

24 February 2020

Energy & Petrochemicals | Oil & Gas Services

Sembcorp Industries (SCI SP)

Buy (Maintained)

Value After Recent Share Price Weakness; BUY

Target Price (Return): SGD2.33 (16%)
 Price: SGD2.01
 Market Cap: USD2,559m
 Avg Daily Turnover (SGD/USD): 6.30m/4.61m

- **Keep BUY with new SOP-derived SGD2.33 TP from SGD2.68, 16% upside plus c.2% yield.** FY19 net profit of SGD247m came in ahead of our SGD187m expectations. Excluding the one-time exceptional items, recurring FY19 net profit of SGD395m would be 17% higher YoY. We remain positive on Sembcorp Industries with expectations of its energy and urban segments underpinning performance going forward.
- **Energy segment accounted for 91% share of recurring net profit.** Excluding exceptionals, the energy segment's FY19 recurring net profit was SGD360m (+12% YoY), driven by better overseas performance. Urban is a growing segment, accounting for another 30% recurring earnings share – with profit recognition from the property development *Riverside Grandeur* in Nanjing, China. Its marine segment incurred a recurring loss of SGD88m.
- **China is the largest contributor to FY19 energy recurring net profit,** with a 29% share, with growth driven by renewable assets. China has overtaken Singapore, the leader in FY18. Singapore's weak performance was due to its planned 4Q19 major maintenance of power generation assets. India is the third largest contributor with a 28% share, after doubling its recurring net profit YoY. The SEIL Thermal Project 1 (P1) contributed to FY19 profit from operations of SGD213m, up 24% YoY.
- **Urban's healthy orderbook to underpin future earnings.** In FY19, urban development completed and handed over SCI's wholly-owned *Riverside Grandeur* residential development. Orderbook from Vietnam remained robust. Looking ahead, net orderbook of 423ha is to be recognised as land sales over the next 2-3 years.
- **Marine segment has total net orderbook of SGD2.4bn as at Dec 2019.** However, weak revenue was contributed by the marine segment's losses incurred in FY19. Sembcorp Marine (SMM SP, BUY, TP: SGD1.45), which is 61% owned by SCI, had earlier guided for continued losses to be incurred in FY20. We forecast SMM to turn profitable in FY21.
- **We forecast respectable FY20 earnings.** We cut FY20F net profit by 14% to SGD404m, as management guided a competitive energy business environment in Singapore and India's 2020 energy performance to be flat YoY. Although we also cut FY21F net profit by 14%, net profit growth should be a respectable 10%.
- **Our TP is SGD2.33, based on SOP valuation.** The bulk of the value is derived from the energy business (56% share), with subsidiary SMM taking another significant 34% share. A 25% conglomerate discount is also factored in. Our TP implies FY20F P/E of c.10x, which is below the 5-year historical average of 13.4x.

Analyst

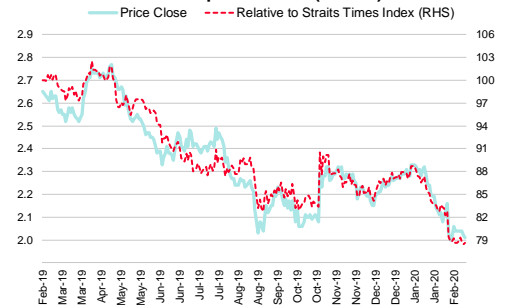
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|--------|-------|--------|--------|
| Absolute | (12.2) | (10.3) | (7.8) | (11.1) | (24.4) |
| Relative | (10.9) | (8.3) | (7.4) | (13.0) | (21.4) |
| 52-wk Price low/high (SGD) | 2.00 – 2.77 | | | | |

Sembcorp Industries (SCI SP)



Source: Bloomberg

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (SGDm) | 11,689 | 9,618 | 9,889 | 10,419 | 11,090 |
| Recurring net profit (SGDm) | 347 | 395 | 404 | 446 | 488 |
| Recurring net profit growth (%) | (9.4) | 13.8 | 2.3 | 10.3 | 9.4 |
| Recurring P/E (x) | 10.34 | 9.08 | 8.88 | 8.05 | 7.35 |
| P/B (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| P/CF (x) | 8.54 | 5.42 | 21.93 | na | na |
| Dividend Yield (%) | 2.0 | 2.5 | 2.3 | 2.5 | 2.7 |
| EV/EBITDA (x) | 9.69 | 8.87 | 9.40 | 10.01 | 11.05 |
| Return on average equity (%) | 5.8 | 4.1 | 6.6 | 7.0 | 7.3 |
| Net debt to equity (%) | 110.9 | 114.6 | 131.1 | 155.2 | 184.7 |

Source: Company data, RHB

24 February 2020

Energy & Petrochemicals | Oil & Gas Services

Financial Exhibits

| Asia | Financial summary (SGD) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore | Recurring EPS | 0.19 | 0.22 | 0.23 | 0.25 | 0.27 |
| Energy & Petrochemicals | DPS | 0.04 | 0.05 | 0.05 | 0.05 | 0.05 |
| Sembcorp Industries | BVPS | 3.36 | 3.40 | 3.48 | 3.64 | 3.81 |
| SCI SP | Return on average equity (%) | 5.8 | 4.1 | 6.6 | 7.0 | 7.3 |
| Buy | | | | | | |
| | Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| Valuation basis | Recurring P/E (x) | 10.34 | 9.08 | 8.88 | 8.05 | 7.35 |
| SOP | P/B (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| | FCF Yield (%) | (19.2) | (7.3) | (26.1) | (45.4) | (61.2) |
| | Dividend Yield (%) | 2.0 | 2.5 | 2.3 | 2.5 | 2.7 |
| Key drivers | EV/EBITDA (x) | 9.69 | 8.87 | 9.40 | 10.01 | 11.05 |
| i. Start-up of key utilities projects. | EV/EBIT (x) | 18.34 | 17.40 | 18.22 | 19.04 | 21.05 |
| 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 | 9,889 | 10,419 | 11,090 |
| Orderbook for Sembcorp Marine not recovering fast enough. | Gross profit | 920 | 892 | 1,088 | 1,146 | 1,220 |
| | EBITDA | 1,262 | 1,391 | 1,451 | 1,557 | 1,651 |
| | Depreciation and amortisation | (595) | (682) | (702) | (738) | (785) |
| | Operating profit | 667 | 709 | 749 | 819 | 866 |
| | Net interest | (421) | (450) | (462) | (475) | (463) |
| | Pre-tax profit | 420 | 295 | 471 | 576 | 645 |
| | Taxation | (88) | (78) | (65) | (88) | (99) |
| | Reported net profit | 347 | 247 | 404 | 446 | 488 |
| | Recurring net profit | 347 | 395 | 404 | 446 | 488 |
| | 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 | 164 | (380) | (817) |
| | 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) | (81) | (89) |
| | Cash flow from financing activities | 520 | 633 | 2,136 | 2,038 | 1,420 |
| | Cash at beginning of period | 2,687 | 1,925 | 1,767 | 2,536 | 2,517 |
| | Net change in cash | (444) | 615 | 809 | (9) | (1,236) |
| | Ending balance cash | 2,218 | 2,523 | 2,563 | 2,517 | 1,269 |
| | Balance sheet (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Total cash and equivalents | 1,925 | 1,767 | 2,536 | 2,517 | 1,269 |
| | 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 | 25,666 | 28,079 | 30,056 |
| | 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 | 8,202 | 8,559 | 8,950 |
| | Total liabilities & equity | 23,321 | 23,252 | 25,666 | 28,079 | 30,056 |
| | Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
| | Revenue growth (%) | 29.5 | (17.7) | 2.8 | 5.4 | 6.4 |
| | Recurrent EPS growth (%) | (9.2) | 13.8 | 2.3 | 10.3 | 9.4 |
| | Gross margin (%) | 7.9 | 9.3 | 11.0 | 11.0 | 11.0 |
| | Operating EBITDA margin (%) | 10.8 | 14.5 | 14.7 | 14.9 | 14.9 |
| | Net profit margin (%) | 3.0 | 2.6 | 4.1 | 4.3 | 4.4 |
| | Capex/sales (%) | 9.5 | 9.6 | 11.1 | 12.0 | 12.4 |
| | Interest cover (x) | 1.31 | 1.22 | 1.27 | 1.32 | 1.36 |

Source: Company data, RHB

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Energy & Petrochemicals | Oil & Gas Services

Figure 1: Quarterly highlights

| FYE : Dec (SGDm) | 4Q18 | 3Q19 | 4Q19 | YoY% | Comments |
|-----------------------|-------|-------|-------|---------|---|
| Revenue | 2,566 | 2,450 | 2,317 | (10) | 4Q19 YoY revenue contraction is due to the marine and energy segments. |
| Operating EBIT | 179 | 160 | 49 | (73) | 4Q19 EBIT fall was due mainly due to the marine segment. |
| (i) Energy | 162 | 213 | 16 | (90) | |
| (ii) Marine | (3) | (52) | (89) | 3,123 | |
| (iii) Urban | 12 | (6) | 118 | 897 | |
| (iv) Other businesses | 8 | 5 | 4 | (50) | |
| Net Profit | 106 | 71 | (15) | (114) | Excluding exceptionals, the energy segment was the top contributor to the group's FY19 earnings |
| (i) Energy | 66 | 81 | (63) | (196) | |
| (ii) Marine | 2 | (32) | (47) | (2,627) | |
| (iii) Urban | 33 | 12 | 87 | 164 | |
| (iv) Other businesses | 6 | 10 | 8 | 43 | |
| EBIT margin (%) | 7 | 7 | 2 | | |

Source: Company data

Figure 2: SOP valuation

| Segments | Shares | Stake | Price | Value | Value/share | Remarks |
|-----------------------|---------|-------|-------|--------|-------------|---------------------------|
| | (m) | | (SGD) | (SGDm) | (SGD) | |
| SMM | 1,274.3 | 61% | 1.45 | 1,848 | 1.04 | Based on RHB's TP for SMM |
| Energy | | | | 3,105 | 1.74 | 9x FY20F P/E |
| Urban | | | | 582 | 0.33 | 9x FY20F P/E |
| Others | | | | | | |
| Total SOP | | | | 5,535 | 3.10 | No. of SCl shares =1785m |
| Conglomerate discount | | | | 25% | | |
| SOP after discount | | | | 4,151 | 2.33 | |

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 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

RHB Guide to Investment Ratings

| | |
|---------------------|--|
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