

ASEAN GEMS CORPORATE HIGHLIGHTS

Sembcorp Industries (SCI SP)

Energised For The Next Phase Of Growth

SCI has provided a bullish business outlook for 2023 and beyond. Near-term share price catalysts include further M&A for renewables assets and an upward adjustment of the company's targeted gross installed capacity for its renewables segment. Hydrogen was a topic of discussion with SCI's current assets in the Middle East potentially providing a good base from which to grow in this space. Maintain BUY. Upgrade target price to S\$4.64.

WHAT'S NEW

- **Sembcorp Industries (SCI) met with nine long-only funds during its one and a half day attendance at our ASEAN conference held in Taipei recently.** With its strong business recovery after the pandemic's peak as well as its ability to hit its publicly-disclosed targets for renewables, the company attracted keen interest from investors wanting to hear about its strategy going forwards.
- **M&A likely in the near to medium term.** SCI highlighted that with 9.8GW of renewables (both operational and projects under development), it is close to its stated target of 10GW. In our view, the company is likely to present a higher renewables target to the market in the next few months, with M&A the likely mode of expansion. SCI stated that it prefers targets that are near to or have just started operations, or brownfield projects where it deploys its own operations and maintenance (O&M) in-house instead of outsourcing; as a result it can save around 30% in costs. Investors were also keen to hear that the hurdle rate (on a local currency basis) for SCI's India projects is in the mid-teens while China's is slightly above 10% IRR.
- **Hydrogen – a key point of investor interest.** There appeared to be meaningful investor interest in SCI's hydrogen strategy despite the nascent nature of the technology. Management emphasised that given its current business mix, it will focus on hydrogen production as well as downstream demand, with the key issue being the size of capex needed to get such a project off the ground. It also highlighted that its current assets and position in the Middle East (power and water plant in Oman and desalination plant in United Arab Emirates) puts it in a good position to generate green hydrogen. While management stated that it will not take part in the midstream, ie storage and transportation, it has engaged with Chiyoda of Japan as a technology partner for its SPERA technology which enables the transportation of hydrogen via tankers at room temperature.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	7,795	7,825	7,597	7,816	8,028
EBITDA	1,127	1,185	1,239	1,158	1,005
Operating profit	670	728	772	681	518
Net profit (rep./act.)	279	704	670	676	643
Net profit (adj.)	279	704	670	676	643
EPS (S\$ cent)	15.4	38.6	36.0	36.3	34.5
PE (x)	24.4	9.8	10.5	10.4	10.9
P/B (x)	1.8	1.7	1.5	1.4	1.3
EV/EBITDA (x)	8.7	8.3	7.9	8.5	9.8
Dividend yield (%)	1.3	3.2	2.9	3.0	2.8
Net margin (%)	3.6	9.0	8.8	8.7	8.0
Net debt/(cash) to equity (%)	160.5	146.2	63.6	64.4	54.4
Interest cover (x)	1.7	2.7	2.8	2.5	1.9
ROE (%)	7.9	18.2	15.9	14.3	12.4
Consensus net profit	-	-	719	693	673
UOBKH/Consensus (x)	-	-	0.93	0.98	0.96

Source: Sembcorp Industries Ltd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.77
Target Price	S\$4.64
Upside	+23.1%
(Previous TP)	S\$4.57

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):	1,783.5
Market cap (HK\$m):	6,723.8
Market cap (US\$m):	4,994.3
3-mth avg daily t'over (US\$m):	9.2

Price Performance (%)

52-week high/low			HK\$6.58/HK\$3.86	
1mth	3mth	6mth	1yr	YTD
1.3	14.9	13.6	41.7	11.5

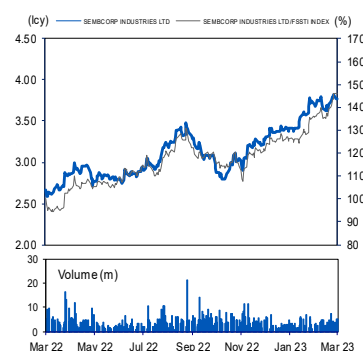
Major Shareholders

	%
Temasek Hlds	49.6

FY23 NAV/Share (S\$) 2.45

FY23 Net Debt/Share (S\$) 1.56

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Power Purchase Agreement (PPA) for 450MW signed with Micron Semiconductor in Singapore.** In our view, this is a landmark deal for SCI given that the Singapore market has traditionally been spot or short-duration market (ie 1-3 years). With this 18-year PPA signed, 37% of SCI's Singapore generation capacity is contracted and thus should allow SCI to cover the capital cost of new H-class generators and replace its current combined cycle gas turbines and earn a positive carry. We understand that with electricity being a major component of semiconductor companies' operating costs, and with electricity prices being increasingly volatile, the industry is now more willing to sign long-term contracts and reduce their exposure to the spot market.
- SCI's debt levels still manageable.** In the past 12-18 months, SCI has moved away from project financing to corporate and green and sustainability-linked financing. The move away from project financing is driven by the fact that this type of debt is problematic for renewables as it limits the company's ability to recycle cash, given various asset-based restrictions, as well Debt Servicing Coverage Ratios. We highlight that in the past week, SCI issued S\$350m 4.6% notes due in 2030 under its S\$3b Multicurrency Debt Issuance Programme. The latest notes will be used to finance or refinance new or existing projects in the solar, wind and/or energy storage solutions.
- Will lower gas prices lead to lower profits?** This was a concern for some investors as the company, like others in the utilities sector both in Singapore and globally, has seen profitability increase in its conventional energy segment and SCI has not been an exception. Thus management believes that its conventional energy segment will see a normalisation in spark spreads from the current high levels in 2024 and 2025 which we have already factored into our estimates.
- The sale of SCI's Indian coal-fired power plants appears to be a non-issue.** Unlike some other investors, the Taiwanese investors did not seem concerned about this sale to SCI's business partner in Oman in return for a Deferred Payment Note, acknowledging that this was the best outcome. Given that these were young assets, SCI would have needed to take a >US\$1b write-off if these two coal-fired power plants were shut down. In our view, the worst-case scenario would have been the nationalisation of these assets (as they are large at 2.64GW and provide power to 2.5m people) and SCI's position being jeopardised in the country.
- Lego in Vietnam – a positive sign of things to come.** Management highlighted that Lego of Denmark sought out SCI due to its renewables expertise and its ability to put together a 40ha low-carbon facility incorporating a 50MW solar farm. With this concept in place, SCI will use it to advance its other expansion plans in Vietnam at its four new business parks that it secured licenses for in 2022: Quang Tri Industrial Park, VSIP Binh Duong III, VSIP Can Tho and VSIP Nghe An (Park II).

EARNINGS REVISION/RISK

- We upgraded 2023-25 earnings by 1-4%** to take into account higher margins for the PPA for Micron as well as a slower-than-expected slowdown in the conventional energy segment's profitability.

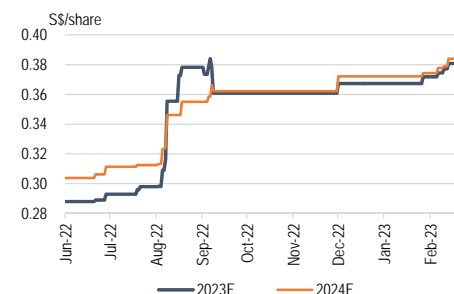
VALUATION/RECOMMENDATION

- We rate SCI as a BUY with an upgraded PE-based target price of S\$4.64 (previously S\$4.57).** Our target price utilises a target PE multiple of 12.7x which is 1SD above the company's past five-year average PE of 9.4x. We highlight that SCI generated ROE of nearly 22% in 2022 and given that this was generated by assets that are on average five years old, we firmly believe that this level of ROE should be sustainable in the next few years. In our view, SCI remains inexpensive as it trades at a 16-28% discount to its global utilities peers' average 2023F PE, EV/EBITDA and P/B of 14.5x, 9.4x and 1.7x respectively.

SHARE PRICE CATALYST

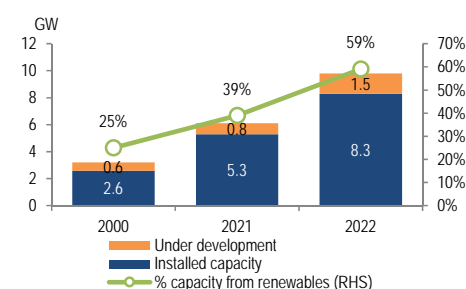
- Further earnings-accretive acquisitions in the renewables space; potential of increasing targets for gross renewables capacity.**

EPS REVISION MOMENTUM



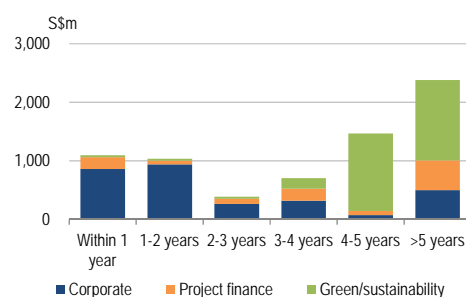
Source: Bloomberg

GROSS RENEWABLES CAPACITY



Source: SCI

DEBT PROFILE



Source: SCI

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	7,825	7,597	7,816	8,028
EBITDA	1,185	1,239	1,158	1,005
Deprec. & amort.	457	467	477	487
EBIT	728	772	681	518
Total other non-operating income	162	35	47	81
Associate contributions	248	333	420	508
Net interest income/(expense)	(273)	(273)	(273)	(273)
Pre-tax profit	865	867	875	834
Tax	(138)	(173)	(175)	(167)
Minorities	(23)	(23)	(24)	(24)
Preferred dividends	0	0	0	0
Net profit	704	670	676	643
Net profit (adj.)	704	670	676	643

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	5,305	5,098	4,881	4,654
Other LT assets	4,207	4,515	4,960	5,491
Cash/ST investment	1,254	4,226	3,872	4,111
Other current assets	5,254	1,650	1,700	1,750
Total assets	16,020	15,489	15,413	16,006
ST debt	1,095	1,095	1,095	1,095
Other current liabilities	3,726	2,665	2,052	2,130
LT debt	5,974	5,974	5,974	5,974
Other LT liabilities	947	962	977	992
Shareholders' equity	3,977	4,470	4,967	5,442
Minority interest	239	262	286	310
Total liabilities & equity	16,020	15,489	15,413	16,006

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	1,692	73	303	885
Pre-tax profit	865	867	875	834
Tax	(64)	(102)	(157)	(165)
Deprec. & amort.	457	467	477	487
Associates	(248)	(333)	(420)	(508)
Working capital changes	24	(1,043)	(688)	19
Non-cash items	0	0	0	0
Other operating cashflows	658	217	217	217
Investing	(1,385)	3,349	(206)	(204)
Capex (growth)	(1,588)	(300)	(300)	(300)
Capex (maintenance)	(2)	0	(2)	0
Investments	55	3,553	0	0
Proceeds from sale of assets	40	40	40	40
Others	110	56	56	56
Financing	(203)	(450)	(452)	(441)
Dividend payments	(137)	(202)	(204)	(193)
Issue of shares	21	25	25	25
Proceeds from borrowings	310	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(397)	(273)	(273)	(273)
Net cash inflow (outflow)	104	2,972	(355)	239
Beginning cash & cash equivalent	1,297	1,322	4,294	3,939
Changes due to forex impact	(79)	0	0	0
Ending cash & cash equivalent	1,322	4,294	3,939	4,178

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.1	16.3	14.8	12.5
Pre-tax margin	11.1	11.4	11.2	10.4
Net margin	9.0	8.8	8.7	8.0
ROA	4.6	4.3	4.4	4.1
ROE	18.2	15.9	14.3	12.4
Growth				
Turnover	0.4	(2.9)	2.9	2.7
EBITDA	5.1	4.6	(6.5)	(13.3)
Pre-tax profit	104.5	0.2	0.9	(4.7)
Net profit	152.3	(4.8)	0.9	(4.9)
Net profit (adj.)	152.3	(4.8)	0.9	(4.9)
EPS	150.2	(6.9)	0.9	(4.9)
Leverage				
Debt to total capital	62.6	59.9	57.4	55.1
Debt to equity	177.7	158.1	142.3	129.9
Net debt/(cash) to equity	146.2	63.6	64.4	54.4
Interest cover (x)	2.7	2.8	2.5	1.9

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