

# Sembcorp Industries (SCI SP)

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

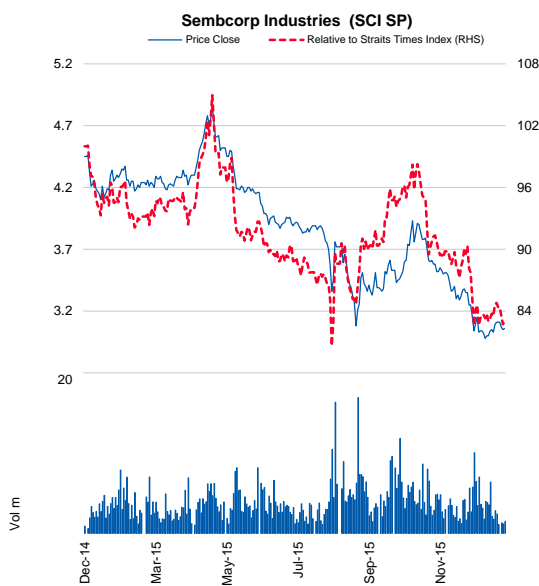
Market Cap: USD3,868m

**Buy** (Maintained)

 Target Price: **SGD3.80**

 Price: **SGD3.06**

## Firing Up The Chinese Portfolio

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	13.8m/9.83m
Cons. Upside (%)	27.8
Upside (%)	24.2
52-wk Price low/high (SGD)	2.98 - 4.86
Free float (%)	50
Share outstanding (m)	1,785
<b>Shareholders (%)</b>	
Temasek	49.7

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.2)	(5.9)	(11.6)	(21.3)	(30.9)
Relative	(16.9)	(6.9)	(15.0)	(8.3)	(16.6)

**Sembcorp announced that it has formed a joint venture in Chongqing, China, to invest in a 1,620MW coal-fired power project. It now holds 49% of the JV, which has an operational 300MW plant and a 1,320MW plant which will commence operations by 1Q17. Maintain BUY with SGD3.80 TP. We believe that Sembcorp's utilities business is under-appreciated by the market, trading at an implicit 0.75x P/BV. We wish management and investors a Happy New Year !**

- ◆ **The new assets.** Sembcorp has injected CNY925m (c.SGD202m) of equity into ChongQing SongZao Sembcorp Electric Power for a 49% stake in the JV. The majority share is held in effect by the Chongqing Municipal Government. The new power plant, which utilises supercritical technology, is expected to be among the most efficient power plants in Chongqing. Its efficient technology, combined with ideal location next to its primary coal input and the impending reform of Chongqing's power market to allow power generation suppliers to retail electricity directly to qualified power consumers should mean that these plants will enjoy a high proportion of generation uptime in the foreseeable future.
- ◆ **A nearer-term asset this time.** In contrast to Sembcorp's previous power-plant contracts, which will only be completed in 2018 or later, this project has a shorter period to first cash flows. The 300MW power plant is already in operation and the 50%-complete 1,320MW power plant should begin contributions by 1Q17. The total investment value will be c.CNY6bn (c.SGD1.3bn), for which Sembcorp will finance its half by a combination of equity and on-shore long-term financing.
- ◆ **Utilities business now trading at 0.75x P/B.** Stripping out the SembMarine (SMM SP, Neutral, TP SGD1.81) market- and book-values, Sembcorp's utilities business is trading at an implicit 0.75x P/B. In view of the many new overseas utilities contracts Sembcorp has been winning in recent months, we believe this underprice the long-term potential of the business. The Group itself trades at undemanding 0.96x FY15F P/BV, 8.0-9.4x FY15-17F P/Es, and EV/EBITDAs of 5.2x-7.1x. The 5.2% yield (implying a 43% payout ratio this year) should be sustainable and a key attraction to income investors. In addition, we would like to wish management and investors a Happy New Year!

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	10,798	10,895	8,021	9,266	9,692
Reported net profit (SGDm)	820	828	931	666	685
Recurring net profit (SGDm)	820	828	581	666	685
Recurring net profit growth (%)	8.9	0.9	(29.8)	14.7	2.7
Recurring EPS (SGD)	0.46	0.46	0.33	0.37	0.38
DPS (SGD)	0.17	0.16	0.16	0.16	0.16
Recurring P/E (x)	6.66	6.60	9.41	8.20	7.98
P/B (x)	1.09	1.01	0.96	0.90	0.84
P/CF (x)	4	na	104	5	5
Dividend Yield (%)	5.6	5.2	5.2	5.2	5.2
EV/EBITDA (x)	3.00	5.37	7.12	5.47	5.20
Return on average equity (%)	17.2	15.9	16.7	11.3	10.9
Net debt to equity (%)	net cash	42.5	49.0	44.6	41.2
Our vs consensus EPS (adjusted) (%)			(4.1)	0.2	2.3

Source: Company data, RHB

Lee Yue Jer, CFA +65 6232 3898

[lee.yue.jer@rhbgroup.com](mailto:lee.yue.jer@rhbgroup.com)

## 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	8,021	9,266	9,692
Cost of sales	(9,510)	(9,480)	(7,236)	(7,798)	(8,186)
<b>Gross profit</b>	<b>1,287</b>	<b>1,415</b>	<b>785</b>	<b>1,468</b>	<b>1,506</b>
Gen & admin expenses	(339)	(352)	(260)	(300)	(314)
Other operating costs	212	104	405	-	-
<b>Operating profit</b>	<b>1,160</b>	<b>1,166</b>	<b>930</b>	<b>1,168</b>	<b>1,192</b>
Operating EBITDA	1,463	1,481	1,285	1,602	1,626
Depreciation of fixed assets	(303)	(315)	(355)	(434)	(434)
<b>Operating EBIT</b>	<b>1,160</b>	<b>1,166</b>	<b>930</b>	<b>1,168</b>	<b>1,192</b>
Net income from investments	155	158	79	87	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>1,157</b>	<b>975</b>	<b>991</b>
Taxation	(117)	(162)	(121)	(137)	(135)
Minority interests	(277)	(283)	(105)	(171)	(172)
<b>Profit after tax &amp; minorities</b>	<b>820</b>	<b>828</b>	<b>931</b>	<b>666</b>	<b>685</b>
<b>Reported net profit</b>	<b>820</b>	<b>828</b>	<b>931</b>	<b>666</b>	<b>685</b>
<b>Recurring net profit</b>	<b>820</b>	<b>828</b>	<b>581</b>	<b>666</b>	<b>685</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>930</b>	<b>1,168</b>	<b>1,192</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>(907)</b>	<b>15</b>	<b>(70)</b>
Other operating cash flow	(26)	(24)	(2)	(25)	(24)
<b>Operating cash flow</b>	<b>1,578</b>	<b>42</b>	<b>376</b>	<b>1,593</b>	<b>1,532</b>
Interest received	17	19	24	25	25
Interest paid	(106)	(62)	(226)	(305)	(313)
Dividends received	77	102	-	-	-
Tax paid	(125)	(119)	(121)	(137)	(135)
<b>Cash flow from operations</b>	<b>1,441</b>	<b>(18)</b>	<b>53</b>	<b>1,175</b>	<b>1,109</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	1,824	2,039
<b>Total cash generated</b>	<b>473</b>	<b>74</b>	<b>165</b>	<b>215</b>	<b>150</b>
Forex effects	22	2	-	-	-
<b>Implied cash at end of period</b>	<b>2,555</b>	<b>2,331</b>	<b>1,826</b>	<b>2,039</b>	<b>2,189</b>

Source: Company data, RHB

## Financial Exhibits

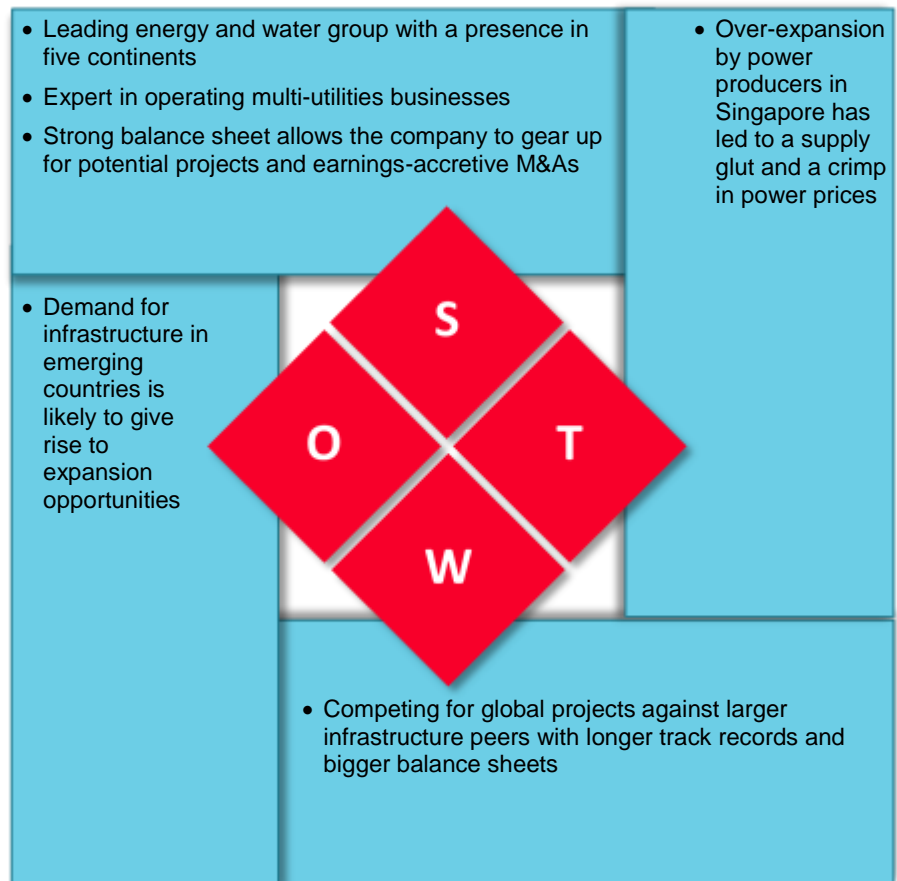
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	2,256	1,661	1,824	2,039	2,189
Inventories	2,241	3,205	2,857	3,046	3,186
Accounts receivable	1,140	1,200	1,538	1,777	1,859
Other current assets	53	64	64	64	64
<b>Total current assets</b>	<b>5,689</b>	<b>6,130</b>	<b>6,283</b>	<b>6,926</b>	<b>7,298</b>
Total investments	2,217	2,413	2,492	2,579	2,666
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	11,823	11,926
<b>Total assets</b>	<b>13,754</b>	<b>17,176</b>	<b>18,003</b>	<b>18,749</b>	<b>19,224</b>
Short-term debt	414	1,086	1,147	1,147	1,147
Accounts payable	2,692	2,745	2,198	2,539	2,655
Other current liabilities	1,796	1,526	1,157	1,259	1,294
<b>Total current liabilities</b>	<b>4,902</b>	<b>5,357</b>	<b>4,501</b>	<b>4,945</b>	<b>5,096</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>10,027</b>	<b>10,470</b>	<b>10,622</b>
Share capital	566	566	566	566	566
Retained earnings reserve	4,462	4,848	5,143	5,524	5,922
<b>Shareholders' equity</b>	<b>5,027</b>	<b>5,414</b>	<b>5,709</b>	<b>6,089</b>	<b>6,488</b>
Minority interests	1,300	1,616	1,471	1,393	1,317
Other equity	203	203	796	796	796
<b>Total equity</b>	<b>6,530</b>	<b>7,232</b>	<b>7,976</b>	<b>8,278</b>	<b>8,602</b>
<b>Total liabilities &amp; equity</b>	<b>13,754</b>	<b>17,176</b>	<b>18,003</b>	<b>18,749</b>	<b>19,224</b>

Source: Company data, RHB

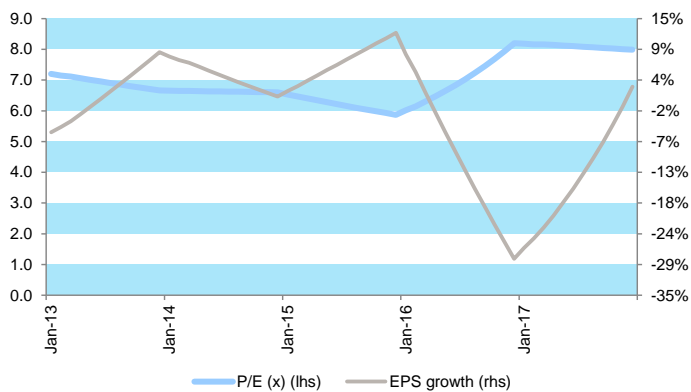
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	6.0	0.9	(26.4)	15.5	4.6
Operating profit growth (%)	5.2	0.5	(20.2)	25.6	2.1
Net profit growth (%)	8.9	0.9	12.4	(28.4)	2.7
EPS growth (%)	8.9	0.9	12.4	(28.4)	2.7
BVPS growth (%)	11.6	7.7	5.5	6.7	6.5
Operating margin (%)	10.7	10.7	11.6	12.6	12.3
Net profit margin (%)	7.6	7.6	11.6	7.2	7.1
Return on average assets (%)	6.2	5.4	5.3	3.6	3.6
Return on average equity (%)	17.2	15.9	16.7	11.3	10.9
Net debt to equity (%)	(5.5)	42.5	49.0	44.6	41.2
DPS	0.17	0.16	0.16	0.16	0.16
Recurrent cash flow per share	0.81	(0.01)	0.03	0.66	0.62

Source: Company data, RHB

# SWOT Analysis

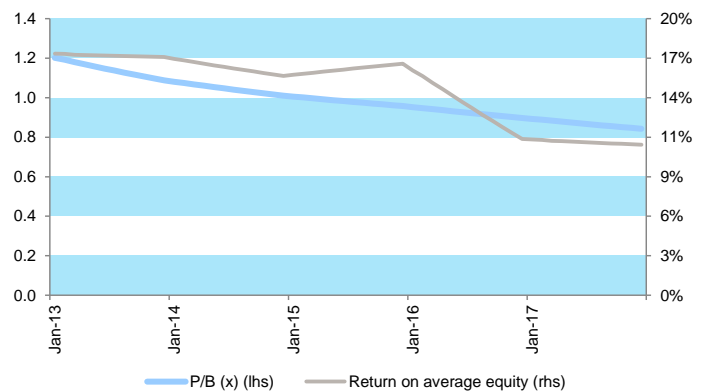


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

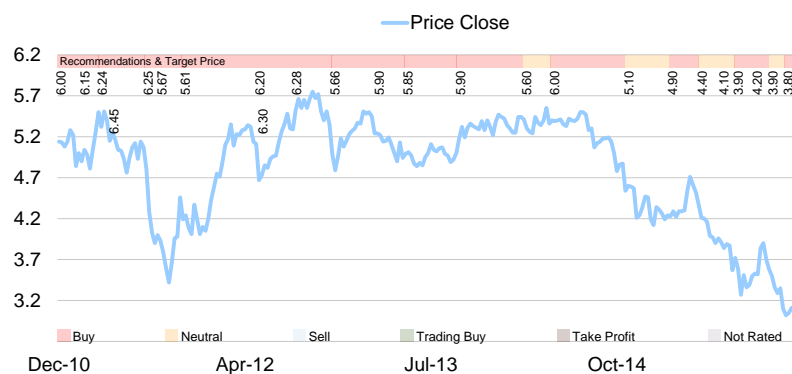


Source: Company data, RHB

## 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
2015-12-08	Buy	3.80	3.03
2015-10-30	Neutral	3.90	3.58
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

Source : RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**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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**Kuala Lumpur**

**RHB Research Institute Sdn Bhd**  
Level 11, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur  
Malaysia  
Tel : +(60) 3 9280 2185  
Fax : +(60) 3 9284 8693

**Hong Kong**

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : +(852) 2525 1118  
Fax : +(852) 2810 0908

**Singapore**

**RHB Research Institute Singapore  
Pte Ltd (formerly known as DMG & Partners Research  
Pte Ltd)**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +(65) 6533 1818  
Fax : +(65) 6532 6211

**Jakarta**

**PT RHB Securities Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710, Indonesia  
Tel : +(6221) 2783 0888  
Fax : +(6221) 2783 0777

**Shanghai**

**RHB (China) Investment Advisory Co. Ltd.**  
Suite 4005, CITIC Square  
1168 Nanjing West Road  
Shanghai 20041  
China  
Tel : +(8621) 6288 9611  
Fax : +(8621) 6288 9633

**Bangkok**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +(66) 2 862 9999  
Fax : +(66) 2 862 9799