

Sembcorp Industries Ltd-3Q11 Results

Phillip Securities Research Pte Ltd

4 November 2011

Market Singapore Stock Exchange
Sector Conglomerate
Reuters SCIL.SI
Bloomberg SCI.SP
POEMS SCIS.SG

BUY (Maintained)

Closing Price
S\$4.19
Target Price
S\$5.18(+23.6%)

Price
Last Price **4.190**
52w k High (4/28/2011) 5.80
52w k Low (10/4/2011) 3.21
Shares Outstanding (mil) 1779.742
Market Cap (S\$ mil) 7457.12
Avg. Daily Turnover (mil) 18.32
Free float (%) 49.75
PE (X) 9.52
PB (X) 1.95

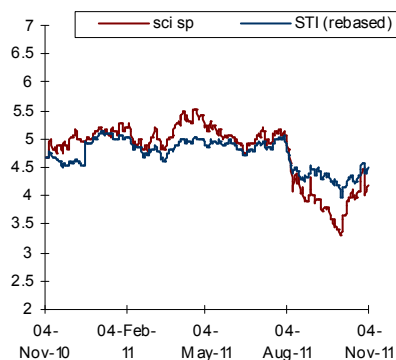
- 3Q11 results in line with expectations.
- Utilities division continues to shine
- Maintain BUY recommendation with revised target price of \$5.18.

3Q11 Results Review

SembCorp Industries reported 3Q11 revenue of S\$2,632mil. (+22% y-o-y) and PATMI of S\$222mil. (+5% y-o-y) respectively. Utilities net profit was up 33% y-o-y to S\$79mil. with all regions registering strong growth particularly in Singapore (up 20% due to higher electricity prices) and China (up 52% due to stronger demand). Industrial parks also turned in a good set of results with net profit of S\$7.2mil (+17% y-o-y) from stronger land sales in VSIP.

Price performance %

	1M	3M	6M
Absolute	26.2%	-15.4%	-19.7%
Relative	13.3%	-7.3%	-11.5%



Key Takeaways

Management expects the second tranche of gas of 90bbtu (26% of existing supply) from West Natuna to flow in November (after delay in October) and the starting up of its wood chip boiler in Jurong island in two weeks time. Waste management business in Australia is also expected to continue to do well with management confident of earning good fees from landfills operations (from landfill concession rights granted to WSN). Construction of its India power plant as well as Jurong Island wastewater treatment plant, Co-gen plant and multi-facilities are all progressing well.

Indonesia Gas Shortage

We do not expect the current gas shortage in Indonesia to have a significant impact on Sembcorp as we expect compensation for any disruption of gas supplies from West Natuna. The gas shortage at Indonesia's state electricity firm PT PLN has recently prompted calls by Indonesia's economic minister to cut natural gas supplies to Singapore. However, Indonesia has worked up an agreement to swap gas supply from West Natuna and the Grissik field that should help alleviate the shortages. In addition, PLN expects to receive 200bbtu of gas from the completion of its LNG terminal in 2012.

Valuation

We revised our SOTP derived target price for SembCorp Industries to \$5.18 from \$6.17 previously, taking into account a reduction in our fair value for SembCorp Marine (From \$6.09 to \$4.31). We also increase our fair value for the utilities division from \$1.76 to \$2.01 per share as we expect stronger earnings to come from the utilities division, namely China and Singapore. At our target price of \$5.18, SembCorp would trade at 13x FY12e EPS, which is slightly above historical average valuations. BUY.

Major Shareholders	%
1 Temasek Holdings	49.67
2 Schroder Investment Mgmt	1.36
3 Capital World Investors	0.94

Source: Bloomberg

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Conso'	Profits	EPS	DPS	BV	ROE	P/E	Yield	P/BV
Ending	SGD(mill)	SG (¢)	SG (¢)	SG (\$)	(%)	(X)	(%)	(X)
12/08A	507	29	11	1.46	18	14.7	2.6	2.9
12/09A	683	38	15	1.87	23	10.9	3.6	2.2
12/10A	793	44	17	2.14	22	9.4	4.1	2.0
12/11E	769	43	17	2.39	19	9.8	4.0	1.8
12/12E	713	40	15	2.63	16	10.6	3.7	1.6

Approx. 50 to 60% utilization rate of water/wastewater treatment facilities in China currently with potential for further scaling up of demand.

Management expects solid waste management business in Australia to continue to perform well.

Fig 1. Utilities Net Profit By Region				
(In S\$millions)	3Q11	3Q10	Y-o-Y	Attributable to:
Singapore	45.6	38.1	+20%	Higher electricity prices and output
China	8.2	5.4	+52%	Higher demand for water and waste water treatment
Rest of Asia & Australia	14.9	11.9	+24%	Contribution from WSN Environmental Solutions (acquired in Feb 2011)
Middle East & Africa	8.9	6.2	+44%	Strong contribution from Fujairah 1
UK	5.0	2.8	+78%	Teeside power spreads still remain rather weak
The Americas	1.2	0.8	+46%	
Others	(5.0)	(6.0)	+17%	
Total Net Profit	78.8	59.3	+33%	

Source: Company, PSR estimates

We expect demand for electricity and sparks spread in Singapore to remain firm at least till 2013 when the LNG terminal will be completed and more power generation capacities come on line.

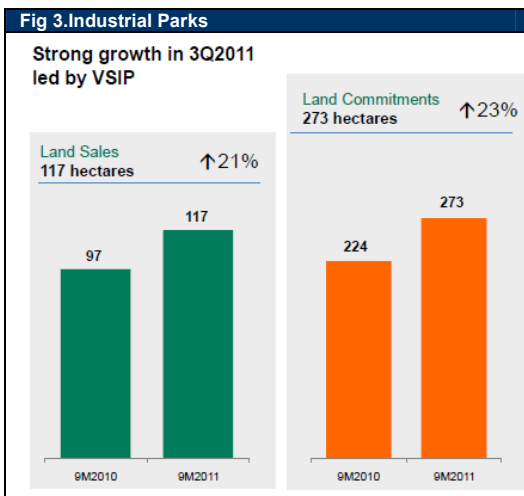
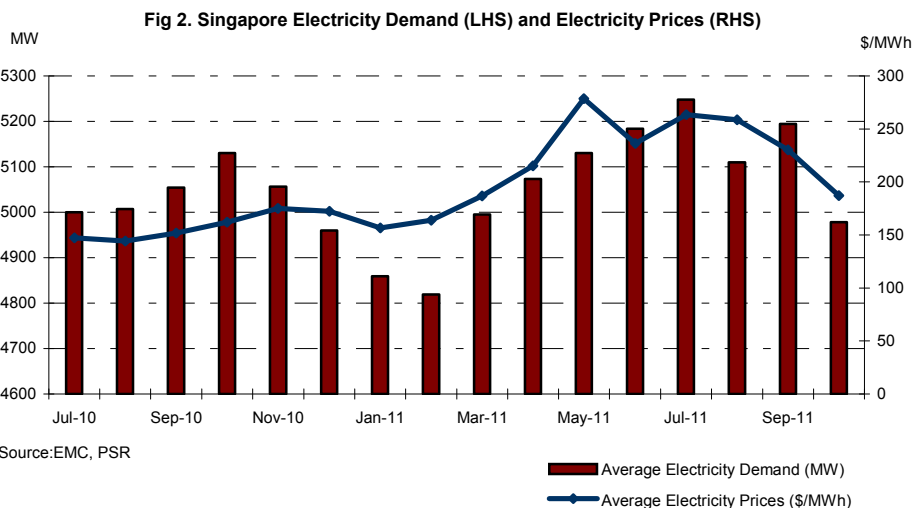


Fig 4 . SembCorp Industries Sum-of-The-Parts Valuation				
Components	Implied value of SCI's stake	% of total SOTP	Value Per Share	Methodology
Listed Entities				
SembCorp Marine	5,454	57%	3.05	PSR fair value
Gallant Venture	165	2%	0.09	Current market cap
Total	5,618	58%	3.14	
Non-Listed Entities				
Utilities	3,600	37%	2.01	12x FY2012E
Industrial Parks (exclu.Gallant)	266	3%	0.15	8x FY2012E
Others	252	3%	0.14	Book Value
Total	4,117	42%	2.30	
Total value (\$M)		9,735		
Number of shares in millions		1,787		
SOTP price per share (S\$)		5.45		
Less 5% holding company discount		(0.27)		
Fair value per share (S\$)		5.18		

Source: Bloomberg, Company, PSR estimates

Financials

Income Statement S\$millions, yr end Dec	2008A	2009A	2010A	2011E	2012E
Revenues	9,928	9,572	8,764	9,155	10,022
Cost of sales	(8,896)	(8,222)	(7,243)	(7,673)	(8,533)
Gross profit	1,032	1,350	1,521	1,482	1,490
General and administrative expenses	(265)	(295)	(341)	(356)	(390)
Operating profit	767	1,055	1,180	1,126	1,100
Non-operating income	57	95	36	0	0
Finance cost	(44)	(41)	(61)	(82)	(87)
Share of associates & JV	126	110	160	179	158
PBT	906	1,218	1,315	1,222	1,171
Taxation	(131)	(203)	(194)	(138)	(188)
Exceptionals	(44)	0	53	0	0
Net income	731	1,015	1,173	1,084	983
Profit attributable to shareholders	534	683	761	769	713
Exceptionals attributable to shareholders	(27)	0	32	0	0
PATMI	507	683	793	769	713
Minority interests	224	333	380	315	270
Growth and margins (%)	2008A	2009A	2010A	2011E	2012E
Revenue growth	15.2	(3.6)	(8.4)	4.5	9.5
Operating profit growth	34.5	37.5	11.8	(4.6)	(2.3)
Net Profit growth (reported)	(3.6)	34.6	16.1	(3.0)	(7.3)
Net Profit growth (recurring)	(4.2)	27.8	11.4	1.1	(7.3)
Operating margin	7.7	11.0	13.5	12.3	11.0
Net Profit margin (reported)	5.1	7.1	9.0	8.4	7.1
Net Profit margin (recurring)	5.4	7.1	8.7	8.4	7.1

Cash flow in S\$millions	2008A	2009A	2010A	2011E	2012E
Profit for the period	731	1,015	1,173	1,084	983
Depreciation and amortisation	195	200	242	304	342
Other non-cash items	104	141	25	33	107
Operating profit before WC changes	1,030	1,356	1,440	1,421	1,432
WC changes	1,319	(387)	341	(207)	672
Exceptionals	(44)	0	53	0	0
Income tax paid	(46)	(32)	(132)	(138)	(188)
Net Operating CF	2,260	936	1,702	1,076	1,916
Capex	(358)	(407)	(629)	(742)	(698)
Others	246	(67)	(132)	(310)	68
Net Investing CF	(113)	(474)	(761)	(1,052)	(629)
Equity raised/(repaid)	(116)	15	23	5	5
Debt raised/(repaid)	(439)	63	410	451	(244)
Others	(47)	(43)	(48)	(82)	(87)
Dividends paid	(397)	(306)	(415)	(474)	(465)
Net Financing CF	(999)	(271)	(30)	(100)	(791)
Beginning cash	1,296	2,401	2,598	3,488	3,411
Net change in cash	1,148	191	911	(76)	496
Ending cash	2,401	2,598	3,488	3,411	3,908
FCF to equity	1,413	387	1,179	229	796

Source: Company, Phillip Securities Research

Balance Sheet S\$millions, yr end Dec	2008A	2009A	2010A	2011E	2012E
Cash and cash equivalents	2,401	2,598	3,488	3,411	3,908
Inventories and WIP	950	1,415	916	1,416	1,177
Trade receivables	959	751	789	1,138	971
Others	260	230	154	154	154
Current assets	4,570	4,994	5,346	6,120	6,210
Fixed assets	2,499	2,694	3,439	3,873	4,224
Investment properties	26	27	24	23	22
Associates & JVs	845	931	1,034	1,558	1,683
Other long-term assets	527	685	1,049	1,049	1,049
Total Assets	8,467	9,330	10,892	12,622	13,187
Payables	2,621	2,445	2,285	2,730	2,847
Short-term borrowings	286	284	49	144	144
Other current liabilities	1,289	1,204	1,130	1,257	1,289
Total current liabilities	4,196	3,933	3,464	4,131	4,280
Long-term borrowings	523	595	1,553	1,909	1,666
Other long term liabilities	484	567	854	925	1,042
Total liabilities	5,202	5,095	5,871	6,965	6,987
Shareholders' equity	2,594	3,320	3,815	4,299	4,732
Minority interests	671	916	1,205	1,357	1,468
Total Liabilities and equity	8,467	9,330	10,892	12,622	13,187
Per share data (cts)	2008A	2009A	2010A	2011E	2012E
EPS (reported)	29	38	44	43	40
EPS (recurring)	30	38	42	43	40
DPS	11	15	17	17	15
BVPS	146	187	214	239	263
NTAPS	138	179	195	222	246
Net Cash/(debt) PS	88	91	97	76	117
FCF to equity per share	79	22	66	13	44
Key ratios	2008A	2009A	2010A	2011E	2012E
ROE (%)	18	23	22	19	16
ROA (%)	9	11	12	9	8
Payout ratio (%)	38	39	38	39	39
Effective tax rate (%)	14	17	15	11	16
Net Debt/Equity(%)	cash	cash	cash	cash	cash
Net Debt/Equity(%) ex MI	cash	cash	cash	cash	cash
Debt/Equity (%)	25	21	32	36	29
Current ratio (x)	1.1	1.3	1.5	1.5	1.5
Quick ratio (x)	0.9	0.9	1.3	1.1	1.2
Average receivable days	40	33	32	38	38
Average payable days	100	112	119	119	119
Average inventories days	53	52	59	55	55
Valuation	2008A	2009A	2010A	2011E	2012E
P/E (X)-reported	14.7	10.9	9.4	9.8	10.6
P/E (X)-recurring	14.1	11.0	9.9	9.8	10.6
Dividend yield (%)	2.6	3.6	4.1	4.0	3.7
Price/Book (x)	2.9	2.2	2.0	1.8	1.6
Price/NTA (x)	3.0	2.3	2.1	1.9	1.7

Ratings History

Sembcorp Industries Limited

Rating	Date	Previous Closing price (S\$)	Fair value (S\$)	Remarks
BUY	4 November 2011	4.19	5.18	3Q11 Results
BUY	5 August 2011	4.95	6.17	2Q11 Results
BUY	29 July 2011	5.14	6.17	Update (Change of analyst)
BUY	28 February 2011	4.90	5.73	Results
BUY	20 December 2010	4.95	5.90	Company Visit
BUY	9 November 2010	4.83	5.85	Results
BUY	13 August 2010	4.10	5.10	Results
BUY	20 July 2010	4.20	5.10	Initiate Coverage

Phillip Research Stock Selection Systems	TRADING BUY	Share price may exceed 10% on the upside over the next 3 months, however longer-term outlook remains uncertain
	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
<p>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</p>		

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