

Sembcorp Industries

Transition to pan-Asian sustainable solutions leader



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SINGAPORE | ENERGY | UPDATE

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- Sustainable solutions portfolio to be 70% of profits by 2025, up from current 40%. Urban business land sales to triple to 500 hectares by then.
- ROE of 10% and gross debt to equity at 1.3x by 2025 from 3.2% and 2.3x respectively.
- We raise our target price to S\$2.07 from S\$1.77 as we peg SCI to 1.0x FY21 P/B, up from 0.85x previously, as we believe the detailed layout of its five year plan will drive a re-rating of the stock. However, as most positives have been priced in, and its ambition of transforming its portfolio is now new, we downgrade from ACCUMULATE to NEUTRAL.

NEUTRAL (Downgrade)

LAST CLOSE PRICE	SGD 2.200
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 2.070
TOTAL RETURN	-3.2%

COMPANY DATA

BLOOMBERG CODE:	SCI SP
O/S SHARES (MN) :	1,786
MARKET CAP (USD mn / SGD mn) :	2971 / 3929
52 - WK HI/LO (SGD) :	2.24 / 0.69
3M Average Daily T/O (mn) :	6.26

MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	49.5%
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Sembcorp Industries unveiled its strategic plan to transform its portfolio from brown to green, with growth powered by its renewable and integrated urban solutions businesses. It is positioning itself to be a leading pan-Asian provider of sustainable solutions.

The Positives

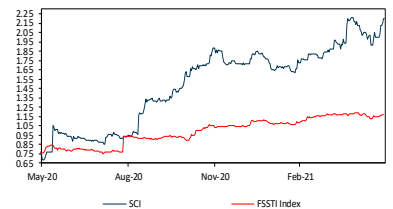
+ Sustainable solutions portfolio to form 70% of profits by 2025. In 2020, sustainable solutions formed around 40% of Group net profit. In the next four years, Sembcorp has a CAGR target of 30% for its renewable energy portfolio. It plans to achieve this by quadrupling gross installed renewable energy capacity to 10 GW through organic growth and joint ventures. It will not be making acquisitions to achieve this target. 2020 gross installed renewable energy capacity - comprising wind, solar and energy storage - was 2.6 GW.

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.8	29.5	194.5
STI RETURN	1.9	(7.9)	1.5

Sembcorp has projected capital expenditure (capex) of S\$5.5bn for the next five years with 80% to be spent on renewables and 20% on urban development. This will be funded entirely by internal sources. As of 31 December 2020, the Group has approximately S\$5bn of unutilised borrowing facilities to address any financing needs. Sembcorp will also have access to green and sustainability-linked financing from the banks to fund its capex needs.

PRICE VS. STI



Source: Bloomberg, PSR

It is set to halve its greenhouse gas emissions by 2030 and deliver net zero carbon emissions by 2050. We believe it will accomplish this by aggressively growing its renewables capacity, improve its fuel mix, divest its thermal coal business, or possibly a combination of the three.

KEY FINANCIALS

V/E Dec (\$\$, 'mn)	FY19	FY20	FY21e	FY22e
Revenue	6,735	5,447	5,708	5,987
Gross Profit	982	787	813	868
EBIT	706	442	537	567
NPAT	333	179	312	381
P/NAV (x)	0.3	0.7	0.6	0.6
P/E (x)	7.9	15.3	8.3	6.7
ROE (%)	4.2%	3.2%	8.7%	9.8%

Source: Company, PSR

+ Urban business' land sales to triple to 500 hectares by 2025. 2020 land sales amounted to 172 hectares. Sembcorp wants to triple this to 500 hectares in the next four years, which is more than double that of its five-year land sales average of 242 hectares. It plans to leverage its strong technical know-how and access to competitive international financing options, which further differentiates Sembcorp from the local property developers.

VALUATION METHOD

P/B Multiple @ 1.0x FY21e

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To hit its target, the Group will grow its land bank to 17,500 hectares by 2025 from 10,588 hectares in 2020. The Group has secured 2,874 hectares of development rights in Binh Duong III, Binh Dinh and Quang Tri in Vietnam. It will work towards adding 4,038 hectares to this land bank by 2025.

+ ROE of 10% and gross debt to equity at 1.3x by 2025. The Group has set a target ROE target of 10% for 2025. This will be driven by a 30% CAGR in renewables and 10% CAGR in integrated urban solutions. It also intends to divest and recycle capital to improve debt/EBITDA to 5.4x in 2025 from 6.5x in 2020. With its well-established footprint and capabilities, we believe its ROE target is achievable, though this will hinge on execution of its plans in the next four years.

Outlook

We expect the Group to continue with its transition to sustainable solutions and sustainable development. Despite its ambitious growth plans, it will not require any equity fund-raising, relying entirely on internal sources. Owing to persistent uncertainties surrounding recovery from the COVID-19 pandemic, intense competition from other global utility companies and expiry of long-term contracts impacting PATMI by around S\$100mn in the next five years, we keep our earnings estimates unchanged.

Downgrade to NEUTRAL, albeit with higher target price of S\$2.07

Recent share-price rally has moved SCl to 0.6x FY21e P/B. We raise our target price to S\$2.07 from S\$1.77 as we now peg SCl to 1.0x FY21e P/B, up from 0.85x, as we believe the detailed layout of its five year plan will drive a re-rating of the stock. This reflects its improving outlook and stronger operating metrics expected for FY21e and FY22e. However, as most of its positives have been priced in, and its ambition of transforming its portfolio is not new, we downgrade from ACCUMULATE to NEUTRAL.

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)	(5,119)
Gross Profit	920	982	787	813	868
General and Administrative expenses	(408)	(356)	(344)	(348)	(365)
Other operating income	107	189	126	72	64
Other items	48	(109)	(127)	-	-
EBIT	667	706	442	537	567
Net finance expenses	(421)	(444)	(464)	(408)	(367)
Share of results of associates and joint v	174	186	233	247	259
Profit before tax	420	448	211	376	458
Taxation	(88)	(115)	(32)	(64)	(78)
Net Profit	332	333	179	312	381
Net Profit (excl. SCM from FY20e)	332	333	179	312	381
Profit attributable to owners	347	305	157	290	359

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	5.7	7.0
EPS	19.4	17.1	8.8	16.2	20.1

Cash Flow

Y/E Dec, (\$'mn)	FY18	FY19 #	FY20	FY21e	FY22e
CFO					
Net income	332	333	179	312	381
Adjustments	918	1,122	868	761	1,291
WC changes	(389)	(379)	(453)	142	(29)
Cash generated from ops	861	1,076	594	1,216	1,643
Others	(122)	(99)	(103)	(64)	(78)
Cashflow from ops	739	977	491	1,152	1,565
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)	(395)
Others	(554)	(163)	(237)	-	-
Cashflow from financing	(256)	(692)	110	(635)	(681)
Net change in cash	(734)	(166)	(680)	98	465
Cash at the start of the period	2,681	1,922	1,739	1,063	1,161
Currency translation	(1,825)	(27)	(27)	(27)	(27)
Others	-	-	-	-	-
Ending cash	1,922	1,739	1,063	1,161	1,626

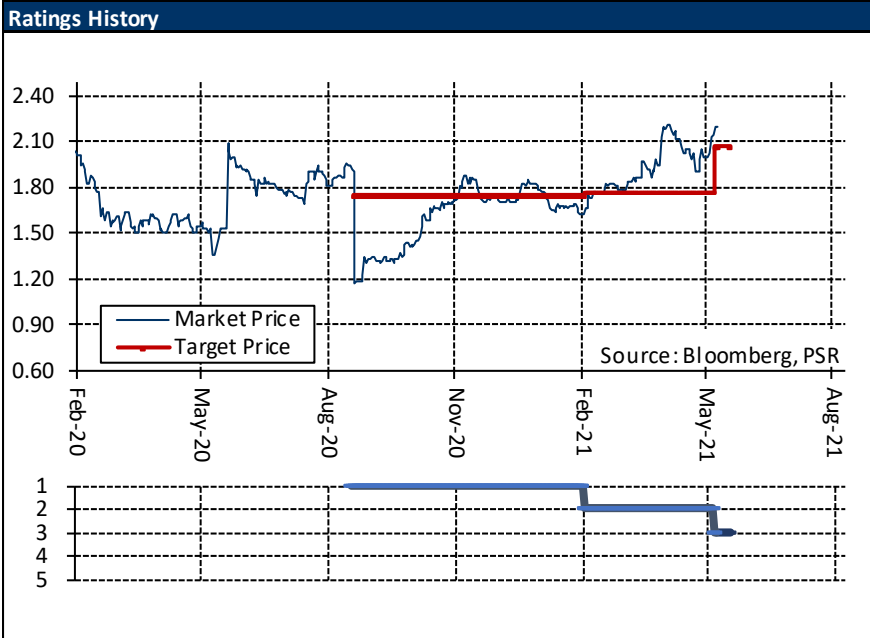
*nm - not meaningful

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	205
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	3,425
Total Assets	23,321	23,252	13,562	14,620	15,538
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	625	724
Total non-current liabilities	9,807	9,361	7,959	7,975	7,824
Total liabilities	15,383	15,373	10,086	10,917	11,468
EQUITY					
Share Capital	566	566	566	566	566
Retained profits	5,669	5,827	3,153	3,358	3,703
Others	1,703	1,482	(243)	(221)	(199)
Total equity	7,938	7,875	3,476	3,703	4,070
Total equity and liabilities	23,321	23,248	13,562	14,620	15,538
Valuation Ratios					
Y/E Dec	FY18	FY19 #	FY20	FY21e	FY22e
P/E (x)	6.9	7.9	15.3	8.3	6.7
P/B (x)	0.3	0.3	0.7	0.6	0.6
EV/EBITDA (x)	19.1	19.0	24.6	19.6	17.3
Dividend yield (%)	3.0%	3.7%	3.0%	4.2%	5.2%
Growth & Margins (%)					
Growth					
Revenue	29.5%	-42.4%	-19.1%	4.8%	4.9%
Gross profit	-25.5%	6.7%	-19.9%	3.4%	6.7%
EBIT	-27.5%	5.8%	-37.4%	21.5%	5.5%
PBT	-31.3%	6.7%	-52.9%	78.3%	21.9%
Margins					
Gross profit margin	7.9%	14.6%	14.4%	14.3%	14.5%
EBIT margin	5.7%	10.5%	8.1%	9.4%	9.5%
Net profit margin	2.8%	4.9%	3.3%	5.5%	6.4%
Key Ratios					
ROE	4.1%	4.2%	3.2%	8.7%	9.8%
ROA	1.4%	1.4%	1.0%	2.2%	2.5%
Net Gearing (%)	110.9%	120.7%	199.8%	178.7%	144.3%



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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