

### COMPANY RESULTS

## Keppel Corp (KEP SP)

2021: Strong Results With A Nice Dividend Surprise

**KEP reported a very strong set of numbers for 2021 with all business segments registering improved performances yoy. With net debt down to a manageable 0.68x as at end-21, the outlook appears very favourable given our expectation for better economic conditions ahead, and continued progress in KEP's asset monetisation programme. Maintain BUY. Target price: S\$6.94.**

### 2021 RESULTS

Y/e 31 Dec, S\$m	1H21	2H21	% hoh	2020	2021	% yoy
Revenue	3,677.2	4,947.5	35%	6,574.3	8,624.7	31%
Gross profit	1,038.5	982.7	-5%	1,983.1	2,021.2	2%
Operating profit	188.0	709.8	277%	8.4	897.8	NM
Pre-tax profit	515.6	819.4	59%	(254.7)	1,335.0	NM
NPAT	299.8	722.9	141%	(505.9)	1,022.7	NM
<b>Margins</b>			<b>+/- ppt</b>			<b>+/- ppt</b>
Gross margins	28.2%	19.9%	-8.4	30.2%	23.4%	-6.7
Pre-tax margins	14.0%	16.6%	+2.5	-3.9%	15.5%	+19.4
Net profit margins	8.2%	14.6%	+6.5	-7.7%	11.9%	+19.6

Source: Keppel Corp Ltd, UOB Kay Hian

### 2021 RESULTS

• **Stronger-than-expected results.** Keppel Corp (KEP) reported stronger-than-expected 2021 revenue which rose 31% yoy to S\$8.6b generating a net profit of \$1.02b vs a loss in 2020. Importantly, KEP reported sequentially better profitability as its 2H21 net margin doubled to 14.6% vs 1H21. These robust results were attributable gains from divestments and asset sales, as well as stronger operating performances from its property, connectivity and asset management businesses.

• **Dividend bonanza.** Since Oct 20, KEP has divested around S\$2.9b and is on track to exceed its S\$5b target by 2023. As a result of this cash inflow, the company declared a 2H21 dividend of S\$0.21 resulting in a total dividend of S\$0.33 for 2021, which implies a yield of 6.2% using today's closing share price. We have maintained our forecast 40% dividend payout ratio for 2022-24.

• **Outlook appears bright.** During the results briefing, KEP guided for continued progress in the monetisation of its assets with the divestment of its logistics business targeted for end of 1Q22. Importantly, the Keppel Offshore & Marine (KOM) divestment – given the complexity of the due diligence – will likely occur by end-1Q22 while the SPH takeover appears to be in limbo pending a scheme meeting that SPH needs to call for. Separately, KEP announced a S\$500m share buyback programme which we view positively.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	6,574	8,625	9,585	10,682	11,312
EBITDA	422	1,304	1,488	1,613	1,771
Operating profit	8	898	1,043	1,130	1,249
Net profit (rep./act.)	(506)	1,023	856	922	1,014
Net profit (adj.)	(506)	1,023	856	922	1,014
EPS (S\$ cent)	(27.7)	55.9	46.8	50.4	55.4
PE (x)	n.m.	9.5	11.3	10.5	9.5
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	46.7	15.1	13.2	12.2	11.1
Dividend yield (%)	1.9	6.2	3.6	3.8	4.2
Net margin (%)	(7.7)	11.9	8.9	8.6	9.0
Net debt/(cash) to equity (%)	89.1	65.0	77.3	78.4	77.7
Interest cover (x)	4.2	43.9	50.1	54.3	59.6
ROE (%)	n.a.	9.0	7.0	7.2	7.6
Consensus net profit	-	-	838	909	-
UOBKH/Consensus (x)	-	-	1.02	1.01	-

Source: Keppel Corp Ltd, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

Share Price	S\$5.29
Target Price	S\$6.94
Upside	+31.1%
(Previous TP)	S\$6.74)

### COMPANY DESCRIPTION

As a conglomerate, Keppel has four core businesses comprising: offshore & marine, property investment & development, infrastructure and investments

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,819.6
Market cap (S\$m):	9,625.8
Market cap (US\$m):	7,124.4
3-mth avg daily t'over (US\$m):	9.2

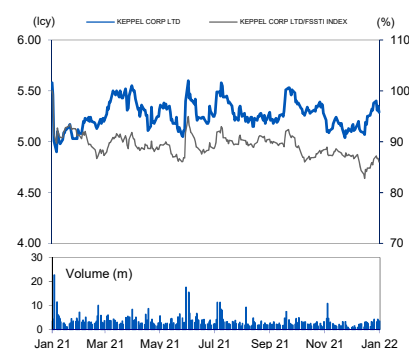
### Price Performance (%)

52-week high/low	S\$5.60/S\$4.90			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
3.7	(2.0)	0.8	(5.2)	3.3

### Major Shareholders

Temasek Hldgs	21.0
-	-
-	-
FY22 NAV/Share (S\$)	6.91
FY22 Net Debt/Share (S\$)	5.34

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Exposure to the China property market remains a key focus.** While KEP acknowledged that sentiment in the China property market is very cautious due to recent liquidity crunches with various local developers, it noted that the Chinese government has recently been supportive via the injection of liquidity into the market to prevent a hard landing. KEP's management believes that opportunities exist for it given that demand still remains strong in the key cities that it is exposed to – note that in 2021, KEP achieved a 32% yoy increase in home sales despite negative sentiment. Over the 2022-23 period, KEP has 5,850 overseas units worth S\$3.7b to be recognised.
- A mixed bag for the energy & environment segment.** While KOM saw lower gross profits on a hoh basis due to labour shortage, the outlook appears brighter given: a) the apparent waning effect of the COVID-19 virus easing thus easing labour issues, b) increased rig dayrates and utilisation rates over the past 12 months, and c) a higher orderbook of S\$5.1b (as at end-21) due to KEP winning S\$3.5b in new orders in 2021.
- Asset management continues its upward trajectory.** From a relatively small business segment a few years ago, Keppel Capital has continued its upward trajectory raising S\$3.5b as well as completing S\$5.5b in acquisitions and divestments in 2021. With S\$42b in assets under management as at end-21, we forecast revenue from this business segment to grow by 5-6% CAGR over the 2021-24E period. Profits from this segment could increase by an even greater magnitude should a liquidity event occur for some of the more exciting technology businesses that it has invested in.
- Growth via M&A.** Management highlighted that there remains significant inorganic opportunities for growth, and that it will remain focused on key areas such as data centres, data-centre platforms in Europe and the US, asset management platforms for bolt-on acquisitions, environmental engineering and solutions, and infrastructure. Despite the apparent crowded market in data centres, it was interesting to note KEP's view that, having invested in this segment in China and Europe, it continues to believe returns are compelling.
- Dealing with inflation, labour and supply chain issues.** KEP stated that for its offshore marine segment, it continues to work closely with suppliers to make adjustments to its production schedule when necessary to minimise the impact of labour and supply chain issues. It stated that while its yard activity has been normal, a recent challenge has been to bring in new labour (since its workforce has declined by 6% yoy). However, KEP has temporarily managed to solve this by allocating jobs to its network of global yards and allowing its Singapore yard to handle the integration parts of its projects instead.

### EARNINGS REVISION/RISK

- Changes to earnings forecasts.** We have increased 2022E and 2023E earnings by 1.0% and 4.5% respectively to take into account slightly higher margins for KEP's urban development and asset management businesses as well as a more gradual recovery for the former into 2023 and 2024.

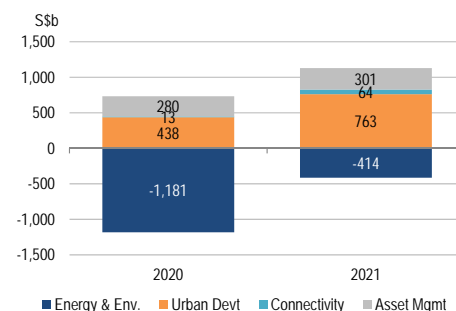
### VALUATION/RECOMMENDATION

- We retain our BUY rating on KEP with a slightly higher SOTP-based target price of S\$6.94 vs \$6.74 previously** as we update our segmental valuation parameters (see table on RHS). The company appears to be at an interesting crossroads in 2022 with the exit of its KOM segment and moving towards a more asset light and recurring earnings business model, and towards its 15% ROE target (2021: 9.1%). Of interest will be the pace of its asset monetisation which could bolster earnings again in 2022 and thus lead to another dividend surprise. At our target price, KEP would trade at a 2022 PE of 14.8x which is a slight discount to its past five-year average of 15.2x.

### SHARE PRICE CATALYST

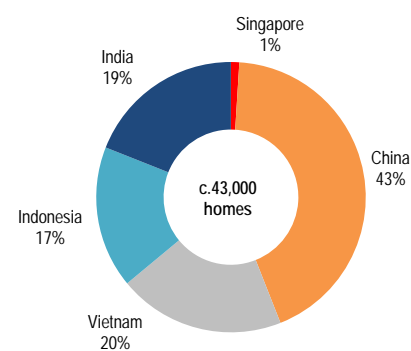
- Finalisation and disclosure of the valuation of the O&M assets that will be divested.
- Announcement of partial or full sale of its Southeast Asian or Australian logistics business.

### NET PROFIT BY SEGMENT



Source: KEP

### RESIDENTIAL LANDBANK AS AT END-2021



Source: KEP

### 5 YEAR PE



Source: Bloomberg, UOB Kay Hian

### SOTP VALUATION

Segment	S\$m	S\$/share
Offshore & Marine	500	0.27
Infrastructure & others	376	0.21
Urban Development	4,900	2.68
Connectivity	1,082	0.59
Asset Management	4,515	2.47
Sino-Singapore Tianjin Eco-City	509	0.28
KREIT	1,036	0.57
Keppel DC REIT	587	0.32
Others	582	0.32
Less 10% holdco discount		(0.77)
<b>Total EV</b>		<b>6.94</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	8,625	9,585	10,682	11,312
EBITDA	1,304	1,488	1,613	1,771
Deprec. & amort.	406	445	483	522
EBIT	898	1,043	1,130	1,249
Total other non-operating income	0	0	0	0
Associate contributions	467	100	100	100
Net interest income/(expense)	(30)	(30)	(30)	(30)
<b>Pre-tax profit</b>	<b>1,335</b>	<b>1,113</b>	<b>1,200</b>	<b>1,320</b>
Tax	(325)	(271)	(292)	(321)
Minorities	16	13	14	16
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>1,023</b>	<b>856</b>	<b>922</b>	<b>1,014</b>
Net profit (adj.)	1,023	856	922	1,014

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>(276)</b>	<b>(1,555)</b>	<b>520</b>	<b>737</b>
Pre-tax profit	1,335	1,113	1,200	1,320
Tax	(260)	(355)	(259)	(276)
Deprec. & amort.	406	445	483	522
Associates	0	0	0	0
Working capital changes	(187)	(2,659)	(804)	(728)
Non-cash items	0	0	0	0
Other operating cashflows	(1,570)	(100)	(100)	(100)
<b>Investing</b>	<b>2,025</b>	<b>(718)</b>	<b>(718)</b>	<b>(718)</b>
Capex (growth)	(538)	(538)	(538)	(538)
Capex (maintenance)	0	0	0	0
Investments	1,660	(200)	(200)	(200)
Proceeds from sale of assets	593	20	20	20
Others	311	0	0	0
<b>Financing</b>	<b>(668)</b>	<b>1,057</b>	<b>1,031</b>	<b>995</b>
Dividend payments	(370)	(344)	(369)	(406)
Issue of shares	398	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(599)	0	0	0
Others/interest paid	(97)	1,401	1,401	1,401
<b>Net cash inflow (outflow)</b>	<b>1,082</b>	<b>(1,217)</b>	<b>833</b>	<b>1,014</b>
Beginning cash & cash equivalent	3,671	4,753	3,536	4,369
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>4,753</b>	<b>3,536</b>	<b>4,369</b>	<b>5,383</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,044	2,118	2,153	2,150
Other LT assets	15,433	14,991	15,291	15,591
Cash/ST investment	3,617	1,741	1,173	786
Other current assets	11,229	14,388	16,229	17,415
<b>Total assets</b>	<b>32,323</b>	<b>33,237</b>	<b>34,846</b>	<b>35,942</b>
ST debt	4,659	4,659	4,659	4,659
Other current liabilities	7,299	7,715	8,785	9,288
LT debt	6,796	6,796	6,796	6,796
Other LT liabilities	1,127	1,127	1,127	1,127
Shareholders' equity	12,057	12,569	13,122	13,730
Minority interest	385	371	357	341
<b>Total liabilities &amp; equity</b>	<b>32,323</b>	<b>33,237</b>	<b>34,846</b>	<b>35,942</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	15.1	15.5	15.1	15.7
Pre-tax margin	15.5	11.6	11.2	11.7
Net margin	11.9	8.9	8.6	9.0
ROA	3.2	2.6	2.7	2.9
ROE	9.0	7.0	7.2	7.6
<b>Growth</b>				
Turnover	31.2	11.1	11.4	5.9
EBITDA	209.1	14.1	8.4	9.8
Pre-tax profit	n.a.	(16.6)	7.8	10.0
Net profit	n.a.	(16.3)	7.8	10.0
Net profit (adj.)	n.a.	(16.3)	7.8	10.0
EPS	n.a.	(16.3)	7.8	10.0
<b>Leverage</b>				
Debt to total capital	47.9	47.0	45.9	44.9
Debt to equity	95.0	91.1	87.3	83.4
Net debt/(cash) to equity	65.0	77.3	78.4	77.7
Interest cover (x)	43.9	50.1	54.3	59.6

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