

# Sembcorp Industries Ltd

India operation turned around



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## SINGAPORE | CONGLOMERATE | 2Q18 RESULTS

7 August 2018

- 2Q18 revenue and net profit met our expectation.
- Utilities in both Singapore and China delivered healthy performance. And India turned profitable, but some operational issues remain.
- Marine segment still dragged the group improvement.
- We lowered our FY18e EPS from 18.9 SG cents to 17.7 SG cents, due to prolonged weak profitability from SMM. After incorporating a lower target price of S\$1.78 for SMM, based on sum-of-the-parts method, we maintain our call to BUY with a lower target price of S\$3.70 (previously S\$3.83).

### Results at a glance

(SGD mn)	2Q18	2Q17	YoY (%)	Comments
		Restated		
Revenue	3,344	2,282	46.6	Higher turnover from Utilities segment from Singapore, China, and India markets; Higher turnover from Marine segment due to revenue recognition for delivery of 2 jack-ups and sale of a semi-submersible
Gross profit	189	322	(41.3)	Gross loss from Marine on the sale of a semi-submersible and lower overall business volume
PBT	89	91	(2.1)	FX gain and higher fair value on hedging instruments
PATMI	65	59	10.0	Recognition of unutilised tax losses from Marine

Source: Company, PSR

### The Positives

**+ Utilities' Singapore operation is stable:** In 2Q18, net profit from Singapore was S\$43.3mn (+ 4.3% YoY). However, higher high sulphur fuel oil (HSFO) price and intense market competition extended into 2Q18. This year they have secured 94MW of solar power capacity and become the second largest renewable energy player in Singapore. Meanwhile, the group reinforced the position of a leading gas player in Singapore they are first imported LNG cargo on a spot basis.

**+ Utilities' China operation performed well:** In 2Q18, net profit from China arrived at S\$15.1mn (+65.9% YoY) due mainly to the contribution of the Changzhi water treatment plant and higher spark spread from SongZao thermal power plant.

**+ Utilities' India operation turned profitable:** In 2Q18, net income from India came in at S\$39.4mn (2Q17: S\$-3.2mn). The net profit and plant load factor breakdowns are shown in Figure 1. The turnaround of performance in 2Q18 was due mainly to the high wind season and lower loan balance and the interest rate charged for Utilities' India operations. It is worth noting that SGPL is subject to short-term power purchase agreements, but the average power selling price has been higher.

Figure 1: Major turnaround in SGPL

	Net Profit (\$\$mn)		Plant Load Factor	
	2Q18	2Q17	2Q18	2Q17
TPCIL	14	15	91%	91%
SGPL	8	-29	88%	78%
SGIL	17	11	23%	24%

Source: Company, PSR

### BUY (Maintained)

CLOSING PRICE	SGD 2.700
FORECAST DIV	SGD 0.050
TARGET PRICE	SGD 3.700
TOTAL RETURN	38.9%

### COMPANY DATA

Bloomberg code	SCISP
O/S SHARES (MN):	1787
MARKET CAP (USD mn / SGD mn):	3524 / 4825
52 - WK HI/LO (SGD):	3.6 / 2.58
3M Average Daily T/O (mn):	3.2

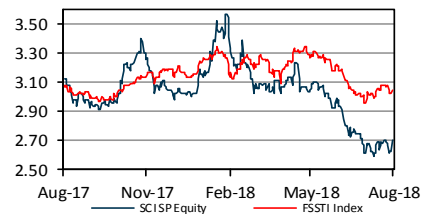
### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PRIVATE LTD	49.5%
MONDRIAN INVESTMENT PARTNERS LTD	4.9%
NORGES BANK INVESTMENT MANAGEMENT	12%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.1	(11.2)	(13.7)
STIRETURN	3.4	(6.5)	19

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (\$\$mn)	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	7,907	8,346	11,27	12,013
Gross profit	1,105	946	1,035	1,355
Net profit	395	231	316	449
P/E (x)	14.3	28.8	15.3	10.7
P/B (x)	0.9	0.9	0.8	0.6
ROE, %	7%	4%	5%	6%
ROA, %	2%	1%	1%	2%
Dividend Yield, %	2.8	17	19	19

Source: Company, PSR

### VALUATION METHOD

SOTP

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### The Negatives

- **Several concerns on Utilities' India operation:** Thermal coal prices imported from the overseas market are higher than the domestic market. The major source of coal supply to TPCIL and SGPL is still imported coal. Hence, the spark spread is compressed. Meanwhile, the group is also concerned about collecting from their power purchaser receivables. Management mentioned that they would continue to optimise the cash conversion cycle.

- **Marine segment continued to encumber the group's performance:** Sembcorp Marine (SMM) reported net losses of S\$55.6mn. The net order book continues to decline (1H18: S\$7.2bn vs FY17: S\$8.4bn). Work volume will remain low, and margins are compressed. Operating losses expected for the rest of the current financial year.

### Outlook

Sembcorp Industries strategy is to become an integrated energy player. Through the recent acquisitions and investments in Utilities segment, we can see that it is expanding the renewable and clean energy businesses. We expect profit contributions from the recent acquired company, UK Power Reserve, in FY19. On the other hand, we also look forward to the higher profit contributions from Utilities' India operation moving forward since the domestic market conditions and financial position are improving. Management is sticking to their plan to support SMM through the cycle which is expected to be longer than expected. Therefore, the improvement of group performance as a whole will slow down.

We lowered our FY18e EPS from 18.9 SG cents to 17.7 SG cents, due to prolonged weak profitability from SMM. After incorporating a lower target price of S\$1.78 for SMM, based on sum-of-the-parts method, we maintain our call to BUY with a lower target price of S\$3.70 (previously S\$3.83).

### Valuation table

Segments/Holdings	Multiples	BVPS (SG\$)	PPS (SG\$)	Holdings	Market Value (SG\$mn)
Utilities	PB of 1.2x	1.8	2.1		3,765
Others	PB of 1.0x	0.7	0.7		1,236
Marine	PB of 1.6x	1.1	1.8	61%	2,263
<b>Market cap (SG\$mn)</b>					
Gallant Venture	Market value	704.6		12%	79
Total					7,343
PPS					4.1
<b>TP (after conglomerate discount of 10%)</b>					<b>3.70</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>11,127</b>	<b>12,013</b>
Gross revenue	732	1,105	946	1,035	1,355
<b>EBITDA</b>	<b>1,030</b>	<b>1,238</b>	<b>1,203</b>	<b>1,251</b>	<b>1,531</b>
Depreciation & Amortisation	405	454	571	584	613
<b>EBIT</b>	<b>625</b>	<b>784</b>	<b>631</b>	<b>667</b>	<b>918</b>
Net Finance (Expense)/Inc	(205)	(372)	(483)	(419)	(464)
Associates & JVs	6	125	164	189	217
<b>Profit Before Tax</b>	<b>426</b>	<b>537</b>	<b>312</b>	<b>437</b>	<b>670</b>
Taxation	28	(100)	(67)	(113)	(206)
<b>Profit After Tax</b>	<b>454</b>	<b>437</b>	<b>245</b>	<b>324</b>	<b>464</b>
Non-controlling interests	(94)	42	14	8	15
<b>PATMI</b>	<b>549</b>	<b>395</b>	<b>231</b>	<b>316</b>	<b>449</b>

### Per share data

Y/E Dec, SG Cents	FY15	FY16	FY17	FY18e	FY19e
EPS, basic	29.2	19.9	10.5	17.7	25.1
EPS, diluted	28.9	19.7	10.4	17.6	25.0
DPS, basic	11.0	8.0	5.0	5.0	5.0
DPS, diluted	10.9	7.9	5.0	5.0	5.0
BVPS, basic (SGD)	3.2	3.3	3.3	3.5	4.2
BVPS, diluted (SGD)	3.1	3.3	3.3	3.5	4.1

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Profit for the period	454	437	245	324	464
Adjustments	896	888	982	923	1,085
WC changes	(1,961)	(367)	(506)	(219)	(610)
Cash generated from ops	(611)	958	720	1,028	939
Others	(150)	(86)	(70)	(113)	(206)
<b>Cashflow from ops</b>	<b>(761)</b>	<b>872</b>	<b>650</b>	<b>915</b>	<b>733</b>
<b>CFI</b>					
CAPEX, net	(1,325)	(740)	(459)	(986)	(668)
Others	126	(60)	367	210	223
<b>Cashflow from investments</b>	<b>(1,199)</b>	<b>(801)</b>	<b>(92)</b>	<b>(776)</b>	<b>(445)</b>
<b>CFF</b>					
Loans, net of repayments	2,050	1,107	779	479	296
Dividends	(415)	(225)	(162)	(93)	(116)
Others	254	(669)	(341)	(500)	(537)
<b>Cashflow from financing</b>	<b>1,890</b>	<b>214</b>	<b>276</b>	<b>(115)</b>	<b>(357)</b>
<b>Net change in cash</b>	<b>(70)</b>	<b>285</b>	<b>834</b>	<b>25</b>	<b>(69)</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>2,716</b>	<b>2,662</b>

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	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
PP&E	8,685	11,226	11,158	11,197	11,309
Associates and JVs	2,349	1,746	1,765	1,942	2,097
Receivables and prepayments	451	734	1,184	1,951	2,648
Others	823	960	1,018	1,172	1,172
<b>Total non-current assets</b>	<b>12,308</b>	<b>14,666</b>	<b>15,125</b>	<b>16,262</b>	<b>17,228</b>
Cash	1,606	1,883	2,687	2,716	2,662
Trade receivables	1,568	1,958	2,045	2,249	2,429
Inventories and WIP	4,233	3,466	3,733	2,516	3,106
Others	201	317	163	175	182
<b>Total current assets</b>	<b>7,608</b>	<b>7,624</b>	<b>8,627</b>	<b>7,656</b>	<b>8,379</b>
<b>Total Assets</b>	<b>19,915</b>	<b>22,290</b>	<b>23,753</b>	<b>23,918</b>	<b>25,606</b>
<b>LIABILITIES</b>					
Borrowings	5,032	7,096	8,275	8,441	8,611
Others	894	1,016	888	916	933
<b>Total non-current liabilities</b>	<b>5,926</b>	<b>8,112</b>	<b>9,163</b>	<b>9,357</b>	<b>9,543</b>
Trade payables	3,388	3,398	3,362	3,193	3,353
Borrowings	1,801	2,126	1,572	1,886	2,011
Others	758	492	1,482	895	790
<b>Total current liabilities</b>	<b>5,946</b>	<b>6,016</b>	<b>6,416</b>	<b>5,974</b>	<b>6,154</b>
<b>Total Liabilities</b>	<b>11,872</b>	<b>14,128</b>	<b>15,579</b>	<b>15,331</b>	<b>15,698</b>
<b>Shareholder Equity</b>	<b>5,630</b>	<b>5,898</b>	<b>5,940</b>	<b>6,296</b>	<b>7,439</b>
Perpetual securities	803	803	1,003	1,003	1,003
Non-controlling interests	1,610	1,461	1,231	1,288	1,467

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	10.5	14.3	28.8	15.3	10.7
P/B (x)	1.0	0.9	0.9	0.8	0.6
EV/EBITDA (x)	12.4	11.9	12.7	9.9	8.3
Dividend yield (%)	3.6	2.8	1.7	1.9	1.9

### Growth & Margins (%)

Growth					
Revenue	-12%	-17%	6%	33%	8%
Gross profit	-48%	51%	-14%	9%	31%
EBIT	-45%	25%	-19%	6%	38%
Net income	-31%	-28%	-42%	37%	42%

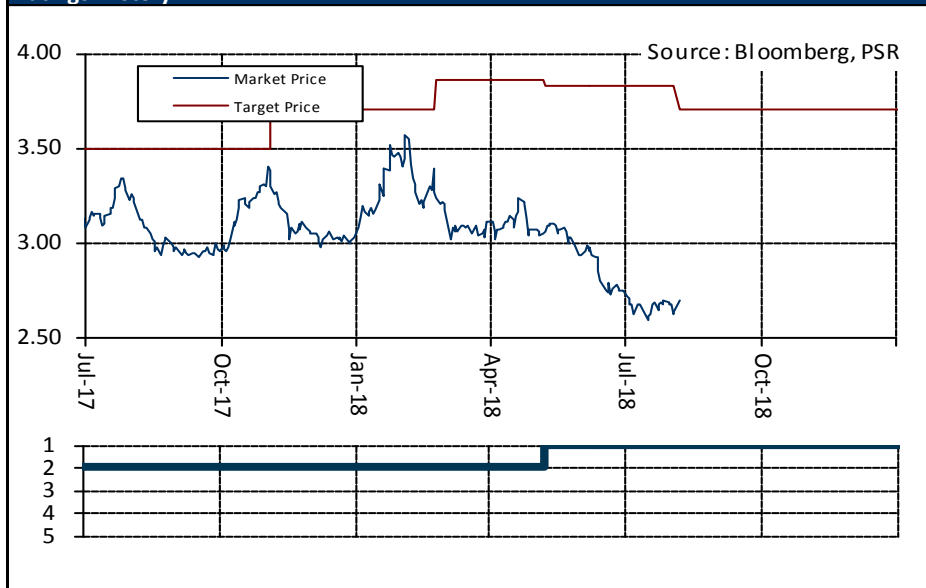
### Margins

GP margin	8%	14%	11%	9%	11%
EBIT margin	7%	10%	8%	6%	8%
NP margin	6%	5%	3%	3%	4%

### Key Ratios

ROE (%)	10%	7%	4%	5%	6%
ROA (%)	3%	2%	1%	1%	2%
Net Debt or (Net Cash)	5,226	7,339	7,161	7,610	7,960
Gearing (%)	65%	90%	88%	89%	80%

### 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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