Sembcorp Industries

Completes demerger of Sembcorp Marine

SINGAPORE | ENERGY | UPDATE

- Distribution-in-specie of the capital of Sembcorp Marine (SCM) to all Sembcorp Industries (SCI) shareholders completed.
- Entitled SCI shareholders will have received 4.911 of SCM shares for every 1 SCI shares held, amounting to about S$0.89, based on 10 September share price.
- We maintain our BUY recommendation with an unchanged target price of $1.75 on standalone SCI (ex. SCM).

Valuation of SCI following the distribution		(S$ mn)	S$ / share
SCI FY21e Equity value assuming SCI subscribe for the undertaking of SCM rights (ex. SCM)		4,459	
Ascribed 0.7x P/Bv of FY21e P/Bv (1)		**3,121**	**1.75**
Number of SCM shares:			
- based on maximum distribution ratio (2)	**4.911**		
SCM last traded price (as at 10 Sept 2020)			0.182
Total value of SCM distributed shares (1) x (2) = (3)			**0.89**
Total SCI shareholders will realise (1) + (3)			**2.64**

Source: PSR

Update

Following the issue of 10,462,690,870 SCM rights shares to entitled SCI shareholders on 11 September, the proposed distribution and demerger has been completed. Entitled SCI shareholders will have received their entitlement of 4.911 SCM shares for every 1 SCI share held, amounting to approximately S$0.89 (4.911 x S$0.182). We arrived at this by taking the number of SCM shares distributed for every 1 SCI shares held and multiplied this by the closing price of the SCM shares as at 10 September 2020 of S$0.182, which is the date before the distribution to SCI holders.

This means that the ex-distribution price of SCI following the distribution is approximately S$1.02 (S$1.91 - $0.89). This is arrived at by subtracting the total value of SCM shares received by SCI shareholders with the closing price of SCI on the 10 September, the date before the distribution.

In total, SCI shareholders could realise a total of $2.64/share (S$1.75 + (4.911 x S$0.182)).

Outlook

We are positive on the Group's outlook. Following the deconsolidation of SCM, we think SCI will see a potential positive re-rating as the Group's operating metrics improve in Fy21e from improving energy demand.

Maintain BUY with an unchanged target price of S$1.75

We maintained our BUY recommendation on SCI following the distribution-in-specie of the capital of SCM to entitled SCI shareholders. Our target price of S$1.75 for standalone SCI (ex. SCM) is pegged to a P/BV of 0.7x FY21e, which is a slight discount to their 10-year historical average equity value (ex. SCM). We expect SCI to see improved operating metrics with the Group expected to generate positive operating CF of $854mn for FY21e and return on equity of 7.6% for FY21e.

StocksBnB.com

17 September 2020

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.340
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 1.750
TOTAL RETURN	30.6%

COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN) :	1,786
MARKET CAP (USD mn / SGD mn) :	1764 / 2394
52 - WK HI/LO (SGD) :	1.36 / 0.69
3M Average Daily T/O (mn) :	7.34

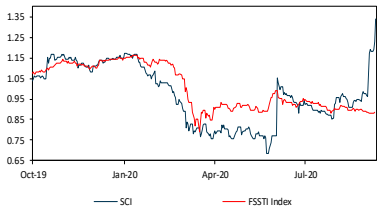
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	27.8	26.5	11.7
STI RETURN	1.9	(7.9)	1.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$, 'mn)	FY18	FY19	FY20e	FY21e
Revenue	11,689	9,618	7,142	5,785
Gross Profit	920	892	410	824
EBIT	667	565	126	623
NPAT	332.0	217.0	(146.7)	326.0
P/NAV (x)	0.4	0.4	0.8	0.8
P/E (x)	9.9	13.9	(23.3)	12.7
ROE (%)	4.1%	2.7%	-1.5%	7.6%

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 0.7x FY21e

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Financials

Income Statement

Y/E Dec, ($'mn)	FY17	FY18	FY19	FY20e	FY21e
Revenue	**9,026**	**11,689**	**9,618**	**7,142**	**5,785**
Cost of sales	(7,791)	(10,769)	(8,726)	(6,732)	(4,961)
Gross Profit	**1,235**	**920**	**892**	**410**	**824**
General and Administrative expe	(420)	(408)	(447)	(321)	(231)
Other operating income	75	107	222	144	30
Other items	30	48	(102)	(107)	-
EBIT	**920**	**667**	**565**	**126**	**623**
Net finance expenses	(473)	(421)	(454)	(440)	(419)
Share of results of associates an	164	174	184	189	189
Profit before tax	**611**	**420**	**295**	**(125)**	**393**
Taxation	(118)	(88)	(78)	(21)	(67)
Net Profit	**493**	**332**	**217**	**(147)**	**326**
Net Profit (excl. SCM from FY20e)	**493**	**332**	**217**	**(92)**	**326**
Profit attributable to owners	**383**	**347**	**247**	**(147)**	**271**

Per share data (S$ cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
BVPS	4.6	4.4	4.4	2.3	2.5
DPS	5.0	4.0	5.0	-	5.3
EPS	21.4	19.4	13.8	(8.2)	15.1

Cash Flow

Y/E Dec, ($'mn)	FY17	FY18	FY19	FY20e	FY21e
CFO					
Net income	**493**	**332**	**217**	**(147)**	**326**
Adjustments	1,019	918	1,238	1,113	861
WC changes	(791)	(389)	(379)	1,910	(266)
Cash generated from ops	**721**	**861**	**1,076**	**2,877**	**920**
Others	(70)	(122)	(99)	(56)	(67)
Cashflow from ops	**651**	**739**	**977**	**2,821**	**854**
CFI					
CAPEX, net	(736)	(1,107)	(925)	(967)	(800)
Others	644	(110)	474	166	204
Cashflow from investments	**(92)**	**(1,217)**	**(451)**	**(801)**	**(596)**
CFF					
Dividends paid to owners	(125)	(71)	(71)	(54)	(36)
Proceeds from borrowings, net	778	855	86	(1,513)	(100)
Interest paid	(484)	(486)	(544)	(538)	(428)
Others	107	(554)	(163)	(808)	-
Cashflow from financing	276	(256)	(692)	(2,912)	(564)
Net change in cash	835	(734)	(166)	(892)	(306)
Cash at the start of the period	1,854	2,681	1,922	1,739	847
Currency translation	(8)	(1,825)	(27)	(27)	(27)
Others	-	-	-	-	-
Ending cash	**2,681**	**1,922**	**1,739**	**847**	**541**

*nm - not meaningful

Balance Sheet

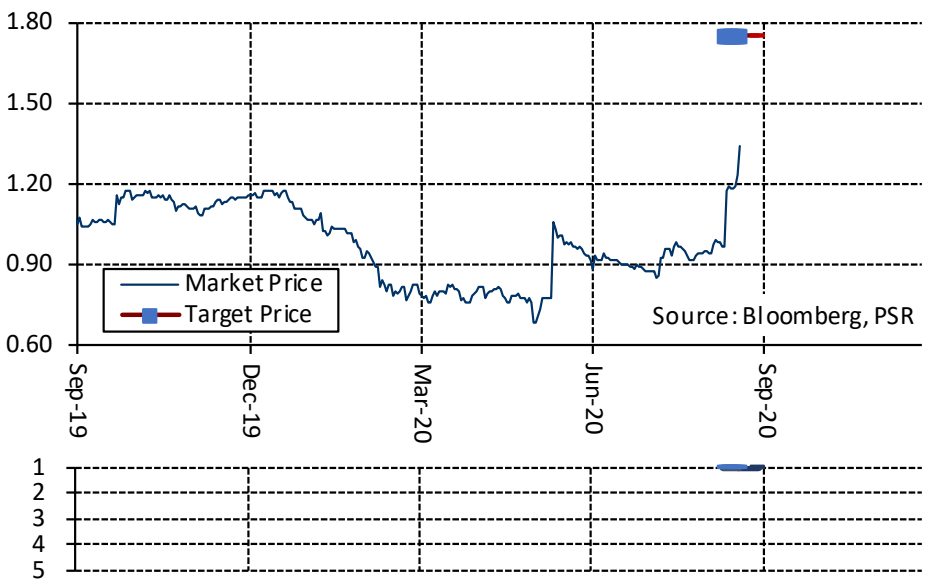
Y/E Dec, ($'mn)	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE & Investment Properties	11,249	11,782	11,867	8,136	8,436
Others	4,004	5,215	5,290	3,871	3,619
Total non-current assets	**15,253**	**16,997**	**17,157**	**12,007**	**12,054**
Cash and cash equivalents	2,687	1,925	1,767	847	540
Inventories	524	513	386	269	198
Trade and other receivables	2,094	2,311	2,048	1,530	1,239
Others	3,187	1,575	1,894	1,446	1,722
Total current assets	**8,492**	**6,324**	**6,095**	**4,091**	**3,700**
Total Assets	**23,745**	**23,321**	**23,252**	**16,099**	**15,755**
LIABILITIES					
Trade and other payables	3,340	2,968	2,844	2,242	1,652
ST borrowings	1,572	1,862	2,643	1,197	1,072
Others	1,421	746	525	462	487
Total current liabilities	**6,333**	**5,576**	**6,012**	**3,901**	**3,211**
LT borrowings	8,275	8,870	8,627	7,344	7,344
Others	963	937	734	741	741
Total non-current liabilities	**9,238**	**9,807**	**9,361**	**8,084**	**8,084**
Total liabilities	**15,571**	**15,383**	**15,373**	**11,986**	**11,296**
EQUITY					
Share Capital	566	566	566	77	77
Retained profits	5,460	5,669	5,827	4,195	4,485
Others	2,148	1,703	1,486	(159)	(104)
Total equity	**8,174**	**7,938**	**7,879**	**4,113**	**4,459**
Total equity and liabilities	**23,745**	**23,321**	**23,252**	**16,099**	**15,755**

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	6.3	6.9	9.7	-16.2	8.9
P/B (x)	0.3	0.3	0.3	0.6	0.5
EV/EBITDA (x)	-	16.8	21.1	80.3	16.5
Dividend yield (%)	3.7%	3.0%	3.7%	0.0%	4.0%
Growth & Margins (%)					
Growth					
Revenue	14.2%	29.5%	-17.7%	-25.7%	-19.0%
Gross profit	11.8%	-25.5%	-3.0%	-54.0%	101.1%
EBIT		-27.5%	-15.3%	-77.8%	396.0%
PBT	39.8%	-31.3%	-29.8%	-142.5%	-413.2%
Margins					
Gross profit margin	13.7%	7.9%	9.3%	5.7%	14.3%
EBIT margin	10.2%	5.7%	5.9%	1.8%	10.8%
Net profit margin	5.5%	2.8%	2.3%	-1.3%	5.6%
Key Ratios					
ROE	6.0%	4.1%	2.7%	-1.5%	7.6%
ROA	2.1%	1.4%	0.9%	-0.5%	2.0%
Net Gearing (%)		110.9%	120.6%	187.1%	176.6%

Source: Company, Phillip Securities Research (Singapore) Estimates

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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