

Keppel Corporation

Arbitration proceedings against SPH to have muted impact


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- Keppel Corp has started arbitration proceedings against Singapore Press Holdings (SPH).
- Arbitration proceedings against SPH will lengthen the overhang on the Group until a decision by the arbitrator.
- Keppel Offshore & Marine (Keppel O&M) has been awarded \$250mn in new contracts.
- 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.

The news

Keppel Corp has started arbitration proceedings against SPH as it does not agree with SPH's attempted termination of the Keppel implementation agreement. Keppel said that it had received a termination notice from SPH which stated, among other things, that the Securities Industry Council had no objections to SPH's exercise of its rights to terminate the implementation agreement with Keppel.

SPH noted that the implied value of Cuscaden's offer is [superior to that of Keppel's](#) and that the absence of any consensus in relation to which scheme would be submitted to the High Court for approval in the event that both schemes achieve the voting majority as required is delaying the process. Keppel, on its part, maintains that its offer remains a compelling one, and should be put to SPH's shareholders for consideration.

Separately, Keppel O&M announced that it has been awarded contracts worth around \$250mn for the conversion of a Floating Storage and Regasification Unit, integration of a Floating Production Storage and Offloading vessel, and the jumboisation of two Trailing Suction Hopper Dredgers.

Our view

The arbitration proceedings against SPH will lengthen the overhang on the Group until a decision by the arbitrator. We expect that Keppel's stock will remain capped until a final resolution on SPH is announced.

We are positive on Keppel O&M's latest contract win that came from repeat customers amidst the challenging industry environment. This demonstrates Keppel O&M's resilience and operational excellence in delivering projects well despite the challenges brought about by the Covid-19 pandemic.

Outlook

The next catalyst investors should look out for is the proposed merger of Keppel O&M 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.

BUY (Maintained)

LAST CLOSE PRICE	SGD 6.030
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 7.070
TOTAL RETURN	22.7%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,814
MARKET CAP (USD mn / SGD mn) :	8153 / 10937
52 - WK HI/LO (SGD) :	6.12 / 4.98
3M Average Daily T/O (mn) :	3.00

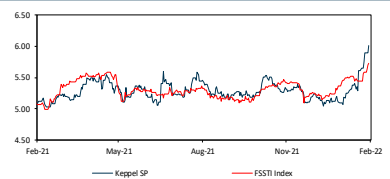
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	21.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	18.4	13.7	22.8
STI RETURN	6.8	6.0	20.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

V/E Dec (S\$, '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)	1.0	0.9	0.8	0.8
P/E (x)	(21.7)	10.7	9.5	9.1
ROE (%)	-4.5%	8.6%	9.1%	9.0%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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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 2). 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 2: Keppel SOTP valuation

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

Source: Company data, PSR

Financials
Income Statement

Y/E Dec, (\$' mn)	FY20	FY21	FY22e	FY23e
Revenue	6,574	8,625	8,807	8,449
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
EBIT	37	1,009	1,145	1,215
Net finance expenses	(130)	(141)	(138)	(148)
Share of results of associates	(162)	467	478	478
Profit before tax	(255)	1,335	1,485	1,546
Taxation	(253)	(325)	(328)	(342)
Net Profit	(508)	1,010	1,157	1,204
Net Profit (excl. Impairments)	143	1,374	1,157	1,204
Profit attributable to owners	(506)	1,023	1,161	1,209

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
CFO				
Operating profit	8	898	952	982
Adjustments	91	(570)	(12)	(6)
WC changes	595	(187)	(1,087)	(246)
Cash generated from ops	694	142	(147)	730
Others	(430)	(417)	(466)	(489)
Cashflow from ops	263	(276)	(613)	241
CFI				
CAPEX, net	(488)	(538)	(557)	(562)
Others	214	2,564	2,112	1,923
Cashflow from investments	(274)	2,025	1,555	1,361
CFF				
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)
Cashflow from financing	713	(668)	(1,240)	(1,195)
Net change in cash	702	1,082	(298)	407
Cash at the start of the period	1,778	2,408	3,544	3,246
Currency translation	(27)	(27)	(27)	(26)
Others	-	-	-	-
Ending cash	2,408	3,544	3,246	3,652

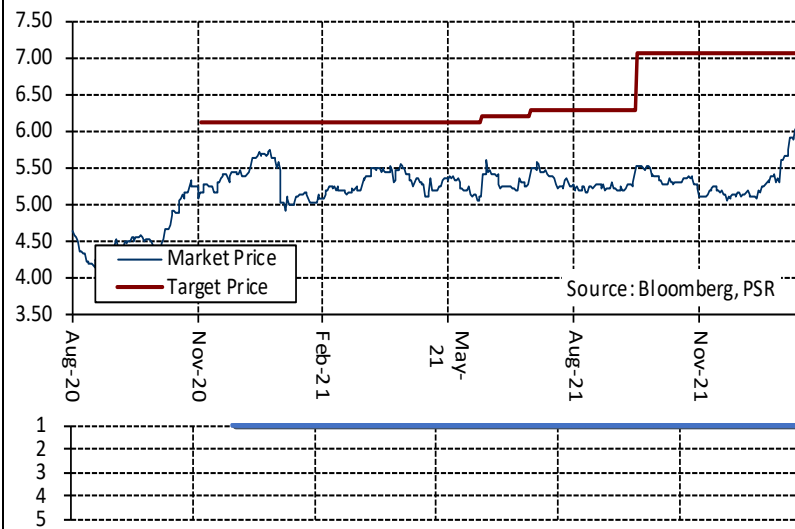
*nm - not meaningful

Balance Sheet

Y/E Dec, (\$' mn)	FY20	FY21	FY22e	FY23e
ASSETS				
PPE & Investment Properties	6,973	6,830	8,172	8,494
Others	10,745	10,647	10,647	10,647
Total non-current assets	17,717	17,477	18,819	19,141
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
Total current assets	13,380	14,318	16,074	16,497
Assets classified as held for sale	1,009	1,009	1,009	1,009
Total Assets	32,106	32,804	35,901	36,647
LIABILITIES				
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
Total current liabilities	11,971	11,920	14,408	15,007
LT borrowings	8,101	7,268	6,977	6,650
Others	762	655	996	791
Total non-current liabilities	8,863	7,923	7,973	7,441
Liabilities classified as held for	115	38	38	38
Total liabilities	20,950	19,882	22,420	22,486
EQUITY				
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
Total equity	11,156	12,441	13,001	13,680
Total equity and liabilities	32,106	32,323	35,420	36,166
Valuation Ratios				
Y/E Dec	FY20	FY21	FY22e	FY23e
P/E (x)	-21.7	10.7	9.5	9.1
P/B (x)	1.0	0.9	0.8	0.8
EV/EBITDA (x)	2434.5	21.9	20.6	20.0
Dividend yield (%)	1.5%	5.5%	4.8%	5.0%
Growth & Margins (%)				
Growth				
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%
Margins				
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%
Key Ratios				
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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