

Keppel Corporation

1Q22 see drag from Urban Development


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SINGAPORE | CONGLOMERATE | UPDATE

27 April 2022

- 1Q22 revenue of \$2.1bn was below of our forecasts, at 23.5% of FY22e. The drag came from the Urban Development business.
- The update mentioned 1Q22 net profit was higher YoY, with improved performance from all its business segments except Urban Development. Keppel Offshore & Marine's (KOM) recorded a significantly reduced net loss and was EBITDA positive.
- Significant progress made on advancing the sale of KOM legacy rigs and associated receivables, working towards definitive agreements by 30 April 2022.
- 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.

BUY (Maintained)

LAST CLOSE PRICE	SGD 6.660
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 7.070
TOTAL RETURN	11.1%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,800
MARKET CAP (USD mn / SGD mn) :	8727 / 11991
52 - WK HI/LO (SGD) :	6.83 / 5.04
3M Average Daily T/O (mn) :	5.02

MAJOR SHAREHOLDERS (%)

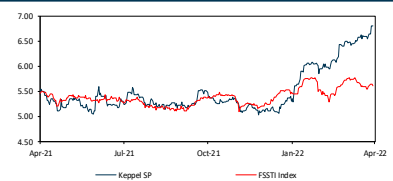
TEMASEK HOLDINGS	21.0%
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Results at a glance
Revenue by segment

S\$m	1Q22	1Q21	YoY	Comments
Energy & Environment	1,499	1,049	42.9%	Results above, as projects delivered exceeded our expectations.
Urban Development	209	510	-59.0%	Results below, lower contributions from China property trading projects.
Connectivity	301	294	2.4%	In-line. Boosted by M1's growing enterprise segment.
Asset Management	59	36	63.9%	Boosted by higher fees from additional fund commitments.
Total	2,068	1,889	9.5%	

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.9	26.0	27.1
STI RETURN	(2.0)	3.5	8.1

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)	1.1	1.0	0.9	0.9
P/E (x)	(24.0)	11.9	10.4	10.0
ROE (%)	-4.5%	8.6%	9.1%	9.0%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

Terence Chua (+65 6212 1852)

 Senior Research Analyst
 terencechuatl@phillip.com.sg

Positives

+ 1Q22 net profit was higher YoY, with improved performance from all its business segments except Urban Development. In its 1Q22 voluntary business update, Keppel reported improvements in its profits driven by improved performance from its segments. The net profit was not provided in this voluntary business update.

Energy & Environment: KOM recorded significantly reduced net loss YoY and was positive on the EBITDA level due to higher levels of activity. Op Co was also profitable for 1Q22 as the Group's streamlining of its operations begins to pay off. In 1Q22, KOM secured new orders worth \$76mn. In view of improving conditions, management is confident of substantially monetising KOM's legacy rigs in the next 3-5 years.

Urban Development: Revenue from this segment was below our expectation as sentiment in China has turned cautious after the debt crisis affecting developers. The recent lockdowns have also caused some short-term disruptions to operations in affected cities. Keppel Land sold 540 homes in 1Q22, compared with 1,360 homes sold a year ago, due mainly to the timing of new project launches, a number of which management guided are slated for launch later in 2022.

Connectivity: Revenue from M1 increased to \$260mn from \$254mn driven by its enterprise segment.

Asset Management: Increase driven by new funds raised, as well as acquisition fees for new acquisitions done, such as the deal that Keppel Infrastructure Trust did, namely the Aramco deal.

+ Significant progress made on advancing the sale of KOM's legacy rigs and associated receivables, working toward definitive agreement by 30 April 2022. 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 they 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.

Negatives

- Uncertainty in China market cause drag on property sales. The debt crisis last year along with the recent lockdowns has caused sentiment to weaken in China. With a few property projects slated for launch in the 2H22, we will be watching this closely to gauge the home buyer sentiment.

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

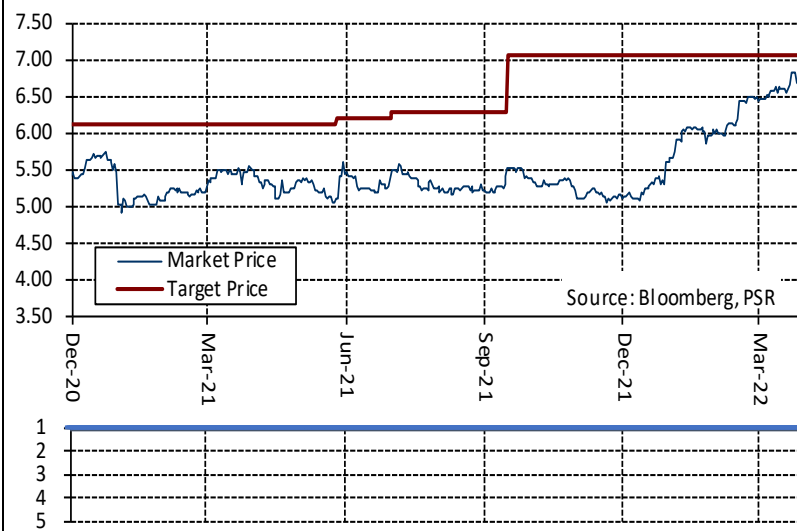
*nm - not meaningful

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 for sale	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)	-24.0	11.9	10.4	10.0
P/B (x)	1.1	1.0	0.9	0.9
EV/EBITDA (x)	2434.5	21.9	20.6	20.0
Dividend yield (%)	1.4%	5.0%	4.3%	4.5%
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%

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

Contact Information (Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Consumer | Industrial | Conglomerates

Terence Chua – terencechuatl@phillip.com.sg

Property | REITs

Natalie Ong – natalieongpf@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumic@phillip.com.sg

Small-Mid Cap

Vivian Ye – yeqw@phillip.com.sg

US Technology Analyst (Hardware)

Timothy Ang – timothyang@phillip.com.sg

US Technology Analyst (Internet)

Jonathan Woo – jonathanwookj@phillip.com.sg

Credit Analyst

Shawn Sng - shawnsngkh@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipcapital.in

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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