders' approval with expected completion of the transaction in 2Q23.
- **The buyer is Tanweer Infrastructure,** which is indirectly owned by a consortium led by the Oman Investment Corporation (OIC), a leading Omani private equity investment company and importantly SCI's long-term partner in Oman. Both OIC and SCI jointly developed and operated the country's US\$1b Salalah Independent Power and Water Plant since 2009.
- **This is a strategically important sale** as it meets SCI's previously stated objectives of decarbonising its portfolio of assets as well as deconsolidating its debt. We view the P/B divestment multiple of 1.0x P/B as largely fair with the price having been arrived at after a competitive process which SCI conducted over the past few months. During the analyst briefing, SCI's management emphasized that the buyer is a long-term partner which it will be able to work with for future decarbonisation projects given its deep pockets.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	5,447	7,795	10,613	9,259	9,468
EBITDA	1,022	1,127	1,452	1,285	1,313
Operating profit	443	670	985	808	826
Net profit (rep./act.)	(997)	279	732	544	564
Net profit (adj.)	(997)	279	732	544	564
EPS (\$ cent)	(55.9)	15.4	40.0	29.7	30.8
PE (x)	n.m.	21.6	8.3	11.2	10.8
P/B (x)	1.8	1.6	1.4	1.3	1.2
EV/EBITDA (x)	11.5	10.4	8.1	9.2	9.0
Dividend yield (%)	1.2	1.5	3.7	2.7	2.8
Net margin (%)	(18.3)	3.6	6.9	5.9	6.0
Net debt/(cash) to equity (%)	200.5	160.5	131.1	107.4	95.8
Interest cover (x)	1.0	1.7	2.5	2.0	2.1
ROE (%)	n.a.	7.9	18.1	12.1	11.5
Consensus net profit	-	-	833	679	579
UOBKH/Consensus (x)	-	-	0.88	0.80	0.97

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\$3.33
Target Price	S\$4.10
Upside	+23.1%

COMPANY DESCRIPTION

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

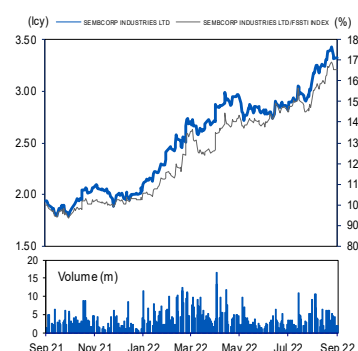
STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,785.6
Market cap (\$m):	5,946.2
Market cap (US\$m):	4,235.5
3-mth avg daily t'over (US\$m):	7.8

Price Performance (%)

52-week high/low				S\$3.43/S\$1.79	
1mth	3mth	6mth	1yr	YTD	
8.5	19.4	24.3	72.5	66.5	
Major Shareholders				%	
Temasek Hldgs				48.9	
FY22 NAV/Share (S\$)				2.38	
FY22 Net Debt/Share (S\$)				3.12	

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Impact to SCI's financials.** The charts on the RHS illustrate the effects of the deconsolidating of SEIL on a pro forma basis at the EBITDA, PATMI and NAV level. At the EBITDA level, the DPN income of S\$95m implies an effective interest rate of 9.2% for 2022 while at the NAV level, SCI will witness a 1% decline. The positive impact on SCI's balance sheet includes an increase in its 1H22 EBITDA/interest from 5.1x to 6.3x on a pro forma basis while its debt/capitalisation will decline from 0.66x to 0.62 for 1H22 on a pro forma basis.
- Details of the DPN.** On the analyst call, management stated that the \$2.1b note will sit on SCI's balance sheet as a long term asset with the cashflow from the DPN not being classified as interest income but instead captured within EBITDA instead. The DPN has a tenor of 15 years and in the case of any shortfall, there is the potential to extend the tenor to a maximum of 24 years which is the end-of-life for the power plants. SCI will also have security via a pledge of shares of the purchasing entity. Importantly, the cashflow will be deployed towards building out the company's renewables assets.
- Why the DPN structure?** SCI stated that this vendor-financing structure was necessary in order to bridge the gap between its desire to sell and notable lack of financing in the market for buyers of coal-related infrastructure assets. The company also highlighted that its recent success in obtaining Power Purchase Agreements covering 85% coverage of its Indian power plants allowed this sale to a smoother passage towards completion.

EARNINGS REVISION/RISK

- None.

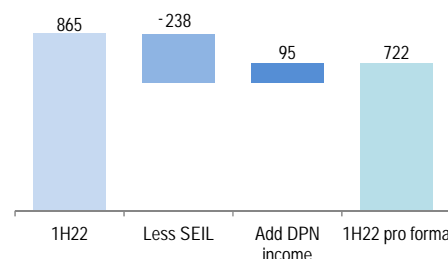
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$4.10**, which is based on a target PE multiple of 13.6x. This target PE multiple is 1SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and applied to our 2023 EPS estimate. We continue to foresee an upward re-rating of the company's valuation multiples due to the scarcity value of solid ESG companies in Singapore, and as the company continues to build out its green energy portfolio. SCI remains our top pick in Singapore for the quality of its earnings as well as its growth prospects in the near to medium term.

SHARE PRICE CATALYST

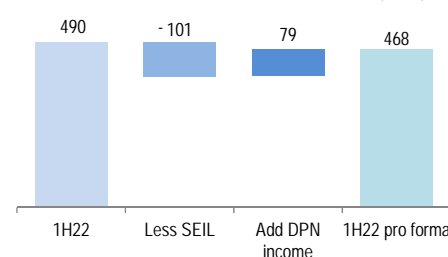
- Sustained economic recovery post COVID-19, thus leading to increased energy and utilities usage.
- Positive EPS revision momentum as the street upgrades earnings in 2H22.
- Continued high electricity prices in Singapore, UK and India.
- Earnings accretive acquisitions in the renewables energy space.

EBITDA IMPACT ON A PRO FORMA BASIS (\$M)



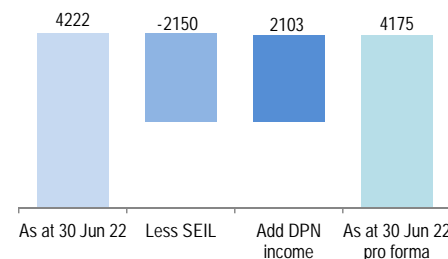
Source: SCI

PATMI IMPACT ON A PRO FORMA BASIS (\$M)



Source: SCI

NAV IMPACT ON A PRO FORMA BASIS (\$M)



Source: SCI

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	7,795	10,613	9,259	9,468
EBITDA	1,127	1,452	1,285	1,313
Deprec. & amort.	457	467	477	487
EBIT	670	985	808	826
Total other non-operating income	(56)	65	3	4
Associate contributions	206	288	294	300
Net interest income/(expense)	(397)	(397)	(397)	(397)
Pre-tax profit	423	941	707	733
Tax	(123)	(188)	(141)	(147)
Minorities	(21)	(21)	(22)	(22)
Preferred dividends	0	0	0	0
Net profit	279	732	544	564
Net profit (adj.)	279	732	544	564

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,094	6,887	6,670	6,443
Other LT assets	3,368	4,011	4,135	4,462
Cash/ST investment	1,344	1,749	2,334	2,476
Other current assets	2,589	3,004	2,622	2,682
Total assets	14,395	15,651	15,761	16,063
ST debt	754	754	754	754
Other current liabilities	2,151	2,812	2,491	2,335
LT debt	6,637	6,637	6,637	6,637
Other LT liabilities	871	886	901	916
Shareholders' equity	3,767	4,303	4,708	5,127
Minority interest	151	172	194	216
Total liabilities & equity	14,395	15,651	15,761	16,063

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	1,219	849	1,353	917
Pre-tax profit	423	941	707	733
Tax	(36)	(77)	(195)	(124)
Deprec. & amort.	457	467	477	487
Associates	(206)	(288)	(294)	(300)
Working capital changes	(49)	(563)	289	(247)
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)	(593)	(537)	(542)
Dividend payments	(124)	(221)	(165)	(170)
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	404	585	141
Beginning cash & cash equivalent	1,009	1,297	1,701	2,286
Changes due to forex impact	24	0	0	0
Ending cash & cash equivalent	1,297	1,701	2,286	2,427

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.5	13.7	13.9	13.9
Pre-tax margin	5.4	8.9	7.6	7.7
Net margin	3.6	6.9	5.9	6.0
ROA	2.0	4.9	3.5	3.5
ROE	7.9	18.1	12.1	11.5
Growth				
Turnover	43.1	36.1	(12.8)	2.3
EBITDA	10.3	28.8	(11.5)	2.2
Pre-tax profit	100.5	122.6	(24.9)	3.6
Net profit	n.a.	162.3	(25.6)	3.7
Net profit (adj.)	n.a.	162.3	(25.6)	3.7
EPS	n.a.	159.0	(25.7)	3.6
Leverage				
Debt to total capital	65.4	62.3	60.1	58.0
Debt to equity	196.2	171.8	157.0	144.1
Net debt/(cash) to equity	160.5	131.1	107.4	95.8
Interest cover (x)	1.7	2.5	2.0	2.1

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