Singapore Company Guide

Sembcorp Industries

Version 16 | Bloomberg: SCI SP | Reuters: SCIL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Feb 2018

BUY

Last Traded Price (23 Feb 2018): S$3.24 (STI : 3,533.22)
Price Target 12-mth: S$4.40 (36% upside) (Prev S$4.50)

Analyst
Pei Hwa HO +65 6682 3714 peihwa@dbs.com

What's New

- Utilities earnings dragged by provisions in 4Q17
- Repositioning as a Global Integrated Energy Player
- Unlocking value through IPO and divestments
- Reiterate BUY; TP adjusted to S$4.40

Price Relative

Forecasts and Valuation

FY Dec (S$ m)	2016A	2017A	2018F	2019F
Revenue	7,907	8,346	8,290	8,566
EBITDA	1,355	1,423	1,422	1,510
Pre-tax Profit	537	312	486	557
Net Profit	395	231	365	411
Net Pft (Pre Ex.)	407	352	365	411
Net Pft Gth (Pre-ex) (%)	230.1	(13.6)	3.8	12.5
EPS (S cts)	22.1	12.9	20.4	23.0
EPS Pre Ex. (S cts)	22.8	19.7	20.4	23.0
EPS Gth Pre Ex (%)	230	(14)	4	12
Diluted EPS (S cts)	21.9	12.8	20.3	22.8
Net DPS (S cts)	7.99	5.00	6.53	7.35
BV Per Share (S cts)	375	390	405	422
PE (X)	14.7	25.1	15.9	14.1
PE Pre Ex. (X)	14.2	16.5	15.9	14.1
P/Cash Flow (X)	6.6	8.9	3.7	3.9
EV/EBITDA (X)	10.8	10.0	9.6	8.8
Net Div Yield (%)	2.5	1.5	2.0	2.3
P/Book Value (X)	0.9	0.8	0.8	0.8
Net Debt/Equity (X)	0.9	0.9	0.8	0.7
ROAE (%)	6.0	3.4	5.1	5.6
Earnings Rev (%):		(18)	(11)	(13)
Consensus EPS (S cts):		20.0	23.7	28.7
Other Broker Recs:		B: 9	S: 1	H: 6

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

Unlocking value through IPO, divestment

Maintain BUY; TP lowered to S$4.40, after lowering our target price for Sembcorp Marine (SMM) from S$3.10 to S$2.90. While the market may be disappointed as there were no drastic actions announced, such as SMM divestment in the Strategic Review, key strategies to grow utilities business and more active capital recycling should be positive for Sembcorp Industries (SCI) in enhancing its ROE. We continue to like SCI as it offers a unique value proposition as a proxy to ride the cyclical O&M upturn, and is supported by a defensive utilities business.

Repositioning; Recycling Capital. SCI is repositioning its Utilities business to be a global integrated energy player, rebalancing its portfolio in terms of markets and products, with targets to double the renewables portfolio. Its focus on more proactive capital recycling will allow SCI to augment its balance sheet (lower gearing by 0.15x), and enhance ROE. Including IPO of the India assets, we estimate that proceeds will easily exceed S$1bn over the next 2-years, much higher than ~S$870m of IPO/divestment proceeds achieved over the last 5 years.

Where we differ: We believe in the long-term growth prospects of SCI's utilities arm, which has expanded its global footprint and recently made forays into key emerging markets – India, Bangladesh and Myanmar. While the marine spin-off did not happen in the recent strategy review, we hold on to our belief of a potential merger between Keppel's O&M arm and SMM in view of keener competition in the sector. The potential spin-off of its marine arm could re-rate SCI's undervalued utilities business that is overshadowed by the cyclical marine business.

Valuation:

Given its diverse earnings stream and various listed assets, we derive our fair value for SCI based on the sum of its different parts. For its holding company position, we applied a 10% conglomerate discount to the reappraised net asset value (RNAV) to derive a TP of S$4.40, translating to 1.1x P/BV.

Key Risks to Our View:

Key risks to earnings are further deferments/cancellations of marine projects, deterioration of Singapore's power spark spreads, and execution hiccups at its Indian power plants.

At A Glance

Issued Capital (m shrs)	1,784
Mkt. Cap (Sm/USm)	5,782 / 4,383
Major Shareholders (%)	
Temasek Holdings Pte Ltd	49.5
Mondrian Investment Partners Ltd	4.9
Free Float (%)	45.6
3m Avg. Daily Val (US$m)	10.4

ICB Industry : Oil & Gas / Oil Equipment, Services & Dist

WHAT'S NEW

A kitchen sinking year; unveiling Strategic Review

Results highlights

A kitchen sinking year. Net profit in 2017 declined 44% y-o-y to S$230.8m, hit by weak Marine segment that was barely profitable, losses in SGPL, refinancing charges, and impairments and write-offs.

Utilities dragged by provisions in 4Q17. Group headline net profit came in below expectations, declining 32% q-o-q to S$22.8m in 4Q17. Besides Marine's weakness (61%-owned SMM reported net loss of S$34m in 4Q17), utilities segment was dragged by S$25.4m provision for potential fines and claims arising from alleged environment offences in an overseas water plant. Otherwise, core utilities profit of c.S$70m was largely in line.

India operations affected by scheduled maintenance shutdown and coal price. India utilities incurred larger than expected losses of ~S$36m (TPCIL: -S$4m; SGPL: -S$27m; SGI: -S$5m) in 4Q17 due to scheduled maintenance shutdown and higher coal cost. For TPCIL, the higher coal cost will be reflected in tariffs with a 6-month lag under the long-term PPA.

China operations were stronger than expected, rising 270% q-o-q, lifted by the contribution from maiden full quarter contribution of Changzhi plant and write back of bad debts. This mitigated the weaker India performance.

Marine net loss amounted to S$33.8m for 4Q17 (SCI's share of S$20m). Stripping out forex gain (S$20m), tax credit (S$19m) and inventory & work-in-progress write back (S$32m), losses would have been c.S$100m, of which we believe a substantial portion was attributable to expected cost overrun for variation orders on several projects as customers have yet agreed to pay. We believe total cost overrun for disputed variation orders exceeded S$100m last year. We expect a gradual improvement ahead as some of the cost overruns for disputed variation orders in 2017 could be recouped this year and better economies of scale from higher activity level towards 2H18 should help.

SCI declared 2Scts final dividend, bringing full year dividend to 5Scts, representing 1.5% yield.

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	2,026	1,808	2,123	4.8	17.5
Cost of Goods Sold	(1,776)	(1,576)	(1,919)	8.1	21.8
Gross Profit	**250**	**232**	**204**	**(18.4)**	**(12.0)**
Other Oper. (Exp)/Inc	(36.7)	(14.9)	(183)	398.1	1,125.8
Operating Profit	**214**	**217**	**21.4**	**(90.0)**	**(90.1)**
Other Non Opg (Exp)/Inc	0.0	0.0	29.7	nm	nm
Associates & JV Inc	47.9	26.9	44.9	(6.2)	67.3
Net Interest (Exp)/Inc	(127)	(117)	(70.5)	44.3	39.9
Exceptional Gain/(Loss)	30.4	(56.3)	(25.4)	nm	(54.9)
Pre-tax Profit	**165**	**70.3**	**0.12**	**(99.9)**	**(99.8)**
Tax	(12.2)	(28.1)	7.50	nm	nm
Minority Interest	(5.5)	(8.6)	15.2	nm	nm
Net Profit	**147**	**33.6**	**22.8**	**(84.6)**	**(32.2)**
Net profit bef Except.	117	89.9	48.2	(58.8)	(46.4)
EBITDA	262	244	96.1	(63.3)	(60.6)
Margins (%)					
Gross Margins	12.4	12.8	9.6		
Opg Profit Margins	10.5	12.0	1.0		
Net Profit Margins	7.3	1.9	1.1		

Source of all data: Company, DBS Bank

Strategic Review

Overall, key strategies to grow its utilities business and proactive capital recycling is positive for SCI in enhancing ROE. Although we were hopeful of more concrete plans in relation to Marine segment, be it a demonstration of synergies within the group or divestment through dividend in specie.

Please click for our previous expectation on SCI's review: Sembcorp Industries: Strategic Review Next Week?

Repositioning as a Global Integrated Energy Player; Proactive Capital Recycling: SCI unveiled the conclusion of its Strategic Review launched in May-2017. Key strategies include:

1. *"Repositions the Utilities business as an **integrated energy player** and targets to **double renewables portfolio**"*
2. *"**Unlocks value** with targeted utilities divestments of up to S$0.5 billion over the next two years and proposed IPO of India energy business"*

For Marine Business, SCI is confident that Sembcorp Marine (SMM), is well-positioned to benefit from the industry's recovery and **will continue to support the Marine business** through the cycle.

The Urban Development business **is steadily growing**. SCI will continue to leverage off its strong franchise in Asia, as a valued partner to governments in host countries.

Deepening presence in four key markets – Singapore & SEA, India, China and the UK

Source: Company

Repositioning as an Integrated Energy Player. The Utilities business will focus on growing three business lines - Gas & Power; Renewables & Environment; and Merchant & Retail, with the aim of having a balanced portfolio in developing and developed markets in four key markets, namely Singapore & Southeast Asia; China; India and the UK.

i) Gas & Power business will target opportunities in thermal power, gas importation and retail as well as regas infrastructure

ii) Renewables & Environment business will focus on renewables, water and wastewater treatment as well as waste-to-resource growth opportunities in the low-carbon and circular economies

iii) Merchant & Retail business, with its newly added merchant capabilities, will enable the business to capture opportunities closer to customers in multiple markets and enhance competitiveness and returns

What's new? The repositioning involves changes in key market focus, portfolio rebalancing between developing and developed markets and trend towards cleaner and sustainable assets such as renewable energy. In addition, upstream and midstream integration will be further enhanced through gas transportation and Merchant & Retail expansion. There will also be more deployment of digital technologies to enhance operations and capture new opportunities.

Utilities: Three business lines

Source: Company

Doubling renewable energy assets to ~4000MW by 2022. Besides China and India, in which SCI has strong market positioning, management sees opportunities in the UK/Europe, Australia/New Zealand, Singapore & SEA. SCI plans to expand more into wind power (in particular onshore wind) which has higher barriers to entry than solar. The split between wind and solar will likely be 75%:25%.

Our take: Renewable energy is a cleaner form of alternative energy source that complements conventional thermal power. The economics has improved vastly in recent years with the falling levelised cost of electricity. In emerging markets, the return could be double that of developed markets like Europe, compensating for higher regulatory and business risks especially on offtakers. The experience accumulated in China and India should help in managing the risks.

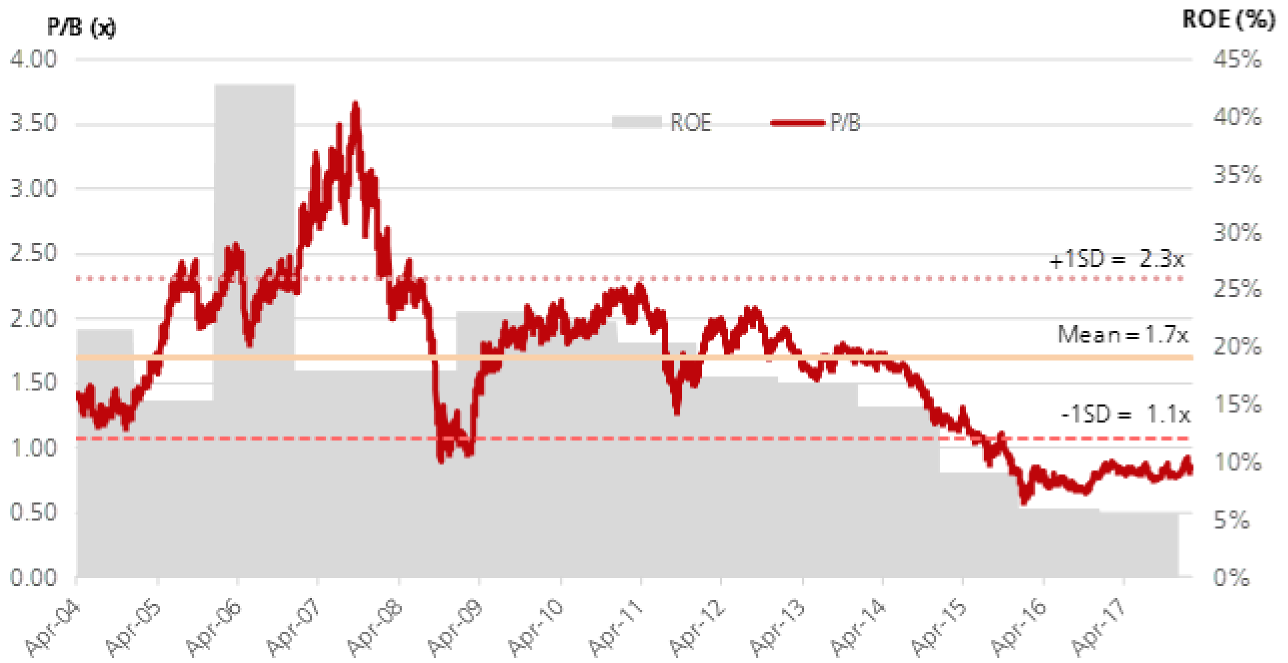
More active and systematic capital recycling to fund acquisitions. In addition to the proposed IPO of India assets, SCI targets utilities divestments of up to S$0.5 billion over the next two years. As a good start, the Group has entered into a conditional sale agreement to divest its 100% stake in Sembcorp Utilities South Africa for gross proceeds of ZAR 790m or S$89m.

Our take: Including the IPO of India assets, proceeds would easily exceed S$1bn over the next 2-years, much more than ~S$870m of IPO/divestment proceeds achieved over the last 5 years. Its focus on more proactive capital recycling will allow it to augment its balance sheet (lowering gearing by 0.15x), deliver sustainable growth, and enhance ROE.

Target for double digit ROE. Management guided that they aim to improve the ROE from current mid-single digit to double-digit over the next 5-years through improvements in both Marine and Utilities segments.

Our take: This can be achieved through divestment of non-core/non-performing assets, and earnings growth. Two key drivers are SMM and SGPL's turnaround. For SMM, we expect earnings to recover following an increase in its orderbook but ROE will likely to stay at the single digit level in the next two years. For SGPL, it appears that the improving power supply/demand dynamics in India will lead to government's commitments for long-term PPAs. ROE recovery is a critical factor for SCI's re-rating in our view.

SCI's ROE has been declining over the past 10 years, resulting in lower valuations



Source: Company

IPO of India Assets. SCI has reorganised and consolidated all its India Energy assets under Sembcorp Energy India Limited (SEIL, 93.7% stake), comprising TPCIL, SGPL and SGI. On 23 Feb, SCI initiated the process for an IPO of SEIL on BSE Limited and the National Stock Exchange of India.

Our take: Based on our back-on-the-envelope calculations, the IPO of SEIL could yield approx. ~S$200m revaluation gains in total, of which nearly half could be realised gains if SCI divests 43% of its interest and retains ~50% stake in SEIL. The divestment could free up ~S$600m cash for SCI. We are conservative in our calculations as the valuation for SEIL could be higher in the event (i) SGPL secures a long-term PPA earlier than expected; (ii) market recovery, and (iii) renewable segment sees stronger growth and returns ahead.

DBS' estimate on SEIL's valuation.

Name	Business	Net Profit (S$ m) 2017	Net Profit (S$ m) 2018F	ROE	Book Value 2017E	DBS' Valuation	Metrics	Implied Valuation PB	Implied Valuation PE
SGI	Renewable (Wind and Solar)	17	21	5%	404	485	1.2x PB	1.2	23
TPCIL	Coal-fired Power Plant I	34	55	11%	522	630	DCF (WACC 11.5%, terminal growth 0%)	1.2	13
SGPL	Coal-fired Power Plant II	-107	-72	nm	400	402	DCF (WACC 11.5%, terminal growth 0%)	1.0	nm
SEIL	Total	-56	4	nm	1,326	1,518	192	1.1	nm

Source: Company, Prospectus (SEIL), DBS Bank

Marine - some synergies possible. Management believes that SMM is well-positioned to benefit from industry recovery with its diversified, innovative solutions across the offshore and marine value chain, both within and beyond the oil and gas sector. SCI will thus continue to support the business through the cycle.

Our take: While marine spin-off did not happen in the recent strategy review, we hold on to our belief of a potential merger between Keppel's O&M arm and SMM in view of keener competition in the sector. Spinning-off its marine arm could re-rate SCI's undervalued utilities business that is currently overshadowed by the cyclical marine business. Meanwhile, SCI could demonstrate some form of synergies through placing orders with SMM for gas solutions such as FSRU, Gravifloat modularized LNG terminals, LNG vessels etc. In addition, SMM could also supply SCI with offshore windfarm facilities if attractive offshore windfarm opportunities arise.

Urban Development –industrialisation and urbanisation trends. SCI's urban development business is uniquely placed to capture opportunities from industrialisation and urbanisation in its core markets – China, Vietnam and Indonesia.

Our take: Urban Development is synergistic to SCI's utilities business, as post land / property development, SCI could continue to support the utilities of the new industrial / commercial / residential estates. SCI's land and property development expertise could also be helpful if SMM decides to redevelop the Admiralty Shipyard into a waterfront township.

Recommendation

Maintain BUY with a slightly lower TP of S$4.40, mainly to account for SMM's TP revision from S$3.10 to S$2.90. FY18/19F earnings are reduced by 10-13% largely due to the earnings revisions for SMM. For India thermal power plants, we have also reduced our earnings projections by S$18m in view of the higher coal cost, partially offset by higher renewable earnings of S$6m after the stake increase in Sept-17.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Earnings recovery. We expect earnings recovery for both Utilities and Marine segments. For Utilities in India, Thermal Powertech Corporation India (TPCIL) - SCI's first Indian power plant- is starting to contribute more steadily at S$10-15m a quarter to the bottomline; and losses at its second plant, Sembcorp Gayatri Power Ltd (SGPL), in the absence of long term PPA since coming online in Feb-2017, should reduce by S$20m after refinancing exercise last year. In China, the new Chongqing plant will probably contribute more meaningfully from 2018. For Marine, we expect turnaround driven by strong contract wins translating to higher yard activities.

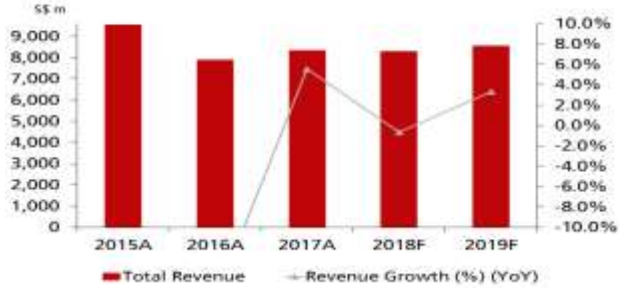
Utilities in emerging markets remain the growth engine. Besides India, SCI has also made forays into other emerging markets - Bangladesh and Myanmar - and this should underpin the longer-term growth prospects of its utilities segment beyond 2018. Long-term PPAs have been secured for both Myanmar's 230MW gas fired Myingyan Independent Power Producer (IPP) and Bangladesh's 427MW gasfired Sirajganj Unit 4. Construction of the plants are on track and expected to commence operations in 2H18.

Marine business (SMM) earnings are orderbook-driven. We expect new orders to recover in FY18 from the dismal ~S$300m in FY16 and S$1bn in FY17, to S$3bn in 2018, driven by the new Gravifloat modularized LNG terminal solutions and FPSO projects. SMM's orderbook stood at S$7.58bn as at Dec 2017, with c.S$3.2bn from the drillship projects with Sete Brasil and S$1.1bn for Borr Drilling. This translates into a book-to-bill ratio of over 2x based on existing delivery schedule.

Urban Development business provides growth opportunities. Urban Development accounts for c.10% of SCI's bottom line on average and earnings tend to be lumpy. A strong performance from this segment may not move the needle too much for now, but represents an avenue for growth. SCI has about 3,500ha of saleable land remaining across China, Indonesia and Vietnam, which it can develop.

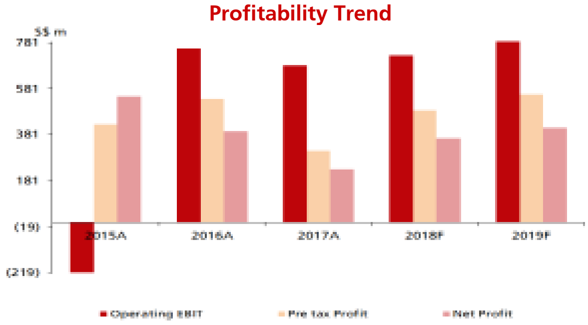
Potential "Big Three Rationalisation"? Since Aug-2015, we have flagged up the potential of a merger between Keppel's O&M arm and SMM in a structural downturn. There are various ways to embark on the rationalisation exercise of the big three homegrown industrial plays - SCI, SMM and Keppel Corp. We believe at the end of any potential exercise, Keppel Corp will remain as a conglomerate with multi-pronged businesses; SMM as pure marine play and SCI as a pure utilities play. In that case, SCI could emerge as a clear winner in this exercise as the spin-off of the marine arm could re-rate SCI's undervalued utilities business that is overshadowed by the cyclical marine business

Sales Trend

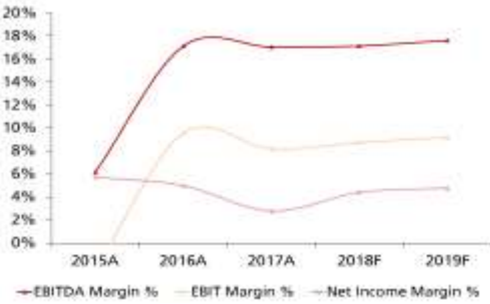


Asset Trend

Profitability Trend



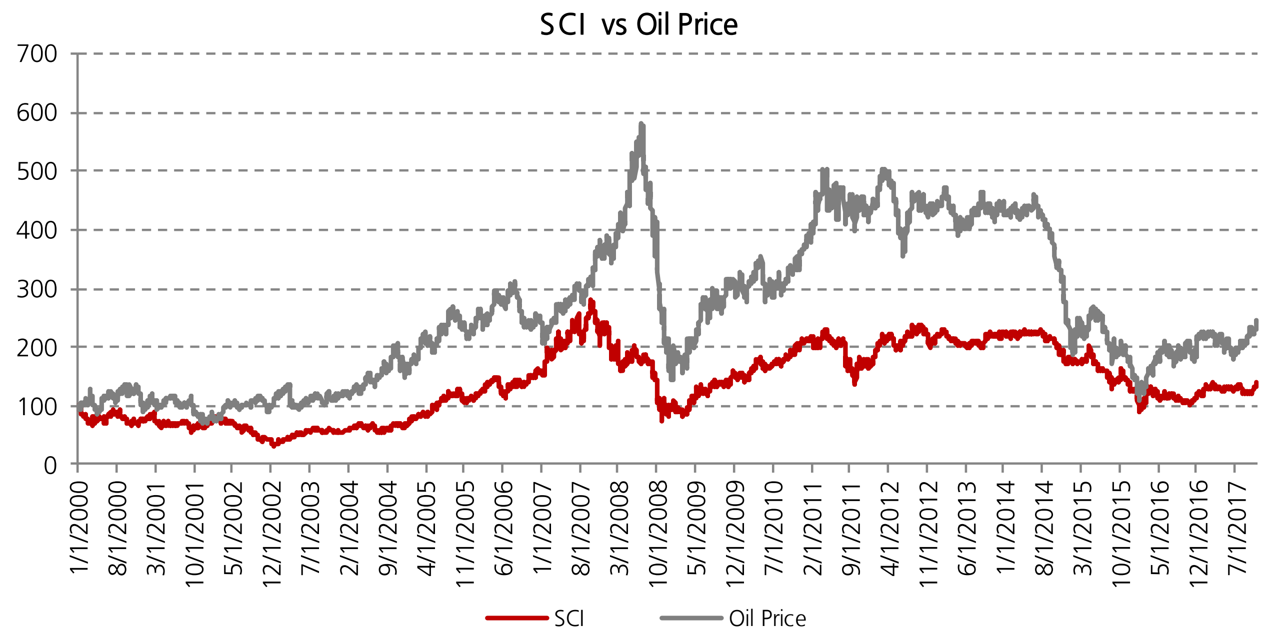
Margin Trends (%)



Source: Company, DBS Bank

Appendix 1:

Sembcorp Industries Share Price vs Oil Price (1 Jan 2000 = 100)



Source: DBS Bank, Bloomberg Finance L.P., Company

Sembcorp Industries P/B vs ROE; Turnaround of SGPL a key earnings and ROE driver

Source: DBS Bank, Bloomberg Finance L.P., Company

Balance Sheet:

SCI's net gearing declined marginally to 0.9x as at Dec-2017, from 1.0x a quarter ago as Marine's gearing dropped by 0.2x following deposit collection from Borr Drilling. Still, this is a stark contrast to a net cash position in 2013; increasing leverage at SMM and expansion into India have been the main reasons for the increase in debt level. Overall gearing remains at a palatable level and there is adequate debt headroom of approximately S$1-2bn for SCI's expansion capex and working capital.

Share Price Drivers:

Oil price rebound would drive SCI's share price higher. Investors would have greater confidence in the Marine business, as the operating environment improves further. While drilling rig orders may lag oil price recovery, orders for non-drilling, production-related facilities may flow through.

Order wins in the Marine segment and land sales from Urban Development bodes well for SCI's share price. While the oil price rebound would be an early indicator, SMM securing contract wins is more tangible. More momentum in land sales would signal more hope for growth, and be positive to share price.

Widening spark spreads at Singapore power plants. Signs of positive and widening spark spreads in Singapore would alleviate a key concern of investors and provide support to the share price.

Key Risks:

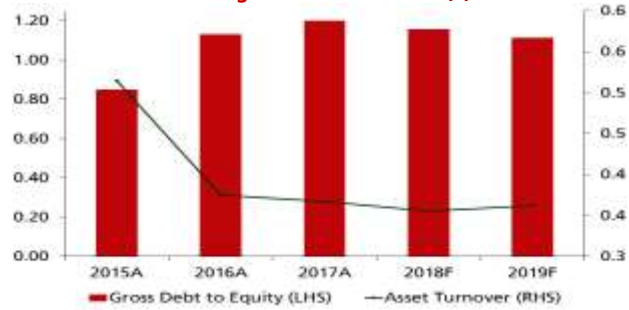
Increasing competition in the Singapore power market. Total power generation supply in Singapore rose by over 9% y-o-y in the past two years, marking the biggest y-o-y jumps since the electricity market started. This depressed prices and hurt SCI's bottom line. The oversupply of capacity and over-commitment of gas supply issues will likely continue to plague Singapore's power market in the near-to-medium term.

Execution of Indian power plants. The availability of coal supply and power purchase agreements (PPA) for SCI's power plants in India are concerns. We find comfort that the TPCIL plant is up and running, with 86% of capacity committed on long-term PPAs and operating using both domestic and imported coal.

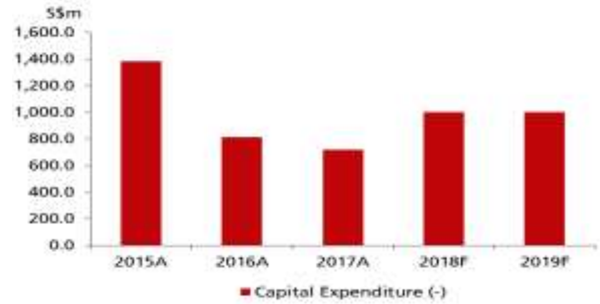
Company Background

Sembcorp Industries (SCI) is a trusted provider of essential energy and water solutions to both industrial and municipal customers. It has facilities with 10,600MW of gross power capacity and over 10m cubic metres of water per day in operation and under development. It is also a world leader in marine and offshore engineering (via Sembcorp Marine) as well as an established brand name in urban development (comprising industrial parks as well as business, commercial and residential space) in Vietnam, China and Indonesia.

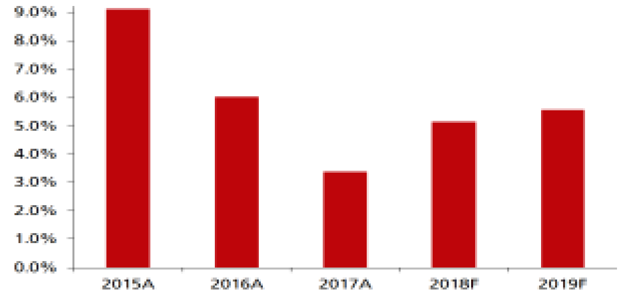
Leverage & Asset Turnover (x)



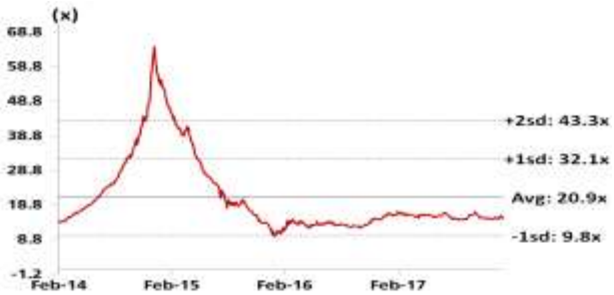
Capital Expenditure



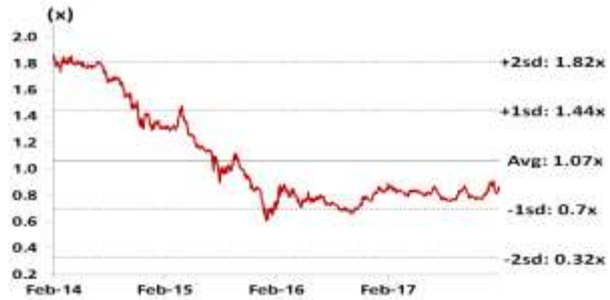
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Marine contract wins	3,150	1,500	2,000	2,500	2,500

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
Utilities	4,227	4,111	5,670	4,149	4,170
Marine	4,967	3,544	2,387	3,905	4,202
Industrial Parks	7.95	7.05	7.76	12.4	14.9
Other Businesses and	342	245	280	224	179
Total	9,545	7,907	8,346	8,290	8,566
Net Profit before EI					
Utilities	701	348	140	315	337
Marine	(176)	48.3	6.83	30.3	65.8
Industrial Parks	33.5	33.3	83.2	49.9	37.5
Other Businesses and	(9.7)	(34.7)	0.68	(30.0)	(30.0)
Total	549	395	231	365	411
Net Profit before EI					
Utilities	16.6	8.5	2.5	7.6	8.1
Marine	(3.6)	1.4	0.3	0.8	1.6
Industrial Parks	421.3	472.2	1,072.8	402.8	251.8
Other Businesses and	(2.8)	(14.2)	0.2	(13.4)	(16.7)
Total	5.8	5.0	2.8	4.4	4.8

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	9,545	7,907	8,346	8,290	8,566
Cost of Goods Sold	(8,813)	(6,802)	(7,343)	(7,243)	(7,441)
Gross Profit	732	1,105	1,002	1,047	1,125
Other Opng (Exp)/Inc	(950)	(349)	(319)	(322)	(339)
Operating Profit	(218)	756	683	724	786
Other Non Opg (Exp)/Inc	418	39.6	29.7	(7.8)	(7.8)
Associates & JV Inc	6.20	125	164	131	129
Net Interest (Exp)/Inc	(205)	(372)	(444)	(362)	(351)
Exceptional Gain/(Loss)	426	(12.1)	(121)	0.0	0.0
Pre-tax Profit	426	537	312	486	557
Tax	28.1	(100)	(67.4)	(90.3)	(115)
Minority Interest	94.5	(42.3)	(13.9)	(31.0)	(31.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	549	395	231	365	411
Net Profit before Except.	123	407	352	365	411
EBITDA	590	1,355	1,423	1,422	1,510
Growth					
Revenue Gth (%)	(12.4)	(17.2)	5.5	(0.7)	3.3
EBITDA Gth (%)	(63.4)	129.6	5.1	(0.1)	6.2
Opg Profit Gth (%)	(120.5)	(446.5)	(9.7)	6.0	8.5
Net Profit Gth (Pre-ex) (%)	(84.6)	230.1	(13.6)	3.8	12.5
Margins & Ratio					
Gross Margins (%)	7.7	14.0	12.0	12.6	13.1
Opg Profit Margin (%)	(2.3)	9.6	8.2	8.7	9.2
Net Profit Margin (%)	5.8	5.0	2.8	4.4	4.8
ROAE (%)	9.1	6.0	3.4	5.1	5.6
ROA (%)	3.0	1.9	1.0	1.6	1.7
ROCE (%)	(1.5)	3.6	2.9	3.1	3.2
Div Payout Ratio (%)	35.8	36.2	38.7	32.0	32.0
Net Interest Cover (x)	(1.1)	2.0	1.5	2.0	2.2

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	2,026	2,140	2,275	1,808	2,123
Cost of Goods Sold	(1,776)	(1,899)	(1,950)	(1,576)	(1,919)
Gross Profit	250	240	326	232	204
Other Oper. (Exp)/Inc	(36.7)	(17.7)	(104)	(14.9)	(183)
Operating Profit	214	223	222	217	21.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	29.7
Associates & JV Inc	47.9	57.6	34.7	26.9	44.9
Net Interest (Exp)/Inc	(127)	(125)	(131)	(117)	(70.5)
Exceptional Gain/(Loss)	30.4	(5.2)	(33.9)	(56.3)	(25.4)
Pre-tax Profit	165	150	91.4	70.3	0.12
Tax	(12.2)	(14.9)	(31.9)	(28.1)	7.50
Minority Interest	(5.5)	(16.2)	(4.3)	(8.6)	15.2
Net Profit	147	119	55.3	33.6	22.8
Net profit bef Except.	117	124	89.2	89.9	48.2
EBITDA	262	280	257	244	96.1
Growth					
Revenue Gth (%)	(5.3)	5.6	6.3	(20.6)	17.5
EBITDA Gth (%)	20.1	7.2	(8.5)	(4.9)	(60.6)
Opg Profit Gth (%)	(0.4)	4.3	(0.4)	(2.1)	(90.1)
Net Profit Gth (Pre-ex) (%)	16.9	6.2	(28.3)	0.8	(46.4)
Margins					
Gross Margins (%)	12.4	11.2	14.3	12.8	9.6
Opg Profit Margins (%)	10.5	10.4	9.8	12.0	1.0
Net Profit Margins (%)	7.3	5.6	2.4	1.9	1.1

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	8,685	11,226	11,158	11,584	11,982
Invts in Associates & JVs	2,349	1,746	1,765	1,827	1,885
Other LT Assets	1,273	1,694	2,194	2,194	2,194
Cash & ST Invts	1,609	1,887	2,692	3,241	3,683
Inventory	4,233	3,466	3,214	2,763	2,447
Debtors	1,568	1,958	2,032	1,658	1,557
Other Current Assets	201	317	163	163	163
Total Assets	19,915	22,290	23,213	23,424	23,906
ST Debt	1,801	2,126	1,572	1,572	1,572
Creditor	3,388	3,398	3,819	3,793	3,920
Other Current Liab	758	492	445	375	406
LT Debt	5,032	7,096	8,275	8,275	8,275
Other LT Liabilities	894	1,016	886	886	886
Shareholder's Equity	6,433	6,701	6,969	7,245	7,539
Minority Interests	1,610	1,461	1,246	1,277	1,309
Total Cap. & Liab.	19,915	22,290	23,213	23,424	23,906
Non-Cash Wkg. Capital	1,856	1,852	1,145	416	(157)
Net Cash/(Debt)	(5,223)	(7,335)	(7,156)	(6,607)	(6,164)
Debtors Turn (avg days)	52.9	81.4	87.2	81.2	68.5
Creditors Turn (avg days)	132.8	194.5	193.8	208.3	205.8
Inventory Turn (avg days)	161.0	220.6	179.4	163.6	139.1
Asset Turnover (x)	0.5	0.4	0.4	0.4	0.4
Current Ratio (x)	1.3	1.3	1.4	1.4	1.3
Quick Ratio (x)	0.5	0.6	0.8	0.9	0.9
Net Debt/Equity (X)	0.6	0.9	0.9	0.8	0.7
Net Debt/Equity ex MI (X)	0.8	1.1	1.0	0.9	0.8
Capex to Debt (%)	20.2	8.8	7.3	10.2	10.2
Z-Score (X)	1.2	1.1	1.1	1.1	0.9

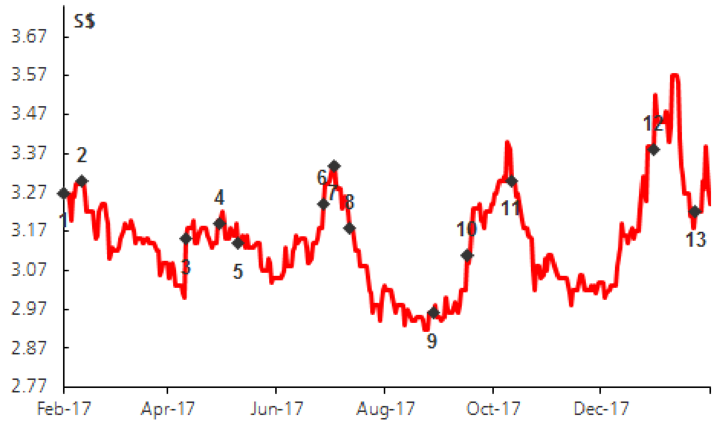
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	426	537	312	486	556
Dep. & Amort.	405	454	571	575	604
Tax Paid	(150)	(85.8)	(69.9)	(159)	(90.3)
Assoc. & JV Inc/(loss)	(6.2)	(125)	(164)	(131)	(129)
Chg in Wkg.Cap.	(1,961)	(395)	(507)	798	549
Other Operating CF	525	487	507	0.0	0.0
Net Operating CF	**(761)**	**872**	**650**	**1,568**	**1,490**
Capital Exp.(net)	(1,381)	(810)	(718)	(1,000)	(1,000)
Other Invts.(net)	9.98	0.0	206	0.0	0.0
Invts in Assoc. & JV	(427)	(60.9)	37.8	0.0	0.0
Div from Assoc & JV	129	122	307	70.0	70.0
Other Investing CF	471	(51.6)	75.6	0.0	0.0
Net Investing CF	**(1,199)**	**(801)**	**(92.3)**	**(930)**	**(930)**
Div Paid	(415)	(225)	(162)	(89.4)	(117)
Chg in Gross Debt	2,046	1,107	779	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	261	(668)	(363)	0.0	0.0
Net Financing CF	**1,892**	**214**	**254**	**(89.4)**	**(117)**
Currency Adjustments	14.7	(35.0)	(7.6)	0.0	0.0
Chg in Cash	(53.0)	250	804	549	443
Opg CFPS (S cts)	67.3	70.9	64.7	43.1	52.7
Free CFPS (S cts)	(120)	3.46	(3.8)	31.8	27.4

Source: Company, DBS Bank

Target Price & Ratings History



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
13:	15 Feb 18	3.22	4.50	BUY

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

Source: DBS Bank
Analyst: Pei Hwa HO

DBS Bank recommendations are based 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

Completed Date: 26 Feb 2018 09:05:19 (SGT)
Dissemination Date: 26 Feb 2018 09:37:28 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.
Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), DBSV HK or their subsidiaries and/or other affiliates have a proprietary position in Sembcorp Industries, SembCorp Marine, Keppel Corp, recommended in this report as of 31 Jan 2018.

2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Sembcorp Industries as of 31 Jan 2018.

4. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Sembcorp Industries in the past 12 months, as of 31 Jan 2018.

5. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Directorship/trustee interests:

6. Danny Teoh Leong Kay, a member of DBS Group Holdings Board of Directors, is a Director of Keppel Corporation as of 31 Dec 2017

Disclosure of previous investment recommendation produced:

7. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946. DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Vickers Hong Kong Limited, a licensed corporation licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). For any query regarding the materials herein, please contact Paul Yong (CE. No. ASE988) at equityresearch@dbs.com.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.

Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS Vickers (Hong Kong) Ltd
Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand