

COMPANY UPDATE

Sembcorp Industries (SCI SP)

Catering To Singapore's Long-term Energy Security

SCI's recent gas supply contract from a new gas field in the West Natuna Sea ensures security of supply for its new 600MW power plant as well as for Singapore. While the gas price is unknown for now, pipeline prices are materially less volatile than LNG prices thus ensuring more stable margins over the long term. Maintain BUY. Target price: S\$7.20.

WHAT'S NEW

- New pipeline gas supply for SCI and Singapore.** Sembcorp Industries (SCI) announced last week that it has signed a termsheet with Conrad Asia Energy (CRD AU, Not Rated) for the supply of gas from its offshore Mako gas field located in the Duyung Production Sharing Contract (PSC) in the West Natuna Sea. It will utilise the existing West Natuna Transportation System (WNTS) pipelines with first gas production from the Mako field in 4Q25 or 1Q26. This ties into the startup of SCI's 600MW hydrogen-ready power plant which is part of the company's new S\$900m multi-utilities centre on Jurong Island that started construction in 2H23.
- Volume certainty is important for SCI; gas pricing unknown for now.** The positive takeaway from this gas contract is that it guarantees volumes to SCI's new power plant which is important for a utility as pipeline gas is less prone to disruption vs seaborne LNG cargoes. Historically, pipeline gas has been priced at a 11-12% slope to Brent oil, eg at a Brent oil price of US\$100/bbl, the equivalent gas price would be US\$11-12/mcf. With inflation and other factors however, we believe that this slope will naturally be higher for the new contract, and may be disclosed when the full gas sales agreement is signed.
- Catering to Singapore's energy security.** In our view, this gas contract provides energy security for Singapore given that it has been importing gas via the WNTS for more than 20 years. As seen in the chart overleaf, West Natuna gas would have run out in 2028; however, Conrad's gas has extended this to at least 2035, and any new gas discoveries would clearly prolong this. Given the long-term historical nature of this gas supply to Singapore, the pricing mechanism and taxation regime are known, as are the operational and sovereign risks. In addition, the pricing of pipeline gas is less volatile vs LNG, with the latter also having significantly higher carbon emissions due to its transportation via seaborne vessels. We also highlight LNG pricing risks, as epitomised by workers' strikes at two of Chevron's Australian LNG assets, which has led to near-term pricing volatility.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	7,795	7,825	7,350	7,609	7,840
EBITDA	1,127	1,185	1,636	1,549	1,495
Operating profit	670	728	1,169	1,072	1,008
Net profit (rep./act.)	279	704	988	989	1,035
Net profit (adj.)	279	704	988	989	1,035
EPS (S\$ cent)	15.4	38.6	53.1	53.1	55.5
PE (x)	33.7	13.5	9.8	9.8	9.4
P/B (x)	2.5	2.4	2.0	1.8	1.5
EV/EBITDA (x)	10.7	10.2	7.4	7.8	8.1
Dividend yield (%)	1.0	2.3	3.1	3.1	3.3
Net margin (%)	3.6	9.0	13.4	13.0	13.2
Net debt/(cash) to equity (%)	160.5	146.2	54.6	49.9	35.4
Interest cover (x)	1.7	2.7	4.3	3.9	3.7
ROE (%)	7.9	18.2	22.8	19.6	17.9
Consensus net profit	-	-	921	842	858
UOBKH/Consensus (x)	-	-	1.07	1.17	1.21

Source: Sembcorp Industries, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$5.23
Target Price	S\$7.20
Upside	+37.7%

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 Seatrium in 3Q20.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	SCI SP
Shares issued (m):	1,782.1
Market cap (S\$m):	9,284.5
Market cap (US\$m):	6,811.8
3-mth avg daily t'over (US\$m):	33.3

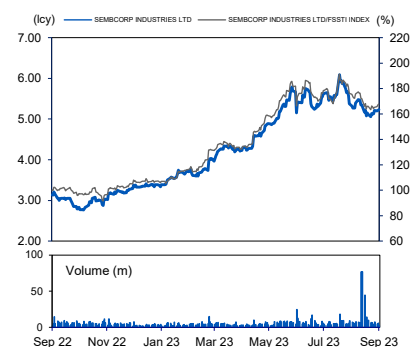
Price Performance (%)

52-week high/low	S\$6.09/S\$2.76			
1mth	3mth	6mth	1yr	YTD
(3.2)	(8.1)	29.2	65.4	55.6

Major Shareholders

Temasek Hldgs	48.9
-	-
-	-
FY23 NAV/Share (S\$)	2.57
FY23 Net Debt/Share (S\$)	1.41

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Background on Mako.** The gas field has been assessed to contain gas comprising 98% methane gas with the plan of development (POD) targeting sales gas rates of up to 111 billion btu per day. The POD is usually one of the major hurdles for oil and gas projects in Indonesia and we note that the Indonesian regulator, SKK Migas, approved Conrad's POD in Oct 22. Mako has gross 2C resources of 413bcf with front-end engineering and design expected to be completed by end-Sep 23. We understand that Conrad, SCI and SKK Migas are targeting the execution of a gas sales agreement by end-23.
- Recent sell-down an opportunity to accumulate.** In our view, SCI's share price weakness in Sep 23 after its inclusion into MSCI Singapore index has opened up a buying opportunity for investors. The lack of any major share price appreciation after the index inclusion disappointed some investors and this resulted some profit-taking given that the company's share price had risen 24% in the three months leading up to the end-Aug 23 index inclusion date. With a 14% share price decline from its peak in early-Aug 23, we highlight that SCI's 2024 PE and EV/EBITDA of 9.8x and 7.8x respectively appears inexpensive, especially relative to its regional and global utilities peers.

EARNINGS REVISION/RISK

- None.

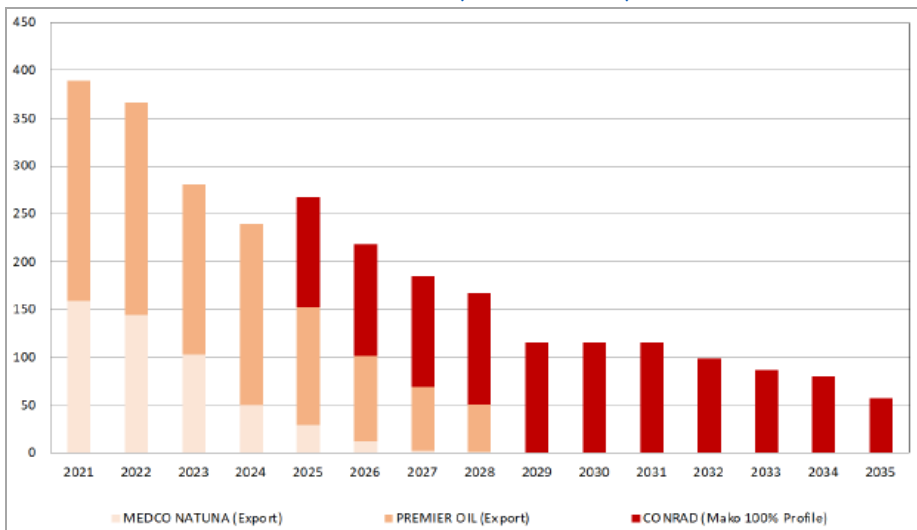
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$7.20** based on a target PE multiple of 13.6x. This target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's 'normalised' earnings compared with 2022's earnings.

SHARE PRICE CATALYST

- Sustained economic recovery after COVID-19, thus leading to increased energy and utilities usage.
- Positive EPS revision momentum as the street upgrades earnings in 2H22, and likely after its 6 Nov 23 Investor Day.

NATUNA SEA ANNUALISED SUPPLY CAPABILITY (BILLION BTU/DAY)



Source: SKK Migas

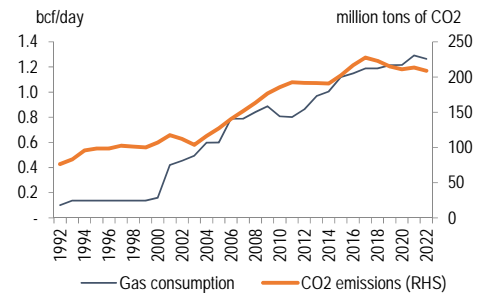
NEW POWER GENERATION CAPACITY IN SINGAPORE

Company	Capacity (MW)	Start-up
SCI	600	2026
Keppel	600	2026
Meranti Power	2 x 340	2025
Total	1,880	

Note: Adjusted EBITDA excludes provisions for contracts and merger expenses

Source: STM

SINGAPORE'S GAS CONSUMPTION VS CO2 EMISSIONS (1992-2022)



Source: Energy Institute Statistical Review Of World Energy 2023

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	7,825	7,350	7,609	7,840
EBITDA	1,185	1,636	1,549	1,495
Deprec. & amort.	457	467	477	487
EBIT	728	1,169	1,072	1,008
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	1,264	1,266	1,324
Tax	(138)	(253)	(253)	(265)
Minorities	(23)	(23)	(24)	(24)
Preferred dividends	0	0	0	0
Net profit	704	988	989	1,035
Net profit (adj.)	704	988	989	1,035

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	1,692	449	612	1,285
Pre-tax profit	865	1,264	1,266	1,324
Tax	(64)	(56)	(238)	(231)
Deprec. & amort.	457	467	477	487
Associates	(248)	(333)	(420)	(508)
Working capital changes	24	(1,111)	(690)	(4)
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)	(545)	(545)	(560)
Dividend payments	(137)	(297)	(297)	(312)
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	3,253	(139)	521
Beginning cash & cash equivalent	1,297	1,322	4,575	4,436
Changes due to forex impact	(79)	0	0	0
Ending cash & cash equivalent	1,322	4,575	4,436	4,956

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	4,488	4,937	5,470
Cash/ST investment	1,254	4,507	4,369	4,890
Other current assets	5,254	1,588	1,646	1,699
Total assets	16,020	15,681	15,833	16,712
ST debt	1,095	1,095	1,095	1,095
Other current liabilities	3,726	2,636	2,031	2,121
LT debt	5,974	5,974	5,974	5,974
Other LT liabilities	947	962	977	992
Shareholders' equity	3,977	4,693	5,410	6,158
Minority interest	239	262	286	310
Total liabilities & equity	16,020	15,681	15,833	16,712

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.1	22.3	20.4	19.1
Pre-tax margin	11.1	17.2	16.6	16.9
Net margin	9.0	13.4	13.0	13.2
ROA	4.6	6.2	6.3	6.4
ROE	18.2	22.8	19.6	17.9
Growth				
Turnover	0.4	(6.1)	3.5	3.0
EBITDA	5.1	38.1	(5.3)	(3.5)
Pre-tax profit	104.5	46.2	0.1	4.6
Net profit	152.3	40.4	0.1	4.7
Net profit (adj.)	152.3	40.4	0.1	4.7
EPS	150.2	37.3	0.0	4.6
Leverage				
Debt to total capital	62.6	58.8	55.4	52.2
Debt to equity	177.7	150.6	130.7	114.8
Net debt/(cash) to equity	146.2	54.6	49.9	35.4
Interest cover (x)	2.7	4.3	3.9	3.7

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