Industrials

Singapore

Sembcorp Industries (SCI SP)

The Green Pivot

BUY

Share Price	SGD 2.95
12m Price Target	SGD 3.40 (+15%)

Initiate with BUY; leader in sustainable solutions

We initiate coverage on SCI with BUY and a SOTP-based TP of SGD3.40, implying 14% upside. We like SCI due to: a) substantial additional earnings potential from its plan to boost renewable energy (RE) capacity to 10GW by FY25E; b) continued high tariffs contributing to good spark spreads in Singapore and India; c) resilience to rapid inflation and high interest rates; d) uniqueness amid scarcity of solid ESG companies in Singapore; e) attractive valuation as SCI consistently generates higher ROE than peers and is trading at a discount to Asian utilities peers.

Fulfilling insatiable demand for Renewable Energy

According to IEA, global energy demand is poised to surge 47% by 2050 as electrification increases and living standards improve. RE would be the fastest growing energy source, increasing from 2% in 2020 to 18% of total energy in 2030E. RE is SCI's fastest-growing segment in our forecasts, potentially boosting earnings by 22-25% YoY pa until FY24E. A key metric to monitor is renewable ROE growth, which we project to rise to c10% (FY21:4.6%) and head northwards to c20% as assets mature, cashflow contribution rises and project debt repaid.

Elevated electricity prices drive earnings higher

Due to persistently high tariffs in India (+58% YoY) and Singapore (+242% YoY), we expect spark spread for SCI's conventional energy to surge by 3ppt YoY and a full-year contribution of exceptional profits (+6% YoY) from Cogen in FY22-FY23E. Of note, 85% of SEIL plant 1 and plant 2 are underpinned by long-term and mid-term PPAs, putting SCI's India business in a stronger position financially in FY22E. The Indian tariff hikes coupled with stable PLF of above 70% since Feb'22 for plant 2 may continue to boost PATMI (+23% YoY) in FY22E.

Attractive investment in Singapore renewables

We project SCI's FY22E earnings to beat consensus and view any pullback in the share price as an opportunity to buy. At 10.3x FY22E P/E, SCI is undervalued compared to regional utilities peers (ave.20.7x) and Singapore industrial peers (c17.8x). SCI has been consistently generating higher ROE (13.1%) than peers. It maintains a high return on sustainable equity ratio compared with top Asian utilities and Singapore industrial peers. Potential re-rating catalysts would be divestment of SCI's thermal power plant in India with profits replaced by earnings from RE capacity expansion as SEIL focuses on decarbonisation. Key risks include unplanned shutdowns, unexpected impairments and decline in spot electricity prices in Singapore or India.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,447	7,795	8,201	8,465	8,717
EBITDA	887	1,127	1,287	1,328	1,377
Core net profit	(1,121)	279	514	533	569
Core FDEPS (cts)	(62.3)	15.5	28.5	29.6	31.6
Core FDEPS growth(%)	nm	nm	84.1	3.7	6.8
Net DPS (cts)	4.0	5.0	5.0	5.0	6.0
Core FD P/E (x)	nm	12.9	10.3	10.0	9.3
P/BV (x)	0.9	0.9	1.3	1.2	1.1
Net dividend yield (%)	2.3	2.5	1.7	1.7	2.0
ROAE (%)	3.8	7.9	13.1	12.5	12.5
ROAA (%)	(6.1)	2.0	3.5	3.5	3.6
EV/EBITDA (x)	11.2	8.7	9.1	8.8	8.6
Net gearing (%) (incl perps)	194.2	155.5	146.8	135.4	130.2
Consensus net profit	-	-	510	532	571
MKE vs. Consensus (%)	-	-	0.7	0.1	(0.3)

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Company Description

Sembcorp Industries is a conglomerate providing mainly utilities services, sustainable solutions and urban development

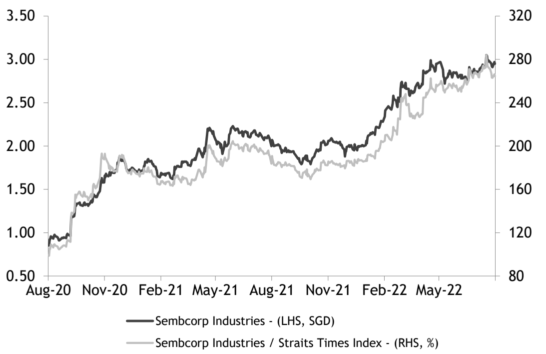
Statistics

52w high/low (SGD)	3.05/1.79
3m avg turnover (USDm)	6.3
Free float (%)	50.0
Issued shares (m)	1,788
Market capitalisation	SGD5.3B
	USD3.8B

Major shareholders:

Temasek Holdings	49.5%
The Vanguard Group, Inc.	1.2%
ARGA Investment Management LP	1.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	0	48
Relative to index (%)	(1)	4	44

Source: FactSet

Definitions
RE: Renewable Energy

Spark Spread: the difference between the price received by a generator for electricity produced and the cost of the natural gas needed to produce that electricity.

SRMC: Short Run Marginal Cost

PLF: Plant Loading Factor

Cogen: Cogeneration is a system that produces heat and electricity simultaneously in a single plant.

PPA: Power Purchase Agreement

SEIL: Sembcorp Energy India Limited

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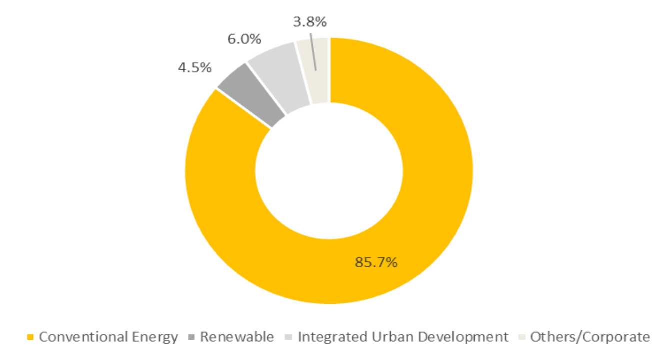
Tear Sheet Insert

Value Proposition

- SCI is Singapore's leading sustainable solutions provider with 6.1GW of capacity in renewables and 13,443ha of integrated urban solutions.
- Temasek's 49.5% ownership offers SCI backing and help to secure attractive financing terms when SCI bids for projects around the world.
- SCI targets to increase sustainable solutions to 70% of net profit by FY25E, increase renewables capacity to 10GW and develop sustainable urban solutions to 500ha.
- Portfolio scale and diversity will differentiate it from other power generation companies in Singapore in terms of reliability, flexibility and its comprehensive ability to offer energy, urban and water solutions.

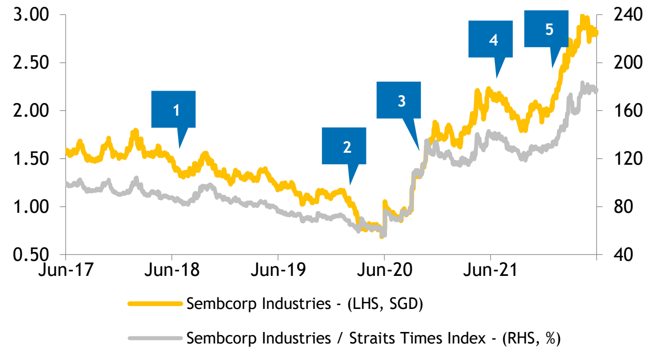
Revenue by segments (as of Dec 2021)



Source: Company

Price Drivers

Historical share price trend



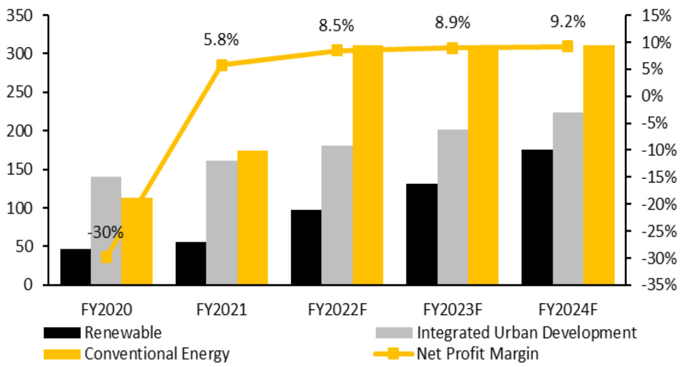
Source: Company, Maybank IBG Research

1. Start of decline in the share price of 61%-owned SMM due to downturn in oil price.
2. SCI announced there would be material impairments of SGD245m in its 4Q19 financial statements.
3. Singapore Public Utilities Board and Sembcorp Industries jointly announced they will build one of the world's largest inland floating PV system at the Tengeh reservoir.
4. Sell-down of SCI due to downside risk from rising market volatility and higher fuel costs.
5. Stock price surge as post demerger of SMM, Sembcorp posts FY21 net profit of SGD279m, up 78%.

Financial Metrics

- We forecast FY22 core income to grow 30% YoY due to higher revenue contributions from RE projects that should become operational within FY22E.
- We forecast FY22E-24E ROE for the overall business to increase from 7.9% to 12.5-13.1%. Overseas projects, when fully ramped up, may help to expand ROE.
- Our SOTP-based TP of SGD3.40 implies 12.2x FY23E P/E, slightly below the lower bound for regional peers at c13x.

Core net income (SGDm)



Source: Company

Swing Factors

Upside

- Stronger-than-expected order wins from its key sectors.
- Margins improve due to continued cost controls and economies of scale.
- Higher dividend payout due to better earnings and/or cashflow outlook.

Downside

- Slower contract wins resulting in lower order book.
- Unexpected margin pressure from rising raw material and labour costs.
- Execution misstep leading to project delays or even termination of contracts.

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Risk Rating & Score[1]	33.5
Score Momentum[2]	-2.7
Last Updated	08 May 2022
Controversy Score[3] (Updated: 08 May 2022)	1 - Operational Incident and Business Ethics Incidents

Business Model & Industry Issues

- SCI is a leading energy and urban solutions provider. It aims to transform its portfolio towards a greener future and be a leading provider of sustainable solutions.
- In order to transform its portfolio from brown to green, SCI targets to increase Group net profit contribution from sustainable solutions to 70% by FY25E. This is done through: 1) increasing gross installed RE capacity to 10GW; 2) triple land sales to 500 hectares by providing a full suite of sustainable urban solution; and 3) reduce GHG emission intensity by 25% to 0.40 tonnes of carbon dioxide equivalent per megawatt hour.
- The company has a balanced energy portfolio of 16.3GW, with 6.8GW of gross RE capacity comprising solar, wind and energy storage globally. SCI also has a proven track record of transforming raw land into sustainable urban developments, with a project portfolio spanning over 13,000 hectares across Asia.

Material E issues

- SCI aims to reduce GHG emission intensity by 25% to 0.4 tonnes of carbon dioxide equivalent per megawatt hour (tCO2e/MWh) by FY25E. In FY21, the GHG emission intensity was 0.51tCO2e/MWh compared to 0.54tCO2e/MWh in FY20.
- Gross installed RE capacity comprising wind, solar and energy storage assets grew slightly from 2.6GW in FY20 to over 2.7GW in FY21. SCI's global energy portfolio mix stands at 72% conventional energy, 27% renewables and 1% energy-from-waste. In FY21, the company was ranked 52nd in the Top 100 Green Utilities report by Energy Intelligence.
- In FY21, SCI generated 2.4m tonnes of waste, a 37% increase from the previous year due to higher electricity production of thermal plants in India. 95% of non-hazardous waste was recycled into bricks and cement, which were used in the filling of low-lying areas, construction of roads and flyovers, and the raising of dykes.

Material S issues

- An increase in both lost time injury rate and total recordable injury rate since FY20. This is largely increase in workplace incidents involving minor injuries. SCI constantly reviews and improves work conditions and practices.
- Employee turnover was 15.7% in FY21 compared to 12.4% in FY20 largely due to increase in the voluntary turnover rate, which was 12.5% in FY21, up from 9.0% in FY20, mirroring the global trend of resignations.
- SCI achieved an average of 27.0 training hours per employee in FY21, up from 23.6 in FY20.

Key G metrics and issues

- Temasek Holdings (Temasek) is SCI's substantial shareholder. As a Temasek company, SCI is committed to sound corporate governance practices that include having an independent and high-calibre board.
- SCI is led by a 10-member board, including Chairman Ang Kong Hua and Group President & CEO Wong Kim Yin. The average tenure of the independent directors is 5 years. There is one woman on the board of directors.
- The board, which largely comprises independent non-executive directors, leverages its diversity and experience to provide sound leadership to management.
- KPMG has been SCI's auditor since 2020. In compliance with the SGX-ST Listing Manual, SCI will need to replace their external auditors every 5 years which means KPMG can be appointed until 2025.
- To date, SCI has never received or been the subject of any legal action in relation to anti-competitive behaviour and violations of anti-trust and monopoly legislation. There were no reported cases of bribery and corruption in 2021.
- The changes of CEO and CFO in the past 5 years are a point to note in terms of strategic direction. That said, we should note that the current CEO is more intent on increasing SCI's renewable energy mix. We think this should work in SCI's favour if this strategy is executed well.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative parameters (Score: 22)						
	Particulars	**Unit**	**2019**	**2020**	**2021**	**JSW Energy (JSW IN, FY21)**
E	Scope 1	m tCO2e	25.9	26.3	25.9	14.5
E	Scope 2	m tCO2e	0.3	0.2	0.2	0.0
E	**Total**	**m tCO2e**	**26.2**	**26.5**	**26.2**	**14.5**
E	Scope 3	m tCO2e	8.3	9.7	8.9	1.8
E	**Total**	**m tCO2e**	**34.5**	**36.2**	**35.0**	**16.3**
E	Scope 1 emission intensity	tCO2e/MWh	0.6	0.5	0.5	680
E	Green energy share of capacity	%	21.5%	21.6%	22.5%	31%
E	Net water consumption	m m3	64.6	50.7	49.2	25.7
E	% of flyash recycled/treated	%	NA	NA	NA	100%
E	% of recycled material used	%	NA	NA	NA	NA
E	% of debt from green instruments	%	NA	NA	14.5%	55%
E	NOx (excluding N2O)	tons	NA	NA	NA	20,274
E	SOx	tons	NA	NA	NA	35,203
E	SPM/particulate matter (PM10)	tons	NA	NA	NA	3,054
S	% of women in workforce	%	NA	NA	NA	4.0%
S	% of women in management roles	%	NA	NA	NA	14.0%
S	Lost time injury frequency rate	number	1.1	0.9	1.50	0.11
G	MD/CEO salary as % of net profit	%	1.22%	<100%	1.6%	0.3%
G	Top 10 employees salary as % of profit	%	2.5%	<100%	7.3%	2.9%
G	Independent director tenure <10 years	%	75%	66%	50%	67%
G	Women directors on board	%	17%	8%	10%	17%

Qualitative parameters (Score: 67)

a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?
The company has various policies covering different aspects of ESG. There are KPIs, business objectives, governance enablers and risks for each of the segments

b) is the senior management salary linked to fulfilling ESG targets?
No

c) Does the company follow TCFD framework for ESG reporting?
Yes

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?
Yes

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?
The company has been increasing non-fossil fuel capacity

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?
Yes

Target (Score: 100)		
Particulars	**Target**	**Achieved**
Renewable share of NPAT by 2025	70%	35%
Reach to 10GW of installed renewable capacity	10	5.3
Reduce GHG emission intensity by 25% by 2025 to 0.4tCO2e/MWh	0.4	0.54
Increase sustainable urban developments to 500ha by 2025	500	168
Carbon neutral before 2050		
Reduce GHG emissions to 2.7tCO2e by 2030	2.7	26.2

Impact

Assuming a carbon price of USD10/50/100 and absolute annual reduction of 0.9m tCO2e to reach net zero by 2050, the impact calculated on FY21 EBITDA works out to 1.0-10.8% and on FY21 net profit works out to 4.4-43.9%. The impact will change depending on the carbon price and basis on calculation of carbon tax - absolute emission or carbon emission intensity

Overall score: 53

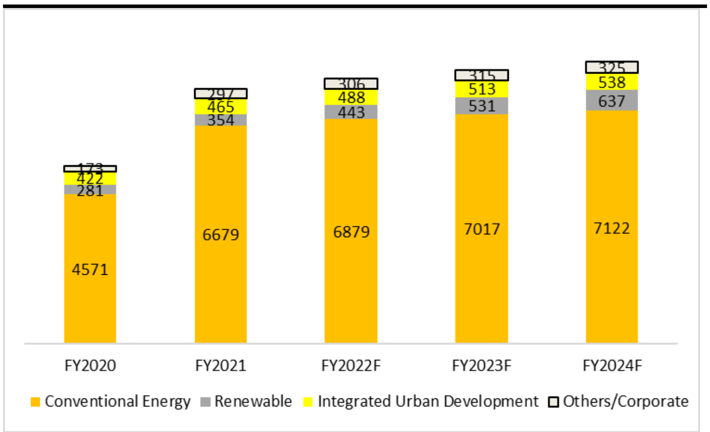
As per our ESG matrix SCI has an overall score of 53

ESG score	Weights	Score	Final score
Quantitative	50%	22	11
Qualitative	25%	67	17
Target	25%	100	25
Total			**53**

As per our ESG assessment, SCI has established sustainability policies and time-bound targets. Its quantitative disclosures on 'E' parameters on emissions, resource usage as well as 'S' parameters on workforce and management diversity are limited. SCI's overall ESG score is 53, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

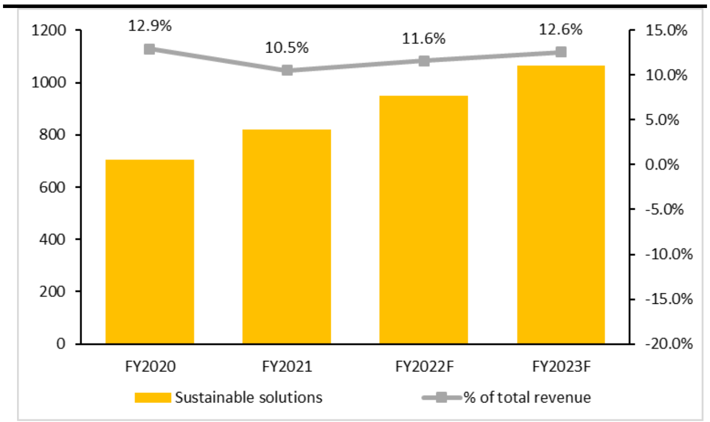
Focus Charts

Fig 1: We forecast steadily rising revenue (FY22-4E)



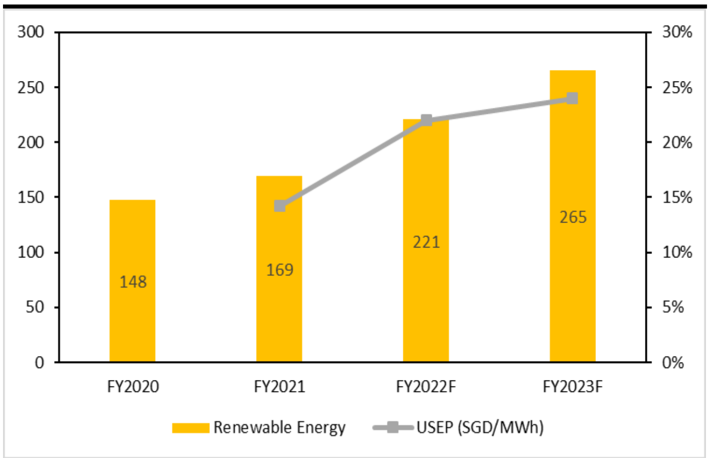
Source: Company, Maybank IBG Research

Fig 2: We expect renewable's share of revenue to increase



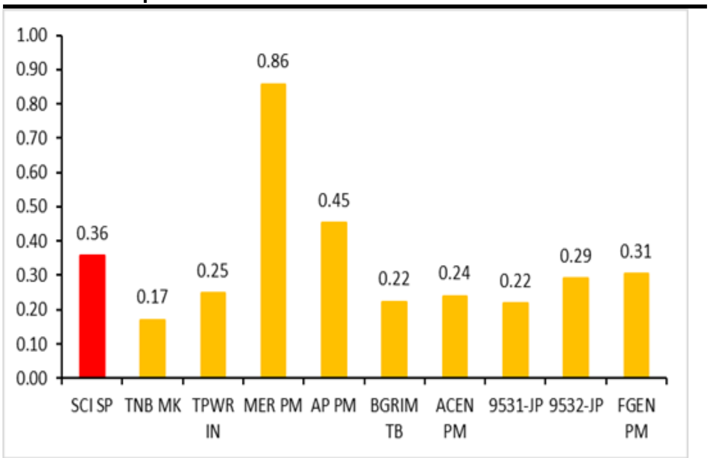
Source: Company, Maybank IBG Research

Fig 3: RE EBIT to double from FY21 to FY24E



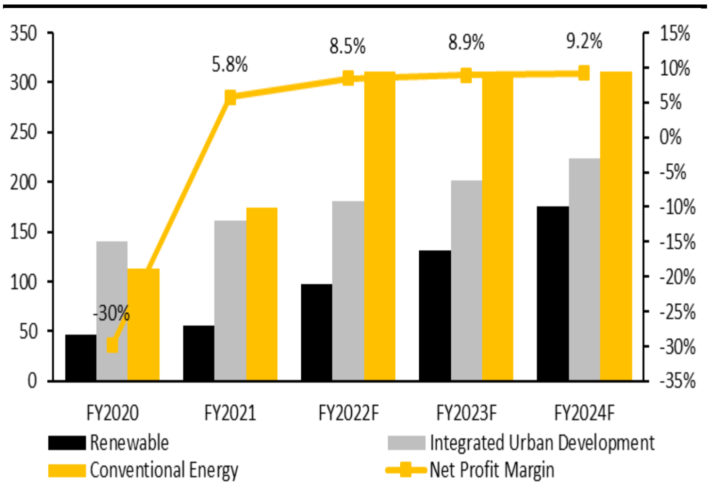
Source: Maybank IBG Research

Fig 4: Return on Sustainable Equity Ratio of selected regional utilities companies



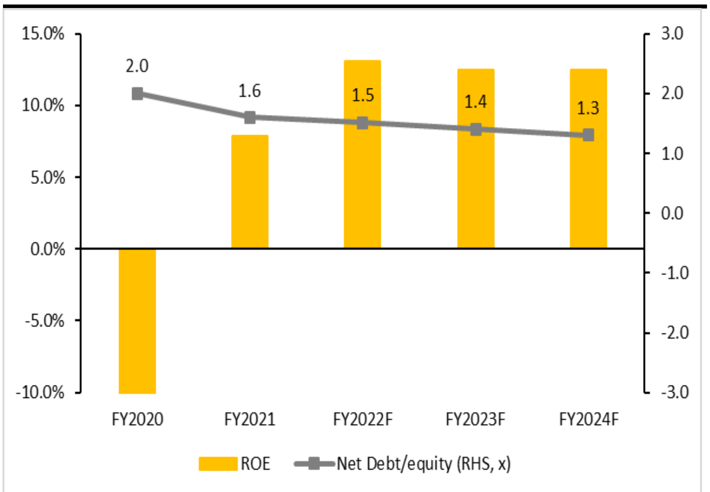
Source: Maybank IBG Research, FactSet

Fig 5: Net profit and margins set to improve (FY22-FY24E)



Source: Company, Maybank IBG Research

Fig 6: ROE set to improve and net debt/equity remains stable



Source: Maybank IBG Research, Company

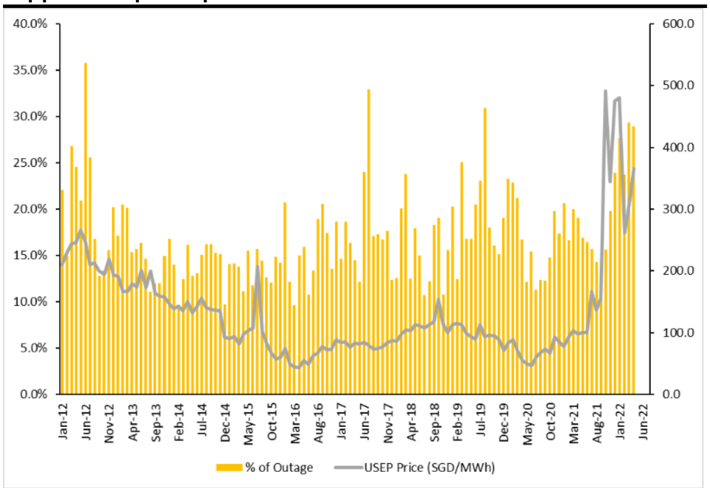
1. Investment Thesis

1.1 Record high spark spread and electricity prices

A spike in Singapore wholesale electricity price to the highest level in a decade highlights the nation's vulnerability to the global energy crisis, putting further strain on beleaguered power retailers. We believe SCI's focus on accelerating transition to clean energy is the most effective way to improve the island's energy security.

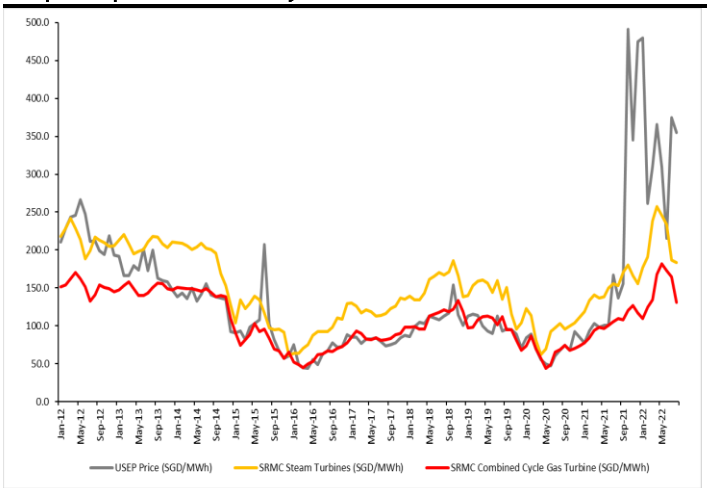
Natural gas accounts for 95% of electricity production in Singapore. As the island relies on imported natural gas, supply constraints will impact Singapore's electricity prices. The recent surge in USEP prices was due to the global energy crunch post-pandemic caused by high demand and tight supply conditions. Natural gas demand increased as global economic activities recovered, while supply became tight due to supply disruptions, production outages and geopolitical tension.

Fig 7: Combination of fuel price hikes, tight supply/outage supported spark spread in 1H22



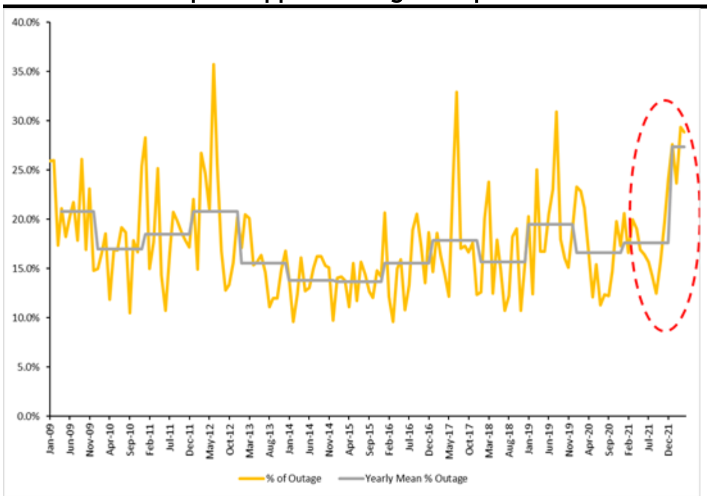
Source: EMC

Fig 8: SG spark spreads: SCI's fuel cost is lower due to hedging, so spark spreads are likely to be wider



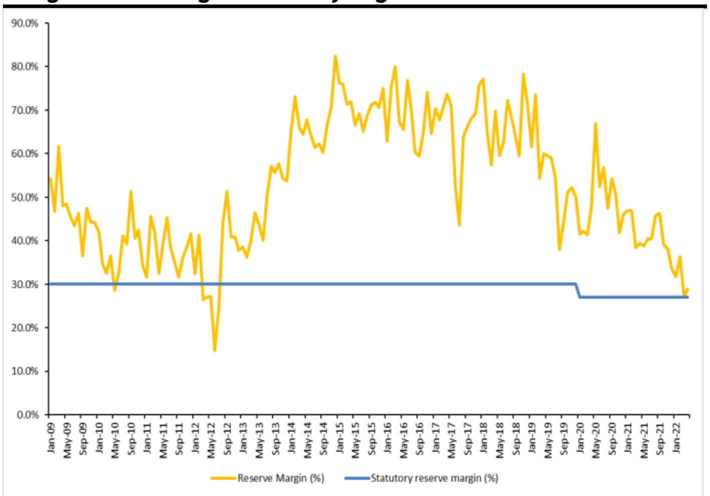
Source: EMC

Fig 9: More capacity outage in 2H21 due to scheduled plant maintenance helped support strong USEP prices



Source: EMC

Fig 10: … tight generation supply: latest data shows reserve margin is hovering around key regulated level of 27%



Source: EMC

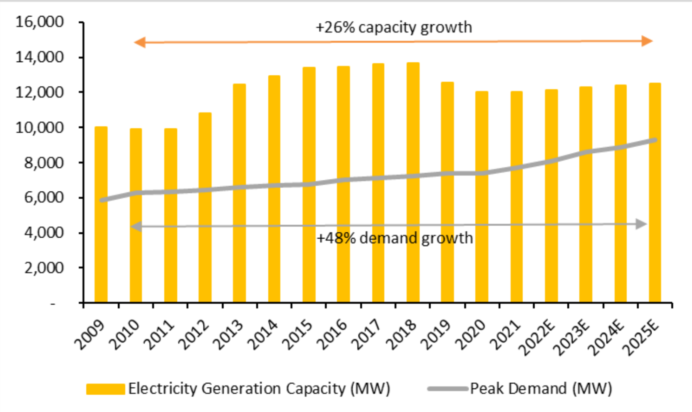
Assuming current 1HFY22 dynamics ease into 2HFY22, we think factors driving increasing earnings from SCI's Singapore utilities business in FY23E-FY24E would be: 1) tight power supply; and 2) increasing electricity demand with lower fuel prices.

The former is straightforward as it relates to the availability of generation capacity. As seen in Fig 9, maintenance shutdowns caused outages to average 27.4% in FY22 (YTD) from an average of ~16% over FY13-21. This resulted in tight supply, as the supply cushion fell to the required reserve margin of 27% (Fig 14). That being said, we think electricity generation is not a main influencing factor, judging from how USEP prices soared although the number of maintenance shutdowns have eased since May 22.

We estimate Singapore's electricity demand to register a CAGR of 2.8-3.2% until 2024, similar to the forecast by the Energy Market Authority of Singapore. These take into account various factors, including changes to the population, temperature, forecast GDP growth rates, and projected demand from new high-growth sectors such as data centres.

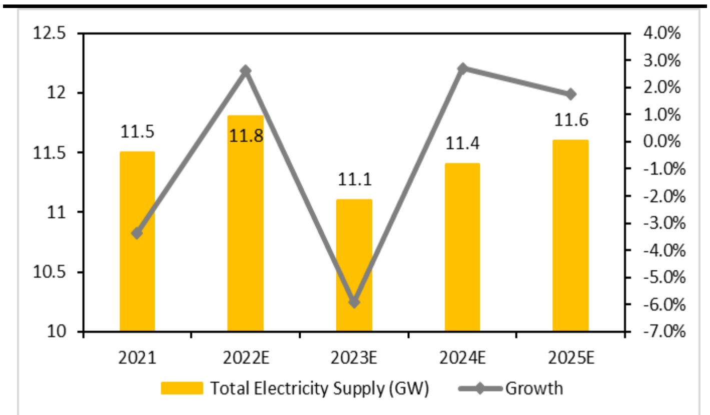
Given the protracted Ukraine-Russia war, we believe fuel prices will remain elevated for the rest of this year. We think USEP price will ease going into FY23 but remain above the SGD200/MWh level due to high fuel prices. We forecast another year of exceptional profits in FY22E for SCI's conventional energy business due to rising USEP.

Fig 11: Demand growth projected to sharply exceed supply growth (26% rise in generation capacity vs 48% rise in demand)



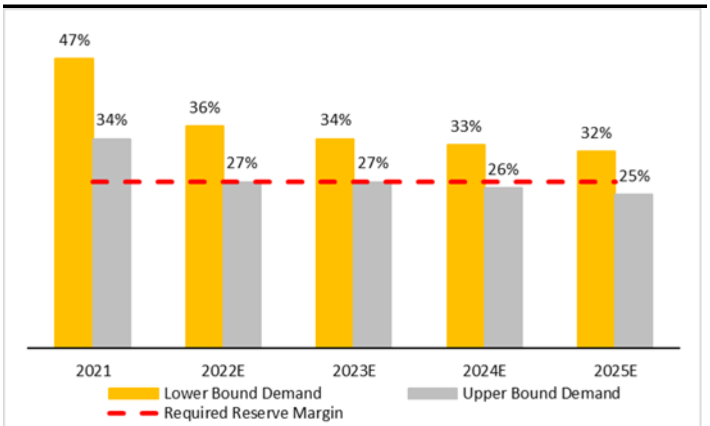
Source: EMC, Maybank IBG Research

Fig 12: Singapore projected total electricity supply (capacity)



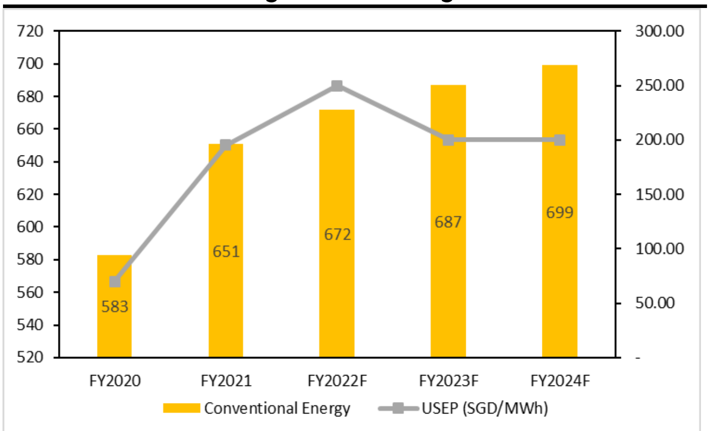
Source: Maybank IBG Research, Company

Fig 13: Projected Singapore reserve margin (FY21-FY25)



Source: EMC, Maybank IBG Research

Fig 14: SCI's conventional energy: EBIT has been relatively stable due to fixed margin on some long-term contracts



Source: Maybank IBG Research, Company

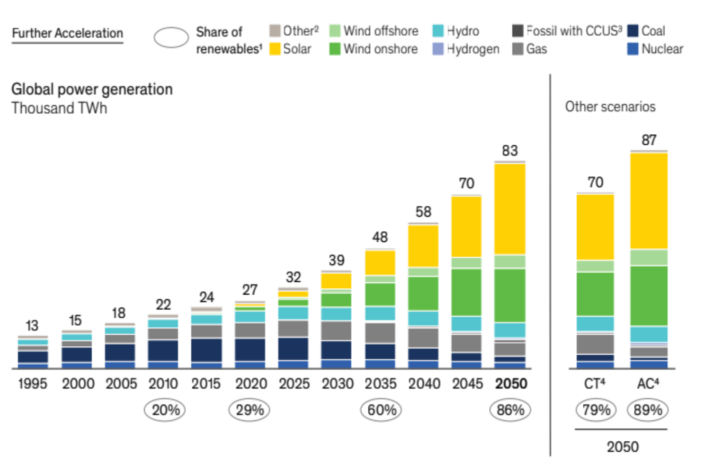
1.2 Energy mix shifting towards RE

The international Energy Agency (IEA) projects global energy mix to shift rapidly towards power consumption and electrification. The renewable energy sector in Singapore is evolving, renewable power generation is set to be the fastest growing source of electricity supply in 2022 and capacity addition is expected to exceed demand growth. SCI has been riding this megatrend since 2021 introducing significant transition into renewables/clean energy by committing to: a) carbon neutral and net-zero targets; b) targeting to exit from coal; and c) substantial investment in renewable technologies (sustainable linked bonds).

Electrification is the goal of transitioning everything to being powered by electricity. For this to happen, it requires a focus on renewable energy.

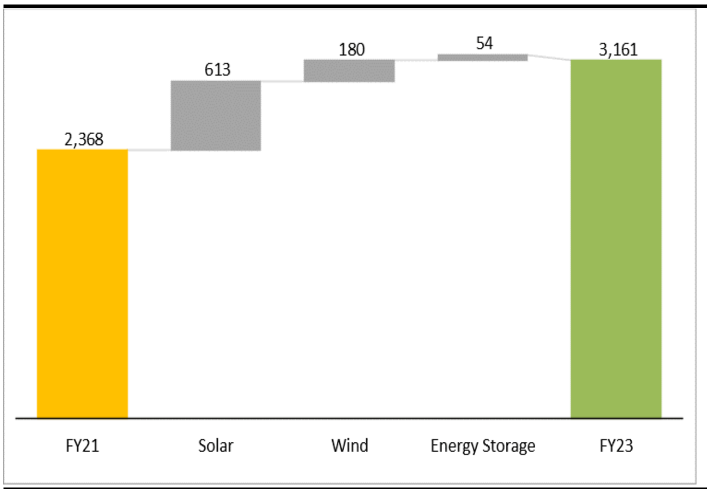
We believe SCI is well positioned for acceleration in Asia's renewable growth. Committed to achieve its 10GW of gross installed capacity target by 2025, SCI made two major RE acquisitions in FY21 that started to contribute in FY22E. The first is a 35% interest in SDIC New Energy's portfolio of 1.9GW of wind and solar assets, whose acquisition it completed in Jan 22. From its financial statement, SDIC generated SGD103m of net profit (+42% YoY) in FY21 with strong performance from operations in wind and power generation resources in Xinjiang. We have conservatively estimated SGD15m of contributions from SDIC for SCI group in FY22E. The second acquisition is a 98% interest in a 658MW portfolio of wind and solar assets belonging to CGN Capital Partners. We believe CGN could contribute another SGD60-70m of EBITDA to SCI group. Consolidating other capacity expansion in India and Singapore, we see the renewable segment as the fastest growing business for SCI and we project it could see 22-25% YoY increase in net profit in FY22-23E.

Fig 15: Renewables are projected to account for 80-90% of power generation globally by 2050



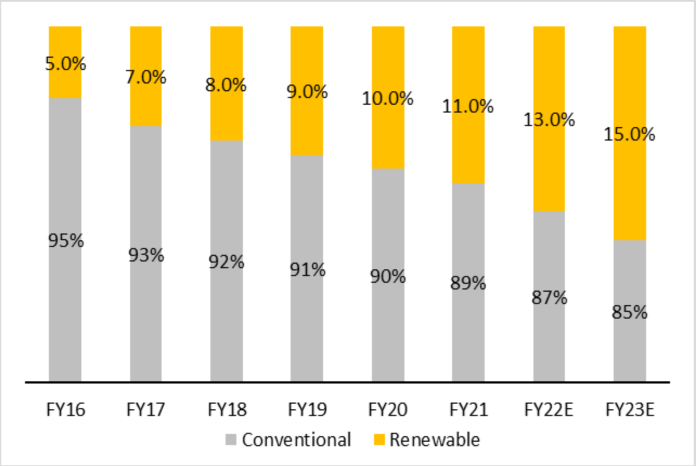
Source: *McKinsey Energy Insights Global Energy Perspective 2022*

Fig 16: SCI's renewable capacity (MW) under development



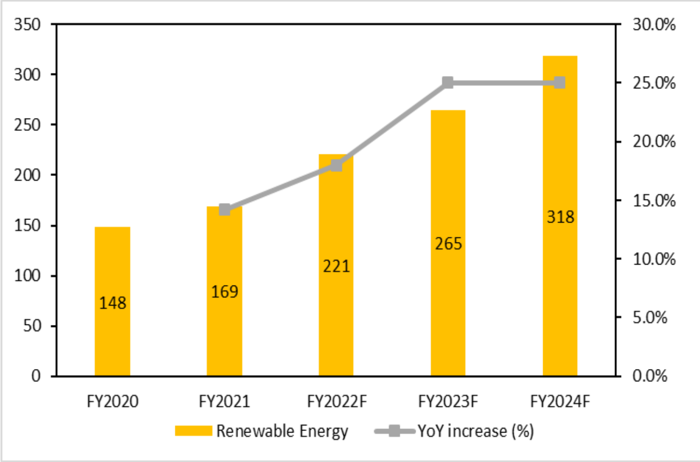
Source: *Maybank IBG Research, Company*

Fig 17: Steadily rising share of RE in the energy mix



Source: Company, Maybank IBG Research

Fig 18: Project exceptional RE profit CAGR of 45% FY23-24E

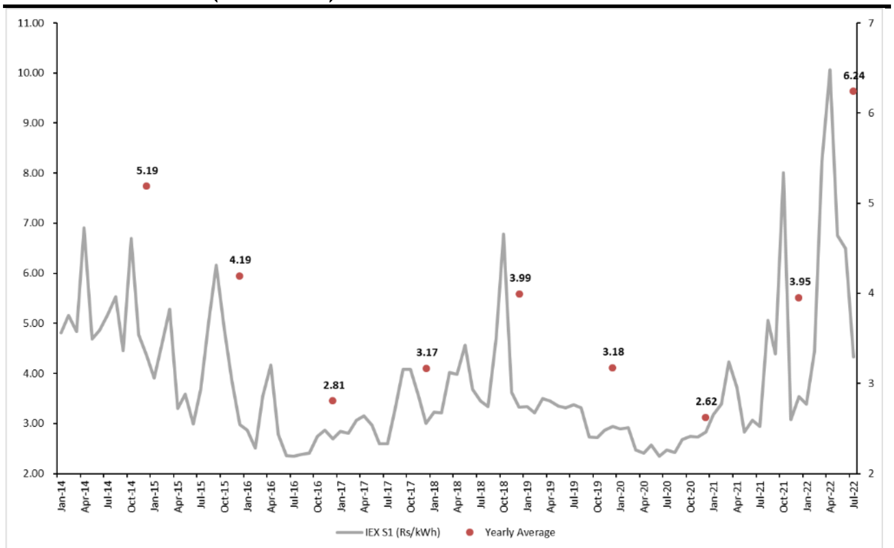


Source: Maybank IBG Research, Company

1.3 Crystallising value of India utilities business

With Sembcorp Energy India Limited (SEIL) signing two long-term contracts for its SGPL plant 2 (P2), 85% of SEIL's 2.6GW capacity will be under medium- to long-term PPAs. This puts SCI's India business in a stronger position financially in FY22E and more importantly has made SCI's India thermal portfolio more attractive to potential acquirers. SCI has stated that it will look to sign more PPAs to ensure 100% offtake for its P2 asset.

Fig 19: Indian Energy Exchange (IEX) hit a new annual average peak at IDR6.24/KWh YTD (+58% YoY).

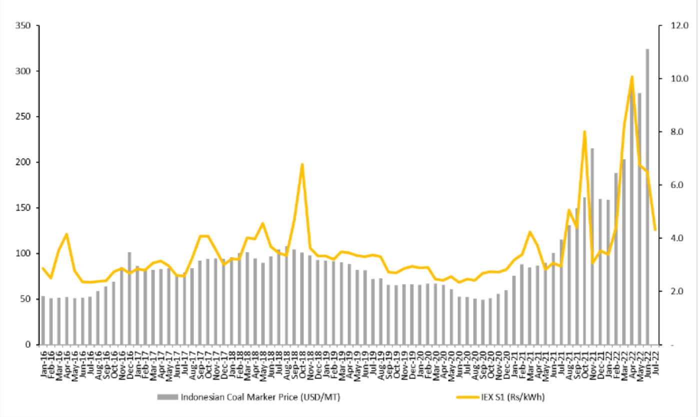


Source: IEX, Maybank IBG Research

Dark spreads are meant to convey the relative profitability of a coal-fired electric generator

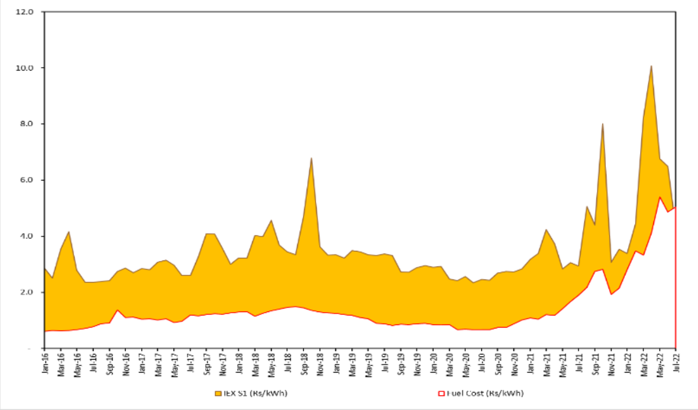
We noticed, from Figs 8 & 9, dark spreads for 1H22 were as good as in 2H21 and SCI benefitted from the price surge in Mar/Apr-22. Plant load factor of 74.1% in 1H22 is higher than in 2H21 (58.9%) as well. Our FY22 profit forecast for SEIL is SGD108m as we see a lower outlook for 2H22, largely due to a loss from SEIL P2 (SGPL TPP) as it undergoes a 45-day maintenance shutdown.

Fig 20: HBA Coal Price vs IEX prices



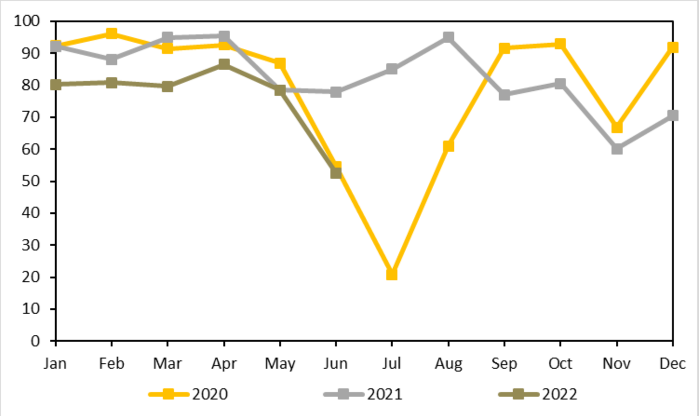
Source: Bloomberg, IEX

Fig 21: Conventional energy dark spread analysis for SCI's India business



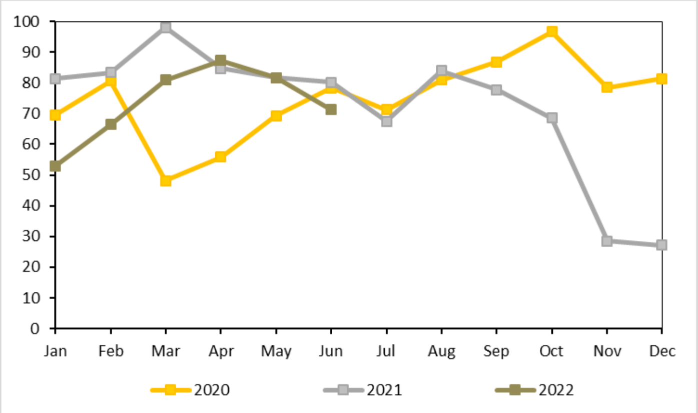
Source: IEX, FactSet

Fig 22: SEIL P1 PLF - Unit 2 has just completed annual maintenance and would expect ramping up from now on



Source: CEA

Fig 23: SEIL P2 PLF - Overall good demand, we factored in small loss for 2H22 due to plant maintenance (ECD 4Aug22)

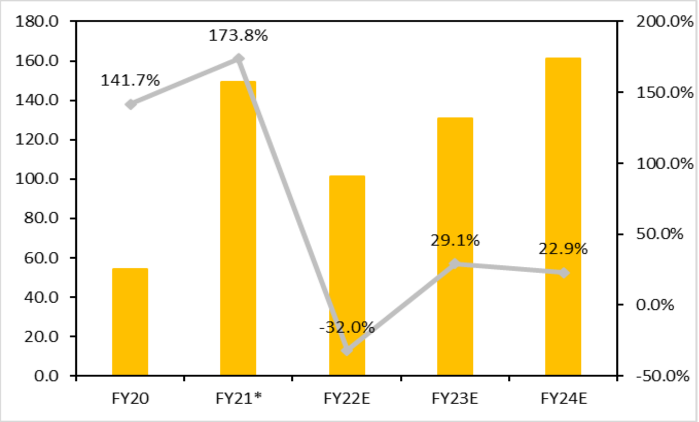


Source: CEA

The India Government's continuing strong priority for renewables may provide an impetus to the pending distribution sector policy reforms, including introduction of retail competition, higher renewable purchase obligations, and stricter financial norms. During this period, demand for power is expected to outstrip supply, and renewable energy is projected to grow to over 10% of total power consumed. High import tariffs of 40% on solar equipment have been announced from April 2022 to encourage domestic manufacturing, and free interstate transmission, which subsidises renewables, is scheduled to expire in June 2023. Considering all these factors, we believe that tariffs for renewable energy will inevitably rise.

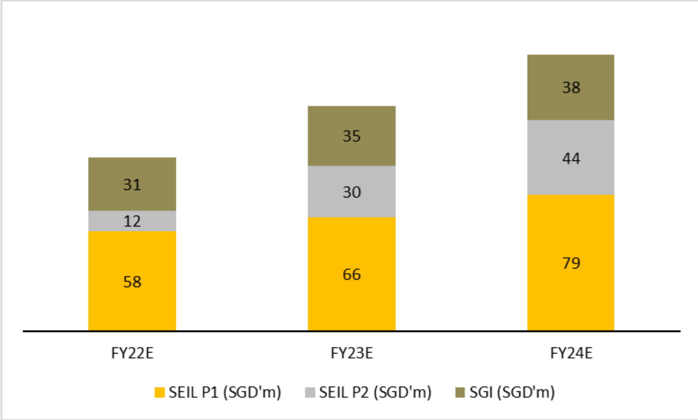
Overall, we forecast SCI's utilities business in India to report strong 20-30% YoY earnings growth in FY23-24, driven by pick-up across all the segments. SEIL is the strongest driver of our overall earnings forecast for the Group. We think SCI's RE business in India will continue to improve by signing PPAs with other state-owned power distribution companies.

Fig 24: Indian utilities' PATMI to improve by 23% for FY24E



**includes one-time exceptional item*
Source: Company, Maybank IBG Research

Fig 25: PATMI estimation for SEIL and SCI



Source: CEA, Maybank IBG Research

1.4 Undervalued vs top Asian utilities and regional industrial peers

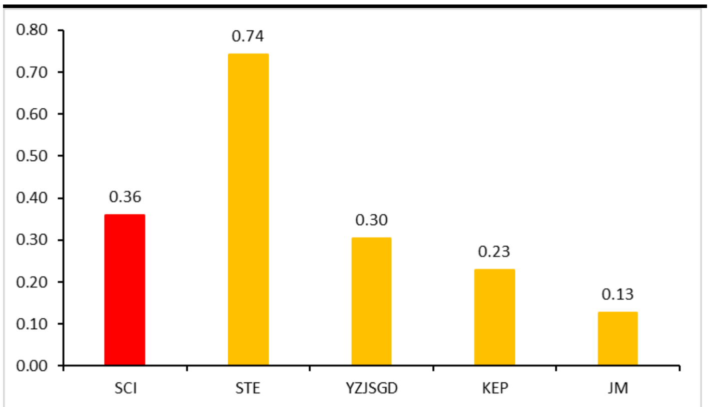
When we compare SCI's PER and ROE to Emerging Asia utilities and Singapore industrial peers listed on the SGX, we note that SCI is trading at a discount (PER 12.5x vs average 22.5x) but it's able to generate more value for investors (ROE 13x vs average 12x). Moving forward to FY23/FY24E, we forecast that the ROE for SCI will grow to 12.5-13.1% as the company acquires more renewable assets.

We have calculated the return on Sustainable Equity ratio based on the formula presented below. The ESG Risk Ratings measure the quantitative degree to which a company's economic value is at risk, driven by ESG factors. For corporates with a higher Sustainable Equity ratio, they achieved higher ROE over the magnitude of the company's unmanaged ESG risks. From this exercise, we can deduce that SCI has demonstrated moderately low ESG risk ratings as compared to comparable companies (i.e. industrial peers and regional utilities).

Return on Sustainable Equity

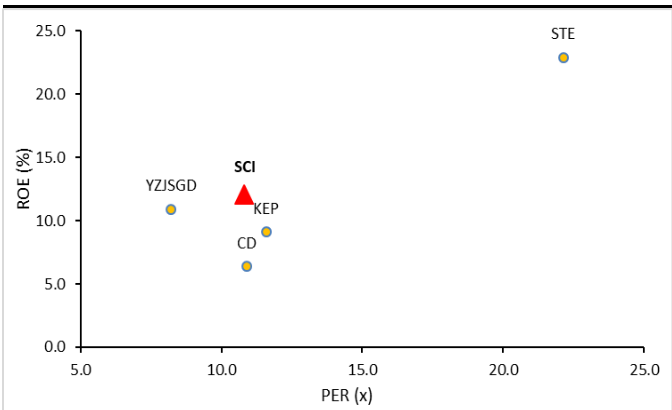
$$Return\ on\ Sustainable\ Equity\ ratio = \frac{Return\ on\ Equity\ (\%)}{Sustainalytics\ ESG\ Risk\ Ratings}$$

Fig 26: ROE to Sustainalytics Risk Ratings of SG Industrial Peers



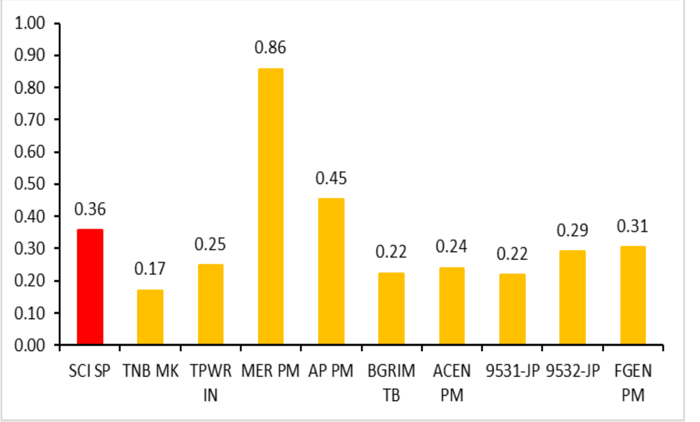
Source: FactSet, Maybank IBG Research

Fig 27: ROE vs PER plot for SCI's industrial peers



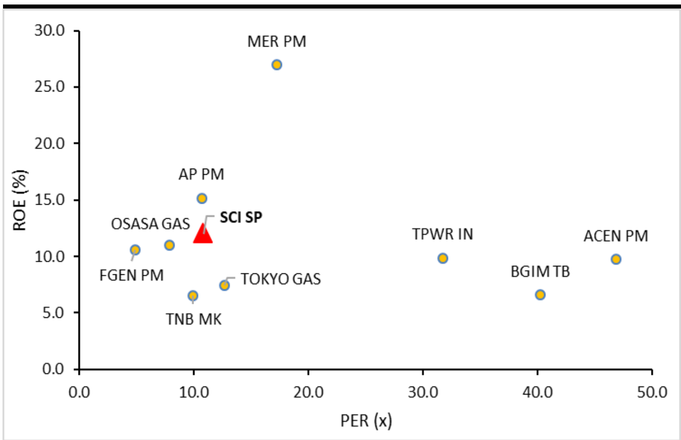
Source: CEA, Maybank IBG Research
**ROE calculation excludes one time exceptional items*

Fig 28: ROE to Sustainalytics Risk Ratings of top regional utilities



Source: FactSet, Maybank IBG Research

Fig 29: ROE vs PER plot of top regional utilities



Source: CEA, Maybank IBG Research

**ROE calculation excludes one time exceptional items*

2. Business overview

SCI is a leading energy and urban solutions player with presence in Southeast Asia, China and India. SCI delivers innovative energy and urban solutions that support energy transition and sustainable development.

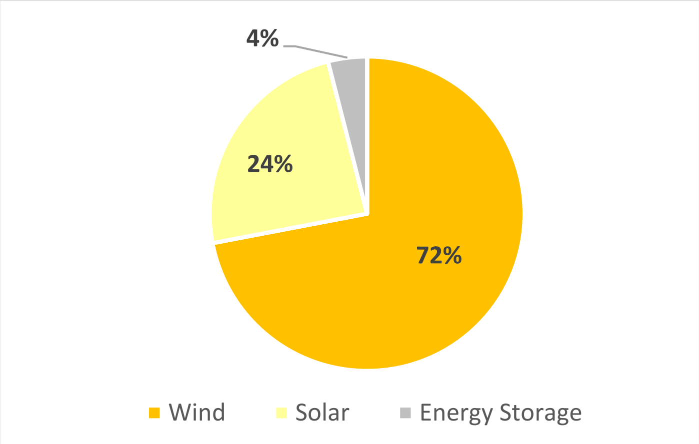
Fig 30: SCI's main businesses

Source: Maybank IBG Research

2.1 Established RE solutions provider in Singapore

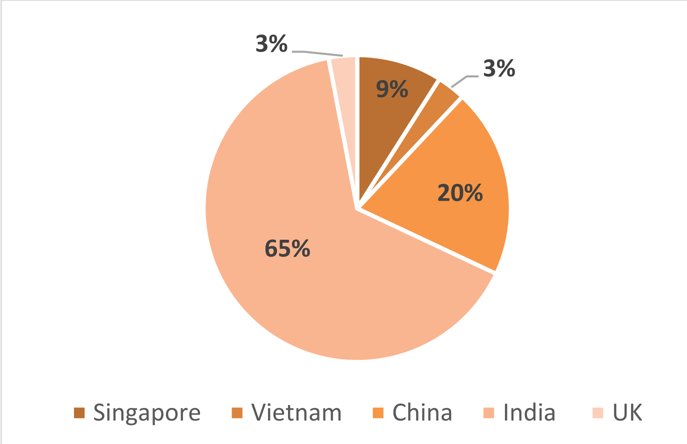
SCI is one of the largest Singapore home-grown RE players with c.7.0GW of gross RE capacity, comprising solar, wind and energy storage globally. SCI is committed to transforming its portfolio and supporting the global energy transition. SCI aims to expand its gross installed RE capacity from 7GW to 10GW by FY25. Its renewable portfolio comprises wind, solar and energy storage assets in China, India, Singapore, the UK and Vietnam.

Fig 31: Gross renewable capacity by technology



Source: Company

Fig 32: Gross renewable capacity by country



Source: Company

Key developments

In the past six months, SCI has been notably active on the business development front with nearly one deal every month since July 2021. Importantly, all of these deals have been focused on expanding SCI's RE footprint, as can be seen in the table below. These contracts increase SCI's RE portfolio to c.7.0GW (1.4GW solar, 5.1GW wind and 0.5GW batteries). We believe SCI will continue to step on the throttle with more RE deals for the remainder of FY22E.

Fig 33: Recent business developments that are focused on RE

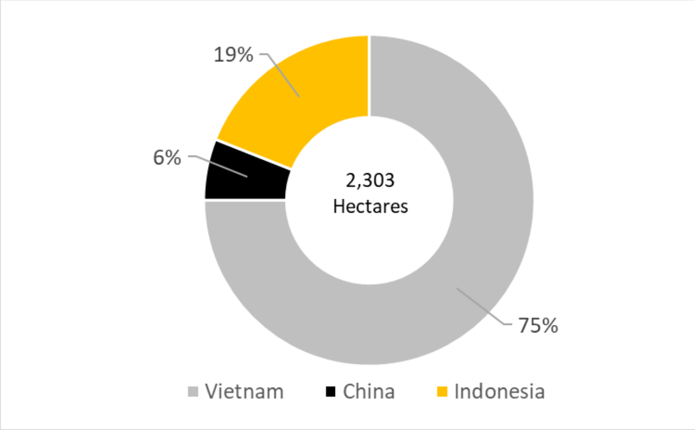
Date	Details	Sector	Country
Jul-21	Launch Singapore's first solar powered EV charging hub for industrial vehicles	Solar	Singapore
Oct-21	Awarded 180MW wind in kamataka with 25-year PPA	Wind	India
Oct-21	Joint development for a 1GWp solar and energy storage project	Solar & Battery Storage	Indonesia
Nov-21	Acquisition of 658MW operational wind and solar assets	Wind & Solar	China
Dec-21	Development of 550MW portfolio of nearshore and offshore assets	Wind	Vietnam
Dec-21	Acquisition of a 35% stake in 1.9GW of operational wind and solar assets	Wind & Solar	China
Feb-22	15 year contract for 150MW battery storage	Battery Storage	United Kingdom
Mar-22	Commenced construction of a new sustainable industrial park, VSIP BINH DUONG III, with a 50ha solar farm	Industrial park with Solar	Vietnam
Apr-22	Issuance of SGD300m Sustainable linked notes		Singapore
May-22	Secures SGD1.2b Sustainability linked Loan facility		Singapore
Jun-22	Acquisition of 658MW wind and solar portfolio	Wind & Solar	China
Jun-22	Appointed by Energy Market Authority to build, own and operate 200MW of Energy Storage System on Jurong island	Battery Storage	Singapore

Source: SGX

2.2 Building full suite of sustainable urban solutions

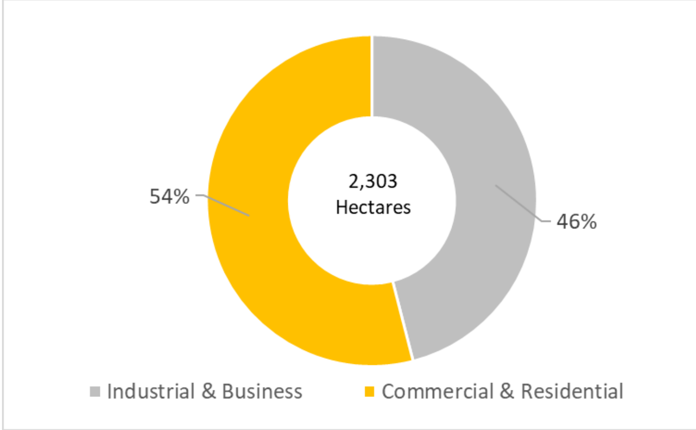
The integrated urban solutions segment transforms raw land into sustainable urban developments (eg, rooftop solar, Green Coverage, waste recycling, wastewater treatment, etc) to meet the needs of customers. SCI targets to triple land sales of the urban business to 500 hectares by 2025, from 172 hectares in 2020. In FY21, SCI obtained the investment licence to develop a new 481-hectare industrial park in Quang Tri, central Vietnam, with the initial development phase comprising 97 hectares. SCI's land bank increased to 13,443 hectares from 12,588 hectares. SCI now has 15 urban projects strategically located across Vietnam, China and Indonesia, which provide platforms for the business to drive future growth in sustainable solutions.

Fig 34: Remaining saleable land by geography



Source: Company

Fig 35: Remaining saleable land by segment

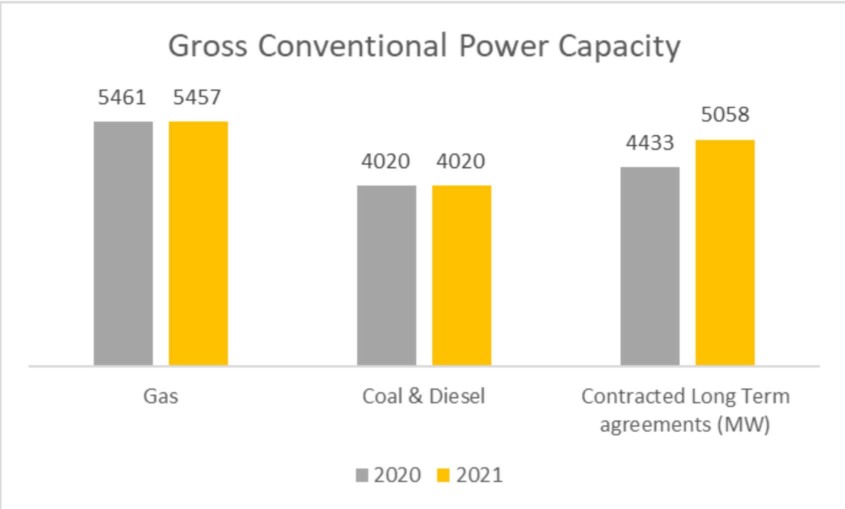


Source: Company

2.3 Renowned player in conventional energy

SCI is an established operator with over 9,400MW of conventional power capacity in key markets around the world. The conventional energy segment performed exceptionally well in 4Q21 with higher contracted long-term agreements (+14% YoY). Global economic recovery and rising consumption boosted electricity demand. Coupled with supply constraints mainly due to adverse weather events, gas, coal and electricity prices rose to their highest levels in decades. In the key markets, higher spot prices and increased electricity demand benefitted the performance of the conventional energy segment in FY21.

Fig 36: Operational indicators for conventional energy



Source: Maybank IBG Research, Company

Key developments

In early FY22, the group secured two power purchase agreements (PPA) in Nellore, India. The first PPA is to supply 625MW of power to Andhra Pradesh state's power distribution companies for 12 years, and the other is to supply 200MW of power to Bangladesh through PTC India Limited until May 2033. With these agreements, 85% of the SEIL thermal plant capacity will be secured by long-term and medium-term PPAs, of which 81% of plant 1 is backed by PPAs until 2040 and 81% of plant 2 is supported by PPAs until FY23/FY24.

3. Financial Analysis

3.1 FY23-24E earnings growth backed by strong order book

We project SCI's earnings growth trajectory to be sustained in FY23/24E, at +3%/+11% YoY to SGD532m/569m. Earnings growth over the medium term will be largely expansion-driven, arising from incremental income from new capacities (booked under revenues and equity income).

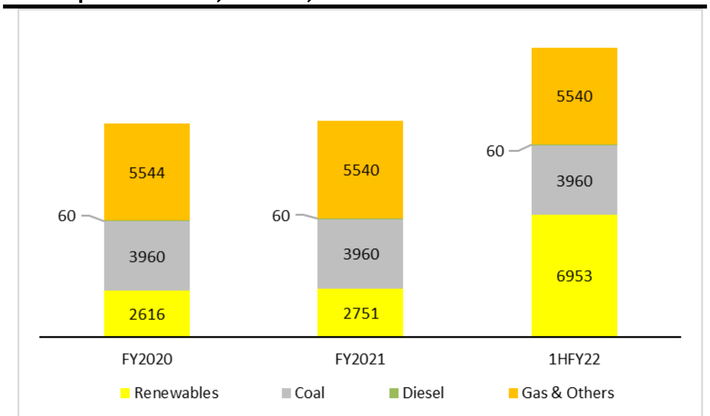
At its FY21 briefing, SCI disclosed it plans to add c.844MW of new attributable capacity in FY22-23E. Given the expected completion of these renewable power generation assets, this increases SCI's total renewable portfolio to 7.0GW in operation and under development globally, implying a FY21-FY24E PATMI CAGR of 22.7%.

Fig 37: SCI's renewable capacity under development

As at Dec 31, 2021	Stake (%)	Country	Est. Attributable installed Capacity (MW)	Estimated Completion Date
Solar				
Sembcorp Green Infra	100%	India	30	2022
Sembcorp Green Infra	100%	India	400	2023
Sembcorp Solar Singapore	100%	Singapore	120	2022-2023
Sembcorp Solar Vietnam	100%	Vietnam	57	2022-2023
Vietnam-Singapore Smart Energy Solutions	54%	Vietnam	3.24	2022
Wind				
Sembcorp Green Infra	100%	India	180	2023
Energy Storage				
Sembcorp Cogen	100%	Singapore	4	2022
Flexible Generation Assets - Batteries	100%	UK	50	2022
TOTAL			**844.24**	

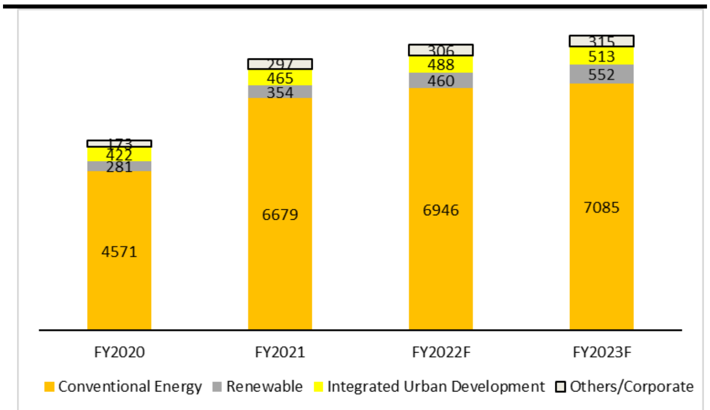
Source: Company

Fig 38: Gross installed capacity and capacity under development of 16,513MW, as of 15 Jun 2022



Source: Company

Fig 39: SCI - revenue forecasts



Source: Company, Maybank IBG Research

Fig 40: Growth and Margin outlook by division

Business	Revenue FY21-24F CAGR %	EBIT FY21-24F CAGR %	Net Profit FY21-24F CAGR %	GP margin outlook FY21-24F	Growth drivers/Comments
Conventional Energy	2.7	2.4	21.1	Slight increase in FY22 due to high prevailing tariff prices, taper down in FY23 onwards	EMA expects high gas and coal prices to persist in FY22 with the protracted conflict in Ukraine as well as the seasonal increase in energy demand. IEX tariff and USEP set to continue rising, we expect a full year contribution of strong profits from Cogen and SEIL.
Renewable	23.0	23.2	45.6	Increasing need for low emission fuel, margin maintains high at 48%	Energy mix shifting towards renewables. SCI rapidly growing renewables to achieve target of 10GW (JunFY22: 7GW). Renewable segment is projected to be the fastest growing business with 22-25% increase in PATMI over the next few years
Integrated Urban development	4.9	7.1	11.5	Relatively stable at c20% post 2021 restructuring; largely defense sales	Slower projected growth due to 1) curbs on bank borrowings for China property market is expected to facehead winds, 2) Uncertainty from China's "Zero-COVID" stance with lockdowns and strict border controls has also led to caution from potential customers and a delay in investment decisions.
Group	3.8	10.7	23.5	Hovering at 15-16%, growing by c200bps	Targeting overall improvement in ROE (12.5%), Debt/EBITDA (4.3x) and EBITDA/Interest (3.2x) through improved capital management

Source: Maybank IBG Research, Company data

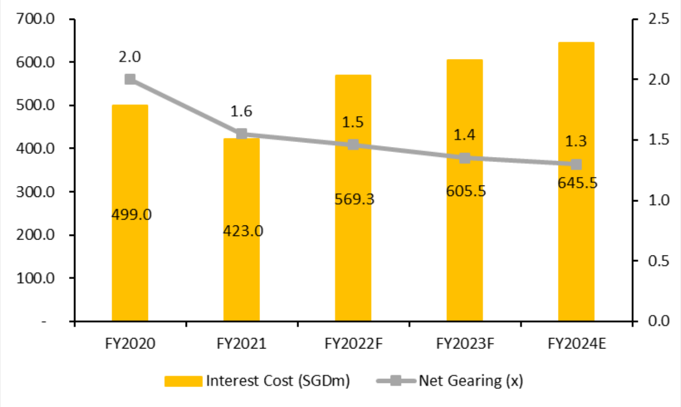
3.2 Increasing investment and capital recycling help fund sustainable solution

SCI's gearing of 1.3-1.6x is the highest among its regional peers. Its debt consists of bonds, project financing and bank loans at 45%/34%/21% respectively. Although the majority (66%) of its loans are due within five years, we anticipate gearing to stabilise at current levels due to value-unlocking in the renewables business or further monetisation of non-core assets.

As SCI is transitioning from brown to green energy, it seeks to issue more long-term bonds and secure borrowings with longer tenures and more attractive interest rates. In FY22, SCI raised SGD2.9b in sustainability-linked notes (green loans), all of which were well subscribed, demonstrating the market's confidence in the company's strategy. We believe SCI is well positioned to explore potential divestments, capital recycling and expected expiry of contracts/concessions of up to SGD100m.

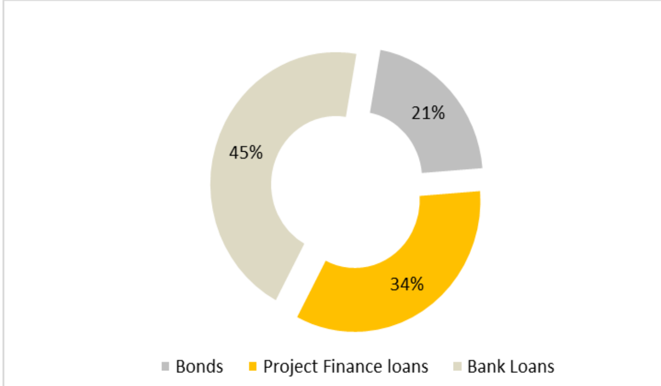
Going forward, we expect SCI's debt level to maintain at 1.5x net gearing, alongside its capacity expansion. While its improving operating cashflow should be sufficient to cover working capital and the equity component of its expansion, we expect SCI to borrow at least 50% of its project costs to optimize project-level returns and, more importantly, keep its balance sheet flexible for potential acquisitions and/or opportunistic partnerships to achieve its target of having 10GW of RE capacity. We anticipate long-term debt to rise to SGD7.3b by FY24E, from SGD6.6b as of Dec 2021.

Fig 41: Net gearing set to taper with rising interest cost



Source: Company, Maybank IBG Research

Fig 42: FY21 debt profile (46.7% fixed rate & 53.3% floating rate)



Source: Maybank IBG Research

Fig 43: Consolidated balance sheet (FY20A-FY24F)

In SGD m	FY20A	FY21A	FY22F	FY23F	FY24F	Notes
Cash & Cash Equivalents	1,047	1,372	1,501	1,641	1,698	
Trade & Other Receivables	1,571	1,986	2,001	2,065	2,126	
Inventories	196	222	281	289	257	
Property, Plant and Equipment	7,204	7,094	7,442	7,831	8,251	Assume direct capex of SGD348-SGD420m for renewable power generation assets of more than 844MW of gross capacity in FY22-FY24E
Investment in Associates	1,588	1,600	1,833	2,094	2,386	
Total Assets	13,562	14,395	15,093	15,569	15,870	
Trade & Other Payables	157	181	162	168	172	
Short-term Loan	593	754	739	718	663	
Long-Term Loans	7,135	6,637	6,975	7,179	7,342	We expect new projects to be financed with 50% debt and 50% internally generated equity
Other Long-Term Liabilities	421	405	390	375	362	
Total Liabilities	10,086	10,477	10,828	10,915	10,961	
Common Stock	566	566	566	566	566	
Retained Earnings	3,153	3,349	3,781	4,256	4,774	
Other Equity Account/Reserves	(380)	(148)	(243)	(335)	(604)	
Total Shareholders' Equity	3,339	3,767	4,103	4,487	4,737	
Total Liabilities & Shareholders' Equity	13,562	14,395	15,093	15,569	15,870	

Source: Maybank IBG Research

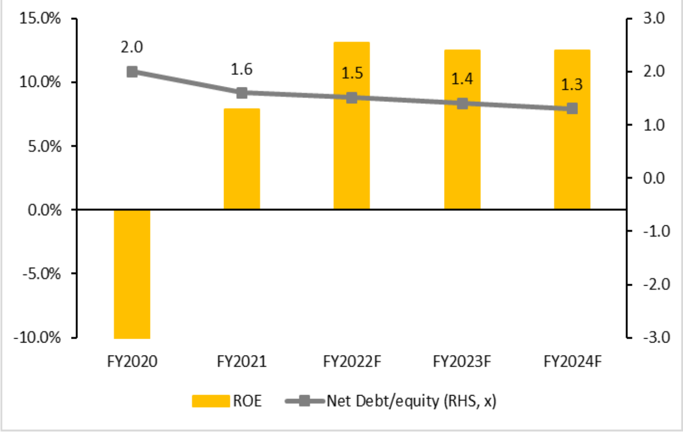
3.3 Sustainable cashflow and ROE to improve

We forecast capex of SGD348m-420m over FY22-24F, driven by regulated capex, additions to renewables and solar cell/module capacity additions. A large part of this will be funded by operating cash flows, sustainable debt (green financing, sustainability-linked financing and project financing) and capital recycling.

Projecting ROE to increase by divestment and 'sweating' ageing assets to raise cash

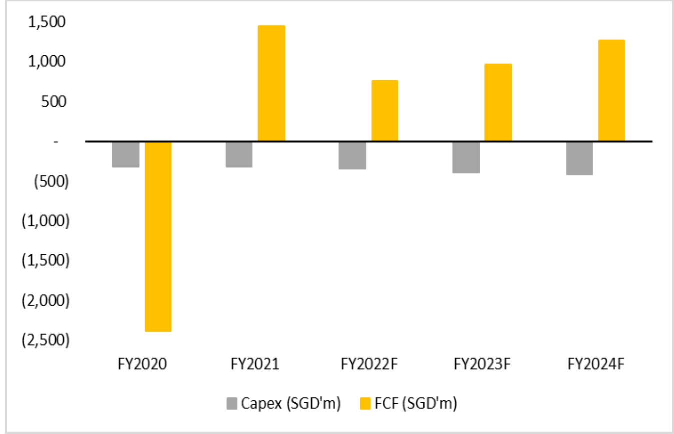
The company should generate FCF of SGD750m-SGD1.3b over FY22-24E. We forecast net debt/equity, including lease liabilities, to decline to 1.28x in FY24E from 1.6x in FY21 and ROE to improve to 12.5% in FY24E from 7.9% in FY21.

Fig 44: Leverage to decrease, overall ROE to improve



Source: Company, Maybank IBG Research

Fig 45: Capex vs FCF



Source: Company, Maybank IBG Research

Fig 46: 5-stage Dupont analysis

	FY20A	FY21A	FY22F	FY23F	FY24F	Notes
Net Margin (%)	-18.3%	5.8%	8.5%	8.9%	9.2%	Improved with more renewable power generation assets under development
Total Asset Turnover (x)	0.40	0.54	0.54	0.54	0.54	
Operating Margin (%)	8.1%	8.6%	10.1%	10.3%	10.4%	
ROA (%)	**-7.4%**	**3.1%**	**4.6%**	**4.8%**	**5.0%**	
Financial Leverage (x)	4.1	3.8	3.7	3.5	3.4	
ROE (%)	**-29.9%**	**7.9%**	**13.1%**	**12.5%**	**12.5%**	Improving with capital recycling and sweating of assets.

Source: Company, Maybank IBG Research

Fig 47: Consolidated cash flow (FY20 – FY24F)

In SGD m	FY20A	FY21A	FY22F	FY23F	FY24F	Notes
Net Cash From Operations	(2,567)	1,339	539	765	1,062	Improvement is increased output from new RE capacities expected to be completed by FY23E.
Net Capex	(313)	(317)	(348)	(389)	(420)	Capex is mainly for SCI's RE pipeline and maintenance of other power-generation assets
Net Cash From Investing	4,778	(133)	(70)	(110)	(143)	
Net Cash from Financing	(4,432)	(881)	(340)	(514)	(862)	Amid SCI's improving cashflow and the presumed ring-fenced structure for its RE expansion, we conservatively forecast SCI's dividend payout to remain 30-40% of previous year's net income in FY22/23E, similar to FY21A.

Source: Maybank IBG Research

4. Valuation

4.1 SOTP-based valuation indicates 14% upside

Fig 48: SOTP valuation for SCI

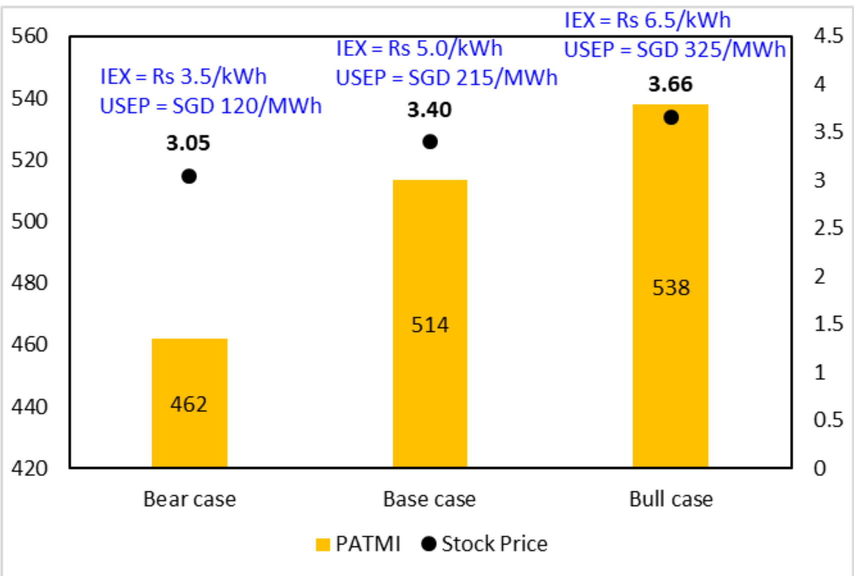
	Stake	Basis	Effective value (SGD m)	per share (SGD)
Conventional Energy	100%		**4,037**	
Core	100%	12.2x FY23E P/E	2,554	1.43
India	100%	Book Value	1,483	0.83
Renewables	100%	12.2x FY23E P/E	3,234	1.81
Integrated Urban Solution	100%	Book Value	1,864	1.04
Other business / Corporate	100%	Book Value	(2,860)	(1.60)
Minority interest	NM	Estimates	(209)	(0.12)
Total Value			**6,066**	3.40
Diluted no. of shares			1,785	
Value per share (SGD)			**3.40**	

Source: Maybank IBG Research

We derive our valuation from an SOTP method, based on FY23 forecasts. We value SCI's utilities business with an implied 12.2x FY23E P/E, which is +1SD above the five-year average of 10.8x. This is still below regional peers of 15.7x. We have chosen this target price methodology as we believe it will more fairly and accurately reflect the company's forward valuation as we have past the peak of the pandemic. We think consistent delivery of earnings is the key catalyst to maintaining investors' confidence. We also think the catalyst beyond FY22E could be decarbonisation of its thermal power plant in India, whose profits can be replaced by earnings from capacity expansion in RE.

A sensitivity analysis of SCI's fair value is shown in Fig 49. Our FY22 profit forecast is conservative, as we assume 2H22 spot price to be sequentially lower. In our bull case, if current dynamics (IEX at INR6.5/kWh and USEP at SGD325/MWh) continue to drive spot electricity prices higher, our fair value could rise to as much SGD3.66, based on 12.14x FY22 PER, by simply factoring in higher earnings forecast.

Fig 49: Bull-bear analysis - sensitivity of USEP and IEX spot prices to SCI's TP and PATMI

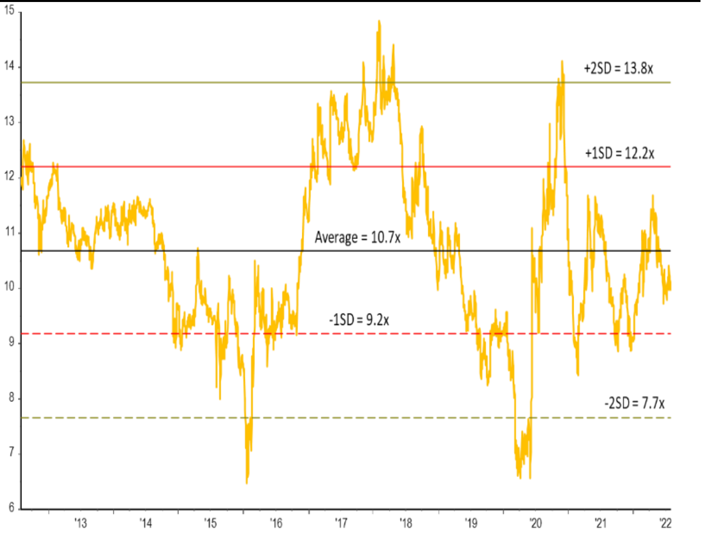


Source: Maybank IBG Research

4.2 Undervalued against regional peers

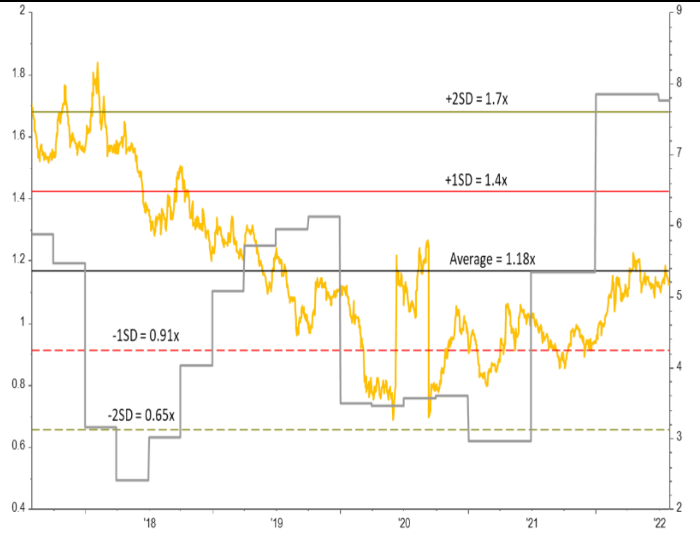
Valuations are at historical lows despite significantly higher ROEs than its peers. SCI is trading at FY22E P/E and P/B of 10.3x and 1.3x, still below its five-year forward P/E and P/BV. Considering the company's growth prospects in its renewable business, the stock is likely to trade back to the average forward P/E levels of 10.71x and 1.18x, similar to the levels in May'22 when the company was securing new funding for its thriving renewable business.

Fig 50: SCI L/T P/E band



Source: FactSet

Fig 51: SCI P/BV band vs ROE



Source: FactSet

As compared to PER of regional utilities peers and Singapore industrial peers (average of 20.8x and 17.9x respectively), but SCI consistently generates a much higher ROE than all its peers in this category. Going forward, we expect SCI to generate greater value at a lower P/E level, strengthening our BUY call on the stock.

Fig 52: Peer valuation comparison

	Company	BBG	MKE	MKE TP	Price	FYE	Mcap	P/E (x)				/EBITDA	PBR (x)			margin P/B (x)		ROE (%)	
Bloomberg ticker		Code	Rec	(LC)	(LC)	mm	USDm	Act	FY1	FY2	FY3	FY1	Act	FY1	FY2	FY3	Act	Act*	FY1	FY2
SCI SP	SCI	SCI SP	Buy	3.40	2.97	12	3,842	12.5	10.3	10.0	9.3	8.9	0.9	1.3	1.2	7.2%	1.4	12.9%	13.1%	12.5%
	India																			
NTPC IN	NTPC Ltd	NTPC IN	NR	-	156.60	03	19,215	9.9	8.9	8.1	7.6	8.4	1.2	1.1	0.9	11.9%	1.2	12.8%	12.2%	12.5%
PWGR IN	Power Grid Corp of India Ltd	PWGR IN	NR	-	219.10	03	19,340	11.0	10.7	10.0	10.0	7.3	2.0	1.9	1.7	34.5%	2.0	22.9%	17.6%	17.6%
TPWR IN	Tata Power	TPWR IN	Buy	300.00	230.35	03	9,314	36.6	-	-	-	14.1	3.3	3.0	2.3	5.8%	3.3	9.9%	-	-
GAIL IN	Gail India	GAIL IN	NR	-	147.25	03	8,168	6.3	7.4	7.6	7.3	5.5	1.2	1.0	0.8	7.6%	1.1	20.9%	14.1%	12.6%
PLNG IN	Petronet LNG Ltd	PLNG IN	NR	-	225.50	03	4,280	10.1	10.9	10.3	9.5	5.9	2.5	2.3	1.9	7.2%	2.6	27.0%	21.0%	20.3%
	Average (India)							**13.9**	**9.5**	**8.9**	**8.6**	**8.4**	**1.9**	**1.7**	**1.4**	**17.3%**	**1.8**	**17.7%**	**15.3%**	**15.1%**
	Malaysia																			
CYP MK	Cypark Resources Bhd	CYP MK	Buy	1.01	0.43	10	57	3.5	4.7	4.1	3.5	10.7	0.3	0.2	0.2	19.5%	0.2	7.0%	-	-
GMB MK	Gas Malaysia Berhad	GMB MK	Buy	3.30	3.32	12	957	17.1	12.8	12.5	12.8	8.0	3.8	3.7	3.4	4.2%	4.0	22.6%	-	-
MLK MK	Malakoff Corporation	MLK MK	Hold	0.65	0.66	12	741	12.7	13.2	11.0	9.0	4.1	0.6	0.5	0.5	5.0%	0.6	4.9%	-	-
PTG MK	Petronas Gas	PTG MK	Hold	17.20	17.14	12	7,616	16.8	18.2	17.5	17.4	8.9	2.6	2.6	2.4	34.2%	2.6	15.5%	-	-
TWK MK	Taliworks Corporation	TWK MK	NR	-	0.94	12	423	24.0	25.3	21.9	18.3	-	2.1	2.0	2.0	17.1%	2.1	8.4%	8.1%	9.4%
TNB MK	Tenaga Nasional	TNB MK	Hold	8.70	8.50	12	10,982	10.5	10.5	9.7	9.4	5.0	0.9	0.8	0.7	9.3%	0.9	6.5%	-	-
YTLP MK	YTL Power International	YTLP MK	Buy	0.90	0.73	06	1,328	16.1	72.5	24.2	14.2	10.5	0.5	0.4	0.4	2.4%	0.4	-1.2%	-	-
	Average (Malaysia)							**13.6**	**17.3**	**13.7**	**12.7**	**6.8**	**1.6**	**1.5**	**1.4**	**17.3%**	**1.6**	**10.4%**	**8.1%**	**9.4%**
	Thailand																			
SSP TB	Sermsang Power Corporation	SSP TB	NR	-	9.40	12	326	10.7	9.4	8.5	6.8	-	1.5	1.3	1.2	43.4%	1.7	17.6%	13.6%	13.1%
BGRIM TB	B Grimm Power PCL	BGRIM TB	NR	-	39.25	12	2,842	45.1	75.5	36.2	25.9	15.8	3.5	3.3	3.1	5.8%	3.3	6.6%	4.4%	8.5%
BPP TB	Banpu Power PCL	BPP TB	NR	-	15.20	12	1,287	14.8	10.8	10.5	-	-	1.0	-	-	-	1.0	7.2%	-	-
BCPG TB	BCPG PCL	BCPG TB	NR	-	10.50	12	844	15.4	14.7	17.5	21.0	-	1.1	1.1	1.0	24.7%	1.1	8.1%	7.3%	5.9%
EA TB	Energy Absolute PCL	EA TB	NR	-	82.50	12	8,547	51.2	37.4	32.8	-	26.8	9.5	7.5	-	19.2%	9.1	20.2%	20.1%	19.1%
GPSC TB	Global Power Synergy PCL	GPSC TB	NR	-	69.25	12	5,423	26.6	38.1	24.2	19.4	17.8	1.8	1.7	1.6	10.0%	1.8	6.9%	4.6%	6.9%
GULF TB	Gulf Energy Development PCL	GULF TB	NR	-	47.25	12	15,398	72.7	44.4	36.0	31.6	34.5	5.7	5.4	4.6	16.1%	5.4	9.6%	12.0%	13.8%
RATCH TB	Ratch Group PCL	RATCH TB	NR	-	39.00	12	2,356	8.1	8.8	9.0	9.8	-	0.9	0.8	0.7	17.6%	0.8	11.9%	9.2%	8.6%
TPIPP TB	TPI Polene Power PCL	TPIPP TB	NR	-	3.74	12	873	7.5	9.1	10.1	9.8	-	1.0	1.0	0.9	31.9%	1.0	14.0%	10.8%	9.3%
	Average (Thailand)							**49.9**	**39.1**	**29.8**	**25.5**	**28.0**	**5.1**	**4.6**	**3.3**	**16.0%**	**4.9**	**11.6%**	**11.9%**	**13.0%**
	China																			
1798 HK	China Datang Corp	1798 HK	NR	-	2.07	12	660	9.3	8.4	6.8	5.7	6.8	0.9	0.7	0.6	15.8%	1.0	10.6%	8.6%	10.4%
916 HK	China Longyuan Power	916 HK	NR	-	12.34	12	20,739	13.1	11.8	9.9	8.6	9.9	1.3	1.3	1.0	21.5%	1.4	11.8%	10.8%	11.5%
384 HK	China Gas Holdings	384 HK	NR	-	11.96	03	8,289	8.6	8.0	7.1	6.4	7.7	1.0	0.9	0.8	8.5%	1.0	13.3%	11.9%	12.2%
1193 HK	China Resources Gas Group	1193 HK	NR	-	33.20	12	9,787	11.8	11.9	10.9	9.8	6.1	1.9	1.7	1.4	7.2%	1.8	16.5%	14.3%	14.4%
836 HK	China Resources Power	836 HK	NR	-	14.08	12	8,628	42.7	6.4	5.0	4.0	6.1	0.8	0.7	0.6	15.7%	0.8	1.8%	11.1%	12.7%
1816 HK	CGN Power Co Ltd	1816 HK	NR	-	1.81	12	18,530	7.6	7.4	6.8	6.6	8.8	0.7	0.7	0.6	12.7%	0.7	9.9%	9.9%	10.1%
902 HK	Huaneng Power International	902 HK	NR	-	3.60	12	13,178	-	14.7	5.6	4.6	10.0	0.4	0.6	0.4	4.5%	0.8	-17.5%	3.8%	9.0%
	Average (China)							**14.6**	**10.2**	**7.7**	**6.9**	**8.5**	**1.0**	**1.0**	**0.8**	**12.9%**	**1.1**	**7.4%**	**10.0%**	**11.3%**
	Philippines																			
ACEN PM	AC Energy Corp	ACEN PM	Buy	9.40	8.50	12	6,092	47.4	70.8	29.3	21.8	46.9	3.7	3.4	2.7	34.7%	3.4	9.7%	-	-
AP PM	Aboitiz Power Corporation	AP PM	Buy	40.70	32.50	12	4,324	11.8	14.2	9.8	10.8	9.8	1.6	1.5	1.2	16.7%	1.6	15.1%	-	-
MER PM	Manila Electric Co	MER PM	NR	-	327.20	12	6,667	15.7	15.0	14.5	13.0	9.2	4.0	3.6	3.1	6.7%	4.1	26.9%	-	-
	Average (Philippines)							**26.0**	**34.7**	**18.6**	**15.6**	**22.8**	**3.3**	**3.0**	**2.5**	**19.2%**	**3.2**	**17.8%**	**-**	**-**
	US and Europe																			
ORSTED DC	Orsted AS	ORSTED DC	NR	-	118.85	12	49,305	4.9	3.6	5.5	5.4	13.5	0.8	0.6	0.6	12.6%	6.0	14.0%	16.9%	10.5%
NEE US	NextEra Energy Inc	NEE US	NR	-	85.31	12	167,591	33.5	29.8	27.6	25.4	19.8	4.0	3.8	3.5	26.8%	4.6	9.7%	12.9%	13.1%
BEP US	Brookfield Renewable	BEP US	NR	-	37.55	12	10,377	-	-	1274.3	-	21.3	2.3	2.4	2.9	2.1%	2.5	-2.8%	-2.2%	0.2%
	Average (US and Europe)							**27.0**	**23.8**	**79.7**	**20.9**	**18.5**	**3.2**	**3.1**	**2.9**	**22.6%**	**4.8**	**10.5%**	**13.7%**	**12.0%**
	Average (ex US and Europe)							**21.8**	**20.2**	**14.8**	**13.1**	**13.9**	**2.3**	**2.2**	**1.8**	**0.1**	**2.3**	**13.0%**	**9.7%**	**12.2%**
	Average All							**22.5**	**20.7**	**24.1**	**14.2**	**14.6**	**2.4**	**2.3**	**1.9**	**0.2**	**2.7**	**12.6%**	**10.3%**	**12.1%**

Source: FactSet, Maybank IBG Research

5. Risks

Commodity rally squeezes margins of clean energy

The sustained rally in commodity and equipment prices is threatening to lower the equity returns for wind and solar projects in the region. Prices of key commodities, such as cement, steel and copper, and high-cost equipment like solar panels, remain above FY19 levels. Auctioned projects have fixed tariffs that cannot be increased without the agreement of the power distribution companies, which are highly unlikely to accept tariff hikes. Power producers must therefore absorb the rise in capex. Also, revenues have suffered from long payment delays and lower-than-expected power generation from projects. In addition, tightening monetary policy will increase loan repayments for projects.

Political risks on the rise

Rapidly evolving regulations and the politicisation of wind and solar projects mean that assessing political risks is becoming an increasingly important step in the investment decision-making process. Volatile regulatory environments: Governments around the world are upgrading their climate change mitigation targets and rolling out new incentives (and constraints) for attracting FDI in RES projects. Public procurement processes: Governments increasingly rely on competitive auctions for distributing additional renewable energy capacity to foreign investors. In countries with less developed – and at times corrupt – public procurement systems, investors need to navigate complex decision-making processes while managing financial crime and reputational risks. Community relations: Investors need to take into consideration local residents' concerns about the social and environmental impacts of large-scale RES projects. There is also potential for such projects (and local concerns) to become politicised at the regional and national levels, posing new risks to investors.

Tariffs and interest rates

Tariffs are still regulated by the government, although mostly priced by market demand. We believe tariffs will continue to increase as interest rates rise and shortage of fuel supply. Ensuring electricity security requires large scale investment, SCI is highly leveraged so higher interest rates will increase financial expense for bond issuance and vice versa. We expect Singapore's interest rates to increase further with rising concern over mounting inflationary pressures.

Subsidies start to subside

The most significant regulatory risk for investors relates to the stability of subsidy regimes. For many years, governments subsidised RES projects to ensure their financial viability and attractiveness to private investors. However, growing financial burdens from these subsidies and technological advances that made renewable generation cheaper are compelling governments to abandon subsidy schemes. They are being replaced with other market-based competitive schemes where investors face greater risk exposure to wholesale electricity prices. In China, the government has phased out wind and solar PV subsidies and from 2021 new projects will be subject to long-term tariffs, which are fixed at provincial benchmark electricity prices set by the government.

6. Appendix

Fig 53: SCI's renewable energy portfolio as of Jun'22

Renewable energy			
Solar			
	Stake	**Gross Installed Capacity (MW)**	**Attributable Installed Capacity (MW)**
Sembcorp Solar Singapore	100%	200	200
Sembcorp Solar Vietnam	100%	24	24
Vetnam-Singapore Smart Energy Solutions	54%	3	2
Sembcorp Green Infra - Solar	100%	35	35
		262	**261**
Under Development			
Sembcorp Green Infra	100%	580	580
Sembcorp Solar Singapore	100%	152	152
Sembcorp Solar Vietnam	100%	12	12
Vietnam-Singapore Smart Energy Solutions	54%	5	3
		749	**747**
CGN Capital Partners	98%	240	235
SDIC New Energy	35%	148	52
Total Solar		**1399**	**1294**
Wind			
	Stake	**Gross Installed Capacity (MW)**	**Attributable Installed Capacity (MW)**
Sembcorp Green Infra - Wind	100%	1694	1626
Guohua Sembcorp	49%	725	355
		2419	**1981**
Under Development			
Collaboration with BCG	100%	550	550
		550	**550**
CGN Capital Partners	98%	418	410
SDIC New Energy	35%	1730	606
Total Wind		**5117**	**3546**
Solar			
	Stake	**Gross Installed Capacity (MW)**	**Attributable Installed Capacity (MW)**
Sembcorp Solar Singapore	100%	70	70
		70	**70**
Under Development			
Sembcorp Green Infra	100%	200	200
Sembcorp Solar Singapore	100%	200	200
		400	**400**
Total Energy Storage		**470**	**470**
Total operational projects		**5287**	**3614**
Total projects under development		**1699**	**1697**
Total all projects		**6986**	**5311**

Source: Company

Fig 54: SCI's conventional energy assets as of Jun'22

Conventional Energy						
Coal						
Asset Name (Location)	**Stake**	**Gross Installed Capacity (MW)**	**Attributable Installed Capacity (MW)**	**Contract Tenure**	**Customers**	**Energy Source**
Sembcorp Energy India Project 1 (India)	100%	1320	570	2016-2024	Telangana DISCOMS	Coal, Diesel
	100%		500	2013-2040	Telangana and Andhra Pradesh DISCOMS	Coal, Diesel
Sembcorp Energy India Project 2 (India)	100%	1320	250	2019-2033	Bangladesh Power Development Board	Coal, Diesel
			200	2Q22 to 2033	Bangladesh Power Development Board	Coal, Diesel
			625	2023-2034	Andhra Pradesh State power distribution	Coal, Diesel
Chongqing Songzao Sembcorp	49%	1320				Coal, Diesel
		3960	**2145**			
Gas						
Asset Name (Location)	**Stake**	**Gross Installed Capacity (MW)**	**Attributable Installed Capacity (MW)**	**Contract Tenure**	**Customers**	**Energy Source**
Myingyan IPP (Myanmar)	100%	231	225	2018-2040	Electric Power Generation Enterprise	Gas
Phu My 3 (Vietnam)	67%	748	717	2001-2024	Electricity of Vietnam	Gas
Sembcorp Cogen (Singapore)	100%	1219		-	Merchant Market	Gas
Sirajanj Unit 4 (Bangladesh)	71%	440	414	2016-2041	Bangladesh Power Development Board	Gas
Shanghai Cao Jing	30%	658				Gas
Flexible Generation Assets (excluding energy storage) (United Kingdom)	100%	684	552	Various tenure between 2010 and 2034	National Grid ESO	Gas, Diesel
Wilton Energy Assets	100%	161		-	Merchant Market	Gas
Salalah IWPP (Oman)	40%	518	445	2009-2027	Oman Power and Water Procurement Company	Gas
Fujairah 1 IWPP, UAE	40%	893	760	2006-2035	Emirates Water & Electricity Company	Gas
		5552	**3113**			
Total		**9512**	**5258**			

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	11.2	12.5	10.3	9.9	9.3
Core P/E (x)	nm	12.8	10.3	9.9	9.3
Core FD P/E (x)	nm	12.9	10.3	10.0	9.3
P/BV (x)	0.9	0.9	1.3	1.2	1.1
P/NTA (x)	1.0	1.1	1.5	1.4	1.3
Net dividend yield (%)	2.3	2.5	1.7	1.7	2.0
FCF yield (%)	nm	28.6	5.4	8.5	6.4
EV/EBITDA (x)	11.2	8.7	9.1	8.8	8.6
EV/EBIT (x)	22.4	14.6	13.7	13.3	12.9
INCOME STATEMENT (SGD m)					
Revenue	5,447.0	7,795.0	8,200.5	8,465.1	8,716.9
EBITDA	887.0	1,127.0	1,286.9	1,327.9	1,376.7
Depreciation	(444.0)	(457.0)	(438.0)	(451.0)	(464.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	443.0	670.0	848.9	876.9	912.7
Net interest income /(exp)	(464.0)	(397.0)	(499.8)	(532.5)	(569.0)
Associates & JV	233.0	206.0	233.3	258.5	284.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(1.0)	(56.0)	57.4	93.1	122.0
Pretax profit	211.0	423.0	623.4	677.6	730.0
Income tax	(32.0)	(123.0)	(131.6)	(144.9)	(160.9)
Minorities	124.0	151.0	185.0	209.0	225.0
Discontinued operations	(1,300.0)	0.0	0.0	0.0	0.0
Reported net profit	179.0	279.0	513.5	532.7	569.1
Core net profit	(1,121.0)	279.0	513.5	532.7	569.1
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	1,047.0	1,372.0	1,516.1	1,658.4	1,716.2
Accounts receivable	1,571.0	1,986.0	2,022.0	2,087.3	2,149.4
Inventory	196.0	222.0	283.2	292.0	259.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	7,204.0	7,094.0	7,004.0	6,942.0	6,898.0
Intangible assets	348.0	390.0	583.2	530.4	550.8
Investment in Associates & JVs	1,588.0	1,600.0	1,833.3	2,091.8	2,376.7
Other assets	1,608.0	1,731.0	1,916.1	1,882.3	1,912.3
Total assets	**13,562.0**	**14,395.0**	**15,158.0**	**15,484.1**	**15,863.3**
ST interest bearing debt	593.0	754.0	735.3	727.4	704.4
Accounts payable	1,300.0	1,829.0	1,957.9	1,921.4	1,874.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	7,206.0	6,711.0	7,018.9	7,127.9	7,352.4
Other liabilities	987.0	1,183.0	1,197.0	1,131.0	1,064.0
Total Liabilities	**10,086.0**	**10,477.0**	**10,908.8**	**10,908.0**	**10,995.2**
Shareholders Equity	3,339.0	3,767.0	4,085.2	4,408.7	4,695.7
Minority Interest	137.0	151.0	164.0	169.3	174.3
Total shareholder equity	**3,476.0**	**3,918.0**	**4,249.2**	**4,578.0**	**4,870.1**
Total liabilities and equity	**13,562.0**	**14,395.0**	**15,158.0**	**15,484.1**	**15,863.3**
CASH FLOW (SGD m)					
Pretax profit	211.0	423.0	623.4	677.6	730.0
Depreciation & amortisation	444.0	457.0	438.0	451.0	464.0
Adj net interest (income)/exp	464.0	397.0	499.8	532.5	569.0
Change in working capital	127.0	101.0	(51.4)	(144.9)	(110.1)
Cash taxes paid	(32.0)	(123.0)	(131.6)	(144.9)	(160.9)
Other operating cash flow	(3,850.0)	329.0	(604.6)	(386.7)	(616.0)
Cash flow from operations	(2,567.0)	1,339.0	634.3	837.0	757.9
Capex	(313.0)	(317.0)	(348.0)	(389.0)	(420.0)
Free cash flow	(2,880.0)	1,022.0	286.3	448.0	337.9
Dividends paid	(54.0)	(107.0)	(89.3)	(89.3)	(89.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(3,070.0)	(334.0)	289.2	137.2	201.4
Other invest/financing cash flow	3,783.0	(256.0)	(319.8)	(353.8)	(391.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(2,221.0)	325.0	128.9	140.5	56.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.1)	43.1	5.2	3.2	3.0
EBITDA growth	(12.3)	27.1	14.2	3.2	3.7
EBIT growth	(22.8)	51.2	26.7	3.3	4.1
Pretax growth	(46.7)	100.5	47.4	8.7	7.7
Reported net profit growth	(42.4)	55.9	84.1	3.7	6.8
Core net profit growth	nm	nm	84.1	3.7	6.8
Profitability ratios (%)					
EBITDA margin	16.3	14.5	15.7	15.7	15.8
EBIT margin	8.1	8.6	10.4	10.4	10.5
Pretax profit margin	3.9	5.4	7.6	8.0	8.4
Payout ratio	39.9	32.0	17.4	16.8	18.8
DuPont analysis					
Net profit margin (%)	3.3	3.6	6.3	6.3	6.5
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	4.1	3.8	3.7	3.5	3.4
ROAE (%)	3.8	7.9	13.1	12.5	12.5
ROAA (%)	(6.1)	2.0	3.5	3.5	3.6
Liquidity & Efficiency					
Cash conversion cycle	(24.6)	9.2	2.3	3.7	7.5
Days receivable outstanding	119.6	82.1	88.0	87.4	87.5
Days inventory outstanding	22.5	11.2	13.2	14.6	13.6
Days payables outstanding	166.7	84.2	98.9	98.3	93.6
Dividend cover (x)	2.5	3.1	5.8	6.0	5.3
Current ratio (x)	1.4	1.4	1.4	1.5	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.4	1.4	1.4	1.4
Net gearing (%) (incl perps)	194.2	155.5	146.8	135.4	130.2
Net gearing (%) (excl. perps)	194.2	155.5	146.8	135.4	130.2
Net interest cover (x)	1.0	1.7	1.7	1.6	1.6
Debt/EBITDA (x)	8.8	6.6	6.0	5.9	5.9
Capex/revenue (%)	5.7	4.1	4.2	4.6	4.8
Net debt/ (net cash)	6,752.0	6,093.0	6,238.1	6,196.9	6,340.5

Source: Company; Maybank IBG Research

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