

# Singapore Flash Note

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DBS Group Research . Equity

15 Feb 2018

## Sembcorp Industries (SCI SP) : **BUY**

**Mkt. Cap:** US\$4,318m | **3m Avg. Daily Val:** US\$10.0m

**Last Traded Price ( 14 Feb 2018):** S\$3.18

**Price Target 12-mth:** S\$4.50 (42% upside)

### Analyst

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### Strategic Review Next Week?

- Delaying results announcement by several hours to the morning of 23 February
- Hint that it will be releasing outcome of its Strategic Review alongside results?
- Hopeful of a meaningful review
- Reiterate BUY; TP S\$4.50

### Forecasts and Valuation

FY Dec (\$m)	2016A	2017F	2018F	2019F
Revenue	7,907	7,760	9,914	10,875
EBITDA	1,305	1,310	1,347	1,428
Pre-tax Profit	537	418	536	619
Net Profit	395	281	410	473
Net Pft (Pre Ex.)	407	374	410	473
Net Pft Gth (Pre-ex) (%)	230.1	(8.1)	9.5	15.3
EPS (S cts)	22.1	15.7	22.9	26.4
EPS Pre Ex. (S cts)	22.8	20.9	22.9	26.4
EPS Gth Pre Ex (%)	230	(8)	10	15
Diluted EPS (S cts)	21.9	15.6	22.8	26.3
Net DPS (S cts)	7.99	5.04	7.34	8.46
BV Per Share (S cts)	375	383	401	420
PE (X)	14.4	20.2	13.9	12.0
PE Pre Ex. (X)	14.0	15.2	13.9	12.0
P/Cash Flow (X)	6.5	21.1	2.6	2.8
EV/EBITDA (X)	11.1	11.7	10.5	9.3
Net Div Yield (%)	2.5	1.6	2.3	2.7
P/Book Value (X)	0.8	0.8	0.8	0.8
Net Debt/Equity (X)	0.9	1.0	0.8	0.7
ROAE (%)	6.0	4.2	5.9	6.4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

Sembcorp Industries made an announcement to inform the market that it is **delaying the release of its FY17 results by several hours** from 22 February (after market close) to 23 Feb (before market open). The analyst briefing is thus postponed from the evening of 22 to the morning of 23 at 11am.

While there is no clarity on the announcement of the outcome of its Strategic Review, which Sembcorp has said will be done by 1Q18, **we wonder if the reason for the delay could be that Sembcorp is combining the announcement of results and the outcome of the review outcome.**

### Expectations for Strategic Review

We believe the review will address several key topics including ROE enhancement, capital recycling, areas of growth, and Marine investment.

**IPO of Indian assets.** The listing of SCI's mature assets with steady cashflow would help release capital for recycling and provide an uplift to ROE. It has been reported in local media that SCI is considering an IPO of its power plants in India. We believe it makes sense to list the first power plant, TPCIL, which is churning stable recurring profits backed by long-term PPA. The plant is expected to contribute c.S\$60m to SCI's net earnings. Assuming 12x PE, it could result in a revaluation gain of over S\$100m or 6 Scts/share after the listing.

**LNG expansion plan:** LNG, the more sustainable and greener source of energy, seems to be a good fit in view of SCI's focus on performance, sustainability, and value creation. We expect more concrete expansion plans and possibly M&As such as plans for the gas terminal to be revealed.

**More collaboration with SMM, if keeping Marine within the group.** We are a believer of SCI's spinning off SMM to stay

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focused on its core competency in utilities. This could provide an immediate uplift to the valuation of the utilities business, which has been trading at an unwarranted 30-40% discount to book. If management decides to keep the marine business and ride the recovery, we expect more collaboration between the two. For instance, SCI could place orders with SMM to build gas-related vessels. If the market talk of SMM's potential redevelopment of its Admiralty Yard turns out to be true, SCI could offer its expertise in property development as well.

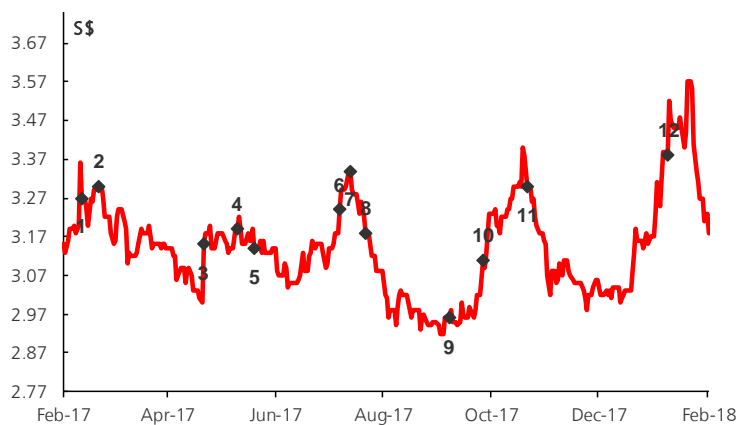
**Market will likely welcome** SCI's review addressing the key concerns mentioned above, providing more concrete plans including a possible IPO of assets and accretive acquisitions.

**What could disappoint the market** - If there are only minor fixes in its existing strategy and SCI decides to privatise SMM. The odds of the latter happening should be low, in our view.

We are hopeful of a meaningful review outcome. Reiterate our **BUY rating and S\$4.50 TP**.

## Recommendation

### Target Price & Ratings History



**Note:** Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Feb 17	3.27	3.80	BUY
2:	06 Mar 17	3.30	3.80	BUY
3:	04 May 17	3.15	3.80	BUY
4:	23 May 17	3.19	3.80	BUY
5:	02 Jun 17	3.14	3.80	BUY
6:	20 Jul 17	3.24	4.10	BUY
7:	26 Jul 17	3.34	4.10	BUY
8:	04 Aug 17	3.18	4.00	BUY
9:	20 Sep 17	2.96	4.00	BUY
10:	09 Oct 17	3.11	4.00	BUY
11:	03 Nov 17	3.30	4.20	BUY
12:	22 Jan 18	3.38	4.50	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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