

Singapore Company Update

Keppel Infrastructure Trust

Bloomberg: KIT SP | Reuters: KEPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2023

BUY

Last Traded Price (3 Nov 2023): S\$0.485 (STI : 3,143.66)

Price Target 12-mth: S\$0.57 (17% upside)

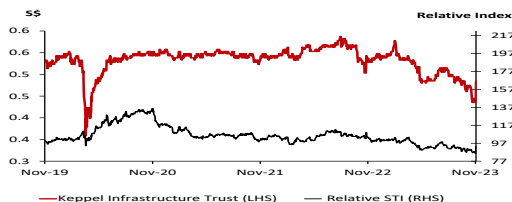
Analyst

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What's New

- Special distribution of 2.33 Scts in 3Q23 catches us by surprise; base distribution of 0.97 Scts for 3Q23 in line
- Special distribution is driven by successful value creation at key assets like Ixom and CityEnergy
- Business model remains largely recession proof and inflation proof; credit metrics healthy
- Recent share price weakness overdone in our view; maintain BUY with TP of S\$0.57

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	1,575	2,006	2,080	2,064
EBITDA	290	361	408	404
Pre-tax Profit	(122)	23.5	112	116
Net Profit	(129)	0.87	88.6	94.1
Net Pft (Pre Ex.)	33.1	69.0	88.6	94.1
Net Pft Gth (Pre-ex) (%)	(44.3)	108.7	28.5	6.2
EPS (S cts)	(2.6)	0.02	1.67	1.67
EPS Pre Ex. (S cts)	0.66	1.38	1.67	1.67
EPS Gth Pre Ex (%)	(44)	109	21	0
Diluted EPS (S cts)	(2.6)	0.02	1.67	1.67
Net DPS (S cts)	3.78	3.82	6.20	4.00
BV Per Share (S cts)	22.3	19.3	19.3	15.9
PE (X)	nm	2789.2	29.1	29.0
PE Pre Ex. (X)	73.2	35.1	29.1	29.0
P/Cash Flow (X)	9.7	8.2	10.6	12.6
EV/EBITDA (X)	13.9	16.1	14.2	14.7
Net Div Yield (%)	7.8	7.9	12.8	8.2
P/Book Value (X)	2.2	2.5	2.5	3.1
Net Debt/Equity (X)	0.6	1.3	1.2	1.3
ROAE (%)	(11.4)	0.1	8.9	9.8
Earnings Rev (%):		0	0	0

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

Special dividend bonanza for unitholders

Investment Thesis:

Exposure to diverse infrastructure segments with growing focus on renewables. KIT's strategy is leveraged to investing in sustainability-linked infrastructure, a secular growth trend. With a portfolio AUM of S\$7.3bn, KIT has a presence in mostly mature investment grade jurisdictions in the region. The renewable energy portfolio constitutes around 10% of AUM currently, and KIT aims to grow this to 25% of AUM in the long term.

Strong inorganic growth trajectory. KIT completed a significant line-up of deals in 2022 to drive growth, which has been accretive to distributable income (DI) in FY23, with c.32% of 9M23 DI coming from new acquisitions. This includes its entry into the renewable energy space as well, which should boost the trust's ESG credentials. KIT successfully completed a S\$300m equity fundraising exercise in FY23, which has lowered gearing and created further debt headroom for growth.

Distributions largely not affected by economic cycles, which is a rarity compared to the SREIT space. KIT's portfolio comprises critical infrastructure assets, which are not typically impacted by the pandemic or economic downturns, and where costs can be mostly passed through. Exposure to interest rate hikes is also not a big worry, with approximately 78% of interest rate exposure hedged. KIT also maintains enough distribution buffers to ensure smooth distributions. There could be more dynamism in DPU under the new CEO, in our view, with a special dividend declared in 3Q23.

Yields appear attractive, maintain BUY. Based on our DDM-based valuation methodology (cost of equity: 7.9%), we derive a valuation of S\$0.57 per share, adjusted for the recent equity fundraising exercise. The trust is currently trading at a healthy yield of around 9% (excluding special distributions), following the recent dip in its share price following global trends and the tightening of yield spreads, and we believe this represents a very attractive entry point for investors.

Key Risks

Key risks include (i) plants not meeting availability thresholds owing to operational issues, (ii) increasing debt refinancing risks for the asset portfolio as the assets age, and (iii) exposure to increases in inflation and interest rates hikes.

At A Glance

Issued Capital (m shrs)	4,992
Mkt. Cap (S\$m/US\$m)	2,421 / 1,788
Major Shareholders (%)	
Keppel Corp Ltd	18.2
BARTLEY INVESTMENT	8.0
Free Float (%)	73.8
3m Avg. Daily Val (US\$m)	2.1
GIC Industry : Utilities / Multi Utilities	

WHAT'S NEW

Trust makes a statement under new CEO with special dividend bonanza

Special distribution in 3Q23 a positive surprise. KIT departed from recent tradition (semi-annual reporting and distributions) under new CEO Kevin Neo (replacing Jopy Chiang, who has moved on to a different role in the Keppel group) and not only reported 3Q results and steady 3Q23 distributions (0.97Scts), but also took us by surprise by announcing a special dividend of 2.33Scts for the quarter to reward longtime unitholders.

Total 3Q23 DPU (ex-date: 9 Nov 23 and pay date: 20 Nov 23) would thus be around 3.30Scts (handy 7.5% yield for just one quarter) and 9M23 DPU will be around 5.23Scts, implying full-year FY23 DPU of around 6.20Scts or a 14% dividend yield at current prices. This compares to 3.82Scts DPU last year in FY22, which was slightly above the stable baseline DPU of 3.72Scts that KIT had paid out on a legacy basis from FY15-20. **FY23 distributions will thus represent a blowout year for unitholders who have patiently stayed with KIT.**

In terms of financials, KIT recorded S\$266.1m in distributable income (DI) for 9M23, up 93% y-o-y, but this was made possible by the addition of "capital optimisation" proceeds of S\$131.2m to the DI for the third quarter, which pays for the special dividend. Excluding these proceeds and corporate expenses, asset-level cash flows were up 14.7% y-o-y in 9M23, driven by contribution from new acquisitions completed in FY22; EBITDA was up 28% y-o-y in 9M23.

What is the "capital optimisation?" Essentially, this is a partial crystallisation of the value created by KIT's management from growing EBITDA at Ixom and CityEnergy, which has enabled the trust to refinance borrowings with upsized credit facilities on the back of much stronger EBITDA levels. The capital optimisation concluded this year has yielded S\$273m in funds for the trust, part of which (S\$142m) has been earlier used to pay down bridge loans taken to fund acquisitions completed in FY22, and the remaining S\$131m is now being used to fund the special distribution for unitholders. We believe the timing of the special distribution ties in with the successful refinancing completed at Ixom recently, where we have seen 52% growth in EBITDA from FY19-23 levels, driven by organic and inorganic factors, which has allowed the trust to optimise capital structure there and share some of the gains with unitholders.

Credit metrics remain healthy. At the end of 3Q23, net gearing (debt/asset) stood at 36.8%, down from 38.5% as of end-1H23 and the recent high level of 42.5% as of end-1Q23. Thus, KIT has around S\$825m remaining in debt headroom to reach the 45% net gearing level, which is the S-REIT benchmark. Of course, business trusts have no regulatory gearing limit, and can lever up more if required.

KIT's weighted average interest rate fell by 10bps from 3.8% at end-1H23 to 3.7% at end-3Q23, despite the Ixom refinancing. According to management, around 79% of debt is fixed and hedged, and a 100bps change in interest rates would have around a 1.5% impact to distributable income. Given the inorganic growth in distributable income expected in FY23 well exceeds that percentage, the impact of higher interest rates should not affect base DPU in FY23. The weighted average term to maturity of debt is around 3.4 years and no major refinancing is required in FY24/25.

Outlook – more focus on rewarding unitholders? Despite the presence of some one-offs in 3Q23, like refinancing fees, higher capex and taxes, and a weaker AUD at Ixom and lower availability fees at the Senoko wastewater plant, cash flow generation continued to be robust overall in 9M23, driven by the acquisitions completed in FY22, which was a very eventful year for KIT in terms of growing its portfolio.

Under the new management team, we could be in for more excitement hereon, evidenced by moves to better reward unitholders based on the strength in the earnings and valuations of its underlying portfolio. While this level of special distributions cannot be expected on a regular basis, management indicated that this is not a one-off and efforts will be made to share the proceeds of "capital optimisation" with unitholders from time to time. This means there could be an upside to our base case distribution forecasts hereon.

The trust is currently trading at around 9% yield (ex-special distributions) with its share price having retreated from S\$0.52 to S\$0.44 over the last three-odd months, in line with interest rate hikes affecting market sentiment and the closest comparable S-REIT sector declining as well. However, unlike many S-REITs, the trust has limited exposure to economic cycles, counterparty issues, energy inflation, or interest rate increases, so we believe its share price has been over-penalised and represents a great opportunity to accumulate, given a more dynamic management stance towards DPU growth. **Maintain BUY with a DDM-based TP of S\$0.57 (implied 7% target yield).**

Company Background

Keppel Infrastructure Trust (KIT) is the largest infrastructure-focused Singapore business trust, deriving long-term predictable cash flows from a diversified portfolio of assets in key strategic areas – energy transition, distribution & storage, and environmental services – in Singapore and Australia.

Keppel Infrastructure Trust

9M23 Distributable Income breakdown

FY Dec (\$m)	9M22	9M23	% chg_yoy
City Energy	24.3	44.2	82.3%
Waste & Water Concessions	56.0	53.4	-8%
KMC	33.0	-	nm
Ixom	58.7	39.4	-32.9%
Philippine Coastal	3.4	6.2	81.7%
Aramco Gas Pipelines	8.0	36.5	>100%
European Onshore Wind	-	1.9	nm
BKR2 Offshore Wind	-	24.4	nm
EMK	--	4.2	nm
Corporate	(45.6)	(75.4)	65.1%
Sub-Total	137.7	134.9	-2.0%
Capital Optimisation	-	131.2	nm
Distributable Income	137.7	266.1	93.2%

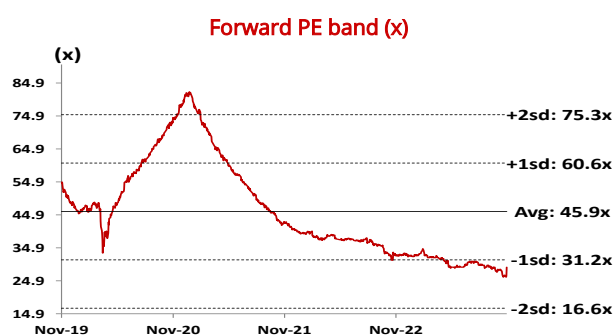
Note: Corporate expenses include trust expenses and distribution paid/payable to perpetual securities holders, management fees, and financing costs

Other explanations:

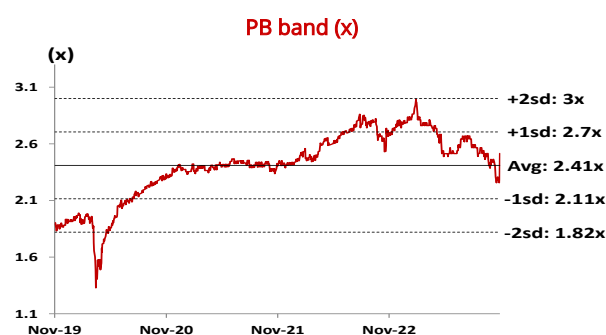
- 1) Corporate expenses increased due to higher management fees from the capital optimisation of S\$131.2m in the group's 9M 2023 distributable income, the issuance of the Series 4 Medium Term Notes on 5 May 2022, and draw down of equity bridge loans to fund the acquisitions of EMK and BKR2 in 2H 2022
- 2) KMC distributions are absent in 9M23, as cash flows were diverted towards loan amortisation payments
- 3) Ixom contributions in 9M23 are lower owing to one-off refinancing-related fees, higher capex and taxes, as well as translation effects from a weaker AUD
- 4) Waste & water assets' contributions are slightly weaker in 9M23 owing to lower availability fees from the Senoko WTE Plant, which has been recovered from the operator in Oct 2023

Source: Company, DBS Bank

Historical PE and PB band



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



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

Keppel Infrastructure Trust

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	1,552	1,575	2,006	2,080	2,064
Cost of Goods Sold	(1,333)	(1,423)	(1,792)	(1,863)	(1,848)
Gross Profit	219	152	214	218	215
Other Opng (Exp)/Inc	(12.2)	(12.4)	(41.5)	(25.0)	(25.0)
Operating Profit	207	140	173	193	190
Other Non Opng (Exp)/Inc	(6.7)	(11.6)	26.3	0.0	0.0
Associates & JV Inc	0.0	0.89	4.39	68.3	68.7
Net Interest (Exp)/Inc	(138)	(89.3)	(112)	(149)	(143)
Exceptional Gain/(Loss)	(93.7)	(162)	(68.1)	0.0	0.0
Pre-tax Profit	(31.3)	(122)	23.5	112	116
Tax	(20.8)	(16.0)	(26.3)	(27.8)	(27.2)
Minority Interest	32.0	30.8	30.8	32.0	32.0
Preference Dividend	(14.3)	(21.5)	(27.2)	(27.2)	(27.2)
Net Profit	(34.4)	(129)	0.87	88.6	94.1
Net Profit before Except.	59.3	33.1	69.0	88.6	94.1
EBITDA	379	290	361	408	404
Growth					
Revenue Gth (%)	(0.9)	1.5	27.4	3.7	(0.8)
EBITDA Gth (%)	32.9	(23.3)	24.3	12.9	(0.8)
Opg Profit Gth (%)	82.2	(32.5)	23.4	11.7	(1.2)
Net Profit Gth (Pre-ex) (%)	nm	(44.3)	108.7	28.5	6.2
Margins & Ratio					
Gross Margins (%)	14.1	9.7	10.7	10.5	10.4
Opg Profit Margin (%)	13.3	8.9	8.6	9.3	9.2
Net Profit Margin (%)	(2.2)	(8.2)	0.0	4.3	4.6
ROAE (%)	(2.8)	(11.4)	0.1	8.9	9.8
ROA (%)	(0.7)	(2.7)	0.0	1.5	1.7
ROCE (%)	4.5	3.3	(0.4)	2.7	2.9
Div Payout Ratio (%)	N/A	N/A	21,968.5	371.4	239.0
Net Interest Cover (x)	1.5	1.6	1.5	1.3	1.3

Source: Company, DBS Bank

Keppel Infrastructure Trust

Interim Income Statement (\$\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	784	837	946	1,060	1,064
Cost of Goods Sold	(659)	(766)	(859)	(933)	(926)
Gross Profit	124	71.3	87.0	127	138
Other Oper. (Exp)/Inc	(6.5)	(5.9)	(28.0)	(13.4)	(14.5)
Operating Profit	118	65.4	58.9	114	123
Other Non Op (Exp)/Inc	(15.4)	4.91	2.94	23.4	(0.3)
Associates & JV Inc	(0.3)	1.14	4.04	0.35	8.92
Net Interest (Exp)/Inc	(67.1)	(45.2)	(47.3)	(64.4)	(83.4)
Exceptional Gain/(Loss)	(40.8)	(143)	0.0	(68.1)	(0.5)
Pre-tax Profit	(5.6)	(116)	18.7	4.83	48.0
Tax	(4.4)	(11.5)	(14.3)	(12.0)	(16.1)
Minority Interest	14.9	15.9	13.6	17.3	21.0
Net Profit	(3.0)	(126)	4.46	(3.6)	39.4
Net profit bef Except.	37.8	16.9	4.46	64.5	39.9
EBITDA	193	151	141	219	239

Growth

Revenue Gth (%)	3.0	6.8	13.1	12.0	0.4
EBITDA Gth (%)	9.8	(21.8)	(6.8)	55.4	9.2
Opp Profit Gth (%)	18.1	(44.6)	(9.9)	92.8	8.4
Net Profit Gth (%)	(96.3)	4,163.3	(103.5)	(180.5)	(1,198.7)

Margins

Gross Margins (%)	15.9	8.5	9.2	12.0	12.9
Opp Profit Margins (%)	15.1	7.8	6.2	10.7	11.6
Net Profit Margins (%)	(0.4)	(15.0)	0.5	(0.3)	3.7

Balance Sheet (\$\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	2,310	1,499	1,668	1,546	1,426
Invts in Associates & JVs	0.0	206	669	737	806
Other LT Assets	1,571	1,405	2,388	2,338	2,288
Cash & ST Invts	581	817	536	354	249
Inventory	169	240	280	317	314
Debtors	212	237	316	313	311
Other Current Assets	86.5	96.3	105	105	105
Total Assets	4,930	4,501	5,963	5,711	5,500
ST Debt	656	139	814	814	814
Creditor	348	387	452	511	507
Other Current Liab	85.2	62.5	60.2	66.4	65.8
LT Debt	1,593	1,675	2,174	1,830	1,786
Other LT Liabilities	753	498	555	555	555
Shareholder's Equity	1,142	1,112	964	1,023	893
Minority Interests	352	628	943	911	879
Total Cap. & Liab.	4,930	4,501	5,963	5,711	5,500
Non-Cash Wkg. Capital	34.1	124	189	157	157
Net Cash/(Debt)	(1,669)	(996)	(2,453)	(2,290)	(2,351)
Debtors Turn (avg days)	56.6	52.0	50.4	55.2	55.2
Creditors Turn (avg days)	105.4	106.3	93.8	102.5	109.1
Inventory Turn (avg days)	58.1	59.1	58.1	63.5	67.6
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4
Current Ratio (x)	1.0	2.4	0.9	0.8	0.7
Quick Ratio (x)	0.7	1.8	0.6	0.5	0.4
Net Debt/Equity (X)	1.1	0.6	1.3	1.2	1.3
Net Debt/Equity ex MI (X)	1.5	0.9	2.5	2.2	2.6
Capex to Debt (%)	1.6	4.1	24.8	0.9	1.0

Source: Company, DBS Bank

Keppel Infrastructure Trust

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	(31.3)	(122)	23.5	112	116
Dep. & Amort.	178	161	158	147	145
Tax Paid	(13.4)	(26.2)	(23.7)	(21.6)	(27.8)
Assoc. & JV Inc/(loss)	0.0	(0.9)	(4.4)	(68.3)	(68.7)
Chg in Wkg.Cap.	163	72.0	36.1	25.6	0.95
Other Operating CF	49.1	165	108	50.0	50.0
Net Operating CF	345	249	297	244	216
Capital Exp.(net)	(36.0)	(74.7)	(740)	(25.0)	(25.0)
Other Invs.(net)	0.0	0.0	(363)	0.0	0.0
Invs in Assoc. & JV	0.0	(201)	(533)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(36.0)	(276)	(1,636)	(25.0)	(25.0)
Div Paid	(139)	(186)	(191)	(329)	(225)
Chg in Gross Debt	(46.1)	475	951	(344)	(44.0)
Capital Issues	(1.9)	0.0	0.0	300	0.0
Other Financing CF	(19.0)	(23.0)	301	(27.2)	(27.2)
Net Financing CF	(206)	266	1,061	(400)	(296)
Currency Adjustments	7.55	(3.2)	(3.7)	0.0	0.0
Chg in Cash	111	236	(281)	(181)	(105)
Opg CFPS (S cts)	3.66	3.55	5.23	4.11	3.83
Free CFPS (S cts)	6.20	3.50	(8.9)	4.12	3.40

Source: Comany, DBS Bank

Target Price & Ratings 12-mth 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:	17 Apr 23	0.51	0.62	BUY
2:	26 Oct 23	0.44	0.57	BUY

Source: DBS Bank

Analyst: Suvro SARKAR

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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