

# Sembcorp Industries (SCI SP)

Energy &amp; Petrochemicals - Oil &amp; Gas Services

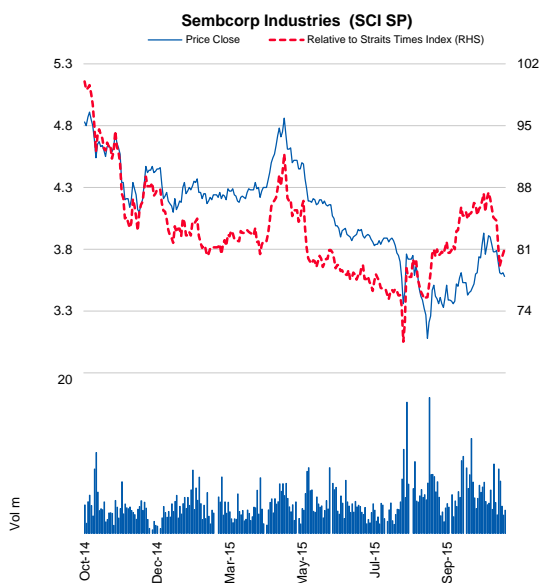
Market Cap: USD4,583m

**Neutral** (from Buy)

 Target Price: **SGD3.90**

 Price: **SGD3.58**

## Can't Fight The Tidal Pull

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	19.3m/13.8m
Cons. Upside (%)	12.6
Upside (%)	8.9
52-wk Price low/high (SGD)	3.08 - 4.91
Free float (%)	50
Share outstanding (m)	1,786
<b>Shareholders (%)</b>	
Temasek	49.7

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.6)	3.8	(4.5)	(20.8)	(25.9)
Relative	(8.8)	(3.9)	4.1	(6.9)	(19.0)

**Sembcorp's 3Q15 missed estimates due to its receivables provisions and weak SembMarine earnings. Management also cut its guidance for the urban development unit. Altogether, we trim our FY15F earnings by 7.2%, and downgrade Sembcorp to NEUTRAL (from Buy) with a SOP-based SGD3.90 TP (from SGD4.20, 9% upside). While we still like its utilities division, which has bright overseas growth prospects, we see elevated earnings risks in its other two segments.**

- ◆ **Weak 3Q foreshadowed by SembMarine.** Sembcorp's weak 3Q15 was further compounded by a SGD23m receivables provision in relation to Jurong Aromatics Corp entering receivership, on top of the earnings weakness at SembMarine (SMM SP, SELL, TP: SGD2.00). Management believes that these receivables will eventually be collected. Apart from this, the utilities business was stable YoY at the core level.
- ◆ **Urban development arm now expected to lag FY14 performance.** From an expectation of a "performance comparable to 2014" in 2Q15, management now guides that it will be "weaker in 2015 compared to 2014". Management described the state government in Nanjing, China as having held back on releasing residential land for sale, instead encouraging Sembcorp to sell industrial and commercial land. While it expects a higher quota for residential sales next year, this comes as an unwelcome development and materially affects our outlook for the group's near-term earnings and stock performance.
- ◆ **Stock unlikely to perform with two weak divisions out of three.** Although we continue to like its utilities business for its growth potential in India and Bangladesh, deteriorating earnings contributions from both the urban and marine divisions would weigh on the group. Earnings volatility has increased in these divisions, prompting us to trim our FY15 earnings by 7.2%.
- ◆ **Comparing like for like, we prefer Keppel Corp.** Comparing Singapore's two major conglomerates in the oil & gas and infrastructure spaces, we prefer Keppel (KEP SP, BUY, TP: SGD10.00) for its higher yield and stable earnings. We believe SembMarine will underperform in the near term, exacting a tidal pull on Sembcorp as weak yard earnings (both in Singapore and Brazil) continue their operational drag. Downgrade to NEUTRAL with a SGD3.90 TP (from SGD4.20).

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	10,798	10,895	8,980	10,099	10,136
Reported net profit (SGDm)	820	828	1,016	696	702
Recurring net profit (SGDm)	820	828	666	696	702
Recurring net profit growth (%)	8.9	0.9	(19.5)	4.4	0.8
Recurring EPS (SGD)	0.46	0.46	0.37	0.39	0.39
DPS (SGD)	0.17	0.16	0.16	0.16	0.16
Recurring P/E (x)	7.79	7.72	9.59	9.19	9.11
P/B (x)	1.27	1.18	1.10	1.03	0.97
P/CF (x)	4	na	455	5	5
Dividend Yield (%)	4.7	4.5	4.5	4.5	4.5
EV/EBITDA (x)	3.64	5.99	7.12	5.83	5.61
Return on average equity (%)	17.2	15.9	18.1	11.6	10.9
Net debt to equity (%)		net cash	42.5	48.6	42.9
Our vs consensus EPS (adjusted) (%)			(2.6)	(0.4)	0.3

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## Additional Notes

Figure 1: Quarterly results in review

FYE 31 Dec (SGDm)	2Q14	2Q15	3Q15	QoQ	YoY	Remarks
<b>Turnover</b>	<b>3,069</b>	<b>2,388</b>	<b>2,399</b>	<b>0%</b>	<b>-22%</b>	
Utilities	1,306	1,124	1,159	3%	-11%	Increased contributions from TPCIL power plant in 2Q15. Singapore power stabilised in 1Q-3Q15 from downtrend throughout 2014.
Marine	1,711	1,207	1,130	-6%	-34%	
Urban development	1	2	2	-18%	39%	
Others	51	55	109	98%	nm	
<b>EBITDA</b>	<b>375</b>	<b>409</b>	<b>150</b>	<b>-63%</b>	<b>-60%</b>	
Utilities	183	162	258	59%	41%	
Marine	200	147	121	-18%	-39%	
Urban development	1	-2	-3	20%	nm	
Others	-8	-2	9	nm	nm	
<b>Operating profit</b>	<b>297</b>	<b>306</b>	<b>186</b>	<b>-39%</b>	<b>-37%</b>	
Utilities	135	162	127	-22%	-6%	SGD23m receivables writedown in 3Q15 due to receivership of Jurong Aromatics Corp.
Marine	172	147	58	-61%	-66%	SembMarine wrote down its holding value of its stake in Cosco Singapore, on top of operational weakness.
Urban development	1	-2	-4	56%	nm	
Others	-10	-2	5	nm	nm	
<b>Net interest expense</b>	<b>-8</b>	<b>-50</b>	<b>-57</b>	<b>14%</b>	<b>nm</b>	
Utilities	-10	-42	-48	14%	nm	Consolidation of TPCIL and SGI borrowings led to higher interest costs.
Marine	-3	-9	-11	19%	nm	
Urban development	1	-1	-1	-29%	nm	
Others	6	2	2	-6%	-75%	
<b>Share of results of associates, JVs</b>	<b>25</b>	<b>59</b>	<b>21</b>	<b>-64%</b>	<b>-16%</b>	
Utilities	15	41	35	-16%	nm	Seasonally stronger operations in Middle East, and SGD7m writeback in China in 2Q15.
Marine	3	-3	-24	nm	nm	Cosco Singapore took a large writedown in this quarter.
Urban development	5	16	9	-43%	77%	
Others	3	5	2	-55%	-31%	
<b>Profit before tax</b>	<b>315</b>	<b>314</b>	<b>150</b>	<b>-52%</b>	<b>-52%</b>	
Utilities	140	161	114	-29%	-19%	
Marine	171	136	22	-83%	-87%	
Urban development	5	13	5	-62%	-12%	
Others	-1	5	9	99%	nm	
<b>Net profit to equity holders</b>	<b>197</b>	<b>224</b>	<b>122</b>	<b>-45%</b>	<b>-38%</b>	<b>SGD54.7m gain on disposal of Bournemouth assets in 2Q15, offset by SGD25.6m of forex and derivative losses. Weak 3Q15 mainly caused by drop in contribution from SembMarine.</b>
Utilities	114	141	90	-36%	-21%	Would have been stable YoY if not for receivables writedown.
Marine	80	67	20	-71%	-75%	Surprise loss when results were announced.
Urban development	5	12	5	-62%	-7%	Management has lowered guidance, now expecting Urban development results to be weaker than in 2014.
Others	-3	3	8	nm	nm	

Source: Company data, RHB

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	10,798	10,895	8,980	10,099	10,136
Cost of sales	(9,510)	(9,480)	(8,019)	(8,537)	(8,580)
<b>Gross profit</b>	<b>1,287</b>	<b>1,415</b>	<b>961</b>	<b>1,561</b>	<b>1,556</b>
Gen & admin expenses	(339)	(352)	(291)	(327)	(328)
Other operating costs	212	104	405	-	-
<b>Operating profit</b>	<b>1,160</b>	<b>1,166</b>	<b>1,076</b>	<b>1,235</b>	<b>1,228</b>
Operating EBITDA	1,463	1,481	1,430	1,669	1,662
Depreciation of fixed assets	(303)	(315)	(355)	(434)	(434)
<b>Operating EBIT</b>	<b>1,160</b>	<b>1,166</b>	<b>1,076</b>	<b>1,235</b>	<b>1,228</b>
Net income from investments	155	158	79	82	87
Interest income	17	19	24	25	25
Interest expense	(118)	(70)	(226)	(305)	(313)
Exceptional income - net	-	-	350	-	-
<b>Pre-tax profit</b>	<b>1,214</b>	<b>1,273</b>	<b>1,302</b>	<b>1,036</b>	<b>1,027</b>
Taxation	(117)	(162)	(121)	(148)	(141)
Minority interests	(277)	(283)	(164)	(192)	(184)
<b>Profit after tax &amp; minorities</b>	<b>820</b>	<b>828</b>	<b>1,016</b>	<b>696</b>	<b>702</b>
<b>Reported net profit</b>	<b>820</b>	<b>828</b>	<b>1,016</b>	<b>696</b>	<b>702</b>
<b>Recurring net profit</b>	<b>820</b>	<b>828</b>	<b>666</b>	<b>696</b>	<b>702</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>1,160</b>	<b>1,166</b>	<b>1,076</b>	<b>1,235</b>	<b>1,228</b>
<b>Depreciation &amp; amortisation</b>	<b>303</b>	<b>315</b>	<b>355</b>	<b>434</b>	<b>434</b>
<b>Change in working capital</b>	<b>141</b>	<b>(1,414)</b>	<b>(1,091)</b>	<b>62</b>	<b>(6)</b>
Other operating cash flow	(26)	(24)	(2)	(25)	(25)
<b>Operating cash flow</b>	<b>1,578</b>	<b>42</b>	<b>338</b>	<b>1,706</b>	<b>1,631</b>
Interest received	17	19	24	25	25
Interest paid	(106)	(62)	(226)	(305)	(313)
Dividends received	77	102	-	-	-
Tax paid	(125)	(119)	(121)	(148)	(141)
<b>Cash flow from operations</b>	<b>1,441</b>	<b>(18)</b>	<b>14</b>	<b>1,277</b>	<b>1,203</b>
Capex	(1,189)	(1,306)	(1,000)	(500)	(500)
Other new investments	(306)	(342)	-	-	-
Other investing cash flow	60	105	74	75	75
<b>Cash flow from investing activities</b>	<b>(1,436)</b>	<b>(1,543)</b>	<b>(926)</b>	<b>(426)</b>	<b>(426)</b>
Dividends paid	(145)	(393)	(286)	(286)	(286)
Proceeds from issue of shares	(48)	(29)	-	-	-
Increase in debt	926	2,243	1,000	-	-
Other financing cash flow	(267)	(186)	323	(249)	(248)
<b>Cash flow from financing activities</b>	<b>467</b>	<b>1,635</b>	<b>1,038</b>	<b>(535)</b>	<b>(534)</b>
Cash at beginning of period	2,060	2,256	1,661	1,785	2,102
<b>Total cash generated</b>	<b>473</b>	<b>74</b>	<b>126</b>	<b>317</b>	<b>243</b>
Forex effects	22	2	-	-	-
<b>Implied cash at end of period</b>	<b>2,555</b>	<b>2,331</b>	<b>1,787</b>	<b>2,102</b>	<b>2,345</b>

Source: Company data, RHB

## Financial Exhibits

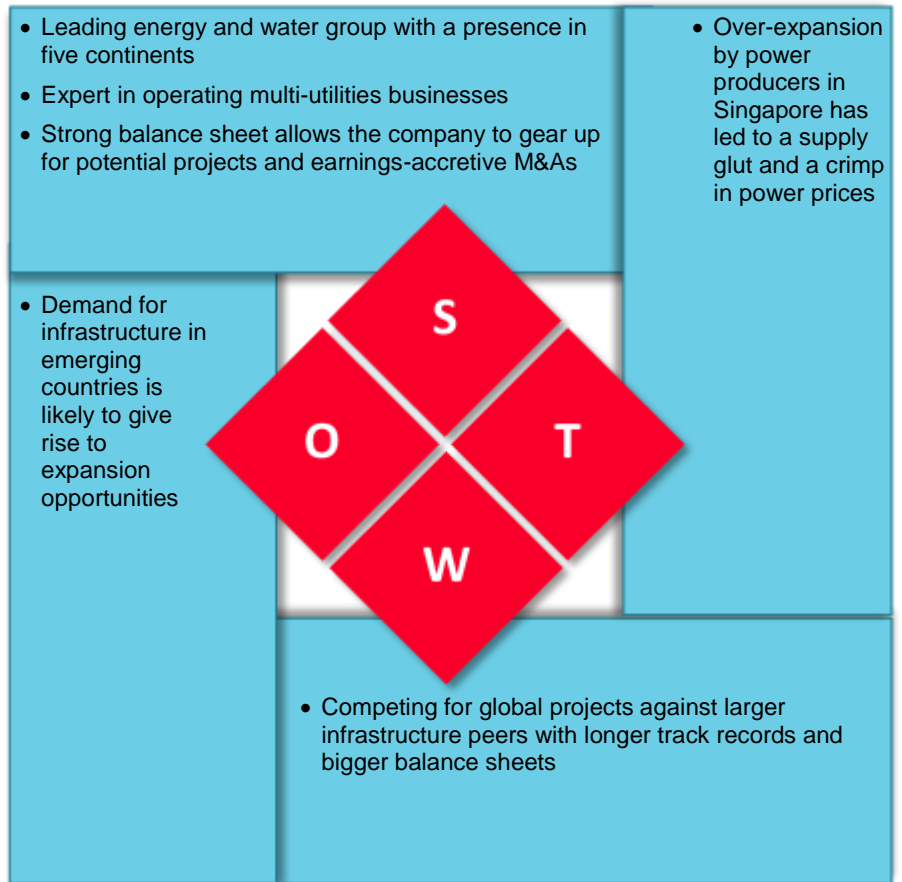
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	2,256	1,661	1,785	2,102	2,345
Inventories	2,241	3,205	3,198	3,320	3,332
Accounts receivable	1,140	1,200	1,722	1,937	1,944
Other current assets	53	64	64	64	64
<b>Total current assets</b>	<b>5,689</b>	<b>6,130</b>	<b>6,770</b>	<b>7,423</b>	<b>7,685</b>
Total investments	2,217	2,413	2,492	2,574	2,661
Tangible fixed assets	5,127	7,725	8,321	8,337	8,353
Intangible assets	308	391	391	391	391
Total other assets	412	517	517	517	517
Total non-current assets	8,064	11,046	11,720	11,818	11,921
<b>Total assets</b>	<b>13,754</b>	<b>17,176</b>	<b>18,489</b>	<b>19,241</b>	<b>19,606</b>
Short-term debt	414	1,086	1,147	1,147	1,147
Accounts payable	2,692	2,745	2,460	2,767	2,777
Other current liabilities	1,796	1,526	1,236	1,327	1,331
<b>Total current liabilities</b>	<b>4,902</b>	<b>5,357</b>	<b>4,843</b>	<b>5,241</b>	<b>5,254</b>
Total long-term debt	1,485	3,649	4,588	4,588	4,588
Other liabilities	837	938	938	938	938
<b>Total non-current liabilities</b>	<b>2,322</b>	<b>4,587</b>	<b>5,526</b>	<b>5,526</b>	<b>5,526</b>
<b>Total liabilities</b>	<b>7,224</b>	<b>9,944</b>	<b>10,369</b>	<b>10,767</b>	<b>10,780</b>
Share capital	566	566	566	566	566
Retained earnings reserve	4,462	4,848	5,229	5,639	6,055
<b>Shareholders' equity</b>	<b>5,027</b>	<b>5,414</b>	<b>5,794</b>	<b>6,204</b>	<b>6,620</b>
Minority interests	1,300	1,616	1,531	1,473	1,410
Other equity	203	203	796	796	796
<b>Total equity</b>	<b>6,530</b>	<b>7,232</b>	<b>8,121</b>	<b>8,474</b>	<b>8,826</b>
<b>Total liabilities &amp; equity</b>	<b>13,754</b>	<b>17,176</b>	<b>18,489</b>	<b>19,241</b>	<b>19,606</b>

Source: Company data, RHB

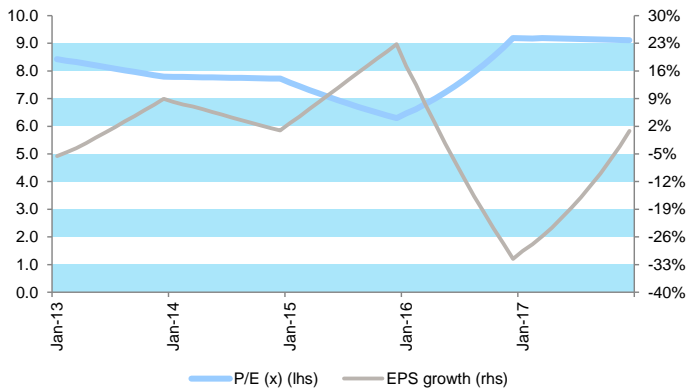
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	6.0	0.9	(17.6)	12.5	0.4
Operating profit growth (%)	5.2	0.5	(7.7)	14.8	(0.6)
Net profit growth (%)	8.9	0.9	22.8	(31.5)	0.8
EPS growth (%)	8.9	0.9	22.8	(31.5)	0.8
BVPS growth (%)	11.6	7.7	7.0	7.1	6.7
Operating margin (%)	10.7	10.7	12.0	12.2	12.1
Net profit margin (%)	7.6	7.6	11.3	6.9	6.9
Return on average assets (%)	6.2	5.4	5.7	3.7	3.6
Return on average equity (%)	17.2	15.9	18.1	11.6	10.9
Net debt to equity (%)	(5.5)	42.5	48.6	42.9	38.4
DPS	0.17	0.16	0.16	0.16	0.16
Recurrent cash flow per share	0.81	(0.01)	0.01	0.72	0.67

Source: Company data, RHB

## SWOT Analysis

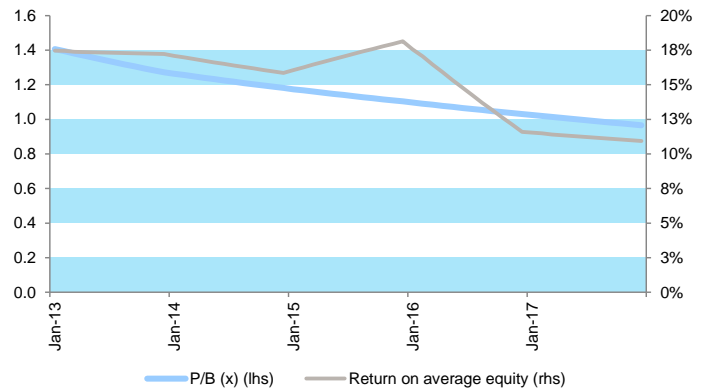


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

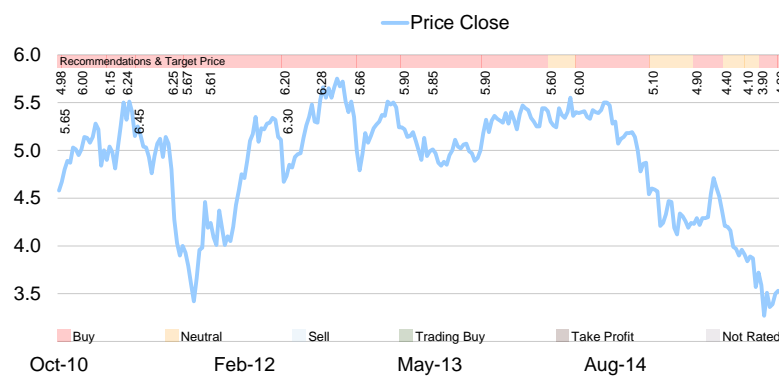


Source: Company data, RHB

## Company Profile

Sembcorp Industries is a leading energy, water and marine group operating in six continents worldwide.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-21	Buy	4.20	3.57
2015-08-05	Buy	3.90	3.76
2015-07-01	Neutral	4.10	3.91
2015-05-08	Neutral	4.40	4.37
2015-02-23	Buy	4.90	4.22
2014-11-07	Neutral	5.10	4.54
2014-05-07	Buy	6.00	5.40
2014-02-27	Neutral	5.60	5.50
2013-11-12	Buy	5.90	5.30
2013-09-16	Buy	5.90	5.12

Source : RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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