

Singapore

Overweight (no change)

Highlighted Companies

Keppel Corporation**ADD, TP S\$7.20, S\$6.66 close**

We estimate KEP's share price accretion post dividend-in-specie from the proposed merger of Keppel O&M and SMM to range from S\$0.48 to S\$1.43. Our last SOP target was S\$7.20.

Sembcorp Marine**HOLD, TP S\$0.09, S\$0.131 close**

We see temporary share price pressure on SMM as it could trade at an implied combined entity 1x P/BV or S\$0.07 as it could take time to restructure for growth and back to profitability. The estimated net loss for the combined entity is S\$1.3bn for FY21 on a proforma basis.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Keppel Corporation	14.09	14.70	15.08
Sembcorp Marine	NA	NA	NA
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Keppel Corporation	0.97	0.95	0.92
Sembcorp Marine	1.14	1.17	1.20
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Keppel Corporation	3.90%	4.08%	3.98%
Sembcorp Marine	0.00%	0.00%	0.00%

Offshore & Marine

Accretive for KEP, takes time for CE to grow

- We estimate KEP's share price accretion post dividend-in-specie from the proposed merger of Keppel O&M and SMM to range from S\$0.48 to S\$1.43.
- The above takes into account a range of dividend in specie in the new combined entity, Bayberry, of between S\$1.28 and S\$2.22/share.
- The deal, which is set to complete by end-22, favours KEP more than SMM, in our view. SMM's restructuring into a mega yard for growth could take time.

KOM and SMM merger confirmed

KOM, excluding its out-of-scope assets (e.g. Floatel and Dyna-Mac) and Asset Co (includes KOM's legacy rigs and associated receivables), will merge with SMM to form the combined entity, named Bayberry Ltd (a listed entity in Singapore), with a focus on offshore renewables, new energy, and cleaner O&M solutions. This is a long-awaited deal that should result in synergies between Keppel Offshore & Marine (KOM) and SMM to expand their track records and capabilities, as well as orderbook to S\$6.4bn.

Total consideration at S\$5.37bn based on S\$0.122/Bayberry share

KEP will receive a 56% equity interest in Bayberry, of which 46% will be distributed in-specie to KEP shareholders and the remaining 10% retained in a segregated account for certain identified contingent liabilities (specified events that KEP could be liable for) up to 48 months from transaction completion. KEP also receives S\$500m cash from KOM. KOM shares will be issued at S\$0.122/share based on the 10-day trading VWAP as of 26 Apr of SMM. Total consideration amounts to S\$5.374bn. SMM shareholders will receive the remaining 44% stake in Bayberry. Merger to complete by 4Q22 subject to approvals.

Asset Co with legacy rigs to be transferred at book value

KEP will enter into an agreement with Kyanite (indirect wholly owned subsidiary of Temasek) and Baluran Ltd for the sale of KOM's legacy rigs and associated receivables to Asset Co. Fair value of Asset Co is reported to be S\$4.05bn (at book value). Post-transaction, KEP will receive a 10% stake in Asset Co, S\$120m in perpetual securities (10% coupon rate), and S\$3.9bn vendor notes (10 years at 2% coupon rate). Kyanite and Baluran will own 15.1% and 74.9% of Asset Co, respectively. Following which, Asset Co will enter into a master services agreement with Bayberry, through KOM, for the completion of certain uncompleted rigs and provision of other services.

Premium valuations for KEP O&M; what do KEP shareholders get?

Given the complexity of the deal, both SMM and KEP management's valuations of the final consideration and stakes are based on DCF and value-in-use methodology. We estimate the valuation ascribed for KEP O&M at 3.8x (based on S\$0.122/Bayberry share) vs. SMM's c.1x P/BV prior to the announcement. We estimate KEP's share price accretion post dividend-in-specie from the proposed merger of Keppel O&M and SMM to range from S\$0.48 to S\$1.43, depending on Bayberry's trading price (Fig 2). We prefer KEP in this as the efforts to monetise have come into fruition with room to expand into other growth areas. SMM's share price could retrace to reflect the potential book value of Bayberry (S\$0.07).

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Figure 1: KEP's shareholders could see post DIS accretion of S\$0.48-S\$1.43

Implied valuations (P/BV) x for KOM	Share price of CE (S\$)	KEP 56% shares in CE (S\$m)	Total consideration (S\$m)	KEP 46% DIS in CE (S\$m)	DIS Per share (S\$)	Accretion per KEP share post DIS
3.8	0.12	4,874	5,374	4,004	\$ 2.22	\$ 1.43
3.4	0.11	4,394	4,894	3,610	\$ 2.01	\$ 1.21
3.1	0.10	3,995	4,495	3,282	\$ 1.82	\$ 1.03
2.9	0.09	3,595	4,095	2,953	\$ 1.64	\$ 0.85
2.6	0.08	3,196	3,696	2,625	\$ 1.46	\$ 0.67
2.3	0.07	2,796	3,296	2,297	\$ 1.28	\$ 0.48

SOURCES: CGS-CIMB RESEARCH, COMPANY

Figure 2: Sensitivity

KEP shareholders		Implied valuations (P/BV) x for KOM	Share price of CE (S\$)	KEP 56% shares in CE (S\$m)	Total consideration (S\$m)	KEP 46% DIS in CE (S\$m)	DIS Per share (S\$)	Accretion per KEP share post DIS
		(E) / (J)	(B)	(C=AxB)	(E=C+D)	(F=46%xE)	(H=F/G)	(H) - (K)
No of shares (m) (G)	1,800	3.8	0.12	4,874	5,374	4,004	\$ 2.22	\$ 1.43
Cash from KOM (S\$m) (D)	500	3.4	0.11	4,394	4,894	3,610	\$ 2.01	\$ 1.21
Cash/share (S\$)	0.28	3.1	0.10	3,995	4,495	3,282	\$ 1.82	\$ 1.03
		2.9	0.09	3,595	4,095	2,953	\$ 1.64	\$ 0.85
Net asset of KOM (S\$m) (J)	1,427	2.6	0.08	3,196	3,696	2,625	\$ 1.46	\$ 0.67
NAV/share of KOM (S\$) (K)	0.79	2.3	0.07	2,796	3,296	2,297	\$ 1.28	\$ 0.48
		2.0	0.06	2,397	2,897	1,969	\$ 1.09	\$ 0.30
		1.8	0.05	1,997	2,497	1,641	\$ 0.91	\$ 0.12
		1.6	0.05	1,798	2,298	1,477	\$ 0.82	\$ 0.03
		1.5	0.04	1,598	2,098	1,313	\$ 0.73	\$ (0.06)
		1.2	0.03	1,198	1,698	984	\$ 0.55	\$ (0.25)

Combined Entity (CE)	No. of shares
KEP share (A)	39,950
SMM share	31,389
Total	71,339

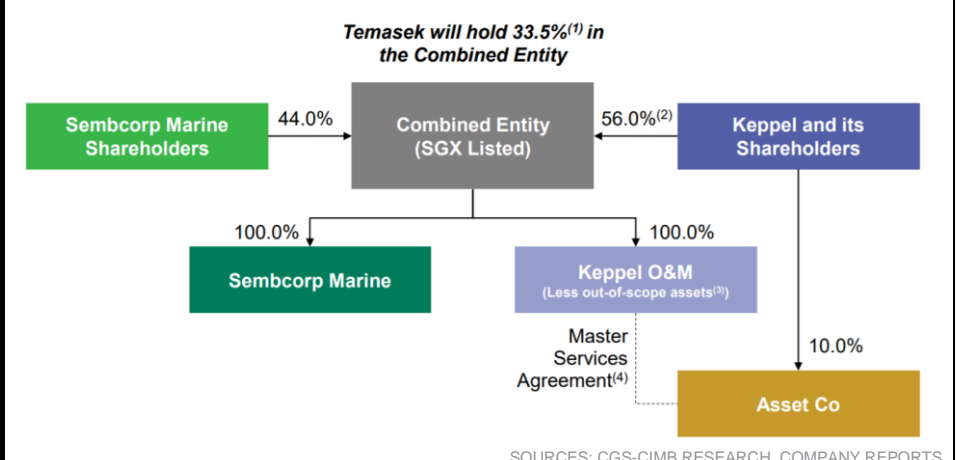
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Implied P/BV of Combined Entity and share price

Implied P/BV (x) of CE	Share price of Combined Entity	Implied P/BV (x) of CE	Share price of Combined Entity
0.6	\$ 0.04	1.3	\$ 0.09
0.7	\$ 0.05	1.4	\$ 0.10
0.8	\$ 0.06	1.5	\$ 0.11
1	\$ 0.07	1.6	\$ 0.11
1.1	\$ 0.08	1.7	\$ 0.12
1.2	\$ 0.08	1.8	\$ 0.13

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Shareholdings post merger



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified,

CPF – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.