

COMPANY UPDATE

Keppel (KEP SP)

A Generally Positive Business Update With Asset Sales To Look Forward To

KEP's 9M23 business update was in line and generally positive although China real estate was the key drag as expected. In the near to medium term, asset monetisation as well as the potential sale of rigs within the Asset Co could be key share price drivers. In our view, KEP's valuations are very attractive with 2024F PE of 11.7x and P/B of 0.9x. Maintain BUY. Target price: S\$9.09.

WHAT'S NEW

- Some hits, some misses.** Keppel (KEP) reported an in-line 9M23 business update with revenue from continuing operations rising by 5% yoy to S\$5.3b (or 75% of our full-year revenue estimates), bolstered by the infrastructure and connectivity segments. While a net profit number was not disclosed, KEP stated that its 9M23 net profit grew "significantly" while 3Q23 net profit was also higher yoy. In the near to medium term, it would appear that potential rig sales by Asset Co, and thus early repayment of credit notes, may be a share price catalyst. As has been the case for the past few years, it was the company's real estate segment in China that appears to be a drag on overall performance with a 30% qoq decline in home sales.
- Gearing rises on a sequential basis.** At end-3Q23, KEP's net gearing rose to 0.89x vs 0.86x at end-1H23. On the results call, the company stated that it is currently not worried given that this increase is, in part, due to the slower-than-expected pace of its asset monetization. However, management highlighted that it has met these targets. In the medium term, it will not allow its gearing to go beyond 1.0x and will look to lower its current gearing. Management also pointed out that as the fee-income business gains more traction, it will focus increasingly on net debt/EBITDA instead. KEP also reiterated that it will stick to strategy of delivering returns to its shareholders with total distributions in 2023 amounting to S\$2.70/share comprising cash dividends and the distribution in-specie of Keppel REIT.
- Infrastructure continues to perform well.** For 9M23, revenue at KEP's infrastructure segment rose 11% yoy to S\$3.6b with the management commenting during its results call that its integrated power business outperformed owing to a combination of the age of its generation assets (one of the youngest in Singapore) as well as its efficient operations which led to higher margins. In addition, it stated that the volatility seen in the in Uniform Singapore Electricity Price (USEP) this year has allowed the infrastructure segment to capture additional margins within its contracted capacity.

KEY FINANCIALS

| Year to 31 Dec (S\$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|-------|-------|-------|-------|-------|
| Net turnover | 6,611 | 6,620 | 7,061 | 7,465 | 7,894 |
| EBITDA | 1,536 | 807 | 972 | 1,052 | 1,134 |
| Operating profit | 1,129 | 565 | 680 | 711 | 743 |
| Net profit (rep./act.) | 1,010 | 933 | 958 | 982 | 1,007 |
| Net profit (adj.) | 1,010 | 933 | 958 | 982 | 1,007 |
| EPS (S\$ cent) | 55.2 | 51.9 | 52.1 | 53.4 | 54.8 |
| PE (x) | 11.3 | 12.0 | 12.0 | 11.7 | 11.4 |
| P/B (x) | 0.9 | 1.0 | 0.9 | 0.9 | 0.9 |
| EV/EBITDA (x) | 13.0 | 24.8 | 20.6 | 19.0 | 17.7 |
| Dividend yield (%) | 5.3 | 5.3 | 3.4 | 3.5 | 3.6 |
| Net margin (%) | 15.3 | 14.1 | 13.6 | 13.2 | 12.8 |
| Net debt/(cash) to equity (%) | 65.0 | 78.1 | 71.5 | 71.1 | 70.9 |
| Interest cover (x) | n.a. | 128.2 | 154.3 | 167.0 | 180.1 |
| ROE (%) | 8.9 | 7.9 | 8.1 | 7.9 | 7.7 |
| Consensus net profit | - | - | 1,411 | 985 | 1,068 |
| UOBKH/Consensus (x) | - | - | 0.68 | 1.00 | 0.94 |

Source: Keppel, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|---------|
| Share Price | S\$6.25 |
| Target Price | S\$9.09 |
| Upside | +45.4% |

COMPANY DESCRIPTION

Keppel is a conglomerate with four core businesses: energy & environment, urban development, connectivity and asset management.

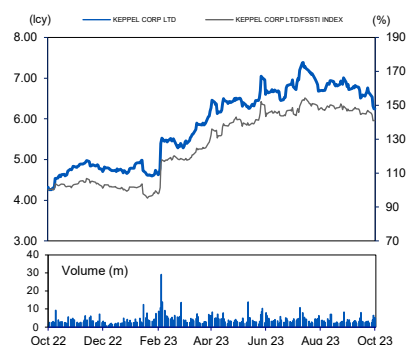
STOCK DATA

| | |
|---------------------------------|-----------------|
| GICS sector | Industrials |
| Bloomberg ticker: | KEP SP |
| Shares issued (m): | 1,762.2 |
| Market cap (S\$m): | 11,014.0 |
| Market cap (US\$m): | 8,016.6 |
| 3-mth avg daily t'over (US\$m): | 18.5 |
| Price Performance (%) | |
| 52-week high/low | S\$7.39/S\$4.26 |

| 1mth | 3mth | 6mth | 1yr | YTD |
|-------|-------|------|------|------|
| (8.0) | (8.9) | 1.0 | 44.9 | 32.1 |

| Major Shareholders | | % |
|---------------------------|--|------|
| Temasek Hldgs | | 21.0 |
| - | | - |
| - | | - |
| FY23 NAV/Share (S\$) | | 6.68 |
| FY23 Net Debt/Share (S\$) | | 4.77 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Growing its infrastructure portfolio.** To date, KEP has signed S\$1.3b of new energy-as-a-service contracts across Singapore, Thailand and Vietnam while supply and services contracts with S\$4.1b in revenue over the next 10-15 years will underpin the company's long-term recurring income. We expect the company to continue to grow this part of the business as outlined in its strategy out to 2030. In its home market of Singapore, its integrated power business, as well as regional electricity imports, are backed by the Energy Market Authority's forecast for higher energy consumption in the medium to longer term as a result of demand from data centres and manufacturing. KEP also noted that there is material demand for 'low carbon power' from customers who want greener electricity.
- China real estate still a drag.** Given the market's and our expectations for a 2H24 recovery in China's real estate sector, this segment could remain a drag on KEP's earnings in the medium term. As a result, management commented that it has recently refreshed its China real estate strategy to focus on: a) sustainability-related solutions, b) integrated senior living solutions (which KEP will also roll out across the Asia-Pacific region), and c) segments that benefit from Chinese government policy support. Interestingly, KEP also stated that it has seen more interest in its funds from its Chinese Limited Partners.
- Connectivity continues to perform well with 9M23 revenue up 8.3% yoy.** M1's plans to migrate its consumers to a new cloud native digital plan is on track for completion by end-23. Importantly, its enterprise revenue continues to grow well having doubled since 2019, and now comprises nearly two-fifths of M1's revenue at S\$343m for 9M23 (2022: S\$387m). On the data centre front, KEP stated that it has a robust pipeline of projects in new markets with its latest Huailai Data Centre in Greater Beijing having reached 100% utilisation by end-3Q23, and another two in Shanghai and Guangzhou being developed.
- Share buyback ruled out.** During the results call, management ruled out the likelihood of a share buyback. It pointed out that its previous S\$500m share buyback had been undertaken to accumulate shares as currency in the event of a potential M&A, however given that the M&A environment has slowed significantly, it does not foresee a need for further buybacks.

EARNINGS REVISION/RISK

- None.

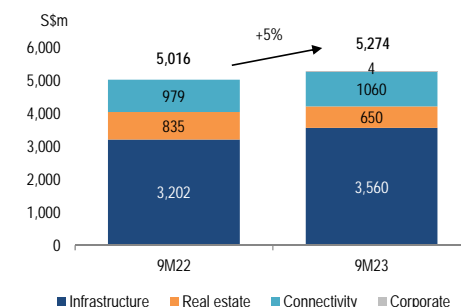
VALUATION/RECOMMENDATION

- We retain our BUY rating on KEP and maintain our SOTP-based target price of S\$9.09.** After the KOM divestment, the company should gradually become one that is more asset-light with a solid recurring earnings stream, and eventually achieve its 15% ROE target vs 8.3% in 1H23. KEP currently trades at 2024F PE of 11.7x and P/B of 0.9x which we view as far from being egregious, especially considering the company's more stable earnings stream given the divestment of its offshore marine business.
- Asset monetisation and sale of rigs.** In the near term, we believe that the market will focus on KEP's asset monetisation announcements as this could bolster earnings in the near to medium term, as well as the potential sale of rigs within the Asset Co. We point out that the offshore marine is in an upcycle with both shallow and deepwater rig dayrates and utilisation rates hitting multi-year highs in 2023 (with forward contracts in 2024 likely to be 10-20% higher), and thus we view the latter as being highly likely in the next six months.

SHARE PRICE CATALYSTS

- Successful sale of rigs within the Asset Co and earlier-than-expected return of credit notes; continued growth in AUM of its asset management business; earnings-accretive investments and contract wins in its infrastructure segment.

REVENUE BY SEGMENT



Note: Energy & environment excludes contribution from discontinued operations
Source: KEP

FIVE-YEAR P/B CHART



Source: Bloomberg

KEPPEL LAND'S HOME SALES

| | 1Q23 | 2Q23 | 3Q23 | qoq chg |
|--------------|--------------|------------|------------|---------------|
| China | 830 | 370 | 260 | -29.7% |
| Singapore | 20 | 20 | 0 | -100.0% |
| Vietnam | 0 | 0 | 0 | NM |
| India | 800 | 70 | 160 | 128.6% |
| Indonesia | 20 | 40 | 30 | -25.0% |
| Total | 1,670 | 500 | 450 | -10.0% |

Source: UOB Kay Hian

SOTP VALUATION

| Segment | S\$m | S\$/share |
|--------------------------|-------|-------------|
| Infrastructure & others | 376 | 0.21 |
| Urban Development | 3,911 | 2.23 |
| Connectivity | 1,040 | 0.59 |
| Asset Management | 4,665 | 2.66 |
| Tianjin Eco-City | 471 | 0.27 |
| KREIT | 797 | 0.46 |
| Keppel DC REIT | 587 | 0.33 |
| Others | 860 | 0.49 |
| Asset Co valuation | 4,979 | 2.84 |
| Less 10% holdco discount | | -1.01 |
| Total EV | | 9.09 |

Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 6,620 | 7,061 | 7,465 | 7,894 |
| EBITDA | 807 | 972 | 1,052 | 1,134 |
| Deprec. & amort. | 242 | 292 | 341 | 391 |
| EBIT | 565 | 680 | 711 | 743 |
| Total other non-operating income | 0 | 0 | 0 | 0 |
| Associate contributions | 536 | 536 | 536 | 536 |
| Net interest income/(expense) | (6) | (6) | (6) | (6) |
| Pre-tax profit | 1,095 | 1,210 | 1,240 | 1,273 |
| Tax | (245) | (271) | (278) | (285) |
| Minorities | 17 | 19 | 19 | 20 |
| Preferred dividends | 0 | 0 | 0 | 0 |
| Net profit | 933 | 958 | 982 | 1,007 |
| Net profit (adj.) | 933 | 958 | 982 | 1,007 |

CASH FLOW

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|---|----------------|--------------|--------------|--------------|
| Operating | 181 | 4,191 | 200 | 374 |
| Pre-tax profit | 1,095 | 1,210 | 1,240 | 1,273 |
| Tax | (388) | (244) | (270) | (277) |
| Deprec. & amort. | 242 | 292 | 341 | 391 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | 426 | 3,469 | (575) | (477) |
| Non-cash items | 0 | 0 | 0 | 0 |
| Other operating cashflows | (1,194) | (536) | (536) | (536) |
| Investing | (589) | (876) | (876) | (876) |
| Capex (growth) | (696) | (696) | (696) | (696) |
| Capex (maintenance) | 0 | 0 | 0 | 0 |
| Investments | (544) | (200) | (200) | (200) |
| Proceeds from sale of assets | 83 | 20 | 20 | 20 |
| Others | 568 | 0 | 0 | 0 |
| Financing | (1,522) | 1,407 | 1,398 | 1,387 |
| Dividend payments | (688) | (384) | (393) | (404) |
| Issue of shares | (500) | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | (336) | 0 | 0 | 0 |
| Others/interest paid | 3 | 1,791 | 1,791 | 1,791 |
| Net cash inflow (outflow) | (1,929) | 4,722 | 722 | 885 |
| Beginning cash & cash equivalent | 4,753 | 2,823 | 7,546 | 8,268 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 2,823 | 7,546 | 8,268 | 9,152 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets | 977 | 1,361 | 1,696 | 1,981 |
| Other LT assets | 15,078 | 18,396 | 18,432 | 18,668 |
| Cash/ST investment | 1,142 | 1,491 | 1,122 | 715 |
| Other current assets | 13,738 | 5,752 | 6,499 | 7,159 |
| Total assets | 30,935 | 27,000 | 27,749 | 28,524 |
| ST debt | 3,578 | 3,578 | 3,578 | 3,578 |
| Other current liabilities | 7,783 | 3,293 | 3,472 | 3,663 |
| LT debt | 6,603 | 6,603 | 6,603 | 6,603 |
| Other LT liabilities | 1,058 | 1,058 | 1,058 | 1,058 |
| Shareholders' equity | 11,580 | 12,153 | 12,742 | 13,346 |
| Minority interest | 334 | 315 | 295 | 276 |
| Total liabilities & equity | 30,935 | 27,000 | 27,749 | 28,524 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 12.2 | 13.8 | 14.1 | 14.4 |
| Pre-tax margin | 16.5 | 17.1 | 16.6 | 16.1 |
| Net margin | 14.1 | 13.6 | 13.2 | 12.8 |
| ROA | 2.9 | 3.3 | 3.6 | 3.6 |
| ROE | 7.9 | 8.1 | 7.9 | 7.7 |
| Growth | | | | |
| Turnover | 0.1 | 6.7 | 5.7 | 5.7 |
| EBITDA | (47.4) | 20.4 | 8.3 | 7.8 |
| Pre-tax profit | (32.0) | 10.5 | 2.5 | 2.6 |
| Net profit | (7.6) | 2.7 | 2.5 | 2.6 |
| Net profit (adj.) | (7.6) | 2.7 | 2.5 | 2.6 |
| EPS | (5.8) | 0.3 | 2.5 | 2.6 |
| Leverage | | | | |
| Debt to total capital | 46.1 | 45.0 | 43.8 | 42.8 |
| Debt to equity | 87.9 | 83.8 | 79.9 | 76.3 |
| Net debt/(cash) to equity | 78.1 | 71.5 | 71.1 | 70.9 |
| Interest cover (x) | 128.2 | 154.3 | 167.0 | 180.1 |

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