

## Issuer Profile:

# Sembcorp Industries Ltd (“SCI”)

Neutral (4)

## Ticker:

SCISP

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### New Issue

- SCI is looking to price a **SGD 10Y senior unsecured green bond with IPG at the 2.65% area.**
- This is SCI’s debut green bond and the company’s first debt capital market issuance since the spin-off of Sembcorp Marine Ltd in September 2020.
- In May 2021, the company unveiled plans to transform its portfolio from brown to green where green financing will be a key way for the company to finance this plan.
- SCI is not rated by external rating agencies.

### Recommendation

- We are neutral the SCI proposed 10Y bond at IPG of 2.65%, we expect the proposed new bond to tighten from IPG, and **see fair value at 2.50%-2.60% YTM.**
- We see SCI’s closest comparables’ as those who are similarly undergoing significant changes in their business models and similarly have Temasek as a significant shareholder.
- Keppel Corporation Ltd (“KEP”, Issuer profile: Neutral (5)) is also undergoing significant changes in their business model.
- The green bond market is still small in the SGD space, though given the high grade nature of Ascendas Real Estate Investment Trust (“AREIT”, Neutral (3)), we also use the AREIT 2.65% ‘30s as a secondary reference. This green bond is trading at a YTM of 2.1%.

### Relative Value:

Bond	Maturity / Call date	Net Gearing	Gross debt-to-EBITDA	Ask YTM/YTC	Spread	Recommendation
New SCISP 10Y bond <sup>^</sup>	2031	1.99x	7.8x	2.65% (IPG)	109bps	N
SCISP 3.593% ‘26s	26/11/2026	1.99x	7.8x	1.96%	89bps	N
KEPSP 3.66% ‘29s	07/05/2029	0.88x	14.6x	2.57%	119bps	N*
KEPSP 4.0% 42c32	07/09/2032	0.88x	14.6x	3.38%	175bps	OW*
SIASP 3.5% ‘30s	02/12/2030	0.40x	n.m	3.22%	171bps	OW*

Indicative prices as at 2 June 2021 Source: Bloomberg

Note: (1) Credit metrics based on latest available financials; net gearing for KEP based on 1Q2021 business update

\* Based on monthly credit view (06 May 2021)

<sup>^</sup> Denotes green bonds

### Background

- Sembcorp Industries Ltd (“SCI”) is listed on the Singapore Stock Exchange with a market cap of SGD3.9bn as at 2 June 2021. SCI now focuses on utilities (energy and water solutions) and urban development (mainly development of industrial and business parks across the region).
- Temasek is the largest shareholder with a ~49%-stake, with the remaining shareholding dispersed. SCI is incorporated in Singapore and the bonds are issued by Sembcorp Financial Services Pte Ltd (“SFS”), unconditionally and irrevocably guaranteed by SCI.
- Temasek is externally rated at the same level as the Singapore sovereign (both on a standalone and final rating basis including expected government support) though there is no explicit state guarantee on Temasek’s bonds and neither does Temasek explicitly guarantee SCI’s bonds. Our issuer profile for SCI has historically been on a standalone basis without factoring a further Temasek-uplift and remains so.
- In May 2021, SCI announced the launch of the Sembcorp Green Financing Framework which is aligned with The Climate Bond Initiative (“CBI”) Bonds Standard v3.0. The Framework is also aligned with Green Bond Principles set out by the International Capital Markets Association, Green Loan Principles and the ASEAN Green Bond Standards.
- Whilst SCI has entered into the renewable energy business in the past few years (focusing on wind and solar) and has built up a presence in India, Singapore and China, conventional energy is still an important contributor to SCI.

- In 2020, sustainable solutions comprise 40% of its net profits (excluding corporate costs and exceptional items). The company is targeting for sustainability to be 70% of net profits by 2025. Sustainability solutions at SCI comprise of (1) Renewable business (wind and solar power generation and energy storage) and (2) Urban Solutions (urban, water, waste and waste-to-resource).
- SCI's revenue from continuing operations fell 17.4% y/y to SGD2.8bn in 2H2020 with its main Energy segment reporting net profit before exceptional items that was lower by 20% y/y at SGD141mn. Despite being exposed to the merchant power business, SCI's Energy business as a portfolio has been relatively resilient in 2020. Including discontinued operations, SCI reported a large net loss to owners of SGD866mn in 2H2020 although we are not overly concerned about this given that the net loss was mainly attributable to the difference between market value and carrying value of Sembcorp Marine Ltd ("SMM") on SCI's books. SMM was spin-off and de-merged in September 2020.
- As at 31 December 2020, gross debt (inclusive of lease liabilities) reduced to SGD7.9bn versus SGD12.6bn as at 30 June 2020. SCI's unadjusted net gearing at SCI was prima facie high at 1.99x, however leverage measured on a gross debt-to-EBITDA basis had encouragingly improved to 7.8x in 2020 from 10.0x in 2019 following the spin-off. Earlier in [June 2020, we had upgraded SCI's issuer profile](#) to Neutral (4) on the back of the announced spin-off.

#### Recent Write-ups on SCI and comparable issuers from OCBC Credit Research

- [Asian Credit Daily \(27 May 2021\)](#)
- [Asian Credit Daily \(20 May 2021\)](#)
- [Keppel Corporation Ltd: Credit Update \(4 May 2021\)](#)
- [Sembcorp Industries Ltd: Credit Update \(9 March 2021\)](#)

### Explanation of Issuer Profile Rating / Issuer Profile Score

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

**Please note that Bond Recommendations are dependent on a bond’s price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.**

### Explanation of Bond Recommendation

**Overweight (“OW”)** – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral (“N”)** – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight (“UW”)** – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

### Other

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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#### Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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