

# Keppel Corporation

## 2H21 results blow past expectations

### SINGAPORE | CONGLOMERATE | RESULTS

- FY21 net profit of S\$1.01bn ahead of our forecasts, 63.7% above our FY21e earnings. The surprise came from fair value gains from its investments in new technology and startups.
- Group announced \$500mn share buyback program and 21 cents final dividend to reward shareholders.
- Planned business transformation of Group on track. Keppel Offshore & Marine (KOM) - SembMarine (SMM SP, Non-Rated) and logistics divestment definitive agreement expected by end-1Q22.
- Maintain BUY with unchanged SOTP TP of S\$7.07. We valued the Group based on the four new segments unveiled during Vision 2030 to better reflect the Group's reporting segments going forward. Our TP translates to about 1.0x FY22e book value, in-line with its 5-year average. Catalysts expected from SPH resolution and a successful resolution of its O&M unit.

Figure 1: Keppel's net profit by segment and full-year dividend

| S\$m                                      | 2H21       | 2H20      | YoY        | Comments   |
|---|------------|-----------|------------|--|
| Energy & Environment                      | (235)      | (223)     | -5.1%      | Excluding \$318mn impairment related to KrisEnergy, the segments net loss for FY21 would have been \$96mn or \$48mn EBITDA positive. |
| Urban Development                         | 484        | 223       | 117.0%     | Boosted by contributions from China and Vietnam property trading projects and enbloc sales.  |
| Connectivity                              | 37         | 13        | 184.6%     | Logistics turnaround and reported gains from disposal of interest in Keppel Logistics (Foshan) and Wuhu Sanshan Port.                |
| Asset Management                          | 184        | 22        | 736.4%     | Higher fee income REITs & Trust corporate actions along with mark-to-market gains from investments.                                  |
| <b>Subtotal</b>                           | <b>470</b> | <b>35</b> | <b>n.m</b> |  |
| Corporate & Others                        | 253        | (4)       | n.m        | Fair value gains from investments in new technology & startups such as Vertex Ventures, Envision ASEC Global Investment.             |
| <b>Total</b>                              | <b>723</b> | <b>31</b> | <b>n.m</b> |  |
| Proposed final dividend (Singapore cents) | 21.0       | 7.0       | 200.0%     | 45% payout ratio, after ring-fencing KrisEnergy impairment.  |

Source: Company data, PSR

#### Positives

**+ Net profit ahead of our forecasts, boosted by S\$303mn in fair value gains.** 2H21 net profit was a significant improvement over the previous period as all its business units saw growth accelerate.

#### Business segments

**Energy & Environment:** Its Offshore & Marine division achieved better results driven by better cost management and a lower share of losses from associated companies.

**Urban development:** Despite the more cautious environment in China, sales still increased 32% YoY.

**Connectivity segment:** Logistics turned around from the loss last year from the disposal of its interest in Keppel Logistics (Foshan) and Wuhu Sanshan Port.

31 January 2022

#### BUY (Maintained)

|                  |           |
|------------------|-----------|
| LAST CLOSE PRICE | SGD 5.610 |
| FORECAST DIV     | SGD 0.290 |
| TARGET PRICE     | SGD 7.070 |
| TOTAL RETURN     | 31.2%     |

#### COMPANY DATA

|                               |              |
|-------------------------------|--------------|
| BLOOMBERG CODE:               | KEP SP       |
| O/S SHARES (MN):              | 1,820        |
| MARKET CAP (USD mn / SGD mn): | 7527 / 10208 |
| 52 - WK HI/LO (SGD):          | 5.73 / 4.81  |
| 3M Average Daily T/O (mn):    | 2.62         |

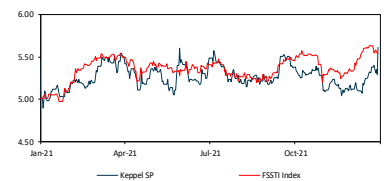
#### MAJOR SHAREHOLDERS (%)

|                  |       |
|------------------|-------|
| TEMASEK HOLDINGS | 21.0% |
|------------------|-------|

#### PRICE PERFORMANCE (%)

|            | 1MTH | 3MTH | 1YR  |
|------------|------|------|------|
| COMPANY    | 8.9  | 4.5  | 6.4  |
| STI RETURN | 3.8  | 1.9  | 14.9 |

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

| Y/E Dec (\$, mn) | FY20   | FY21  | FY22e | FY23e |
|------------------|--------|-------|-------|-------|
| Revenue          | 6,574  | 8,625 | 8,807 | 8,449 |
| Operating profit | 8      | 898   | 952   | 982   |
| EBIT             | 37     | 1,009 | 1,145 | 1,215 |
| NPAT             | (508)  | 1,010 | 1,157 | 1,204 |
| P/NAV (x)        | 0.9    | 0.8   | 0.8   | 0.7   |
| P/E (x)          | (20.2) | 10.0  | 8.8   | 8.5   |
| ROE (%)          | -4.5%  | 8.6%  | 9.1%  | 9.0%  |

Source: Company, PSR

#### VALUATION METHOD

SOTP valuation

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Asset Management: Higher contribution from acquisitions and divestments by the REITs & Trust as well as fair value gains of its investment properties and data centres. Corporate & Others surprised with FY21 net profit of \$309mn driven by fair value gains from its investments in new technology & startups.

Overall, FY21 profit of \$1.01bn is a reversal of the \$508mn loss last year.

**+ \$500mn share buyback program and 21 cents proposed final dividend to reward shareholders.** Keppel has announced a \$500mn share buyback program which will be held as treasury shares to be used in part for the annual vesting of employee share plans, and also as possible currency for future M&A activities. We view the share buyback program positively as current share price is below its net asset value of \$6.41. The group has also proposed a final dividend of 21 cents, bringing full year dividend to 33 cents. FY21 dividends represent a 45% payout ratio, in-line with previous years, after ring-fencing KrisEnergy impairment.

**+ Planned business transformation of Group on track, KOM-SMM and logistics divestment definitive agreement expected by end-1Q22.** Keppel has announced \$2.9bn of monetisation since the asset monetisation program was announced in September 2020. It now expects to surpass the \$5bn milestone well ahead of schedule. The planned divestment of its Offshore & Marine unit and its logistics business is also progressing steadily. Keppel expects to reach a definitive agreement with SMM by end-1Q22. It has also received bids for its logistics business and is working on definitive agreements by end-1Q22 for divestment of its Southeast Asia/Australia logistics business.

Figure 2: 4Q21 revenue by segment

| S\$m                 | 4Q21         | 4Q20         | YoY          | Comments  |
|----------------------|--------------|--------------|--------------|---|
| Energy & Environment | 2,315        | 1,112        | 108.2%       | Results above, as projects delivered exceeded our expectations. |
| Urban Development    | 394          | 267          | 47.6%        | Results above, as China property sales beat our expectations.   |
| Connectivity         | 357          | 337          | 5.9%         | In-line   |
| Asset Management     | 49           | 40           | 22.5%        | Boosted by higher fees from additional fund commitments.        |
| <b>Total</b>         | <b>3,115</b> | <b>1,756</b> | <b>77.4%</b> |   |

Source: Company data, PSR

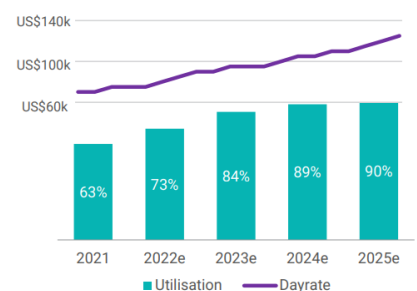
**Negatives**

**- Lack of clarity on roadmap for SPH's acquisition.** We were a little disappointed on the lack of clarity on the time-line for its acquisition of SPH. The absence of a clear time-line in our view is an overhang on the stock.

**Outlook**

The next catalyst investors should look out for is the proposed merger of KOM and Sembmarine (SMM SP, Non-rated). The management is working towards signing definitive agreements by end-1Q22. The outlook of the industry is also improving, underpinned by firmer oil prices. Modern jackup rig utilisation and day rates are expected to improve (Figure 3) as oil prices continue to rise. We expect KOM's legacy rigs to be substantially monetised in the next three to five years on the back of the improving industry outlook. While nothing has been firmed up, we view the developments positively as it provides better clarity on the fate of its O&M unit. With the overhang removed, along with the planned divestment of its logistics unit, we believe Keppel will be re-rated.

Figure 3: Modern Jackup rig utilisation & day rates improving and is projected to continue improving driven by rising oil prices



Source: Pareto Securities

### Maintain BUY with unchanged SOTP target price of S\$7.07

We maintain our BUY recommendation with an unchanged SOTP TP of \$7.07. We valued the Group based on the four new segments unveiled during Vision 2030 to better reflect the Group's reporting segments going forward (Figure 4). For its Energy & Environment business, we valued its O&M division at 0.8x book value. Keppel Infrastructure Holdings is valued at 10x FY22e earnings. For its Urban Development segment, we applied a 40% discount on Keppel Land's RNAV and 1.5x price to book value of the Sino-Singapore Tianjin Eco-City. In the Connectivity segment, we valued M1 at 9x FY22e earnings. For the Asset Management division, we valued Keppel Capital at 10x FY22e earnings, a slight discount to its peers. We also applied a holding-company discount of 20% to the Group.

Risks to our view include 1) a prolonged resolution for Keppel O&M, 2) lack of developments on the SPH resolution and 3) a worsening global economy.

Figure 4: Keppel SOTP valuation

| SOTP valuation S\$mn                               | Basis                | % owned | Multiple (x) | Book value / RNAV / Earnings | Share of Book value / RNAV / Earnings | / share     |
|--|----------------------|---------|--------------|------------------------------|---------------------------------------|-------------|
| <b>Business Segments</b>                           |                      |         |              |                              |                                       |             |
| <b>Energy &amp; Environment</b>                    |                      |         |              |                              |                                       |             |
| Keppel O&M   | Net asset            | 100%    | 0.8          | 1,573                        | 1,259                                 | <b>0.69</b> |
| Keppel Infrastructure Holdings                     | 10x FY22e earnings   | 100%    | 10.0         | 158                          | 1,581                                 | <b>0.87</b> |
| <b>Urban Development</b>                           |                      |         |              |                              |                                       |             |
| Keppel Land  | 40% discount to RNAV | 100%    | 40%          | 12,938                       | 7,763                                 | <b>4.26</b> |
| Sino-Singapore Tianjin Eco-City (SSTEC)            | Net asset            | 50%     | 1.5          | 420                          | 315                                   | <b>0.17</b> |
| <b>Connectivity</b>                                |                      |         |              |                              |                                       |             |
| M1 Limited   | 9x FY22e earnings    | 84%     | 9.0          | 62                           | 468                                   | <b>0.26</b> |
| <b>Asset Management</b>                            |                      |         |              |                              |                                       |             |
| Keppel Capital                                     | 10x FY22e earnings   | 100%    | 10.0         | 131                          | 1,314                                 | <b>0.72</b> |
| <b>Listed entites</b>                              |                      |         |              |                              |                                       |             |
| Market values                                      |                      |         |              |                              |                                       |             |
| - Keppel REIT                                      |                      | 49.0%   | 1.0          | 3,906                        | 1,914                                 | <b>1.05</b> |
| - Keppel DC REIT                                   |                      | 20.9%   | 1.0          | 4,304                        | 900                                   | <b>0.49</b> |
| - Keppel Infra Trust                               |                      | 18.2%   | 1.0          | 2,720                        | 495                                   | <b>0.27</b> |
| - Keppel Pacific Oak US REIT                       |                      | 7.3%    | 1.0          | 1,093                        | 80                                    | <b>0.04</b> |
| Fair value of Keppel Corp (before Holdco discount) |                      |         |              |                              |                                       | <b>8.84</b> |
| Holdco discount                                    |                      |         |              |                              |                                       | 20%         |
| Fair value of Keppel Corp                          |                      |         |              |                              |                                       | <b>7.07</b> |

Source: Company data, PSR

**Financials**
**Income Statement**

| Y/E Dec, (\$ mn)                      | FY20         | FY21         | FY22e        | FY23e        |
|---------------------------------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>                        | <b>6,574</b> | <b>8,625</b> | <b>8,807</b> | <b>8,449</b> |
| Materials and Subcontract costs       | (4,591)      | (6,603)      | (6,517)      | (6,126)      |
| Staff costs                           | (1,120)      | (1,116)      | (1,162)      | (1,115)      |
| Depreciation and amortisation         | (414)        | (406)        | (425)        | (431)        |
| Other items                           | (412)        | 510          | 443          | 438          |
| <b>EBIT</b>                           | <b>37</b>    | <b>1,009</b> | <b>1,145</b> | <b>1,215</b> |
| Net finance expenses                  | (130)        | (141)        | (138)        | (148)        |
| Share of results of associates        | (162)        | 467          | 478          | 478          |
| <b>Profit before tax</b>              | <b>(255)</b> | <b>1,335</b> | <b>1,485</b> | <b>1,546</b> |
| Taxation                              | (253)        | (325)        | (328)        | (342)        |
| <b>Net Profit</b>                     | <b>(508)</b> | <b>1,010</b> | <b>1,157</b> | <b>1,204</b> |
| <b>Net Profit (excl. Impairments)</b> | <b>143</b>   | <b>1,374</b> | <b>1,157</b> | <b>1,204</b> |
| <b>Profit attributable to owners</b>  | <b>(506)</b> | <b>1,023</b> | <b>1,161</b> | <b>1,209</b> |

**Per share data (\$)**

| Y/E Dec | FY20   | FY21 | FY22e | FY23e |
|---------|--------|------|-------|-------|
| BVPS    | 6.13   | 6.83 | 7.14  | 7.51  |
| DPS     | 0.09   | 0.33 | 0.29  | 0.30  |
| EPS     | (0.28) | 0.56 | 0.64  | 0.66  |

**Cash Flow**

| Y/E Dec, (\$ mn)                 | FY20         | FY21         | FY22e          | FY23e          |
|----------------------------------|--------------|--------------|----------------|----------------|
| <b>CFO</b>                       |              |              |                |                |
| <b>Operating profit</b>          | <b>8</b>     | <b>898</b>   | <b>952</b>     | <b>982</b>     |
| Adjustments                      | 91           | (570)        | (12)           | (6)            |
| WC changes                       | 595          | (187)        | (1,087)        | (246)          |
| <b>Cash generated from ops</b>   | <b>694</b>   | <b>142</b>   | <b>(147)</b>   | <b>730</b>     |
| Others                           | (430)        | (417)        | (466)          | (489)          |
| <b>Cashflow from ops</b>         | <b>263</b>   | <b>(276)</b> | <b>(613)</b>   | <b>241</b>     |
| <b>CFI</b>                       |              |              |                |                |
| CAPEX, net                       | (488)        | (538)        | (557)          | (562)          |
| Others                           | 214          | 2,564        | 2,112          | 1,923          |
| <b>Cashflow from investments</b> | <b>(274)</b> | <b>2,025</b> | <b>1,555</b>   | <b>1,361</b>   |
| <b>CFF</b>                       |              |              |                |                |
| Dividends paid to owners         | (273)        | (346)        | (601)          | (528)          |
| Proceeds from borrowings, net    | 1,028        | (668)        | (628)          | (656)          |
| Proceeds from equity issuance    | -            | -            | -              | -              |
| Others                           | (42)         | 345          | (11)           | (11)           |
| <b>Cashflow from financing</b>   | <b>713</b>   | <b>(668)</b> | <b>(1,240)</b> | <b>(1,195)</b> |
| <b>Net change in cash</b>        | <b>702</b>   | <b>1,082</b> | <b>(298)</b>   | <b>407</b>     |
| Cash at the start of the period  | 1,778        | 2,408        | 3,544          | 3,246          |
| Currency translation             | (27)         | (27)         | (27)           | (26)           |
| Others                           | -            | -            | -              | -              |
| <b>Ending cash</b>               | <b>2,408</b> | <b>3,544</b> | <b>3,246</b>   | <b>3,652</b>   |

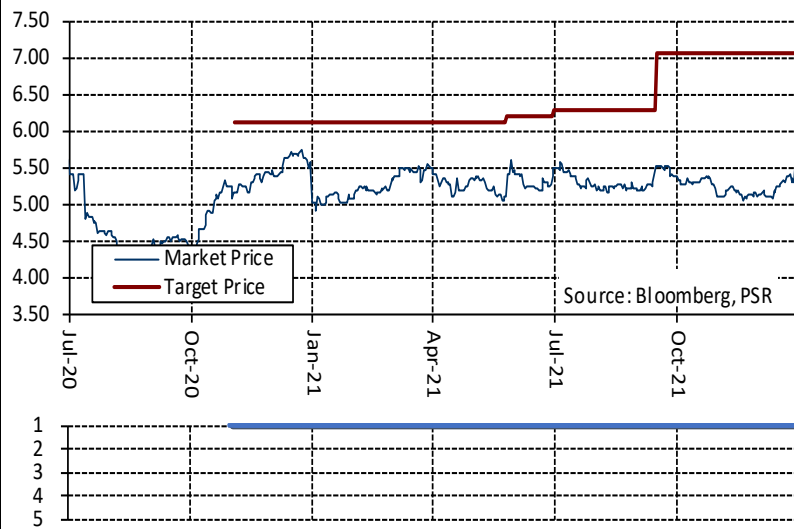
\*nm - not meaningful

**Balance Sheet**

| Y/E Dec, (\$ mn)                        | FY20          | FY21          | FY22e         | FY23e         |
|---|---------------|---------------|---------------|---------------|
| <b>ASSETS</b>                           |               |               |               |               |
| PPE & Investment Properties             | 6,973         | 6,830         | 8,172         | 8,494         |
| Others                                  | 10,745        | 10,647        | 10,647        | 10,647        |
| <b>Total non-current assets</b>         | <b>17,717</b> | <b>17,477</b> | <b>18,819</b> | <b>19,141</b> |
| Cash and cash equivalents               | 2,480         | 3,617         | 3,246         | 3,652         |
| Stocks                                  | 4,959         | 4,604         | 5,076         | 5,076         |
| Contract assets                         | 2,657         | 3,170         | 4,134         | 4,173         |
| Others                                  | 3,284         | 2,927         | 3,618         | 3,596         |
| <b>Total current assets</b>             | <b>13,380</b> | <b>14,318</b> | <b>16,074</b> | <b>16,497</b> |
| Assets classified as held for sale      | 1,009         | 1,009         | 1,009         | 1,009         |
| <b>Total Assets</b>                     | <b>32,106</b> | <b>32,804</b> | <b>35,901</b> | <b>36,647</b> |
| <b>LIABILITIES</b>                      |               |               |               |               |
| Trade and other payables                | 4,604         | 5,099         | 4,727         | 4,668         |
| ST borrowings                           | 4,502         | 4,749         | 4,749         | 4,749         |
| Others                                  | 2,866         | 2,072         | 4,932         | 5,590         |
| <b>Total current liabilities</b>        | <b>11,971</b> | <b>11,920</b> | <b>14,408</b> | <b>15,007</b> |
| LT borrowings                           | 8,101         | 7,268         | 6,977         | 6,650         |
| Others                                  | 762           | 655           | 996           | 791           |
| <b>Total non-current liabilities</b>    | <b>8,863</b>  | <b>7,923</b>  | <b>7,973</b>  | <b>7,441</b>  |
| Liabilities classified as held for sale | 115           | 38            | 38            | 38            |
| <b>Total liabilities</b>                | <b>20,950</b> | <b>19,882</b> | <b>22,420</b> | <b>22,486</b> |
| <b>EQUITY</b>                           |               |               |               |               |
| Share Capital                           | 1,306         | 1,306         | 1,306         | 1,306         |
| Retained profits                        | 9,436         | 10,354        | 10,910        | 11,587        |
| Others                                  | 414           | 782           | 785           | 788           |
| <b>Total equity</b>                     | <b>11,156</b> | <b>12,441</b> | <b>13,001</b> | <b>13,680</b> |
| <b>Total equity and liabilities</b>     | <b>32,106</b> | <b>32,323</b> | <b>35,420</b> | <b>36,166</b> |
| <b>Valuation Ratios</b>                 |               |               |               |               |
| Y/E Dec                                 | FY20          | FY21          | FY22e         | FY23e         |
| P/E (x)                                 | -20.2         | 10.0          | 8.8           | 8.5           |
| P/B (x)                                 | 0.9           | 0.8           | 0.8           | 0.7           |
| EV/EBITDA (x)                           | 2434.5        | 21.9          | 20.6          | 20.0          |
| Dividend yield (%)                      | 1.6%          | 5.9%          | 5.1%          | 5.3%          |
| <b>Growth &amp; Margins (%)</b>         |               |               |               |               |
| <b>Growth</b>                           |               |               |               |               |
| Revenue                                 | -13.3%        | 31.2%         | 2.1%          | -4.1%         |
| EBITDA                                  | -89.5%        | 619.4%        | 17.7%         | -100.0%       |
| EBIT                                    | -96.0%        | nm            | 13.6%         | 6.1%          |
| PBT                                     | -126.7%       | nm            | 11.3%         | 4.1%          |
| <b>Margins</b>                          |               |               |               |               |
| EBITDA margin                           | 2.0%          | 10.9%         | 12.6%         | 0.0%          |
| EBIT margin                             | 0.6%          | 11.7%         | 13.0%         | 14.4%         |
| Net profit margin                       | -7.7%         | 11.7%         | 13.1%         | 14.3%         |
| <b>Key Ratios</b>                       |               |               |               |               |
| ROE                                     | -4.5%         | 8.6%          | 9.1%          | 9.0%          |
| ROA                                     | -1.6%         | 3.1%          | 3.4%          | 3.3%          |
| Net Gearing (%)                         | 89.5%         | 67.3%         | 65.0%         | 56.4%         |

Source: Company, Phillip Securities Research (Singapore) Estimates

**Ratings History**



**PSR Rating System**

| Total Returns | Recommendation | Rating |
|---------------|----------------|--------|
| > +20%        | Buy            | 1      |
| +5% to +20%   | Accumulate     | 2      |
| -5% to +5%    | Neutral        | 3      |
| -5% to -20%   | Reduce         | 4      |
| < -20%        | Sell           | 5      |

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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