

Singapore Company Update

Keppel Corporation

Bloomberg: KEP SP | Reuters: KPLM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Jan 2022

BUY

Last Traded Price (27 Jan 2022): S\$5.29 (STI : 3,260.03)
Price Target 12-mth: S\$6.90 (30% upside) (Prev S\$6.20)

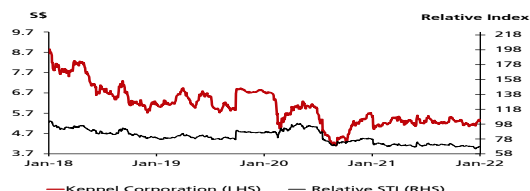
Analyst

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What's New

- FY21 earnings beat expectations, aided by fair value gain from investments
- Declared generous final DPS of 21 Scts, bringing full-year payout to 33 Scts or 6% yield
- Activate S\$500m share buyback purchase, signalling conviction on company's prospects
- Reiterate BUY; TP lifted to S\$6.90 on higher FY21 book value and rolling to FY22 numbers

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	6,574	8,625	7,780	7,587
EBITDA	289	1,882	1,701	1,870
Pre-tax Profit	(255)	1,335	1,118	1,227
Net Profit	(506)	1,023	838	914
Net Pft (Pre Ex.)	(506)	1,023	838	914
Net Pft Gth (Pre-ex) (%)	nm	nm	(18.1)	9.1
EPS (S cts)	(27.8)	56.2	46.0	50.2
EPS Pre Ex. (S cts)	(27.8)	56.2	46.0	50.2
EPS Gth Pre Ex (%)	nm	nm	(18)	9
Diluted EPS (S cts)	(27.7)	56.1	45.9	50.1
Net DPS (S cts)	10.0	33.0	21.0	23.0
BV Per Share (S cts)	589	640	653	682
PE (X)	nm	9.4	11.5	10.5
PE Pre Ex. (X)	nm	9.4	11.5	10.5
P/Cash Flow (X)	47.6	nm	nm	4.6
EV/EBITDA (X)	67.4	9.7	11.3	9.6
Net Div Yield (%)	1.9	6.2	4.0	4.3
P/Book Value (X)	0.9	0.8	0.8	0.8
Net Debt/Equity (X)	0.8	0.6	0.7	0.6
ROAE (%)	(4.6)	9.1	7.1	7.5

Earnings Rev (%):
Consensus EPS (S cts):
Other Broker Recs:

B: 11 S: 1 H: 0

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

All stars are aligned

Investment Thesis

Re-rating in sight. Current valuation is undemanding at 0.8x PB. The strong showing for FY21 is evidence of operational improvements across segments that should sustain into FY22. A generous dividend and share buyback exercise lend further support to the share price. Also, the widely anticipated definitive agreement relating to the yard merger, which would streamline Keppel's operations to focus on its asset light businesses and sustainable solutions, shall catalyse the share price.

Accelerating clean energy and decarbonisation drive. Keppel is an ESG leader in corporate governance, safety, human capital management, and clean energy. It has gained traction in renewable/gas solutions that now contribute ~40% to O&M's orderbook. Moving up the renewable value chain, Keppel will operate its first solar farm with 500MW capacity in 2023 and aims to raise its renewable energy portfolio to 7GW by 2030. It has established partnerships with various players like StarCharge and AESC to pursue opportunities in electric vehicle (EV) infrastructure including EV/storage batteries, deepening its foothold in clean energy. It is also studying the hydrogen energy value chain, from production to storage and transportation as well as developing decarbonisation solutions.

Valuation:

Our SOTP-based TP is lifted to S\$ 6.90 as we roll over our valuation to FY22, implying 1.05x FY22F P/BV or 0.55SD below five-year mean. TP is derived based on: (1) Urban development valued at 0.9x P/BV, implying 25% discount to property RNAV; (2) DCF valuation for Tianjin Eco-city with 10% WACC; and (3) connectivity/asset investment/infrastructure/others at 1x P/BV.

Where we differ:

Keppel's huge landbank of ~5m sqm is held at low cost. Half of this is under development, progressively unlocking its RNAV over the next three to five years. Of the undeveloped landbank, 30% is earmarked for projects in Tianjin Eco-city, which is not reflected in our RNAV.

Key Risks to Our View:

Lower-than-expected en-bloc sales pose downside risks to forecast. En-bloc sales are lumpy by nature, forming more than half of property profit in 2018 but only 10% in 2019.

At A Glance

Issued Capital (m shrs)	1,820
Mkt. Cap (S\$m/US\$m)	9,626 / 7,115
Major Shareholders (%)	
Temasek Holdings Pte Ltd	20.4
Free Float (%)	74.9
3m Avg. Daily Val (US\$m)	9.0

GIC Industry : Industrials / Capital Goods



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WHAT'S NEW**A stellar FY21**

Keppel's earnings stage a strong rebound in FY21, delivering net profit of S\$1bn, vs. net loss of S\$506m a year ago. Operational improvement seen across segments. This beats expectations of ~S\$700m, aided by fair value gain (mark-to-market) on the investment portfolio, driven largely by higher valuations of unquoted investments, in particular, Envision AESC Global Investment L.P in 2H21.

Improving recurring income. While a big chunk of profits is from property en-bloc sales and divestment gains, recurring income has also been improving, from S\$220m in FY20 to S\$291m in FY21.

As Keppel is stepping up efforts to beef up recurring income contribution, profits in the next two years will continue to be supported by its ongoing asset monetisation exercise, where they aim to divest assets worth more than S\$2.1bn by 2023 and exceed its S\$5bn target.

Net gearing drifted lower to 0.68x as of end-Dec 2021, from 0.85x at end-Jun 2021, and 0.91x at end-2020, thanks to the monetisation of assets worth S\$2.9bn since Oct 2020, receiving ~S\$2.7bn in cash.

Dividend surprise – declared 21 Scts final dividend. Keppel declared a final DPS of 21 Scts, bringing the full-year payout to 33 Scts, translating to 6% yield. This implies a payout ratio of ~45% (excluding impairment related to KrisEnergy's liquidation, which was ringfenced). Going forward, we shall expect ~4% dividend yield on a similar payout of ~45%, a midpoint of management's 40%-50% guidance.

Share buyback programme a vote of confidence. Together with the results, Keppel announced the establishment of a S\$500m share buyback programme. This allows Keppel to purchase its shares, particularly when it is deemed undervalued, signalling conviction on the company's prospects. The treasury shares will be used in part for the annual vesting of employee share plans, and also as possible currency for future merger and acquisition (M&A) activities under Vision 2030. The programme could take more than a year to complete depending on market conditions and share price valuation.

Yard combination definitive agreement expected by 1Q22. Management updated that the yard combination discussion has progressed well. Due to the complexity of the transactions, it may take another one to two months before a definitive agreement could be signed by the end of 1Q22. Management stresses that the exercise is mutually beneficial.

SPH acquisition offer – the ball is in SPH's court. Keppel has done all they could on their end. It now awaits SPH's call for an EGM to vote for the proposed Scheme of Arrangement.

Remain positive on China property market. While sentiment on China's property market is hit, management remains positive about the longer term outlook. Underlying demand remains fairly strong. Keppel is in a unique position to grow, especially as local developers shift to partner with foreign developers to access funding.

Company Background

Keppel is a diversified conglomerate with its core businesses in property investments and development, offshore marine (O&M), and infrastructure-based activities in Singapore and the region. Urban development is the largest segment, contributing the bulk of its profits and more than half of its RNAV, followed by asset management. It possesses strong market leadership positions as a property developer in Singapore, China, Vietnam, Indonesia, and India; and as a shipyard in offshore solutions, particularly newbuilding rigs, FPSO conversion, FLNG conversion, renewable facilities, as well as repair and construction of high-end specialised vessels.

Keppel Corporation

Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	3,392	3,677	4,948	45.9	34.5
Cost of Goods Sold	(2,384)	(2,639)	(3,965)	66.3	50.3
Gross Profit	1,007	1,038	983	(2.5)	(5.4)
Other Oper. (Exp)/Inc	(850)	(850)	(273)	(67.9)	(67.9)
Operating Profit	158	188	710	349.7	277.5
Other Non Opg (Exp)/Inc	17	84	27	60.3	(67.5)
Associates & JV Inc	6	315	152	2,301.2	(51.6)
Net Interest (Exp)/Inc	(78)	(71)	(70)	10.9	1.1
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	103	516	819	698.3	58.9
Tax	(75)	(219)	(106)	42.4	(51.5)
Minority Interest	3	3	10	199.8	228.9
Net Profit	31	300	723	2,211.6	141.1
Net profit bef Except.	31	300	723	2,211.6	141.1
EBITDA	393	783	1,099	179.5	40.3
Margins (%)					
Gross Margins	29.7	28.2	19.9		
Opg Profit Margins	4.7	5.1	14.3		
Net Profit Margins	0.9	8.2	14.6		

Source of all data: Company, DBS Bank

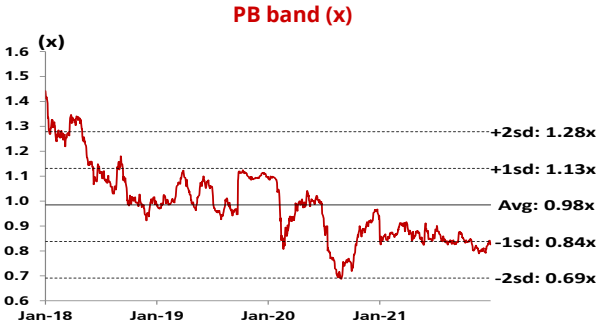
Segmental Breakdown

Segmental Breakdown	1H20	2H20	1H21	2H21	YoY	HoH	Review and Outlook
Energy & Environment							<p>Keppel O&M (KOM) posted net loss of S\$414m in FY21. Excluding one-offs, KOM would have been in a net loss of S\$96m, largely due to Rigco and Devco losses. OpCo (the yard operations), which is proposed to be transferred to Sembcorp Marine, was actually marginally profitable. Segment loss is dragged by S\$318m provision for exposure in KrisEnergy, partially offset by the Floatel restructuring gain of S\$269m in 1H21 as well as allowance for expected bad debt in 2H21 (S\$65m).</p> <p>Outlook is improving. KOM secured ~S\$3.5bn in new orders in FY21 (vs. S\$1bn in FY2020). The orderbook stood at S\$5.1bn as at Dec 2021, up from S\$3.3bn as at end-2020.</p> <p>Keppel Infrastructure contributed a steady profit of ~S\$103m in FY21.</p> <p>Keppel Land net profit grew 74% y-o-y to S\$764m, underpinned by contributions from the China and Vietnam property projects and divestment gains.</p> <p>Keppel sold 4,870 homes in FY21 (+46%). Sales of 5,850 overseas units worth S\$3.7bn to be recognised from 2022-2023.</p> <p>SSTEC sold one plot of land in Tianjin and contributed S\$12m in profit for FY21.</p> <p>M1 made S\$57m in profit in FY21, slightly lower than S\$65m in FY20; postpaid customer base grew 6% y-o-y to over 1.7m.</p> <p>Keppel Logistics turned around with a net profit of S\$26m.</p> <p>Keppel Data Centres' loss narrowed from S\$12m for FY20 to S\$1m for FY21. It continues to grow with new projects – commenced construction of Genting Lane data centre in Singapore; data centre projects in Australia, Malaysia, and Indonesia are progressing well; completed investments in the Huizhou and Shanghai data centre projects using Keppel's private funds.</p> <p>Bifrost Cable System design has been finalised, and manufacturing is to commence this year.</p> <p>Higher net profit of S\$301m in FY21 despite reclassification of KIT and sale of KDCREIT units in FY20.</p> <p>Keppel Capital's contribution grew 38% y-o-y, to S\$117m in FY21, due to stronger operating results and mark-to-market gains from investments.</p> <p>REITs' & Trust's contributions remained stable at around S\$161m.</p>
Revenue	2,024	1,919	2,104	3,470	81%	65%	
Net Profit	-958	-223	-179	-235	5%	31%	
Net margin	-47%	-12%	-9%	-7%			
Urban Development							
Revenue	511	764	909	720	-6%	-21%	
Net Profit	215	223	279	484	117%	73%	
Net margin	42%	29%	31%	67%			
Connectivity							
Revenue	587	633	586	674	6%	15%	
Net Profit	0	13	27	37	nm	37%	
Net margin	0%	2%	5%	5%			
Asset Management							
Revenue	60	75	78	84	12%	8%	
Net Profit	258	22	117	184	736%	57%	

Source of all data: Company, DBS Bank

Keppel Corporation

Historical PB band



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

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
O&M order wins (\$\$ m)	2,067	1,000	1,500	2,000	2,500

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
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Revenues (\$\$m)

Energy & Environment	4,969	3,943	5,574	4,910	4,574
Urban Development	1,336	1,275	1,629	1,508	1,583
Connectivity	1,128	1,220	1,260	1,202	1,260
Asset Management	145	135	162	160	170
Others	2.00	1.00	0.0	0.0	0.0
Total	7,580	6,574	8,625	7,780	7,587

Net Profit (\$\$m)

Energy & Environment	(101)	(1,181)	(414)	77.3	122
Urban Development	483	438	763	530	560
Connectivity	136	13.0	64.0	30.5	12.1
Asset Management	214	280	301	200	220
Others	(25.0)	(56.0)	309	0.0	0.0
Total	707	(506)	1,023	838	914

Net Profit Margins (%)

Energy & Environment	(2.0)	(30.0)	(7.4)	1.6	2.7
Urban Development	36.2	34.4	46.8	35.2	35.4
Connectivity	12.1	1.1	5.1	2.5	1.0
Asset Management	147.6	207.4	185.8	125.0	129.4
Others	N/A	N/A	N/A	N/A	N/A
Total	9.3	(7.7)	11.9	10.8	12.0

Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	7,580	6,574	8,625	7,780	7,587
Cost of Goods Sold	(5,267)	(4,591)	(6,604)	(5,391)	(5,139)
Gross Profit	2,313	1,983	2,021	2,389	2,448
Other Opng (Exp)/Inc	(1,437)	(1,975)	(1,123)	(1,439)	(1,404)
Operating Profit	877	8.40	898	950	1,045
Other Non Opg (Exp)/Inc	64.6	29.4	111	15.6	15.2
Associates & JV Inc	147	(162)	467	347	431
Net Interest (Exp)/Inc	(135)	(130)	(141)	(194)	(264)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	953	(255)	1,335	1,118	1,227
Tax	(192)	(253)	(325)	(263)	(295)
Minority Interest	(54.2)	2.23	12.6	(17.1)	(18.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	707	(506)	1,023	838	914
Net Profit before Except.	707	(506)	1,023	838	914
EBITDA	1,464	289	1,882	1,701	1,870

Growth

Revenue Gth (%)	27.1	(13.3)	31.2	(9.8)	(2.5)
EBITDA Gth (%)	0.5	(80.3)	551.2	(9.6)	10.0
Opg Profit Gth (%)	(15.9)	(99.0)	10,586.7	5.8	10.0
Net Profit Gth (Pre-ex) (%)	(25.1)	nm	nm	(18.1)	9.1

Margins & Ratio

Gross Margins (%)	30.5	30.2	23.4	30.7	32.3
Opg Profit Margin (%)	11.6	0.1	10.4	12.2	13.8
Net Profit Margin (%)	9.3	(7.7)	11.9	10.8	12.0
ROAE (%)	6.3	(4.6)	9.1	7.1	7.5
ROA (%)	2.4	(1.6)	3.2	2.6	2.9
ROCE (%)	3.2	0.0	2.7	2.9	3.1
Div Payout Ratio (%)	51.4	N/A	58.7	45.6	45.8
Net Interest Cover (x)	6.5	0.1	6.4	4.9	4.0

Source: Company, DBS Bank

Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	4,265	3,182	3,392	3,677	4,948
Cost of Goods Sold	(3,018)	(2,207)	(2,384)	(2,639)	(3,965)
Gross Profit	1,246	976	1,007	1,038	983
Other Oper. (Exp)/Inc	(851)	(1,125)	(850)	(850)	(273)
Operating Profit	395	(149)	158	188	710
Other Non Op (Exp)/Inc	24.5	12.4	17.0	83.8	27.2
Associates & JV Inc	113	(169)	6.34	315	152
Net Interest (Exp)/Inc	(67.9)	(51.7)	(78.5)	(70.7)	(69.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	465	(357)	103	516	819
Tax	(93.0)	(179)	(74.6)	(219)	(106)
Minority Interest	(20.8)	(1.0)	3.23	2.95	9.69
Net Profit	351	(537)	31.3	300	723
Net profit bef Except.	351	(537)	31.3	300	723
EBITDA	738	(105)	393	783	1,099

Growth

Revenue Gth (%)	28.6	(25.4)	6.6	8.4	34.5
EBITDA Gth (%)	1.6	nm	nm	99.2	40.3
Opp Profit Gth (%)	(18.0)	(137.8)	(205.6)	19.1	277.5
Net Profit Gth (%)	(1.6)	(253.2)	(105.8)	858.7	141.1

Margins

Gross Margins (%)	29.2	30.7	29.7	28.2	19.9
Opp Profit Margins (%)	9.3	(4.7)	4.7	5.1	14.3
Net Profit Margins (%)	8.2	(16.9)	0.9	8.2	14.6

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	3,166	2,716	2,044	1,955	1,875
Invts in Associates & JVs	6,351	5,991	6,050	6,447	6,926
Other LT Assets	7,506	9,011	9,383	9,383	9,383
Cash & ST Invts	1,899	2,614	3,644	2,600	3,975
Inventory	9,040	7,617	7,774	8,723	5,406
Debtors	2,748	2,531	2,169	1,956	1,908
Other Current Assets	611	1,627	1,260	1,260	1,260
Total Assets	31,322	32,106	32,323	32,324	30,732
ST Debt	4,555	4,433	4,659	4,659	4,659
Creditor	4,605	4,604	5,099	5,186	3,035
Other Current Liab	2,787	3,050	2,200	1,859	1,869
LT Debt	6,504	7,607	6,796	6,796	6,796
Other LT Liabilities	1,224	1,257	1,127	1,127	1,127
Shareholder's Equity	11,211	10,728	11,655	11,892	12,424
Minority Interests	435	427	786	803	822
Total Cap. & Liab.	31,322	32,106	32,323	32,324	30,732
Non-Cash Wkg. Capital	5,008	4,120	3,903	4,893	3,669
Net Cash/(Debt)	(9,161)	(9,425)	(7,811)	(8,855)	(7,480)
Debtors Turn (avg days)	131.2	146.6	99.4	96.8	92.9
Creditors Turn (avg days)	335.6	402.3	285.7	375.3	315.2
Inventory Turn (avg days)	662.2	727.6	453.2	601.9	541.8
Asset Turnover (x)	0.3	0.2	0.3	0.2	0.2
Current Ratio (x)	1.2	1.2	1.2	1.2	1.3
Quick Ratio (x)	0.4	0.4	0.5	0.4	0.6
Net Debt/Equity (X)	0.8	0.8	0.6	0.7	0.6
Net Debt/Equity ex MI (X)	0.8	0.9	0.7	0.7	0.6
Capex to Debt (%)	4.5	4.0	(0.5)	2.6	2.6
Z-Score (X)	1.2	1.1	1.2	1.2	1.2

Source: Company, DBS Bank

Keppel Corporation

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	953	(255)	1,335	1,118	1,227
Dep. & Amort.	375	414	406	389	379
Tax Paid	(264)	(177)	(260)	(505)	(263)
Assoc. & JV Inc/(loss)	(147)	162	(467)	(347)	(431)
Chg in Wkg.Cap.	(1,437)	595	(187)	(747)	1,191
Other Operating CF	(306)	(536)	(1,103)	0.0	0.0
Net Operating CF	(825)	202	(276)	(92.5)	2,104
Capital Exp.(net)	(501)	(484)	54.3	(300)	(299)
Other Invs.(net)	(1,116)	332	1,146	0.0	0.0
Invs in Assoc. & JV	(450)	(367)	514	(250)	(249)
Div from Assoc & JV	378	245	311	200	201
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(1,688)	(274)	2,025	(350)	(347)
Div Paid	(430)	(297)	(357)	(601)	(382)
Chg in Gross Debt	3,050	1,081	(599)	0.0	0.0
Capital Issues	0.14	0.0	398	0.0	0.0
Other Financing CF	(274)	0.22	(108)	0.0	0.0
Net Financing CF	2,346	784	(666)	(601)	(382)
Currency Adjustments	(27.3)	(9.8)	53.4	0.0	0.0
Chg in Cash	(195)	702	1,137	(1,043)	1,375
Opg CFPS (S cts)	33.6	(21.5)	(4.9)	35.9	50.1
Free CFPS (S cts)	(72.9)	(15.5)	(12.2)	(21.6)	99.2

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 21	5.01	5.85	HOLD
2:	23 Apr 21	5.45	6.20	BUY
3:	25 Jun 21	5.40	6.20	BUY
4:	30 Jul 21	5.49	6.20	BUY
5:	29 Oct 21	5.38	6.20	BUY

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

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 share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 28 Jan 2022 07:37:22 (SGT)

Dissemination Date: 28 Jan 2022 09:36:10 (SGT)

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

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