

Sembcorp Industries (SCI SP)

Diversifying Down Under

Accretive purchase, but higher gearing and emissions

SCI announced a proposed acquisition of Alinta Energy, one of Australia's leading integrated energy companies, for an enterprise value of AUD6.5b. The deal will enable a strategic entry into an AAA-rated country with aligned transition policies, offer a captive customer base, in-place generating capacity across a diverse energy mix, and provide access to a large pipeline of renewable and firming projects. The debt-funded deal will be high single-digit earnings-accretive. Debt metrics will worsen but stay within management's comfort range, and transition targets will be pushed back. We lower our estimates by c.10% for FY25 and FY26 and our SOTP-based TP to SGD5.65. We maintain HOLD.

Acquiring Alinta Energy

Alinta is a vertically integrated gas and electricity provider in Australia. It has an established coast-to-coast presence with 3.4GW of installed and contracted generation assets across coal (1.14GW), gas (1.47GW), and renewables (0.8GW). It has 1.1m customers in the electricity & gas retail markets. Alinta has a pipeline of 10.4GW in renewables and firming projects, of which 2.4GW is under construction and development.

Strategic and financial merits of the deal

The deal offers a scalable platform with high-quality assets. It will diversify SCI's footprint in an AAA-rated geography with regulatory certainty. The pipeline of renewable and firming assets will help SCI in driving its energy transition. The deal will be c.9% EPS accretive on a proforma basis for FY2024. While gearing will increase (net debt to adj. EBITDA rising from 3.6x to 4.6x), the metrics are still within management's comfort level. Management indicated there will be no need to raise equity to fund the transaction and committed to maintaining 23c in dividends. SCI expects its emissions to increase in the near term before declining.

Maintain HOLD

We lower FY25/FY26 earnings by 9.6% and 11.5% factoring in lower contribution from renewables. This results in a lower TP of SGD5.65. While we like the initially accretive transaction, risks stem from execution, higher gearing along with headwinds from lower local power prices, and regulatory changes and demand-supply imbalance overseas.

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	7,042	6,417	5,837	5,828	6,123
EBITDA	1,604	1,497	1,418	1,469	1,621
Core net profit	942	1,011	1,037	997	1,084
Core FDEPS (cts)	52.3	56.2	57.6	55.4	60.2
Core FDEPS growth(%)	11.1	7.3	2.6	(3.9)	8.7
Net DPS (cts)	13.0	23.0	23.0	23.0	23.0
Core FD P/E (x)	10.1	9.8	10.4	10.8	10.0
P/BV (x)	2.1	1.8	1.8	1.6	1.5
Net dividend yield (%)	2.4	4.2	3.8	3.8	3.8
ROAE (%)	22.0	20.3	18.3	15.8	15.6
ROAA (%)	6.0	6.0	5.8	5.6	5.7
EV/EBITDA (x)	10.2	12.0	13.1	13.0	12.0
Net gearing (%) (incl perps)	134.5	138.6	124.8	120.9	113.4
Consensus net profit	-	-	1,020	1,103	1,224
MIBG vs. Consensus (%)	-	-	1.6	(9.6)	(11.5)

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HOLD

Share Price SGD 6.01

12m Price Target SGD 5.65 (-6%)

Previous Price Target SGD 6.40

Company Description

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

Statistics

52w high/low (SGD)	7.85/5.27
3m avg turnover (USDm)	21.5
Free float (%)	48.7
Issued shares (m)	1,780
Market capitalisation	SGD10.7B
	LISD8 3B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co	49.5%
Capital Research & Management Co. (World	2.3%
The Vanguard Group, Inc.	1.8%

Price Performance



 -1M
 -3M
 -12M

 Absolute (%)
 (7)
 (2)
 8

 Relative to index (%)
 (7)
 (7)
 (10)

Source: FactSet

1. Financial impact of the deal

Fig 1: Pro-forma impact for the full year ending 31-Dec-2024

Continuing ops, SGDm	Before	After	%Change
Revenue	6417	10909	70.0
Adj. EBITDA	2050	2719	32.6
Adj. EBITDA - underlying	2039	2938	44.1
PATMI	1025	1116	8.9
PATMI - underlying	1014	1301	28.3
EPS SGD c.	57.52	62.61	8.8
EPS - underlying SGD c.	56.90	73.03	28.3

Source: Maybank IBG Research Underlying financials refers to figures before EI, DPN FX loss and the effects of change in fair value on energy derivatives. Net Profit also excludes shareholder loan interest expense, adjusted for tax. The impact on financial performance is presented on a comparable basis, excluding one-off transaction costs to reflect underlying operational results. These one-off costs, estimated at approximately AS22m, include stamp duty, insurance fees, professional fees and other related expenses.

Fig 2: Pro-forma impact on debt metrics as of 31-Dec-2024

SGDm.	Before	After
Gross debt	8671	14710
Net debt	7800	13605
Finance cost	372	625
Gross debt/Adj. EBITDA underlying	4.25	5.01
Net debt/Adj. EBITDA underlying	3.83	4.63
Gross debt/Capitalization	0.6	0.72
Adj. EBITDA-underlying/Int.	5.48	4.7

Source: Maybank IBG Research

Our view on the deal: the deal had been reported in the press and SCI had confirmed ongoing discussions. As such, it does not come as a surprise. Initial earnings accretion, geographic diversification into an AAA-rated country given ongoing challenges in other parts of the footprint and relatively attractive acquisition multiples are the positives. Implied EV to LTM Jun 30, 2025 Adj. EBITDA is 6.6x based on the agreed enterprise value of AUD6.5b. Peers - Origin Energy (ORG-AU, NR, AUD11.51) and AGL Energy (AGL-AU, NR, AUD9.39) trade at EV to EBITDA of 15.8x and 8.1x, respectively.

However, risks stem from higher gearing, likely increase in earnings volatility and the changed pace and narrative on energy transition. Earnings volatility is due to short term (c.1yr) contracts in the Australian market and volatile power pricing, as well as Alinta's own trading activity and mark-to-market effects from the use of derivatives to hedge some of the pricing risk. While not a concern, SCI is paying an estimated SGD3.5b premium to book, which will dilute 1HFY25 NTA per share from SGD2.40 to SGD 0.44.

2. Forecast changes

Fig 3: Changes in our forecasts

		NEW			OLD			% Change	
SGDm.	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Gas & related services	4,135	4,020	4,148	4,135	4,020	4,148	0.0	0.0	0.0
Renewables	856	936	1,077	902	1,037	1,192	-5.1	-9.7	-9.7
Urban solutions	304	318	333	304	318	333	0.0	0.0	0.0
Other businesses & corporates	568	579	590	568	579	590	0.0	0.0	0.0
Revenue	5,837	5,828	6,123	5,883	5,929	6,239	-0.8	-1.7	-1.9
COGS	(4,420)	(4,366)	(4,489)	(4,354)	(4,314)	(4,543)			
Gross Profit	1,417	1,463	1,634	1,529	1,615	1,695	-7.3	-9.4	-3.6
SGA	(467)	(466)	(490)	(471)	(474)	(499)			
Operating Profit	950	996	1,144	1,058	1,140	1,196	-10.3	-12.6	-4.4
No-operating income/(loss)	231	207	186	231	207	185			
Finance expense	(436)	(451)	(478)	(424)	(451)	(478)			
Share of income of JVs and associates	437	430	444	450	444	459	-2.8	-3.1	-3.3
PBT	1,210	1,196	1,311	1,343	1,354	1,378	-9.9	-11.7	-4.9
PAT	1,062	1,022	1,109	1,172	1,152	1,164	-9.4	-11.3	-4.7
Net profit	1,037	997	1,084	1,147	1,127	1,139	-9.6	-11.5	-4.8

Source: Maybank IBG Research

3. Valuation

We value SCI using a sum-of-the-parts valuation. We lower FY25 and FY26 earnings primarily factoring in lower contribution from renewables. We leave our 12x multiple for the energy business. The acquisition of Alinta is expected to be completed by 1H26. We do not incorporate the related financials yet. All in, this leads to a lower TP of SGD5.65. We maintain HOLD.

Fig 4: Sum-of-the-parts valuation

	Basis	Effective value (SGD m)	per share (SGD)
Gas & related services	12x FY26E PE	7,731	4.35
Renewables	12x FY26E PE	2,612	1.47
Integrated Urban Solution	Net Asset Value, 1H25	1,884	1.06
Decarbonization Solutions	Net Asset Value, 1H25	57	0.03
Other business / Corporate	Net Asset Value, 2H24	(1,682)	(0.95)
Total Equity Value		10,602	5.96
Post 5% conglo disc		10,072	
No. of shares, m		1,779	
Value per share (SGD)		5.60	

Source: Maybank IBG Research

4. Risks

Risks include: 1) lower wholesale energy prices in Singapore; 2) demand-supply imbalance of renewable energy in China and India; and 3) policy changes leading to impairment in renewables investments. Other risks include: M&A- related execution risks, the implementation of centralised natural gas purchases for power generation in Singapore, and higher capex for transmission and storage, especially for renewables.

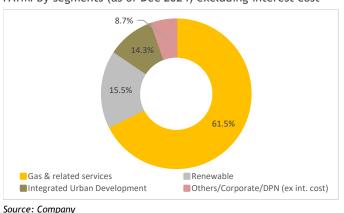
Sembcorp Industries

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Value Proposition

- SCI is Singapore's leading sustainable solutions provider with ~20GW 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.

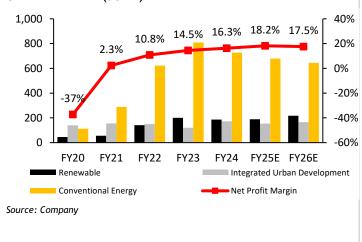
PATMI by segments (as of Dec 2024) excluding interest cost



Financial Metrics

- We forecast FY25E profit to rise 2.5% YoY led by divestment gains and Senoko acquisition.
- FY26E earnings to fall 4% on back of lower whole sale power prices in Singapore and lower contribution from renewable.
- Our SOTP-based TP of SGD5.65 implies 10.2x FY26E P/E, which is in line with multiples of China utilities and at discount to Asean peers.

Core net income (SGDm)



Price Drivers



Source: Company, Maybank IBG Research

- 1. May 2021: SCI announced strategic plan to transform its portfolio from brown to green.
- 2. July 2021: Singapore PUB and SCI open world's largest inland floating PV system at Tengah reservoir.
- 3. Nov 2022: SCI to acquire Vector Green, 583MW renewable assets in India.
- 4. 3Q2023: Peak wholesale power prices in Singapore.
- 5. News on excess renewable supply in China and higher curtailment rates.

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.

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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 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 (tCO2e/MWh) by FY25E. In FY22, the GHG emission intensity was 0.31tCO2e/MWh compared to 0.51tCO2e/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 nonexecutive 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.

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).

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	9.0	9.2	10.3	10.8	9.9
Core P/E (x)	10.1	9.7	10.3	10.8	9.9
Core FD P/E (x)	10.1	9.8	10.4	10.8	10.0
P/BV (x)	2.1	1.8	1.8	1.6	1.5
P/NTA (x)	2.6	2.2	2.1	1.9	1.7
Net dividend yield (%)	2.4	4.2	3.8	3.8	3.8
FCF yield (%)	4.9	nm	4.9	4.0	3.8
EV/EBITDA (x)	10.2	12.0	13.1	13.0	12.0
EV/EBIT (x)	14.3	17.5	19.6	19.2	17.0
INCOME STATEMENT (SGD m)					
Revenue	7,042.0	6,417.0	5,836.7	5,828.3	6,123.1
EBITDA	1,604.3	1,496.9	1,417.6	1,468.9	1,621.4
Depreciation	(463.3)	(467.9)	(467.9)	(472.6)	(477.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,141.0	1,029.0	949.7	996.3	1,144.0
Net interest income /(exp)	(352.0)	(345.0)	(407.6)	(437.4)	(462.6)
Associates & JV	264.0	317.0	437.0	429.7	443.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	177.0	250.0	230.9	207.2	185.6
Pretax profit	1,230.0	1,251.0	1,209.9	1,195.8	1,310.7
Income tax	(182.0)	(206.0)	(176.3)	(176.3)	(176.3)
Minorities	(28.0)	(25.0)	(25.0)	(25.0)	(25.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	942.0	1,011.0	1,037.2	996.9	1,083.9
Core net profit	942.0	1,011.0	1,037.2	996.9	1,083.9
BALANCE SHEET (SGD m)	702.0	000.0	4 227 2	4 225 7	4 204 4
Cash & Short Term Investments	782.0	908.0	1,227.3	1,225.7	1,284.6
Accounts receivable	1,674.0	1,812.0	1,902.6	1,997.7	2,097.6
Inventory	135.0	135.0	230.1	227.3	233.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	6,465.0 952.0	8,304.0 977.0	8,631.4 977.0	9,154.0 977.0	9,671.9 977.0
Intangible assets Investment in Associates & JVs	2,396.0	2,740.0	3,177.0	3,606.7	4,050.4
Other assets	3,093.0	3,302.0	1,221.2	1,199.7	1,107.4
Total assets	15,497.0	18,178.0	17,366.6	18,388.1	19,422.6
ST interest bearing debt	1,281.0	671.0	780.3	858.5	948.0
Accounts payable	1,819.0	1,809.0	1,146.1	1,133.2	1,167.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	6,053.0	8,079.0	8,159.0	8,563.0	8,817.5
Other liabilities	1,472.0	1,960.0	1,104.0	1,055.0	1,013.0
Total Liabilities	10,625.0	12,519.0	11,188.9	11,609.3	11,946.6
Shareholders Equity	4,588.0	5,361.0	6,002.6	6,603.9	7,292.3
Minority Interest	284.0	298.0	175.1	174.8	183.7
Total shareholder equity	4,872.0	5,659.0	6,177.7	6,778.8	7,476.0
Total liabilities and equity	15,497.0	18,178.0	17,366.6	18,388.1	19,422.6
CASH FLOW (SGD m)					
Pretax profit	1,230.0	1,251.0	1,209.9	1,195.8	1,310.7
Depreciation & amortisation	463.3	467.9	467.9	472.6	477.3
Adj net interest (income)/exp	352.0	345.0	407.6	437.4	462.6
Change in working capital	(116.0)	(139.0)	(712.4)	(88.9)	(6.7)
Cash taxes paid	(182.0)	(206.0)	(176.3)	(176.3)	(176.3)
Other operating cash flow	(124.8)	(120.0)	224.2	(279.8)	(519.3)
Cash flow from operations	1,317.5	1,416.0	1,326.2	1,430.1	1,410.1
Capex	(856.0)	(1,491.0)	(800.0)	(1,000.0)	(1,000.0)
Free cash flow	461.5	(75.0)	526.2	430.1	410.1
Dividends paid	(214.2)	(232.1)	(410.6)	(410.6)	(410.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	195.0	1,416.0	433.3	238.2	344.0
Other invest/financing cash flow	(943.3)	(982.9)	(229.6)	(259.4)	(284.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(501.0)	126.0	319.3	(1.7)	59.0

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(10.0)	(8.9)	(9.0)	(0.1)	5.1
EBITDA growth	34.9	(6.7)	(5.3)	3.6	10.4
EBIT growth	56.7	(9.8)	(7.7)	4.9	14.8
Pretax growth	42.2	1.7	(3.3)	(1.2)	9.6
Reported net profit growth	11.1	7.3	2.6	(3.9)	8.7
Core net profit growth	11.1	7.3	2.6	(3.9)	8.7
Profitability ratios (%)					
EBITDA margin	22.8	23.3	24.3	25.2	26.5
EBIT margin	16.2	16.0	16.3	17.1	18.7
Pretax profit margin	17.5	19.5	20.7	20.5	21.4
Payout ratio	24.6	40.6	39.6	41.2	37.9
DuPont analysis					
Net profit margin (%)	13.4	15.8	17.8	17.1	17.7
Revenue/Assets (x)	0.5	0.4	0.3	0.3	0.3
Assets/Equity (x)	3.4	3.4	2.9	2.8	2.7
ROAE (%)	22.0	20.3	18.3	15.8	15.6
ROAA (%)	6.0	6.0	5.8	5.6	5.7
Liquidity & Efficiency					
Cash conversion cycle	(29.7)	(25.3)	9.1	45.3	46.6
Days receivable outstanding	82.8	97.8	114.6	120.5	120.4
Days inventory outstanding	9.0	9.9	14.9	18.9	18.5
Days payables outstanding	121.4	132.9	120.3	94.0	92.3
Dividend cover (x)	4.1	2.5	2.5	2.4	2.6
Current ratio (x)	0.8	1.2	1.7	1.7	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.6	1.6	1.6
Net gearing (%) (incl perps)	134.5	138.6	124.8	120.9	113.4
Net gearing (%) (excl. perps)	134.5	138.6	124.8	120.9	113.4
Net interest cover (x)	3.2	3.0	2.3	2.3	2.5
Debt/EBITDA (x)	4.6	5.8	6.3	6.4	6.0
Capex/revenue (%)	12.2	23.2	13.7	17.2	16.3
Net debt/ (net cash)	6,552.0	7,842.0	7,712.0	8,195.9	8,480.9

Source: Company; Maybank IBG Research

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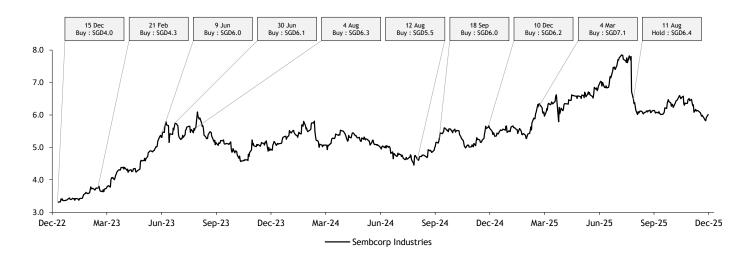
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