

# Sembcorp Industries Ltd

Singapore shines while India dims



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## SINGAPORE | CONGLOMERATE | 2Q17 RESULTS

7 August 2017

- 1H17 revenue and net profit were in line with our expectation.
- Singapore utilities performed better than expected but was offset by weak India and marine operations.
- We maintain our call ACCUMULATE with an unchanged TP of S\$3.5, based on sum-of-the-parts method.

### Results at a glance

(SGD mn)	1H17	1H16	YoY (%)	Comments
Revenue	4,415	3,742	18.0	Higher contribution from Utilities' Singapore and India operations offset by decrease in Marine's revenue
Gross profit	566	557	1.7	Higher contribution from Utilities segment offset by lower contribution from Marine segment
PBT	242	284	(14.9)	Higher borrowing costs from Marine and SGPL
PATMI	174	193	(9.9)	The disposal gain from CSG was not subject to Singapore tax; Tax benefit for losses from a subsidiary in India was not recognized; Net write-back of tax from Marine

Source: Company, PSR

### Positives

+ **Utilities' Singapore operation outperformed expectation.** In 1H17, net profit from Singapore arrived at S\$75.8mn with 29% YoY growth, taking up c.50% of total net profit excluding corporate and exceptional item in utilities segment. The good performance was due to the improvement of centralised utilities and gas divisions despite intense competition.

+ **Strategic review is still on track.** The management reiterated the strategic review was in progress, and it is expected to be completed by FY17.

### Negatives

- **Utilities' India operation weakened.** Favored by 86% of net capacity contracted under long-term power purchase agreements (PPAs), TPCIL contributed S\$27mn in 1H17. However, SGPL continues to suffer from the fluctuation of short-term tariff due to the weak spot rates at present. So far, SGPL has not secured any long-term PPAs though the team has been putting efforts. In 2Q17, SGPL was subject to one-off refinancing cost of S\$33.9mn.

- **Marine segment continued to drag the group's profitability.** Net profit from Sembcorp Marine (SMM) decreased by 33% YoY to S\$27.4mn in 1H17, due to lower profits from drilling solutions and offshore platforms. The net order book continued to shrink without substantial replenishment, and it was reported at S\$6.7bn (\$3.6bn from Sete Brasil drillship projects) as of Jun-17.

### Outlook

Though management was positive on the long-term outlook for power demand in India, it expected a downturn of the power market in the near term. The timeframe for securing long-term PPAs for SGPL is protracted to 2 to 3 years. However, the utilities portfolio's performance is holding up due to the steady Singapore's operations. India remains in start-up mode. SMM is expected to be a burden to the group in the near term since there is no evident sign of recovery from the oil market. (For updates on SMM, please refer to our report on 31st-Jul: [Sembcorp Marine Ltd – Longer than expected recovery](#)).

### Accumulate (Maintained)

CLOSING PRICE	SGD 3.180
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 3.500
TOTAL RETURN	12.3%

### COMPANY DATA

Bloomberg code	SCISP
O/S SHARES (MN)	1784
MARKET CAP (USD mn / SGD mn)	484 / 5675
52 - WK HI/LO (SGD)	3.38 / 2.44
3M Average Daily T/O (mn)	3.096

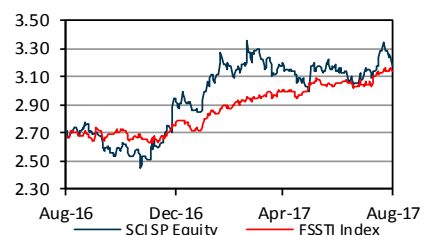
### MAJOR SHAREHOLDERS (%)

TEMA SEK HOLDINGS PRIVATE LTD	49.5%
MONDRIAN INVESTMENT PARTNERS LTD	4.9%
VANGUARD GROUP INC	13%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.2	7.3	20.8
STI RETURN	4.4	4.6	22.3

### 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	8,947	9,435
Gross profit	732	1,105	1,129	1,223
Net profit	549	395	404	437
P/E (x)	10.5	14.3	15.5	14.3
P/B (x)	10	0.9	11	10
ROE, %	10%	7%	7%	7%
ROA, %	3%	2%	2%	2%
Dividend Yield, %	3.6	2.8	2.0	2.5

Source: Company Data, PSR

### VALUATION METHOD

SOTP

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### Maintain ACCUMULATE with unchanged target price of S\$3.5

We tweak up the FY17e EPS from previous 22.2 SG cents to 22.6 SG cents, due to the estimated stronger performance from utilities' Singapore operation in 1H17. After incorporating lower target price of S\$1.55 for SMM (previously S\$1.58), based on sum-of-parts method, we maintain ACCUMULATE with an unchanged target price of S\$3.5.

#### Valuation table

(S\$)	Multiples	BVPS	PPS	Holdings	Market Value
Utilities	PB of 1.2x	1.91	2.30		4,080
Others	PB of 1.0x	0.42	0.42		746
Marine	PE of 28.5x	1.02	1.55	61%	1,975
Gallant Venture	Market value			12%	79
<b>Total</b>					<b>6,880</b>
					3.9
<b>TP (after conglomerate discount of 10%)</b>					<b>3.50</b>

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Turnover</b>	<b>10,895</b>	<b>9,545</b>	<b>7,907</b>	<b>8,947</b>	<b>9,435</b>
Gross revenue	1,415	732	1,105	1,129	1,223
<b>EBITDA</b>	<b>1,454</b>	<b>1,030</b>	<b>1,238</b>	<b>1,395</b>	<b>1,543</b>
Depreciation & Amortisation	315	405	454	553	612
<b>EBIT</b>	<b>1,139</b>	<b>625</b>	<b>784</b>	<b>843</b>	<b>931</b>
Net Finance (Expense)/Inc	(51)	(205)	(372)	(499)	(564)
Associates & JVs	158	6	125	188	206
<b>Profit Before Tax</b>	<b>1,246</b>	<b>426</b>	<b>537</b>	<b>532</b>	<b>573</b>
Taxation	(162)	28	(100)	(84)	(89)
<b>Profit After Tax</b>	<b>1,084</b>	<b>454</b>	<b>437</b>	<b>448</b>	<b>484</b>
Non-controlling interests	283	(94)	42	44	47
<b>Net Income</b>	<b>801</b>	<b>549</b>	<b>395</b>	<b>404</b>	<b>437</b>

### Per share data

Y/E Dec, SG Cents	FY14	FY15	FY16	FY17e	FY18e
EPS, basic	44.3	29.2	19.9	22.6	24.5
EPS, diluted	44.0	28.9	19.7	22.4	24.3
DPS, basic	16.0	11.0	8.0	7.0	8.8
DPS, diluted	15.9	10.9	7.9	6.9	8.7
BVPS, basic (SGD)	3.0	3.2	3.3	3.3	3.5
BVPS, diluted (SGD)	3.0	3.1	3.3	3.3	3.5

### Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
Profit for the period	1,084	454	437	448	484
Adjustments	392	896	888	964	1,076
WC changes	(1,414)	(1,961)	(367)	(1,207)	(1,206)
Cash generated from ops	62	(611)	958	205	354
Others	(119)	(150)	(86)	(84)	(89)
<b>Cashflow from ops</b>	<b>(57)</b>	<b>(761)</b>	<b>872</b>	<b>122</b>	<b>265</b>
<b>CFI</b>					
CAPEX, net	(1,563)	(1,325)	(740)	(804)	(1,027)
Others	122	126	(60)	125	127
<b>Cashflow from investments</b>	<b>(1,441)</b>	<b>(1,199)</b>	<b>(801)</b>	<b>(679)</b>	<b>(901)</b>
<b>CFF</b>					
Loans, net of repayments	1,571	2,050	1,107	894	1,372
Dividends	(539)	(415)	(225)	(157)	(189)
Others	(132)	254	(669)	(363)	(609)
<b>Cashflow from financing</b>	<b>901</b>	<b>1,890</b>	<b>214</b>	<b>374</b>	<b>574</b>
<b>Net change in cash</b>	<b>(598)</b>	<b>(70)</b>	<b>285</b>	<b>(183)</b>	<b>(62)</b>
Effects of exchange rate	2	15	(35)	15	15
<b>Ending cash</b>	<b>1659</b>	<b>1604</b>	<b>1855</b>	<b>1686</b>	<b>1639</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	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
PP&E	7,725	8,685	11,226	12,375	13,777
Associates and JVs	2,074	2,349	1,746	1,860	1,989
Receivables and prepayments	467	451	734	920	1,099
Others	779	823	960	948	953
<b>Total non-current assets</b>	<b>11,046</b>	<b>12,308</b>	<b>14,666</b>	<b>16,102</b>	<b>17,817</b>
Cash	1,661	1,606	1,883	1,686	1,639
Trade receivables	1,200	1,568	1,958	2,258	2,543
Inventories and WIP	3,205	4,233	3,466	3,202	2,922
Others	64	201	317	147	156
<b>Total current assets</b>	<b>6,130</b>	<b>7,608</b>	<b>7,624</b>	<b>7,294</b>	<b>7,260</b>
<b>Total Assets</b>	<b>17,176</b>	<b>19,915</b>	<b>22,290</b>	<b>23,397</b>	<b>25,078</b>

### LIABILITIES

Borrowings	3,649	5,032	7,096	7,804	9,009
Others	938	894	1,016	1,079	1,135
<b>Total non-current liabilities</b>	<b>4,587</b>	<b>5,926</b>	<b>8,112</b>	<b>8,883</b>	<b>10,144</b>
Trade payables	2,745	3,388	3,398	3,337	3,286
Borrowings	1,086	1,801	2,126	2,312	2,478
Others	1,526	758	492	508	527
<b>Total current liabilities</b>	<b>5,357</b>	<b>5,946</b>	<b>6,016</b>	<b>6,157</b>	<b>6,290</b>
<b>Total Liabilities</b>	<b>9,944</b>	<b>11,872</b>	<b>14,128</b>	<b>15,040</b>	<b>16,434</b>

### Shareholder Equity

Perpetual securities	203	803	803	1,003	1,003
Non-controlling interests	1,616	1,610	1,461	1,421	1,426

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	10.4	10.5	14.3	15.5	14.3
P/B (x)	1.5	1.0	0.9	1.1	1.0
EV/EBITDA (x)	8.8	12.4	11.9	10.5	10.4
Dividend yield (%)	3.6	3.6	2.8	2.0	2.5

### Growth & Margins (%)

<b>Growth</b>					
Revenue	1%	-12%	-17%	13%	5%
Gross profit	10%	-48%	51%	2%	8%
EBIT	-2%	-45%	25%	7%	10%
Net income	-2%	-31%	-28%	2%	8%
<b>Margins</b>					
GP margin	13%	8%	14%	13%	13%
EBIT margin	10%	7%	10%	9%	10%
NP margin	7%	6%	5%	5%	5%

### Key Ratios

ROE (%)	15%	10%	7%	7%	7%
ROA (%)	5%	3%	2%	2%	2%
Net Debt or (Net Cash)	3,073	5,226	7,339	8,429	9,848
Gearing (%)	42%	65%	90%	101%	114%



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