

Sembcorp Industries Ltd

Underlying business trend remains unchanged



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SINGAPORE | CONGLOMERATE | 3Q17 RESULTS

- Revenue and net profit missed our full year expectation by 5.5% and 22% respectively.
- In Utilities segment, Singapore market continued to deliver favorable performance while India market dragged. Marine profitability remained weak.
- We lowered our FY17e earnings by 25.2%. Bulk of our downward earnings revision comes from Marine division. We raised our target price to S\$3.70 to account for the higher valuation on SMM.

Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	1,808	2,140	(15.5)	Higher contribution from Utilities' Singapore and India operations offset by decrease in Marine's revenue
Gross profit	232	298	(22.2)	Higher contribution from Utilities segment offset by lower contribution from Marine segment
PBT	70	88	(20.4)	In line with the above; lower contribution from associates and JVs
PATMI	34	60	(43.9)	In line with the above

Source: Company, PSR

Positives

+ Utilities' Singapore operation continued to deliver strong performance: In 3Q17, net profit from Singapore arrived at S\$51.4mn with 52.1% YoY growth. The strong growth was mainly driven by 105% YoY increase in net profit from Energy segment. Water and On-site logistics & solid waste management segment reported a 16.8%YoY and 6.5%YoY growth respectively in 3Q17. 9M17 net profit from Singapore accounted for c.53% of total net profit excluding corporate and exceptional item in utilities segment. Singapore operations continue to benefit from the improvement of centralised utilities and gas divisions despite the intense competition.

Negatives

- Utilities' India operation was dragged by SGPL's losses: In 3Q17, TPCIL and SGI reported profit gains of S\$11mn and S\$14mn respectively, but SGPL made losses of S\$26mn though the interest burden was mitigated due to the completion of refinancing in 2Q17. The loss-making was due to the worsening of spark spread since the power tariff was lower while coal price trended up. SGPL still operated on the short-term rolling contracts as of now.

- Marine segment remained weak profitability: Sembcorp Marine (SMM) generated S\$1.7mn net profit in 3Q17 while it made S\$21.8mn losses in 3Q16. The 9M17 net profit slightly grew by 3%YoY to S\$28mn, but it incorporated the gain from the divestment of COSCO stake for S\$46.8mn. Therefore, profitability did not turn around YTD. (For updates on SMM, please refer to our report on 2nd-Nov: [Sembcorp Marine Ltd - Performance remains weak](#)).

Outlook

India's power market remains tight as some domestic plants have failed to gain access to either local coal or imported coal supply, but neither TPCIL nor SGPL has such an issue. It is expected that SGPL will suffer from the fluctuation of spark spread. Currently, the power spot price is coming near the cash cost for SGPL. TPCIL and SGI still deliver favorable performance, especially the latter keeps securing new orders to tap into the domestic renewable energy market. Oil and gas market is riding on the recovering momentum. We believe SMM will have more order flows from non-drill solitons. However, it will take time for it to improve the profitability.

6 November 2017

Accumulate (Maintained)

CLOSING PRICE	SGD 3.300
FORECAST DIV	SGD 0.080
TARGET PRICE	SGD 3.700
TOTAL RETURN	14.5%

COMPANY DATA

Bloomberg code	SCISP
O/S SHARES (MN)	1784
MARKET CAP (USD mn / SGD mn)	4326 / 5889
52 - WK HI/LO (SGD)	3.45 / 2.48
3M Average Daily T/O (mn)	3.193

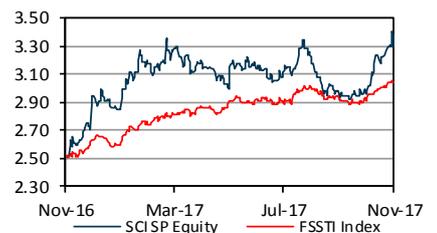
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PRIVATE LTD	49.5%
MONDRIAN INVESTMENT PARTNERS LTD	4.9%
DIMENSIONAL FUND ADVISOR	15%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	13.0	5.4	37.8
STIRETURN	3.7	19	24.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$mn)	FY 15	FY 16	FY 17e	FY 18e
Revenue	9,545	7,907	8,697	9,902
Gross profit	732	1,105	1,124	1,249
Net profit	549	395	302	319
P/E (x)	10.5	14.3	21.9	20.7
P/B (x)	10	0.9	11	11
ROE, %	10%	7%	5%	5%
ROA, %	3%	2%	1%	1%
Dividend Yield, %	3.6	2.8	1.9	2.2

Source: Company, PSR

VALUATION METHOD

SOTP

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Maintain ACCUMULATE with a slightly higher target price of S\$3.7

We revise down the FY17e EPS (from 22.6 SG cents to 16.9 SG cents) and FY18e (from previous 24.5 SG cents to 17.8 SG cents) due to the expectation of continuous weak profitability from the marine segment. After incorporating higher target price of S\$1.91 for SMM (previously S\$1.55), based on sum-of-the-parts method, we maintain ACCUMULATE with a slightly higher target price of S\$3.7.

Valuation table

Segments/Holdings	Multiples	BVPS (SG\$)	PPS (SG\$)	Holdings	Market Value (SG\$mn)
Utilities	PB of 1.2x	1.83	2.20		3,917
Others	PB of 1.0x	0.54	0.54		972
EPS (SG\$)					
Marine	PE of 38.2x	0.05	1.91	61%	2,435
Market cap (SG\$mn)					
Gallant Venture	Market value	656.2		12%	79
Total					7,403
PPS					4.1
TP (after conglomerate discount of 10%)					3.7

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Turnover	10,895	9,545	7,907	8,697	9,902
Gross revenue	1,415	732	1,105	1,124	1,249
EBITDA	1,454	1,030	1,238	1,333	1,421
Depreciation & Amortisation	315	405	454	540	576
EBIT	1,139	625	784	793	846
Net Finance (Expense)/Inc	(51)	(205)	(372)	(496)	(564)
Associates & JVs	158	6	125	144	173
Profit Before Tax	1,246	426	537	441	455
Taxation	(162)	28	(100)	(94)	(90)
Profit After Tax	1,084	454	437	346	365
Non-controlling interests	283	(94)	42	44	47
Net Income	801	549	395	302	319

Per share data

Y/E Dec, SG Cents	FY14	FY15	FY16	FY17e	FY18e
EPS, basic	44.3	29.2	19.9	16.9	17.8
EPS, diluted	44.0	28.9	19.7	16.8	17.7
DPS, basic	16.0	11.0	8.0	7.0	8.0
DPS, diluted	15.9	10.9	7.9	6.9	7.9
BVPS, basic (SGD)	3.0	3.2	3.3	3.4	3.4
BVPS, diluted (SGD)	3.0	3.1	3.3	3.3	3.4

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit for the period	1,084	454	437	346	365
Adjustments	392	896	888	1,003	1,073
WC changes	(1,414)	(1,961)	(367)	(1,130)	(1,069)
Cash generated from ops	62	(611)	958	220	369
Others	(119)	(150)	(86)	(94)	(90)
Cashflow from ops	(57)	(761)	872	125	280
CFI					
CAPEX, net	(1,563)	(1,325)	(740)	(447)	(669)
Others	122	126	(60)	125	127
Cashflow from investments	(1,441)	(1,199)	(801)	(323)	(543)
CFF					
Loans, net of repayments	1,571	2,050	1,107	894	946
Dividends	(539)	(415)	(225)	(157)	(180)
Others	(132)	254	(669)	(366)	(608)
Cashflow from financing	901	1,890	214	370	158
Net change in cash	(598)	(70)	285	173	(105)
Effects of exchange rate	2	15	(35)	15	15
Ending cash	1659	1604	1855	2043	1953

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

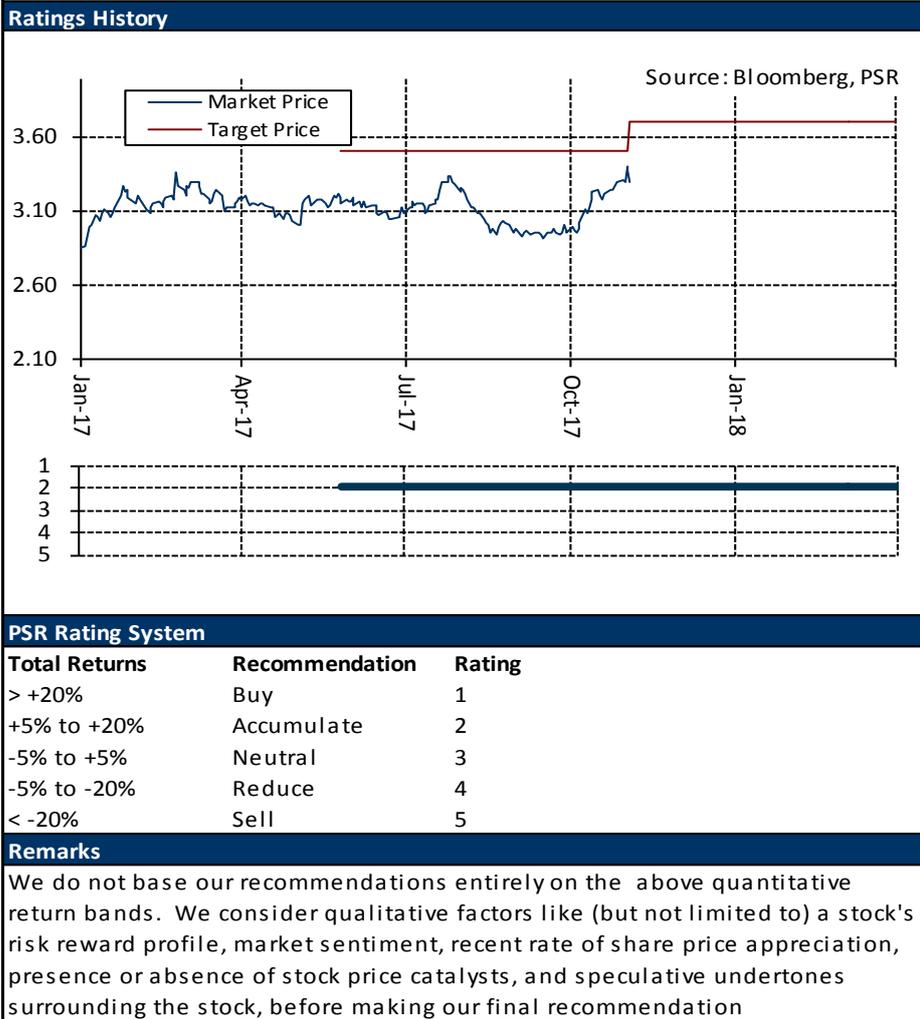
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PP&E	7,725	8,685	11,226	11,589	12,335
Associates and JVs	2,074	2,349	1,746	1,860	1,961
Receivables and prepayments	467	451	734	1,191	1,418
Others	779	823	960	955	966
Total non-current assets	11,046	12,308	14,666	15,595	16,679
Cash	1,661	1,606	1,883	2,043	1,953
Trade receivables	1,200	1,568	1,958	2,027	2,331
Inventories and WIP	3,205	4,233	3,466	3,593	3,435
Others	64	201	317	147	156
Total current assets	6,130	7,608	7,624	7,810	7,875
Total Assets	17,176	19,915	22,290	23,405	24,554
LIABILITIES					
Borrowings	3,649	5,032	7,096	7,804	8,583
Others	938	894	1,016	1,085	1,112
Total non-current liabilities	4,587	5,926	8,112	8,889	9,696
Trade payables	2,745	3,388	3,398	3,337	3,371
Borrowings	1,086	1,801	2,126	2,312	2,478
Others	1,526	758	492	463	449
Total current liabilities	5,357	5,946	6,016	6,112	6,297
Total Liabilities	9,944	11,872	14,128	15,001	15,993
Shareholder Equity	5,414	5,630	5,898	6,007	6,139
Perpetual securities	203	803	803	1,010	1,010
Non-controlling interests	1,616	1,610	1,461	1,387	1,413

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	10.4	10.5	14.3	21.9	20.7
P/B (x)	1.5	1.0	0.9	1.1	1.1
EV/EBITDA (x)	8.8	12.4	11.9	11.0	11.1
Dividend yield (%)	3.6	3.6	2.8	1.9	2.2

Growth & Margins (%)

Growth					
Revenue	1%	-12%	-17%	10%	14%
Gross profit	10%	-48%	51%	2%	11%
EBIT	-2%	-45%	25%	1%	7%
Net income	-2%	-31%	-28%	-24%	5%
Margins					
GP margin	13%	8%	14%	13%	13%
EBIT margin	10%	7%	10%	9%	9%
NP margin	7%	6%	5%	3%	3%
Key Ratios					
ROE (%)	15%	10%	7%	5%	5%
ROA (%)	5%	3%	2%	1%	1%
Net Debt or (Net Cash)	3,073	5,226	7,339	8,073	9,109
Gearing (%)	42%	65%	90%	96%	106%



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