

Keppel Corporation

Another delay to potential combination of Keppel O&M and Sembcorp Marine


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SINGAPORE | CONGLOMERATE | UPDATE

- Keppel Corp and Sembcorp Marine announced another delay to the potential combination of the two entities.
- Significant progress made on advancing the sale of Keppel Offshore & Marine's (KOM) legacy rigs and associated receivables.
- Keppel Telecommunication & Transportation Limited (Keppel T&T) has entered into an agreement for the divestment of its entire stake in Keppel Logistics to Geodis International for a cash consideration of \$80mn. We expect the divestment to improve the Group's ability to meet its 15% ROE target.
- 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 a successful resolution of its O&M unit.

The news

Keppel Corp and Sembcorp Marine announced that while significant progress has been made on advancing the proposed combination, including mutual due diligence, the transaction structure, exchange ratio and other related matters, more time and deliberation will be required to complete due diligence, reach mutual agreement on the transaction terms and finalise definitive legal documentation.

Both parties remain committed to continue with exclusive negotiations and work towards a definitive agreement by 30 April 2022.

Keppel T&T has entered into an agreement for the divestment of its entire stake in Keppel Logistics to Geodis International SAS (GEODIS) for a consideration of approximately \$80mn, valuing Keppel Logistics at enterprise value of \$150mn on a cash free debt free basis. This transaction includes Keppel Logistics' businesses in Singapore, Malaysia and Australia, as well as UrbanFox.

Positives

+ Significant progress made on advancing the sale of KOM's legacy rigs and associated receivables. Keppel had previously announced that it will be transferring its legacy completed and uncompleted rigs and associated receivables to a separate company (Asset Co) that would be majority owned by external investors. This Asset Co transaction and the proposed combination between KOM and SembMarine will be inter-conditional and are being pursued concurrently.

Should the proposed transaction be successfully completed, external investors will provide capital for completing these uncompleted rigs, which would reduce Keppel's capital requirement. Keppel's economic exposure in Asset Co is also expected to be reduced over time, as the rigs or Asset Co are sold or securitised when conditions in the rig chartering market improve.

BUY (Maintained)

LAST CLOSE PRICE	SGD 6.420
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 7.070
TOTAL RETURN	15.3%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,800
MARKET CAP (USD mn / SGD mn) :	8531 / 11577
52 - WK HI/LO (SGD) :	6.6 / 5.04
3M Average Daily T/O (mn) :	4.68

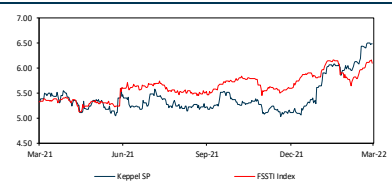
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	21.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	7.2	25.4	24.9
STI RETURN	5.4	9.6	11.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/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	0.9	0.9
P/E (x)	(23.1)	11.4	10.1	9.7
ROE (%)	-4.5%	8.6%	9.1%	9.0%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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+ Keppel announced divestment of its logistics business. We expect the divestment of Keppel Logistics to improve the Group's ability to meet its 15% ROE target. For FY21, the Keppel Logistics entities being divested to GEODIS registered a net loss after tax of \$5.2mn. The proposed divestment of its non-core business that has been operating at a sub-scale level, is in line with its Vision 2030 plans to simplify and focus its business as well as to enhance its earnings.

We believe that Keppel T&T's priority will now be to scale up in its focus areas of sustainable data centre solutions and subsea cable systems. The capital unlocked from this transaction will also fund its new growth initiatives.

Negatives

- Second delay to potential combination of KOM and Sembcorp Marine. While we are naturally concerned about another delay to the potential combination of the two entities, we note that the current extension to 30 April 2022 is just a month away. We believe that the two entities are working expeditiously to reach a mutual agreement on the transaction terms and are working towards a definitive agreement as quickly as possible.

Outlook

With the chapter on Singapore Press Holdings (SPH SP, Non-rated) now closed, we turn our attention to the proposed merger of KOM and Sembmarine (SMM SP, Non-rated). Management is working towards signing definitive agreements by end-April 2022. The outlook of the industry is also improving, underpinned by firmer oil prices. Modern jackup rig utilisation and day rates are expected to improve 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 divestment of its logistics unit, we believe Keppel will be re-rated.

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; and 2) 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 entities 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

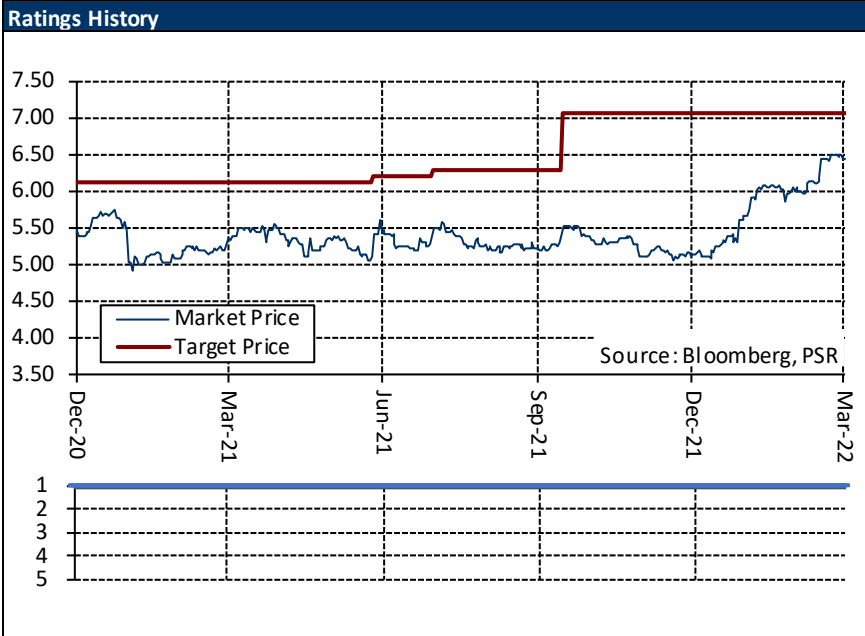
Y/E Dec, (\$'mn)	FY20	FY21	FY22e	FY23e
CFO				
Operating profit	8	898	952	982
Adjustments	91	(570)	(12)	(6)
WC changes	595	(187)	(1,087)	(246)
Cash generated from ops	694	142	(147)	730
Others	(430)	(417)	(466)	(489)
Cashflow from ops	263	(276)	(613)	241
CFI				
CAPEX, net	(488)	(538)	(557)	(562)
Others	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

Source: Company, Phillip Securities Research (Singapore) Estimates

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	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)	-23.1	11.4	10.1	9.7
P/B (x)	1.0	0.9	0.9	0.9
EV/EBITDA (x)	2434.5	21.9	20.6	20.0
Dividend yield (%)	1.4%	5.1%	4.5%	4.7%
Growth & Margins (%)				
Growth				
Revenue	-13.3%	31.2%	2.1%	-4.1%
EBITDA	-89.5%	619.4%	17.7%	3.3%
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%	13.6%
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%



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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