

20 May 2020

Energy & Petrochemicals | Oil & Gas Services

Sembcorp Industries (SCI SP)

Buy (Maintained)

Energy Business Affected By COVID-19

Target Price (Return): SGD2.00 (29.0%)
 Price: SGD1.55
 Market Cap: USD1,953m
 Avg Daily Turnover (SGD/USD) 10.9m/7.71m

- **Keep BUY, with new SOP-derived SGD2.00 TP from SGD2.33, 29% upside and c.3% yield.** In a recent Sembcorp Industries update, management indicated that its FY20 energy business underlying performance would be lower than in FY19. While we cut FY20F earnings, SCI's recent share price weakness has already factored in the negatives.
- **SCI expects to maintain positive operating cash flow in 2020** underpinned by its long-term contracts and diversified portfolio of businesses, despite the challenging conditions.
- **Lockdowns in multiple markets have reduced energy demand and prices.** In particular, lower energy demand and prices will impact SCI's merchant operations in Singapore, India and the UK, which saw power demand in Apr 2020 decline by approximately 10% to 25% YoY. The company guides for the FY20 underlying performance of the energy business to be markedly lower than in 2019.
- **Management said the FY20 energy business net profit will be adversely affected by:**
 - i. Currency translation loss recognised in the foreign currency translation reserve for the divestment of the water business in Chile. As at 31 Dec 2019, the accumulated currency translation loss was SGD30m. Completion of the transaction is expected by 3Q20.
 - ii. The decline in energy prices, which has significantly reduced the net realisable value (NRV) of the inventory of gasoil reserves in Singapore required to fulfil certain regulatory requirements. As at 31 Mar 2020, the NRV is estimated to be SGD59m, a SGD45m (pre-tax) reduction in book value.
- **Urban business also affected by COVID-19.** The pace of land and property sales for the urban business has been affected by the COVID-19 pandemic. Due to the measures undertaken by various governments, the business has had delays in regulatory and other approvals required. The uncertain economic outlook is expected to lead to lower take-up and demand, or delayed launches for some of the business' integrated developments and properties.
- **We cut FY20F net profit by 14% to SGD347m,** due mainly to weaker energy business earnings, plus adjustments following our recent increase in FY20F losses for Sembcorp Marine (SMM SP, BUY, TP: SGD1.28). Our TP (Figure 1), which is SOP-derived, is cut by 14% to factor in these developments. Our TP works out to 10.3x FY20F EPS, which is 1.5SD below the 5-year average of 14.4x.

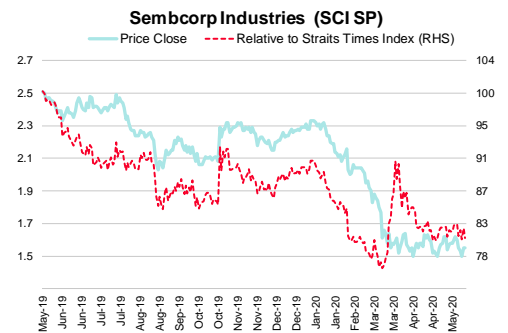
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(32.3)	(3.1)	(24.0)	(31.4)	(38.7)
Relative	(12.4)	(1.8)	(4.3)	(11.1)	(19.2)
52-wk Price low/high (SGD)	1.50 – 2.51				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	11,689	9,618	9,143	10,012	11,130
Recurring net profit (SGDm)	347	395	347	440	442
Recurring net profit growth (%)	(9.4)	13.8	(12.1)	26.7	0.5
Recurring P/E (x)	7.97	7.01	7.98	6.29	6.26
P/B (x)	0.5	0.5	0.4	0.4	0.4
P/CF (x)	6.59	4.18	21.49	na	na
Dividend Yield (%)	2.6	3.2	2.5	3.2	3.2
EV/EBITDA (x)	9.04	8.28	9.17	9.40	10.71
Return on average equity (%)	5.8	4.1	5.7	7.0	6.7
Net debt to equity (%)	110.9	114.6	132.3	155.8	186.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.19	0.22	0.19	0.25	0.25
Energy & Petrochemicals	DPS	0.04	0.05	0.04	0.05	0.05
Sembcorp Industries	BVPS	3.36	3.40	3.45	3.61	3.76
SCI SP	Return on average equity (%)	5.8	4.1	5.7	7.0	6.7
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	7.97	7.01	7.98	6.29	6.26
SOP	P/B (x)	0.5	0.5	0.4	0.4	0.4
	FCF Yield (%)	(24.8)	(9.5)	(35.1)	(56.9)	(80.3)
	Dividend Yield (%)	2.6	3.2	2.5	3.2	3.2
Key drivers	EV/EBITDA (x)	9.04	8.28	9.17	9.40	10.71
i. Start-up of key utilities projects;	EV/EBIT (x)	17.11	16.25	18.35	17.75	20.69
ii. Higher orderbook replenishment for Sembcorp Marine.						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	11,689	9,618	9,143	10,012	11,130
Orderbook for Sembcorp Marine not recovering fast enough.	Gross profit	920	892	640	851	1,224
	EBITDA	1,262	1,391	1,403	1,569	1,626
	Depreciation and amortisation	(595)	(682)	(702)	(738)	(785)
	Operating profit	667	709	701	830	841
	Net interest	(421)	(450)	(481)	(460)	(496)
	Pre-tax profit	420	295	383	561	587
	Taxation	(88)	(78)	(51)	(84)	(100)
	Reported net profit	347	247	347	440	442
	Recurring net profit	347	395	347	440	442
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(389)	(379)	(863)	(1,471)	(1,989)
	Cash flow from operations	420	662	129	(324)	(843)
	Capex	(1,107)	(925)	(1,100)	(1,250)	(1,380)
	Cash flow from investing activities	(1,384)	(680)	(1,490)	(1,667)	(1,839)
	Dividends paid	(71)	(71)	(89)	(69)	(88)
	Cash flow from financing activities	520	633	2,136	2,050	1,421
	Cash at beginning of period	2,687	1,925	1,767	2,501	2,550
	Net change in cash	(444)	615	775	58	(1,261)
	Ending balance cash	2,218	2,523	2,529	2,550	1,276
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	1,925	1,767	2,501	2,550	1,276
	Tangible fixed assets	11,672	11,739	12,814	14,036	15,385
	Total investments	2,113	2,090	2,695	3,340	4,040
	Total assets	23,321	23,252	25,621	28,029	29,969
	Short-term debt	1,862	2,643	3,888	5,145	6,145
	Total long-term debt	8,870	8,157	9,402	10,659	11,659
	Total liabilities	15,383	15,373	17,464	19,520	21,106
	Total equity	7,938	7,879	8,157	8,509	8,863
	Total liabilities & equity	23,321	23,252	25,621	28,029	29,969
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	29.5	(17.7)	(4.9)	9.5	11.2
	Recurrent EPS growth (%)	(9.2)	13.8	(12.1)	26.7	0.5
	Gross margin (%)	7.9	9.3	7.0	8.5	11.0
	Operating EBITDA margin (%)	10.8	14.5	15.3	15.7	14.6
	Net profit margin (%)	3.0	2.6	3.8	4.4	4.0
	Capex/sales (%)	9.5	9.6	12.0	12.5	12.4
	Interest cover (x)	1.31	1.22	1.19	1.43	1.32

Source: Company data, RHB

Figure 1: SOP valuation

Segments	Shares (m)	Stake	Price (SGD)	Value (SGDm)	Value/share (SGD)	Remarks
SMM	1,274.3	61%	1.28	1,631	0.91	Based on RHB's TP for SMM
Energy				2,453	1.37	9x FY20F P/E
Urban				688	0.39	9x FY20F P/E
Total sum of parts				4,772	2.67	No. of SCl shares =1786m
Conglomerate discount				25%		
SOTP after discount				3,579	2.00	

Source: Company data, RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
2020-02-24	Buy	2.33	1.95
2020-02-07	Buy	2.68	2.03
2020-02-07	Buy	2.68	2.03
2019-11-15	Buy	0.68	2.26
2019-09-18	Buy	2.68	2.18

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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