

# Sembcorp Industries (SCI SP)

## Wind of change

### Reducing emphasis on Sustainable Solutions business

*Business Times* cited SCI's management as saying it may miss one of its FY25 targets of achieving 70% of group net profit from the Sustainable Solutions portfolio, and that it will stop using this metric as one of its targets for FY28. Given strong profit from gas sales and demand-supply imbalance of renewables, a miss in Sustainable Solutions would not be a surprise for us. That said, we expect near-term focus on capital allocation priorities and multiples ascribed for renewables. Maintain BUY as gas sales provide earnings visibility.

### Pacing energy transition

The news article further mentions that, if management misses the sustainable solutions profit mix target, it will not receive the compensation tied to this particular sustainability goal. It was one of the four targets set by SCI in FY21 (others were - quadruple gross installed renewable capacity to 10GW, triple urban business's land sales to 500 hectares, and reduce GHG emissions intensity to 0.40 tCO<sub>2</sub>e/MWh from the FY20 baseline year). Moreover, as mentioned above, SCI will stop using the metrics of sustainable solutions profit as one of the targets in its next set of energy transition milestones it aims to reach by FY28.

### Change in business emphasis not a surprise to us

Elevated profit from gas sales in FY21-24 due to high power prices and curtailment of renewable power because of demand-supply imbalance in China have altered the planned profit mix. For 1H24, the sustainable solutions portfolio contributed 31% of net profit, down from 45% in FY21. As such, missing the profit-mix target would not be a surprise. Further, SCI had already stopped using the profit mix as one of its FY28 targets in the strategy refresh at end-FY23. The group maintains its FY28 target of having 25GW of renewable capacity and emissions intensity of 0.15 tCO<sub>2</sub>e/MWh. All in all, the news is in line with our view that energy transition will be long drawn, will depend on policy and profits will be back-ended.

### Maintain BUY; gas sales provide earnings visibility

We maintain our forecasts, TP and rating. The contracted gas sales business should provide earnings visibility. However, given the changing dynamics, we expect FY24 results (27 Feb) to draw more scrutiny from investors about the pace/mix of capital allocation (90% of planned SGD14b capex for FY24-28 for sustainable business) and multiples for renewables.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	7,825	7,042	6,724	6,819	7,037
EBITDA	1,189	1,604	1,446	1,470	1,553
Core net profit	871	970	943	968	1,111
Core FDEPS (cts)	48.4	53.9	52.4	53.8	61.7
Core FDEPS growth(%)	190.3	11.4	(2.8)	2.7	14.8
Net DPS (cts)	12.0	13.0	13.0	13.0	13.0
Core FD P/E (x)	7.0	9.9	10.5	10.2	8.9
P/BV (x)	1.5	2.1	1.9	1.6	1.4
Net dividend yield (%)	3.6	2.4	2.4	2.4	2.4
ROAE (%)	22.5	22.7	19.1	17.1	17.1
ROAA (%)	5.7	6.2	6.3	6.7	7.4
EV/EBITDA (x)	10.2	10.2	10.3	9.9	9.2
Net gearing (%) (incl perps)	138.9	134.5	89.6	73.9	60.5
Consensus net profit	-	-	974	1,033	1,106
MIBG vs. Consensus (%)	-	-	(3.2)	(6.3)	0.4

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## BUY

Share Price	SGD 5.50
12m Price Target	SGD 6.20 (+13%)
Previous Price Target	SGD 6.20

### Company Description

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

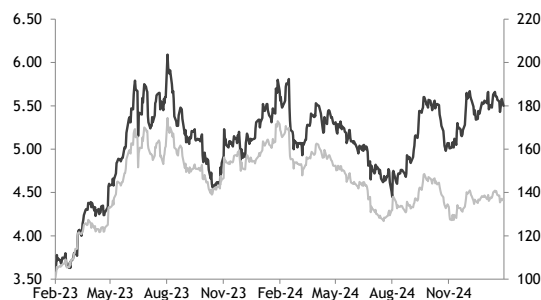
### Statistics

52w high/low (SGD)	5.81/4.45
3m avg turnover (USDm)	10.3
Free float (%)	50.0
Issued shares (m)	1,788
Market capitalisation	SGD9.8B USD7.2B

### Major shareholders:

Temasek Holdings	49.5%
Citibank Nominees Singapore Pte Ltd	10.5%
Raffles Nominees (Pte) Limited	5.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	10	(5)
Relative to index (%)	(2)	2	(22)

Source: FactSet

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Tear Sheet Insert

# 1. Investment thesis

Fig 1: SCI's strategy & targets (FY21 and FY23)

	Baseline -2020	May 2021 Strategy - Target for 2025	Nov 2023 Strategy - Target for 2028
Profit mix - Sustainable solutions, %	40	70	Not mentioned
Gross installed renewable capacity, GW	2.6	10	25
Urban business annual land sales, hectares	172	500	Targets changed to growth in land banking, income, and RoE
GHG Emissions Intensity, tCO2e/MWh	0.54	0.40	0.15

Source: Maybank IBG Research, Company Data

Fig 2: Net profit from continuing operations before exceptional items (SGDm)

	2021	1H2024
Conventional energy/Gas & related services	373	339
Sustainable solutions	211	164
Renewables	56	104
Integrated urban solutions	155	70
Decarbonization solutions		-10
Other businesses	25	19
Corporate	-137	-118
DPN Income		128
Group Net Profit	472	532
% profit from sustainable solutions	45	31

Source: Maybank IBG Research, Company Data

Fig 3: MIBG's long-term projection for SCI - we are above guidance for the renewable and urban solutions business

SGDm.	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	MIBG CAGR FY22-28, %	SCI's target CAGR, Nov'23 Corporate Day
Net profit (Continuing ops. before exceptional items)	739	1020	943	968	1111	1196	1296	10	
Conventional Energy/Gas	622	809	717	662	611	604	599	-1	-2%
Renewable	141	200	245	345	497	570	655	29	25%
Urban Solutions	150	121	152	175	225	248	273	10	9%
Others/corporate	-171	-232	-172	-214	-222	-226	-231		
Decarbonization solutions	-3	-13							
DPN Income		133							
<b>Turnover</b>	<b>'22</b>	<b>'23</b>	<b>'24E</b>	<b>'25E</b>	<b>'26E</b>	<b>'27E</b>	<b>'28E</b>		
Conventional Energy	6547	5457	5066	4916	4838	4768	4709		
Renewables	503	703	697	871	1133	1302	1498		
Urban Solutions	444	418	456	479	502	527	551		
Others/corporate	328	448	504	553	564	575	586		
Decarbonisation Solutions	3	16							
<b>Total</b>	<b>7825</b>	<b>7042</b>	<b>6724</b>	<b>6819</b>	<b>7037</b>	<b>7173</b>	<b>7344</b>		

Source: Maybank IBG Research

Fig 4: Sum-of-the-parts valuation

	Basis	Effective value (SGD m)	per share (SGD)
Conventional Energy	10x FY25EPE	7,320	4.10
Renewables	10x FY25EPE	4,251	2.38
Integrated Urban Solution	NAV, 1H24	2,112	1.18
Decarbonization Solutions	NAV, 1H24	30	0.02
Other business / Corporate	NAV, 1H24	(1,411)	(0.79)
<b>Total Equity Value</b>		<b>12,302</b>	<b>6.89</b>
<b>Post 10% conglo disc</b>		<b>11,072</b>	
Diluted no. of shares		1,785	
<b>Value per share (SGD)</b>		<b>6.2</b>	

Source: Maybank IBG Research

## 2. Valuation

We value SCI using sum-of-the-parts method and apply a 10% holding company discount. We apply a P/E of 10x for gas & related services and renewable. We leave our forecasts and multiples unchanged. Maintain BUY and TP of SGD6.20.

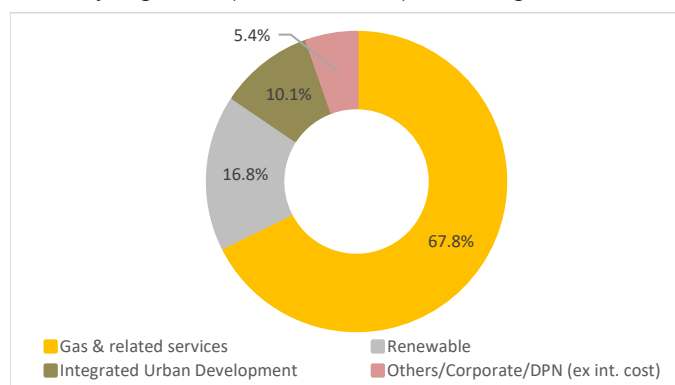
## 3. Risks

Risks include: lower wholesale energy prices in Singapore; higher natural gas prices; and demand-supply imbalance of renewable energy in China and India, leading to lower capacity utilization. Other risks include: implementation of centralized natural gas purchase for power generation in Singapore; and higher capex for transmission and storage, especially for renewables.

## Value Proposition

- SCI is Singapore’s leading sustainable solutions provider with ~14GW of capacity in renewables and over 12000ha of project portfolio across Asia.
- Temasek’s 49.5% ownership offers SCI backing and helps to secure attractive financing terms when SCI bids for projects around the world.
- SCI targets to increase installed renewables to 25GW and develop sustainable land bank of 18000 ha.
- 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.

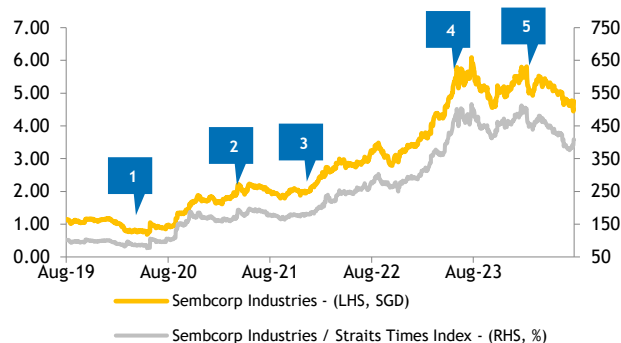
### PATMI by segments (as of Dec 2023) excluding interest cost



Source: Company

## Price Drivers

### Historical share price trend



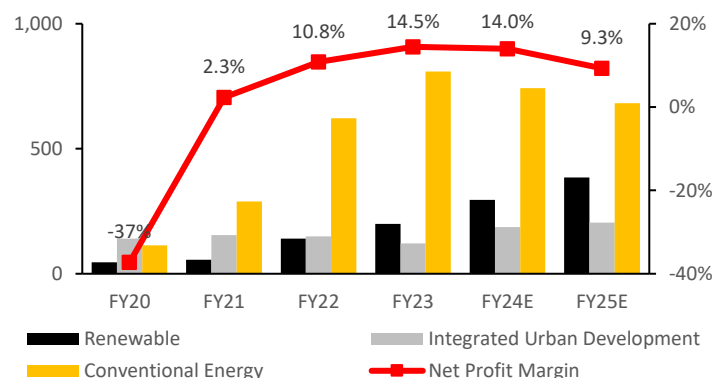
Source: Company, Maybank IBG Research

1. SCI announced material impairments of SGD245m in its 4Q19 financial statements.
2. Singapore Public Utilities Board and Sembcorp Industries jointly announced they will build one of the world’s largest inland floating PV system at the Tengah reservoir.
3. Announced acquisition of 98% stake in a portfolio of operational wind and PV assets in China, followed by its purchase of 35% of SDIC New Energy in Dec’21.
4. Peak wholesale power prices in Singapore.
5. News on excess renewable supply in China and higher curtailment rates.

## Financial Metrics

- We forecast FY24E profit to fall 8% YoY as lower power prices in Singapore and contribution from renewables is partly offset by optimization of gas/energy trading and higher revenue from land sales and other businesses.
- We forecast FY23E-25E ROIC for the overall business to increase from 5.0% to 10%. Overseas projects, when fully ramped up, may help to expand ROE.
- Our SOTP-based TP of SGD6.20 implies 10x FY25E P/E, which is within the range of China and Asean utilities.

### 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 cash flow outlook.

### Downside

- Sharp reduction in energy prices.
- 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.

Risk Rating & Score <sup>1</sup>	33.5
Score Momentum <sup>2</sup>	-2.7
Last Updated	08 May 2022
Controversy Score <sup>3</sup> (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 18.5GW, with 11GW 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 12,000 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 (tCO<sub>2</sub>e/MWh) by FY25E. In FY22, the GHG emission intensity was 0.31tCO<sub>2</sub>e/MWh compared to 0.51tCO<sub>2</sub>e/MWh in FY21.
- Gross installed RE capacity comprising wind, solar and energy storage assets grew significantly from 2.8GW in FY21 to over 10.3GW as at June22 (figures exclude acquisitions pending completion and projects under development). SCI's global energy portfolio mix stands at 54% conventional energy, 45% renewables and 1% energy-from-waste.
- In FY22, SCI generated 2.7m tonnes of waste, a 13% 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

- Both lost time injury rate and total recordable injury rate were reduced from FY21. This is largely due to SCI's effort to reduce workspace incidents.
- Employee turnover was 13.3% in FY22 compared to 15.7% in FY21, largely due to decrease in the voluntary turnover rate, which was 12.5% in FY21, up from 9.0% in FY20, mirroring the global trend of resignations.
- Each employee received an average of 26.7 hours of training in FY22, of which 31% were sustainability skills learning.

### 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 9-member board, including Chairman Tow Heng Tan and Group President & CEO Wong Kim Yin. The average tenure of the independent directors is 5-13 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.
- 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	5.9	8.7	10.4	10.1	8.8
Core P/E (x)	6.9	9.8	10.4	10.1	8.8
Core FD P/E (x)	7.0	9.9	10.5	10.2	8.9
P/BV (x)	1.5	2.1	1.9	1.6	1.4
P/NTA (x)	1.8	2.6	2.1	1.8	1.6
Net dividend yield (%)	3.6	2.4	2.4	2.4	2.4
FCF yield (%)	nm	4.9	20.6	4.6	8.8
EV/EBITDA (x)	10.2	10.2	10.3	9.9	9.2
EV/EBIT (x)	16.7	14.3	15.3	14.6	13.3
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	7,825.0	7,042.0	6,723.6	6,819.2	7,036.6
EBITDA	1,189.0	1,604.3	1,446.4	1,470.4	1,553.3
Depreciation	(461.0)	(463.3)	(467.9)	(467.9)	(472.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	728.0	1,141.0	978.4	1,002.5	1,080.7
Net interest income / (exp)	(273.0)	(352.0)	(330.7)	(346.0)	(293.6)
Associates & JV	248.0	264.0	313.5	348.4	375.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	162.0	177.0	158.9	142.2	127.1
Pretax profit	865.0	1,230.0	1,120.1	1,147.1	1,289.6
Income tax	(138.0)	(182.0)	(143.1)	(176.3)	(176.3)
Minorities	(23.0)	(28.0)	(20.0)	(20.0)	(20.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	871.0	970.0	942.6	967.7	1,110.7
Core net profit	871.0	970.0	942.6	967.7	1,110.7
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	1,283.0	782.0	1,404.7	1,423.8	1,467.3
Accounts receivable	1,564.0	1,674.0	1,757.7	1,845.6	1,937.9
Inventory	137.0	135.0	274.6	277.9	284.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5,305.0	6,465.0	6,214.1	5,958.4	5,698.1
Intangible assets	697.0	952.0	690.1	690.1	690.1
Investment in Associates & JVs	2,287.0	2,396.0	2,709.5	3,057.9	3,433.4
Other assets	4,747.0	3,093.0	1,236.6	1,457.5	1,836.1
<b>Total assets</b>	<b>16,020.0</b>	<b>15,497.0</b>	<b>14,287.3</b>	<b>14,711.3</b>	<b>15,347.2</b>
ST interest bearing debt	1,096.0	1,281.0	687.5	784.2	899.4
Accounts payable	1,871.0	1,819.0	1,362.8	1,379.8	1,413.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	6,043.0	6,053.0	5,634.9	5,246.0	4,884.4
Other liabilities	2,794.0	1,472.0	1,112.0	1,065.0	1,021.0
<b>Total Liabilities</b>	<b>11,804.0</b>	<b>10,625.0</b>	<b>8,797.1</b>	<b>8,474.8</b>	<b>8,217.7</b>
Shareholders Equity	3,977.0	4,588.0	5,288.5	6,031.9	6,918.4
Minority Interest	239.0	284.0	201.7	204.6	211.1
<b>Total shareholder equity</b>	<b>4,216.0</b>	<b>4,872.0</b>	<b>5,490.2</b>	<b>6,236.5</b>	<b>7,129.5</b>
<b>Total liabilities and equity</b>	<b>16,020.0</b>	<b>15,497.0</b>	<b>14,287.3</b>	<b>14,711.3</b>	<b>15,347.2</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	865.0	1,230.0	1,120.1	1,147.1	1,289.6
Depreciation & amortisation	461.0	463.3	467.9	467.9	472.6
Adj net interest (income)/exp	273.0	352.0	330.7	346.0	293.6
Change in working capital	663.0	(116.0)	(598.4)	54.8	(55.8)
Cash taxes paid	(138.0)	(182.0)	(143.1)	(176.3)	(176.3)
Other operating cash flow	(2,717.0)	(124.8)	1,088.6	(1,039.8)	(606.7)
Cash flow from operations	(869.0)	1,317.5	2,236.1	666.4	1,080.7
Capex	(672.0)	(856.0)	(217.0)	(217.0)	(217.0)
Free cash flow	(1,541.0)	461.5	2,019.1	449.4	863.7
Dividends paid	(125.0)	(214.2)	(232.1)	(214.2)	(214.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(326.0)	195.0	(1,011.6)	(48.2)	(490.4)
Other invest/financing cash flow	1,903.0	(943.3)	(152.7)	(167.9)	(115.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(89.0)	(501.0)	622.7	19.1	43.5

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	22.1	(10.0)	(4.5)	1.4	3.2
EBITDA growth	34.7	34.9	(9.8)	1.7	5.6
EBIT growth	70.9	56.7	(14.2)	2.5	7.8
Pretax growth	215.7	42.2	(8.9)	2.4	12.4
Reported net profit growth	190.3	11.4	(2.8)	2.7	14.8
Core net profit growth	190.3	11.4	(2.8)	2.7	14.8
<b>Profitability ratios (%)</b>					
EBITDA margin	15.2	22.8	21.5	21.6	22.1
EBIT margin	9.3	16.2	14.6	14.7	15.4
Pretax profit margin	11.1	17.5	16.7	16.8	18.3
Payout ratio	24.6	23.9	24.6	24.0	20.9
<b>DuPont analysis</b>					
Net profit margin (%)	11.1	13.8	14.0	14.2	15.8
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.5
Assets/Equity (x)	4.0	3.4	2.7	2.4	2.2
ROAE (%)	22.5	22.7	19.1	17.1	17.1
ROAA (%)	5.7	6.2	6.3	6.7	7.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(9.9)	(29.7)	(2.7)	21.3	23.3
Days receivable outstanding	81.7	82.8	91.9	95.1	96.8
Days inventory outstanding	9.8	9.0	14.0	18.6	18.5
Days payables outstanding	101.3	121.4	108.6	92.5	92.0
Dividend cover (x)	4.1	4.2	4.1	4.2	4.8
Current ratio (x)	1.3	0.8	1.5	1.4	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.5	1.6	1.7	1.9
Net gearing (%) (incl perps)	138.9	134.5	89.6	73.9	60.5
Net gearing (%) (excl. perps)	138.9	134.5	89.6	73.9	60.5
Net interest cover (x)	2.7	3.2	3.0	2.9	3.7
Debt/EBITDA (x)	6.0	4.6	4.4	4.1	3.7
Capex/revenue (%)	8.6	12.2	3.2	3.2	3.1
Net debt/ (net cash)	5,856.0	6,552.0	4,917.7	4,606.4	4,316.5

Source: Company; Maybank IBG Research

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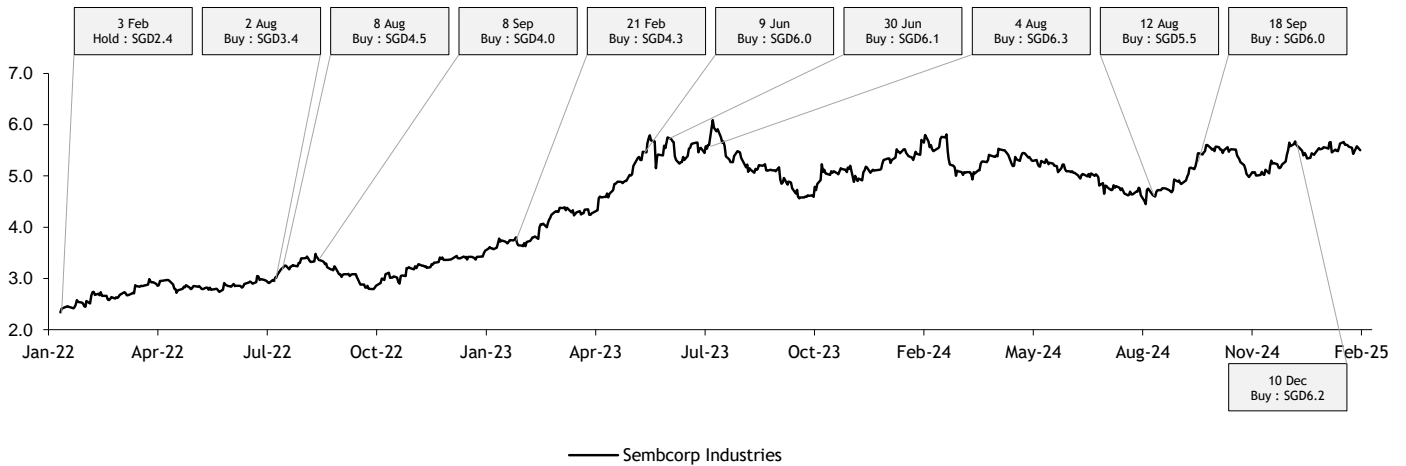
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