

Sembcorp Industries

Energy demand improving

SINGAPORE | ENERGY | UPDATE

25 February 2021

- Net profit before exceptional items (EI) of S\$301mn was ahead of our loss estimate of S\$147mn. The variance came from better-than-expected energy revenue.
- Energy demand and prices improved sequentially in 4Q20 in key markets.
- We raise our target price to S\$1.77 from S\$1.75 as we peg SCI to 0.85x FY21 P/B, closer to their 10-year historical average P/B up from 0.7x as its outlook is improving. Expect stronger operating metrics in FY21e. But as most of its positives have been priced in, downgrade from BUY to ACCUMULATE.

ACCUMULATE (Downgrade)

LAST CLOSE PRICE	SGD 1.660
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 1.770
TOTAL RETURN	10.2%

COMPANY DATA

BLOOMBERG CODE:	SCI.SP
O/S SHARES (MN) :	1,781
MARKET CAP (USD mn / SGD mn) :	2238 / 2957
52 - WK HI/LO (SGD) :	1.89 / 0.69
3M Average Daily T/O (mn) :	4.79

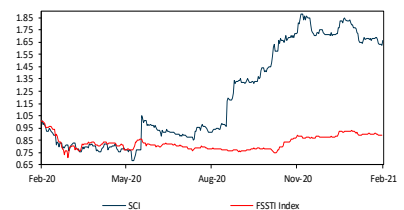
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(8.5)	(5.8)	63.2
STI RETURN	1.9	(7.9)	1.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$, 'mn)	FY19	FY20	FY21e	FY22e
Revenue	6,735	5,447	5,708	5,987
Gross Profit	982	787	813	916
EBIT	706	442	615	676
NPAT	333	179	329	477
P/NAV (x)	0.3	0.7	0.6	0.6
P/E (x)	7.9	15.3	7.8	5.3
ROE (%)	4.2%	3.2%	9.1%	12.1%

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 0.85x FY21e

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Results at a glance

SGD 'mn	FY20	FY19	YoY	Comments
Revenue	5,447	6,735	-19%	2H20 revenue fell a smaller 17% y-y vs. 1H20. Energy continued to drag 2H20 performance
- Energy	5,266	6,138	-14%	9% lower in 2H20 due to the fall in oil prices and disruption to demand, caused by national lockdowns. Plant shutdowns in Singapore and India also contributed to the decline.
Net Profit before Exceptional items	301	453	-34%	Decreased due to temporary suspension of operations at their outlets during the circuit breaker and Phase 1 period
- Energy	297	364	-18%	Energy demand declined 2% to 7% in key markets
- Urban	60	118	-49%	Lower land sales in Vietnam and absence of profit recognition from residential development in China
Dividend per share (cents)	4.0	5.0	-20%	

Source: PSR

The Positives

+ Net profit before EI ahead of our expectation. Higher energy demand in 2H20 brought group net profit before EI to S\$301mn, beating our estimate for a S\$147mn loss. Supported by its underlying profitability, the group proposed a final dividend of 4.0 Singapore cents. Without the encumbrance of the Marine business, we expect the Company to be able to support increased payouts going forward.

+ Energy demand recovered slightly. Energy demand and prices improved sequentially in 4Q20 in its key operating markets, Singapore, China and India. As lockdowns ease in these markets, we believe demand can further recover in FY21e. Amid a challenging macro environment, its Energy and Urban businesses were resilient. The Group continued to deliver positive operating cash flow.

+ Myanmar operations unaffected. Through its subsidiary, Sembcorp Myingyan Power Company Limited, Sembcorp operates a 225-megawatt gas-fired power plant in Mandalay, Myanmar. The plant continues to be in operation and there have been no disruptions.

The Negative

- **Earnings of about S\$30mn at risk.** The potential exit of a major customer on Jurong Island in 2021 and a 1-year overhaul of a customer's facilities in the UK may affect the Energy segment this year. In 2020, these customers contributed about S\$30mn of net profits in total.

- **Impairments of S\$261mn recorded for FY20.** The Group recognised S\$261mn in impairments for FY20, which had a negative impact on their equity value. These comprised of S\$81mn and S\$32m impairments in investments in Sembcorp Salalah Power and Water Company and CSE of respectively. We do not expect any further impairments for FY21e and FY22e.

Outlook

Despite persistent uncertainties surrounding recovery from the COVID-19 pandemic, we remain positive on the Group's outlook as energy demand is recovering in its key operating markets. We expect the Group to continue transiting its portfolio to sustainable solutions and sustainable development. In 2021, about 200MW of renewable-energy capacity is expected to come onstream.

Downgrade to ACCUMULATE, albeit with higher target price of S\$1.77

Recent share-price rally has moved SCI to 0.6x FY21e P/B. We raise our target price to S\$1.77 from S\$1.75 as we now peg SCI to 0.85x FY21e P/B, closer to their 10-year historical average P/B, up from 0.7x previously. This reflects its improving outlook and stronger operating metrics expected for FY21e. However, as most of its positives have been priced in, downgrade from BUY to ACCUMULATE.

Financials

Income Statement

Y/E Dec, (\$'mn)	FY18	FY19 #	FY20	FY21e	FY22e
Revenue	11,689	6,735	5,447	5,708	5,987
Cost of sales	(10,769)	(5,753)	(4,660)	(4,895)	(5,071)
Gross Profit	920	982	787	813	916
General and Administrative expenses	(408)	(356)	(344)	(228)	(239)
Other operating income	107	189	126	30	-
Other items	48	(109)	(127)	-	-
EBIT	667	706	442	615	676
Net finance expenses	(421)	(444)	(464)	(408)	(291)
Share of results of associates and joint v	174	186	233	189	190
Profit before tax	420	448	211	396	575
Taxation	(88)	(115)	(32)	(67)	(98)
Net Profit	332	333	179	329	477
Net Profit (excl. SCM from FY20e)	332	333	179	329	477
Profit attributable to owners	347	305	157	307	455

Per share data (\$ cents)

Y/E Dec	FY18	FY19 #	FY20	FY21e	FY22e
BVPS	4.4	4.4	1.9	2.1	2.3
DPS	4.0	5.0	4.0	6.0	8.9
EPS	19.4	17.1	8.8	17.2	25.5

Cash Flow

Y/E Dec, (\$'mn)	FY18	FY19 #	FY20	FY21e	FY22e
CFO					
Net income	332	333	179	329	477
Adjustments	918	1,122	868	823	1,166
WC changes	(389)	(379)	(453)	142	(27)
Cash generated from ops	861	1,076	594	1,294	1,617
Others	(122)	(99)	(103)	(67)	(98)
Cashflow from ops	739	977	491	1,226	1,519
CFI					
CAPEX, net	(1,107)	(925)	(318)	(800)	(800)
Others	(110)	474	(963)	381	381
Cashflow from investments	(1,217)	(451)	(1,281)	(419)	(419)
CFF					
Dividends paid to owners	(71)	(71)	-	(107)	(36)
Proceeds from borrowings, net	855	86	862	(100)	(250)
Interest paid	(486)	(544)	(515)	(428)	(319)
Others	(554)	(163)	(237)	-	-
Cashflow from financing	(256)	(692)	110	(635)	(605)
Net change in cash	(734)	(166)	(680)	172	495
Cash at the start of the period	2,681	1,922	1,739	1,063	1,235
Currency translation	(1,825)	(27)	(27)	(27)	(27)
Others	-	-	-	-	-
Ending cash	1,922	1,739	1,063	1,235	1,730

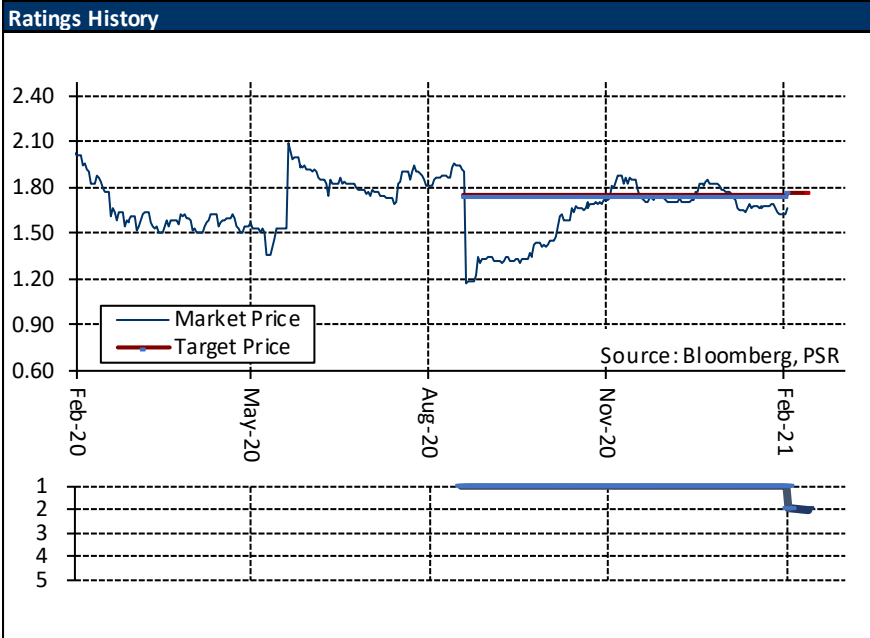
*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

On September 11, 2020, the Company distributed its holdings of ordinary shares in the capital of a subsidiary, Sembcorp Marine (SCM) to its shareholders. Consequent to the distribution, the performance of the marine segment in the current financial year, for the period from Jan 1, 2020 to Sept 11, 2020 is reported as a discontinued operation with comparative information re-presented accordingly.

Balance Sheet

Y/E Dec, (\$'mn)	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE & Investment Properties	11,782	11,867	7,339	8,443	8,743
Others	5,215	5,290	3,219	3,318	3,370
Total non-current assets	16,997	17,157	10,558	11,761	12,113
Cash and cash equivalents	1,925	1,767	1,032	1,235	1,733
Inventories	513	386	196	196	203
Trade and other receivables	2,311	2,048	1,571	1,223	1,282
Others	1,575	1,894	205	205	205
Total current assets	6,324	6,095	3,004	2,859	3,423
Total Assets	23,321	23,252	13,562	14,620	15,536
LIABILITIES					
Trade and other payables	2,968	2,844	1,159	1,370	1,402
ST borrowings	1,862	2,643	627	504	504
Others	746	525	341	1,067	1,738
Total current liabilities	5,576	6,012	2,127	2,941	3,644
LT borrowings	8,870	8,627	7,350	7,350	7,100
Others	937	734	609	609	609
Total non-current liabilities	9,807	9,361	7,959	7,959	7,709
Total liabilities	15,383	15,373	10,086	10,900	11,353
EQUITY					
Share Capital	566	566	566	566	566
Retained profits	5,669	5,827	3,153	3,374	3,816
Others	1,703	1,482	(243)	(221)	(199)
Total equity	7,938	7,875	3,476	3,719	4,183
Total equity and liabilities	23,321	23,248	13,562	14,620	15,536
Valuation Ratios					
Y/E Dec	FY18	FY19 #	FY20	FY21e	FY22e
P/E (x)	6.9	7.9	15.3	7.8	5.3
P/B (x)	0.3	0.3	0.7	0.6	0.6
EV/EBITDA (x)	17.7	17.7	22.4	15.6	13.1
Dividend yield (%)	3.0%	3.7%	3.0%	4.5%	6.7%
Growth & Margins (%)					
Growth					
Revenue	29.5%	-42.4%	-19.1%	4.8%	4.9%
Gross profit	-25.5%	6.7%	-19.9%	3.4%	12.6%
EBIT	-27.5%	5.8%	-37.4%	39.2%	10.0%
PBT	-31.3%	6.7%	-52.9%	87.7%	45.2%
Margins					
Gross profit margin	7.9%	14.6%	14.4%	14.3%	15.3%
EBIT margin	5.7%	10.5%	8.1%	10.8%	11.3%
Net profit margin	2.8%	4.9%	3.3%	5.8%	8.0%
Key Ratios					
ROE	4.1%	4.2%	3.2%	9.1%	12.1%
ROA	1.4%	1.4%	1.0%	2.3%	3.2%
Net Gearing (%)	110.9%	120.7%	199.8%	177.9%	140.4%



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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