

Singapore Company Update

Keppel Corporation

Bloomberg: KEP SP | Reuters: KPLM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Apr 2022

BUY

Last Traded Price (21 Apr 2022): S\$6.65 (STI : 3,348.46)

Price Target 12-mth: S\$6.90 (4% upside)

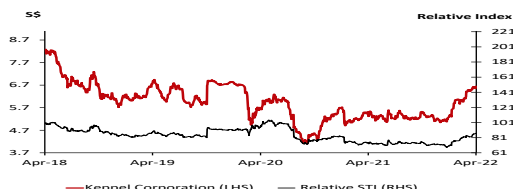
Analyst

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What's New

- 1Q22 net profit higher y-o-y on improved performances across all segments except Urban Development
- Property divestments and launches to pick up towards 2H22
- O&M seeing stronger project pipeline and rig sale potential; yard combination agreement by end-Apr
- Reiterate BUY; TP S\$6.90

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	6,574	8,625	7,780	7,587
EBITDA	289	1,882	1,701	1,870
Pre-tax Profit	(255)	1,335	1,118	1,227
Net Profit	(506)	1,023	838	914
Net Pft (Pre Ex.)	(506)	1,023	838	914
Net Pft Gth (Pre-ex) (%)	nm	nm	(18.1)	9.1
EPS (S cts)	(27.8)	56.2	46.0	50.2
EPS Pre Ex. (S cts)	(27.8)	56.2	46.0	50.2
EPS Gth Pre Ex (%)	nm	nm	(18)	9
Diluted EPS (S cts)	(27.7)	56.1	45.9	50.1
Net DPS (S cts)	10.0	33.0	21.0	23.0
BV Per Share (S cts)	589	640	653	682
PE (X)	nm	11.8	14.5	13.2
PE Pre Ex. (X)	nm	11.8	14.5	13.2
P/Cash Flow (X)	59.8	nm	nm	5.8
EV/EBITDA (X)	76.0	11.0	12.8	10.9
Net Div Yield (%)	1.5	5.0	3.2	3.5
P/Book Value (X)	1.1	1.0	1.0	1.0
Net Debt/Equity (X)	0.8	0.6	0.7	0.6
ROAE (%)	(4.6)	9.1	7.1	7.5
Earnings Rev (%):		Phdc1	0	0
Consensus EPS (S cts):			48.4	51.4
Other Broker Recs:		B: 11	S: 1	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Strong and sturdy

Investment Thesis:

Yard combination. Keppel's share price has performed well, rising 26% since end-Jan following a strong set of FY21 results, further boosted by generous dividend and share buyback exercise. The widely anticipated definitive agreement relating to the yard merger, which would streamline Keppel's operations to focus on its asset light businesses and sustainable solutions, should re-rate the stock further when formalized by end-Apr-2022.

Accelerating clean energy and decarbonisation drive. Keppel is an ESG leader in corporate governance, safety, human capital management, and clean energy. It has gained traction in renewable/gas solutions that now contribute ~40% to O&M's orderbook. Moving up the renewable value chain, Keppel will operate its first solar farm with 500MW capacity in 2023 and aims to raise its renewable energy portfolio to 7GW by 2030. It has established partnerships with various players like StarCharge and AESC to pursue opportunities in electric vehicle (EV) infrastructure including EV/storage batteries, deepening its foothold in clean energy. It is also studying the hydrogen energy value chain, from production to storage and transportation as well as developing decarbonisation solutions.

Valuation:

SOTP-based TP of S\$ 6.90 implies 1.05x FY22F P/BV, which is 0.5SD below its 5-year mean. Our TP is derived based on: (1) Urban development valued at 0.9x P/BV, implying 25% discount to property RNAV; (2) DCF valuation for Tianjin Eco-city with 10% WACC; and (3) connectivity/asset investment/infrastructure/others at 1x P/BV.

Where we differ:

Keppel's huge landbank of ~5m sqm is held at low cost. Half of this is under development, progressively unlocking its RNAV over the next three to five years. Of the undeveloped landbank, 30% is earmarked for projects in Tianjin Eco-city, which is not reflected in our RNAV.

Key Risks to Our View:

Lower-than-expected en-bloc sales pose downside risks to forecast. En-bloc sales are lumpy by nature, forming more than half of property profit in 2018 but only 10% in 2019.

At A Glance

Issued Capital (m shrs)	1,806
Mkt. Cap (S\$m/US\$m)	12,007 / 8,805
Major Shareholders (%)	
Temasek Holdings Pte Ltd	20.6
Free Float (%)	79.4
3m Avg. Daily Val (US\$m)	21.3
GIC Industry:	Industrials / Capital Goods



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WHAT'S NEW

Improved performance across all segments except Urban Development

1Q22 business update

1Q22 net profit was higher y-o-y, improvement seen across segments except Urban Development. Revenue grew 9.5% y-o-y to S\$2,068m during the quarter. Net gearing was stable at around 0.7x as of end Mar.

Keppel O&M net loss reduced significantly and was EBITDA positive. OpCo (shipyard business that will be merged with Sembcorp Marine, SMM) was profitable. Orderbook declined slightly to S\$4.8bn (vs S\$5.1bn as of end 2021). It is actively pursuing bareboat charters for its legacy rigs and receiving sales enquiries as well. Keppel is confident of substantially monetizing its legacy rigs in the next 3-5 years.

Yard combination. Keppel and SMM are expected to reach a definitive agreement on yard combination by end Apr. We await details on valuation of the shipyards and integration plans, before reviewing our valuation on Keppel.

Keppel Infrastructure's net profit improved strongly y-o-y. It is gaining traction in renewables, clean energy & decarbonization solutions. It completed a feasibility study on carbon capture integration for Runcorn EfW facility in the UK. It will also be participating in the Energy Market Authority (EMA)'s Request for Proposal (RFP) for low-carbon power import licenses in Singapore.

Keppel Land's net profit was lower y-o-y due to a drop in contribution from China property trading and absence of enbloc sales. Home sales dropped 60% y-o-y to 540 units in 3Q22, as new launches are slated for later this year. For the China market, underlying demand, especially at Keppel's core markets, remains fairly strong.

Keppel Capital – Asset management fees surged 69% y-o-y to S\$71m in 1Q22. It has successfully completed over S\$2.5bn in acquisitions during the quarter.

M1's earnings were higher y-o-y in 1Q22; improving roaming and prepaid business outlook with reopening of borders.

Key earnings and operating statistics for 1Q22

S\$m	1Q21	4Q21	1Q22	Comment
Group				
Revenue	1,889	3,115	2,068	
Energy & Environment	1,049	2,315	1,499	
Urban Development	510	394	209	Expect asset divestments and property launches to pick up
Connectivity	294	357	301	
Asset Management	36	49	59	
Net Profit	Higher yoy	Higher yoy	Higher yoy	Improved performance across all segments except Urban Development
Net Gearing	0.88	0.68	0.69	
Key Operating Statistics				
Keppel O&M orderbook	3.0	5.1	4.8	
% Renewable and Gas	80%	39%	38%	
Home Sales (units)	1,360	1,410	540	Project launches slated for later this year

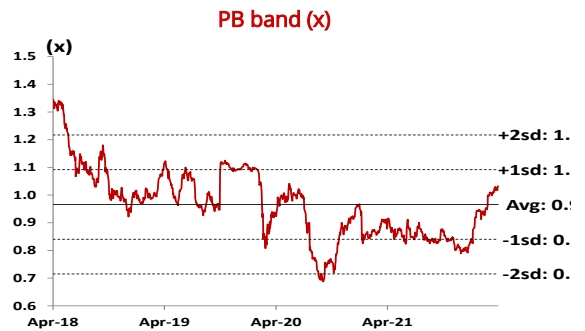
Source: Company, DBS Bank

Keppel Corporation

Company Background

Keppel is a diversified conglomerate with its core businesses in property investments and development, offshore marine (O&M), and infrastructure-based activities in Singapore and the region. Urban development is the largest segment, contributing the bulk of its profits and more than half of its RNAV, followed by asset management. It possesses strong market leadership positions as a property developer in Singapore, China, Vietnam, Indonesia, and India; and as a shipyard in offshore solutions, particularly newbuilding rigs, FPSO conversion, FLNG conversion, renewable facilities, as well as repair and construction of high-end specialised vessels.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

Keppel Corporation

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
O&M order wins (\$\$ m)	2,067	1,000	1,500	2,000	2,500

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$\$m)					
Energy & Environment	4,969	3,943	5,574	4,910	4,574
Urban Development	1,336	1,275	1,629	1,508	1,583
Connectivity	1,128	1,220	1,260	1,202	1,260
Asset Management	145	135	162	160	170
Others	2.00	1.00	0.0	0.0	0.0
Total	7,580	6,574	8,625	7,780	7,587
Net Profit (\$\$m)					
Energy & Environment	(101)	(1,181)	(414)	77.3	122
Urban Development	483	438	763	530	560
Connectivity	136	13.0	64.0	30.5	12.1
Asset Management	214	280	301	200	220
Others	(25.0)	(56.0)	309	0.0	0.0
Total	707	(506)	1,023	838	914
Net Profit Margins (%)					
Energy & Environment	(2.0)	(30.0)	(7.4)	1.6	2.7
Urban Development	36.2	34.4	46.8	35.2	35.4
Connectivity	12.1	1.1	5.1	2.5	1.0
Asset Management	147.6	207.4	185.8	125.0	129.4
Others	N/A	N/A	N/A	N/A	N/A
Total	9.3	(7.7)	11.9	10.8	12.0

Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	7,580	6,574	8,625	7,780	7,587
Cost of Goods Sold	(5,267)	(4,591)	(6,604)	(5,391)	(5,139)
Gross Profit	2,313	1,983	2,021	2,389	2,448
Other Opng (Exp)/Inc	(1,437)	(1,975)	(1,123)	(1,439)	(1,404)
Operating Profit	877	8.40	898	950	1,045
Other Non Opg (Exp)/Inc	64.6	29.4	111	15.6	15.2
Associates & JV Inc	147	(162)	467	347	431
Net Interest (Exp)/Inc	(135)	(130)	(141)	(194)	(264)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	953	(255)	1,335	1,118	1,227
Tax	(192)	(253)	(325)	(263)	(295)
Minority Interest	(54.2)	2.23	12.6	(17.1)	(18.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	707	(506)	1,023	838	914
Net Profit before Except.	707	(506)	1,023	838	914
EBITDA	1,464	289	1,882	1,701	1,870
Growth					
Revenue Gth (%)	27.1	(13.3)	31.2	(9.8)	(2.5)
EBITDA Gth (%)	0.5	(80.3)	551.2	(9.6)	10.0
Opg Profit Gth (%)	(15.9)	(99.0)	10,586.7	5.8	10.0
Net Profit Gth (Pre-ex) (%)	(25.1)	nm	nm	(18.1)	9.1
Margins & Ratio					
Gross Margins (%)	30.5	30.2	23.4	30.7	32.3
Opg Profit Margin (%)	11.6	0.1	10.4	12.2	13.8
Net Profit Margin (%)	9.3	(7.7)	11.9	10.8	12.0
ROAE (%)	6.3	(4.6)	9.1	7.1	7.5
ROA (%)	2.4	(1.6)	3.2	2.6	2.9
ROCE (%)	3.2	0.0	2.7	2.9	3.1
Div Payout Ratio (%)	51.4	N/A	58.7	45.6	45.8
Net Interest Cover (x)	6.5	0.1	6.4	4.9	4.0

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	4,265	3,182	3,392	3,677	4,948
Cost of Goods Sold	(3,018)	(2,207)	(2,384)	(2,639)	(3,965)
Gross Profit	1,246	976	1,007	1,038	983
Other Oper. (Exp)/Inc	(851)	(1,125)	(850)	(850)	(273)
Operating Profit	395	(149)	158	188	710
Other Non Opp (Exp)/Inc	24.5	12.4	17.0	83.8	27.2
Associates & JV Inc	113	(169)	6.34	315	152
Net Interest (Exp)/Inc	(67.9)	(51.7)	(78.5)	(70.7)	(69.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	465	(357)	103	516	819
Tax	(93.0)	(179)	(74.6)	(219)	(106)
Minority Interest	(20.8)	(1.0)	3.23	2.95	9.69
Net Profit	351	(537)	31.3	300	723
Net profit bef Except.	351	(537)	31.3	300	723
EBITDA	738	(105)	393	783	1,099
Growth					
Revenue Gth (%)	28.6	(25.4)	6.6	8.4	34.5
EBITDA Gth (%)	1.6	nm	nm	99.2	40.3
Opp Profit Gth (%)	(18.0)	(137.8)	(205.6)	19.1	277.5
Net Profit Gth (%)	(1.6)	(253.2)	(105.8)	858.7	141.1
Margins					
Gross Margins (%)	29.2	30.7	29.7	28.2	19.9
Opp Profit Margins (%)	9.3	(4.7)	4.7	5.1	14.3
Net Profit Margins (%)	8.2	(16.9)	0.9	8.2	14.6

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	3,166	2,716	2,044	1,955	1,875
Invs in Associates & JVs	6,351	5,991	6,050	6,447	6,926
Other LT Assets	7,506	9,011	9,383	9,383	9,383
Cash & ST Invs	1,899	2,614	3,644	2,600	3,975
Inventory	9,040	7,617	7,774	8,723	5,406
Debtors	2,748	2,531	2,169	1,956	1,908
Other Current Assets	611	1,627	1,260	1,260	1,260
Total Assets	31,322	32,106	32,323	32,324	30,732
ST Debt	4,555	4,433	4,659	4,659	4,659
Creditor	4,605	4,604	5,099	5,186	3,035
Other Current Liab	2,787	3,050	2,200	1,859	1,869
LT Debt	6,504	7,607	6,796	6,796	6,796
Other LT Liabilities	1,224	1,257	1,127	1,127	1,127
Shareholder's Equity	11,211	10,728	11,655	11,892	12,424
Minority Interests	435	427	786	803	822
Total Cap. & Liab.	31,322	32,106	32,323	32,324	30,732
Non-Cash Wkg. Capital	5,008	4,120	3,903	4,893	3,669
Net Cash/(Debt)	(9,161)	(9,425)	(7,811)	(8,855)	(7,480)
Debtors Turn (avg days)	131.2	146.6	99.4	96.8	92.9
Creditors Turn (avg days)	335.6	402.3	285.7	375.3	315.2
Inventory Turn (avg days)	662.2	727.6	453.2	601.9	541.8
Asset Turnover (x)	0.3	0.2	0.3	0.2	0.2
Current Ratio (x)	1.2	1.2	1.2	1.2	1.3
Quick Ratio (x)	0.4	0.4	0.5	0.4	0.6
Net Debt/Equity (X)	0.8	0.8	0.6	0.7	0.6
Net Debt/Equity ex MI (X)	0.8	0.9	0.7	0.7	0.6
Capex to Debt (%)	4.5	4.0	(0.5)	2.6	2.6
Z-Score (X)	1.2	1.1	1.2	1.2	1.2

Source: Company, DBS Bank

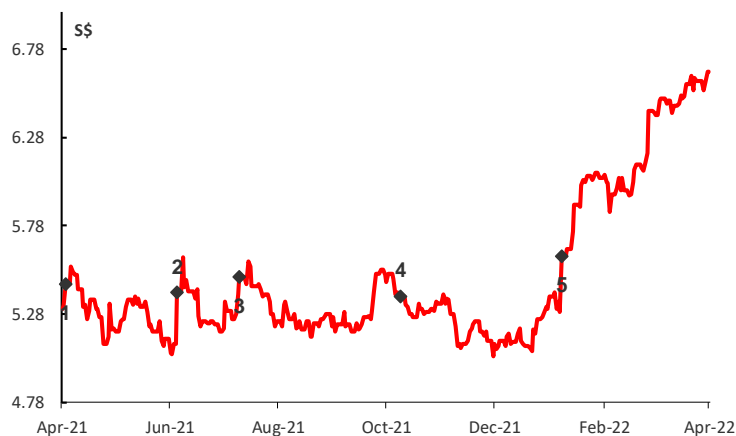
Keppel Corporation

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	953	(255)	1,335	1,118	1,227
Dep. & Amort.	375	414	406	389	379
Tax Paid	(264)	(177)	(260)	(505)	(263)
Assoc. & JV Inc/(loss)	(147)	162	(467)	(347)	(431)
Chg in Wkg.Cap.	(1,437)	595	(187)	(747)	1,191
Other Operating CF	(306)	(536)	(1,103)	0.0	0.0
Net Operating CF	(825)	202	(276)	(92.5)	2,104
Capital Exp.(net)	(501)	(484)	54.3	(300)	(299)
Other Invs.(net)	(1,116)	332	1,146	0.0	0.0
Invs in Assoc. & JV	(450)	(367)	514	(250)	(249)
Div from Assoc & JV	378	245	311	200	201
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(1,688)	(274)	2,025	(350)	(347)
Div Paid	(430)	(297)	(357)	(601)	(382)
Chg in Gross Debt	3,050	1,081	(599)	0.0	0.0
Capital Issues	0.14	0.0	398	0.0	0.0
Other Financing CF	(274)	0.22	(108)	0.0	0.0
Net Financing CF	2,346	784	(666)	(601)	(382)
Currency Adjustments	(27.3)	(9.8)	53.4	0.0	0.0
Chg in Cash	(195)	702	1,137	(1,043)	1,375
Opg CFPS (S cts)	33.6	(21.5)	(4.9)	35.9	50.1
Free CFPS (S cts)	(72.9)	(15.5)	(12.2)	(21.6)	99.2

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Apr 21	5.45	6.20	BUY
2:	25 Jun 21	5.40	6.20	BUY
3:	30 Jul 21	5.49	6.20	BUY
4:	29 Oct 21	5.38	6.20	BUY
5:	28 Jan 22	5.61	6.90	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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