

# Sembcorp Industries Ltd

A new but same strategy unfolded



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## SINGAPORE | CONGLOMERATE | 4Q17 RESULTS

26 February 2018

- FY17 revenue and net profit substantially missed our expectation, due mainly to unexpected weak performance from marine segment in 4Q17.
- Utilities' Singapore generated moderate growth but the group's performance was dragged by weak India and marine operations.
- A new strategy for the group: reposition utilities, support marine segment and move up value chain of urban development segment.
- Short-term catalysts:
  - Divest some peripheral utilities assets to supplement cash reserves up to S\$0.5bn.
  - Propose IPO of India energy business under Sembcorp Energy India Limited.
- We tweak up the FY18e EPS from previous 17.8 SG cents to 19.8 SG cents, due to the expectation of an improvement stemming from the new strategy. We maintain our call ACCUMULATE with a higher TP of S\$3.86 (previous S\$3.7) as earnings was raised.

### ACCUMULATE (Maintained)

CLOSING PRICE	SGD 3.240
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 3.860
TOTAL RETURN	21.3%

#### COMPANY DATA

Bloomberg code	SCISP
O/S SHARES (MN):	1784
MARKET CAP (USD mn / SGD mn):	4381/ 5782
52 - WK HI/LO (SGD):	3.6 / 2.89
3M Average Daily T/O (mn):	4.28229

#### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PRIVATE LTD	49.5%
MONDRIAN INVESTMENT PARTNERS LTD	4.9%
DIMENSIONAL FUND ADVISOR	16%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(8.0)	5.5	(13)
STIRETURN	(15)	3.6	16.2

#### Results at a glance

(SGD mn)	4Q17	4Q16	YoY (%)	FY17	FY16	YoY (%)	Comments
Revenue	2,123	2,026	4.8	8,345.6	7,907.0	5.5	Higher turnover from Utilities segment offset by decrease in Marine's revenue
Gross profit	148	250	(40.9)	946.1	1,105.1	(14.4)	Gross loss from Marine segment
PBT	0	165	(99.9)	312.1	537.4	(41.9)	In line with the above; higher overhead costs and SGPL refinancing costs
PATMI	23	147	(84.6)	233.8	394.9	(40.8)	In line with the above

Source: Company, PSR

#### The Positives

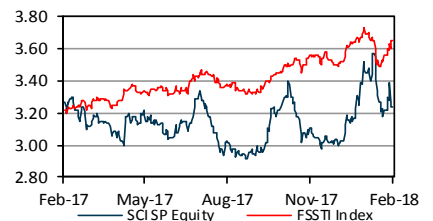
**+ Utilities' Singapore operation deliver a moderate growth.** In 4Q17, profit from operation (PFO) from Singapore arrived at S\$40.6mn (Down 32% YoY), resulting from the lower contribution from energy segment (4Q17: S\$21.3mn vs 4Q16: S\$36.1mn). A higher high sulphur fuel oil (HSFO) price further suppressed profit margins. However, FY17 PFO grew by 10% YoY to S\$217.4mn. The drop in PFO from On-site Logistics & Solid Waste Management was fully offset by the growth in PFO from Energy and Water. Net profit from Utilities' Singapore increased by 24% YoY to S\$163.6mn, underpinning the improvement of centralized utilities and gas businesses in FY17.

#### The Negatives

**- Utilities' India's performance was dragged by SGPL.** 4Q17 PFO from India arrived at S\$37.6mn (Up 45% YoY), and FY17 PFO arrived at S\$329.4mn (Up 38% YoY). However, net loss in FY17 expanded to S\$57.8mn (FY16: -S\$16.1mn). In 4Q17, respective net loss from TPCIL, SGPL, and SGIL was S\$4mn, S\$27mn, and S\$5mn. It was mainly attributed to S\$39.1 refinancing costs from SGPL, shut-down of some plants, and narrower spark spread owing to higher coal price. Moreover, there was no group tax relief in India and the tax benefit for losses from a subsidiary in India was not recognised, resulting in the widened net losses.

**- Marine segment continued to drag the group's profitability.** 4Q17 net loss from Sembcorp Marine (SMM) was S\$35.0mn (net profit in 4Q16: S\$30.6mn). FY17 net profit was S\$9.9mn (FY16: S\$75.2mn). It was due to lower profits from drilling solutions and offshore platforms. The net order book continued to decline to S\$7.6bn (\$3.1bn from Sete Brasil drillship projects) as of Dec-17.

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec (\$\$mn)	FY 15	FY 16	FY 17e	FY 18e
Revenue	7,907	8,346	11,660	14,760
Gross profit	1,105	946	1,436	1,840
Net profit	395	231	354	484
P/E (x)	14.3	28.8	16.4	12.0
P/B (x)	0.9	0.9	0.9	0.8
ROE, %	7%	4%	6%	7%
ROA, %	2%	1%	1%	2%
Dividend Yield, %	2.8	1.7	2.2	2.5

Source: Company, PSR

#### VALUATION METHOD

SOTP

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## Strategy review summaries:

### Utilities:

1. Focus on gas & power, merchant and retail power, and renewable energy businesses.
2. Balance the current portfolio geographically with deepening presence in 4 key markets: UK, China, India, and Singapore and Southeast Asia.

### Key catalysts:

- Divest some peripheral utilities assets to supplement cash reserves up to S\$0.5bn.
- Propose IPO of India energy business under Sembcorp Energy India Limited.
- Double the renewable capacity to 4,000MW by 2020; Reduce carbon mission from current 0.55tCO<sub>2</sub>/MWh to 0.42tCO<sub>2</sub>/MWh by 2022 and 0.40tCO<sub>2</sub>/MWh by 2030.

### Marine:

3. Support the Marine segment through the cycle.

### Urban development:

4. Move up the value chain aiming to develop integrated townships and business hubs & smart cities.

**Goal:** Return to double-digit ROE.

### Outlook

Management unfolds the 3-step plan, namely reposition, growth, and sustainable value creation. To gain back the double-digit ROE that contains both organic and inorganic growth, the group will start to increase cash reserves internally. We believe that plants under TPCIL, SGPL, and SGIL are quality assets. Given the current bullish market condition, the Group could monetise these assets at good prices if it proceeds the IPO in the near term. However, the expectation of prolonged weak profitability from marine segment could stall the recovery on the group level in the short term. On a long-term perspective, we think it is in the right direction. After all, clean energy gradually will become one of the mainstream developments in the foreseeable future. The diversified global footprints that it is going to be entrenched ensure a higher growth while lower operational risks.

We tweak up the FY18e EPS from previous 17.8 SG cents to 19.8 SG cents, due to the expectation of an improvement stemming from the new strategy. After incorporating an unchanged target price of S\$1.91 for SMM, based on sum-of-the-parts method, and we maintain ACCUMULATE with a higher target price of S\$3.86 (previous S\$3.7).

### Valuation table

Segments/Holdings	Multiples	BVPS (SG\$)	PPS (SG\$)	Holdings	Market Value (SG\$mn)
Utilities	PB of 1.2x	1.82	2.18		3,889
Others	PB of 1.0x	0.71	0.71		1,267
<b>EPS (SG\$)</b>					
Marine	PE of 38.2x	0.04	1.91	61%	2,434
<b>Market cap (SG\$mn)</b>					
Gallant Venture	Market value	629.9		12%	79
Total					7,669
PPS					4.3
<b>TP (after conglomerate discount of 10%)</b>					<b>3.86</b>

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Turnover</b>	<b>9,545</b>	<b>7,907</b>	<b>8,346</b>	<b>11,660</b>	<b>14,760</b>
Gross revenue	732	1,105	946	1,436	1,840
<b>EBITDA</b>	<b>1,030</b>	<b>1,238</b>	<b>1,203</b>	<b>1,500</b>	<b>1,765</b>
Depreciation & Amortisation	405	454	571	629	689
<b>EBIT</b>	<b>625</b>	<b>784</b>	<b>631</b>	<b>871</b>	<b>1,076</b>
Net Finance (Expense)/Inc	(205)	(372)	(483)	(555)	(609)
Associates & JVs	6	125	164	197	246
<b>Profit Before Tax</b>	<b>426</b>	<b>537</b>	<b>312</b>	<b>513</b>	<b>713</b>
Taxation	28	(100)	(67)	(144)	(212)
<b>Profit After Tax</b>	<b>454</b>	<b>437</b>	<b>245</b>	<b>369</b>	<b>500</b>
Non-controlling interests	(94)	42	14	15	17
<b>PATMI</b>	<b>549</b>	<b>395</b>	<b>231</b>	<b>354</b>	<b>484</b>

### Per share data

Y/E Dec, SG Cents	FY15	FY16	FY17	FY18e	FY19e
EPS, basic	29.2	19.9	10.5	19.8	27.1
EPS, diluted	28.9	19.7	10.4	19.6	26.8
DPS, basic	11.0	8.0	5.0	7.0	8.0
DPS, diluted	10.9	7.9	5.0	6.9	7.9
BVPS, basic (SGD)	3.2	3.3	3.3	3.6	3.8
BVPS, diluted (SGD)	3.1	3.3	3.3	3.5	3.8

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Profit for the period	454	437	245	369	500
Adjustments	896	888	982	1,149	1,283
WC changes	(1,961)	(367)	(506)	(373)	(845)
Cash generated from ops	(611)	958	720	1,145	938
Others	(150)	(86)	(70)	(144)	(212)
<b>Cashflow from ops</b>	<b>(761)</b>	<b>872</b>	<b>650</b>	<b>1,001</b>	<b>725</b>
<b>CFI</b>					
CAPEX, net	(1,325)	(740)	(459)	(997)	(1,103)
Others	126	(60)	367	210	223
<b>Cashflow from investments</b>	<b>(1,199)</b>	<b>(801)</b>	<b>(92)</b>	<b>(787)</b>	<b>(880)</b>
<b>CFF</b>					
Loans, net of repayments	2,050	1,107	779	1,214	1,038
Dividends	(415)	(225)	(162)	(116)	(185)
Others	254	(669)	(341)	(613)	(673)
<b>Cashflow from financing</b>	<b>1,890</b>	<b>214</b>	<b>276</b>	<b>485</b>	<b>180</b>
<b>Net change in cash</b>	<b>(70)</b>	<b>285</b>	<b>834</b>	<b>699</b>	<b>25</b>
Effects of exchange rate	15	(35)	(8)	10	15
<b>Ending cash</b>	<b>1,604</b>	<b>1,855</b>	<b>2,681</b>	<b>3,390</b>	<b>3,430</b>

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
PP&E	8,685	11,226	11,158	11,693	12,250
Associates and JVs	2,349	1,746	1,765	1,801	1,891
Receivables and prepaym	451	734	1,184	1,418	1,654
Others	823	960	1,010	961	984
<b>Total non-current assets</b>	<b>12,308</b>	<b>14,666</b>	<b>15,117</b>	<b>15,872</b>	<b>16,779</b>
Cash	1,606	1,883	2,687	3,390	3,430
Trade receivables	1,568	1,958	2,032	2,331	2,681
Inventories and WIP	4,233	3,466	3,214	3,669	3,955
Others	201	317	163	170	178
<b>Total current assets</b>	<b>7,608</b>	<b>7,624</b>	<b>8,096</b>	<b>9,562</b>	<b>10,244</b>
<b>Total Assets</b>	<b>19,915</b>	<b>22,290</b>	<b>23,213</b>	<b>25,434</b>	<b>27,023</b>
<b>LIABILITIES</b>					
Borrowings	5,032	7,096	8,275	8,583	9,442
Others	894	1,016	886	905	925
<b>Total non-current liabilities</b>	<b>5,926</b>	<b>8,112</b>	<b>9,161</b>	<b>9,488</b>	<b>10,366</b>
Trade payables	3,388	3,398	3,819	4,201	3,991
Borrowings	1,801	2,126	1,572	2,478	2,657
Others	758	492	445	455	531
<b>Total current liabilities</b>	<b>5,946</b>	<b>6,016</b>	<b>5,836</b>	<b>7,134</b>	<b>7,178</b>
<b>Total Liabilities</b>	<b>11,872</b>	<b>14,128</b>	<b>14,997</b>	<b>16,622</b>	<b>17,545</b>
<b>Shareholder Equity</b>	<b>5,630</b>	<b>5,898</b>	<b>5,966</b>	<b>6,355</b>	<b>6,864</b>
Perpetual securities	803	803	1,003	1,003	1,003
Non-controlling interests	1,610	1,461	1,246	1,454	1,611

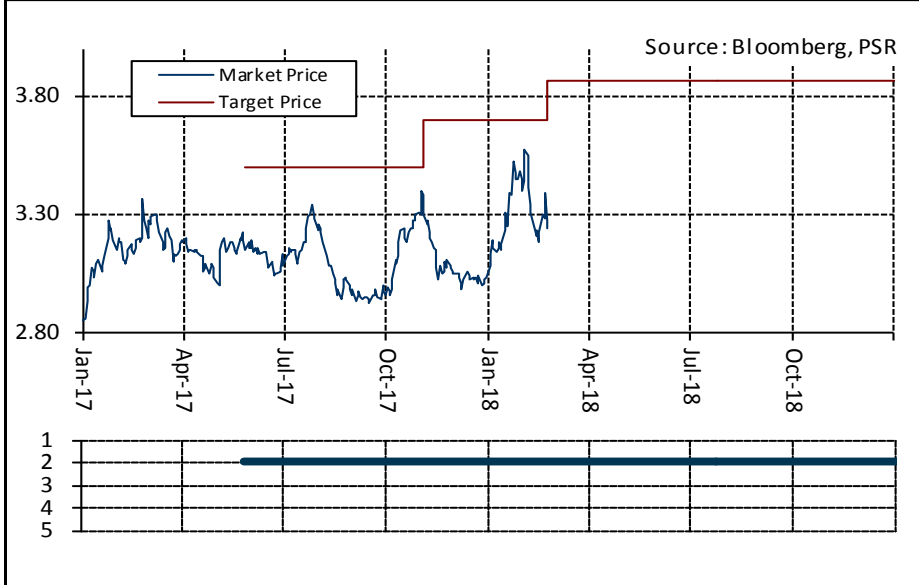
### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	10.5	14.3	28.8	16.4	12.0
P/B (x)	1.0	0.9	0.9	0.9	0.8
EV/EBITDA (x)	12.4	11.9	11.9	9.0	8.2
Dividend yield (%)	3.6	2.8	1.7	2.2	2.5
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-12%	-17%	6%	40%	27%
Gross profit	-48%	51%	-14%	52%	28%
EBIT	-45%	25%	-19%	38%	23%
Net income	-31%	-28%	-42%	53%	37%
<b>Margins</b>					
GP margin	8%	14%	11%	12%	12%
EBIT margin	7%	10%	8%	7%	7%
NP margin	6%	5%	3%	3%	3%
<b>Key Ratios</b>					
ROE (%)	10%	7%	4%	6%	7%
ROA (%)	3%	2%	1%	1%	2%
Net Debt or (Net Cash)	5,226	7,339	7,161	7,671	8,669
Gearing (%)	65%	90%	87%	87%	91%

Source: Company, Phillip Securities Research (Singapore) Estimates

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

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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