Singapore Company Update

29 May 2020

Energy & Petrochemicals | Oil & Gas Services

Keppel Corp (KEP SP)

Buy (Maintained)

Working Towards An Integrated OneKeppel; BUY

Target Price (Return):	SGD7.30 (22.3%)
Price:	SGD5.97
Market Cap:	USD7,663m
Avg Daily Turnover (SGD/USD)	28.7m/20.3m

- **Still BUY with new SGD7.30 TP from SGD7.40, 22% upside and c.3% FY20F yield.** Management held an analyst teleconference to provide highlights of its Vision 2030 initiative. We are bullish on the future Keppel Corp – which is seen as a global leader in creating low-carbon smart cities – with a 15% ROE target and as a sustainable company.
- **Redefining KEP's divisions.** Going forward, KEP will segment its divisions into: Energy & environment (offshore & marine (O&M), infrastructure, renewable energy, and KrisEnergy), urban development (property, urban solutions, and Tianjin Eco-City), connectivity (M1, data centres, and logistics), and asset management.
- **KEP's business approach** will be to pursue strategic M&A, make selective divestments to free up its balance sheet, utilise its capital recycling model, and focus on growing recurring income. Management believes a higher percentage of recurring income will help KEP attract a better earnings multiple, which we agree. However, the recurring income target was not disclosed.
- **ROE target is 15%.** By 2030, KEP aims to allocate a higher percentage of shareholders' funds into energy & environment and asset management.
- **Management sees KEP as an integrated "OneKeppel"** instead of a conglomerate with different business segments. This is consistent with the "hunt as a pack" strategy. The likely outcome will be KEP being valued by the market close to SOP, in our view, with a minimal conglomerate discount.
- **Although the teleconference did not touch on the near-term earnings trend,** we take the opportunity to cut earnings forecasts. This is because we factored in a greater impact from COVID-19, particularly for the O&M space. However, the longer-term potential is good, as management works on its Vision 2030. Even after the earnings cut, KEP trades at an undemanding 16x FY20F P/E, falling to an attractive 12x FY21F P/E.
- **Value-unlocking potential.** KEP has multiple businesses in different industries. Therefore, we use SOP to value the stock. Our SGD7.30 TP is based on the estimate of the O&M division, which is valued at 1.3x FY20F P/BV, ie below Sembcorp Marine's (SMM SP, BUY, TP: SGD1.28) 5-year 1.39x average. KEP's infrastructure segment is valued conservatively at 10x FY20F P/E, while its property arm is valued at a 40% discount to RNAV. The partial offer by Temasek – subject to pre-conditions – offers potential for value unlocking. In the meantime, the property division's earnings should continue to support dividend payments.

Analyst

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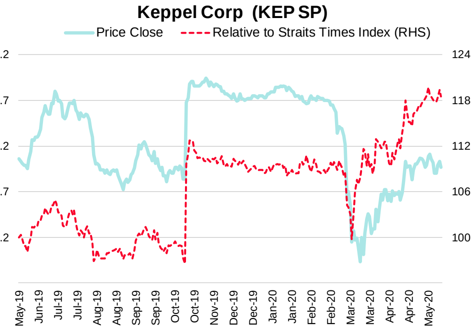
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.8)	(1.0)	(5.8)	(11.4)	(3.1)
Relative	10.2	0.9	10.7	10.0	17.4
52-wk Price low/high (SGD)					4.93 – 6.94



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	5,965	7,580	7,366	7,693	8,514
Recurring net profit (SGDm)	944	707	689	872	1,107
Recurring net profit growth (%)	381.5	(25.1)	(2.5)	26.6	27.0
Recurring P/E (x)	11.46	15.29	15.69	12.40	9.76
P/B (x)	1.0	1.0	0.9	0.9	0.8
P/CF (x)	86.67	na	7.70	8.10	7.25
Dividend Yield (%)	6.7	3.4	2.9	4.0	5.1
EV/EBITDA (x)	5.46	7.32	8.44	6.90	5.53
Return on average equity (%)	8.4	6.3	6.1	7.4	8.8
Net debt to equity (%)	46.9	78.6	72.8	63.8	51.2

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Energy & Petrochemicals
Keppel Corp
KEP SP
Buy

Valuation basis

SOP

Key drivers

Higher O&M orderbook replenishment.

Key risks

i. Lower-than-expected O&M orderbook replenishment;
ii. Outcome of Temasek's partial offer.

Company Profile

KEP is a conglomerate with diversified business interests in O&M, property, and infrastructure.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.52	0.39	0.38	0.48	0.61
DPS	0.40	0.20	0.17	0.24	0.31
BVPS	6.23	6.20	6.31	6.67	7.27
Return on average equity (%)	8.4	6.3	6.1	7.4	8.8

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	11.46	15.29	15.69	12.40	9.76
P/B (x)	1.0	1.0	0.9	0.9	0.8
FCF Yield (%)	(1.2)	(12.4)	9.6	8.7	10.0
Dividend Yield (%)	6.7	3.4	2.9	4.0	5.1
EV/EBITDA (x)	5.46	7.32	8.44	6.90	5.53
EV/EBIT (x)	6.40	10.45	13.26	10.14	7.60

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	5,965	7,580	7,366	7,693	8,514
Gross profit	803	1,150	1,002	1,167	1,417
EBITDA	1,238	1,252	1,118	1,287	1,542
Depreciation and amortisation	(182)	(375)	(406)	(411)	(421)
Operating profit	1,056	877	712	876	1,121
Net interest	(41)	(135)	(102)	(126)	(144)
Pre-tax profit	1,246	954	843	1,061	1,364
Taxation	(285)	(192)	(162)	(196)	(266)
Reported net profit	949	707	689	872	1,107
Recurring net profit	944	707	689	872	1,107

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(196)	(1,437)	1,231	1,100	1,101
Cash flow from operations	125	(825)	1,403	1,334	1,491
Capex	(255)	(517)	(368)	(397)	(413)
Cash flow from investing activities	677	(1,688)	(292)	(304)	(319)
Dividends paid	(526)	(418)	(462)	(229)	(12)
Cash flow from financing activities	(1,025)	2,346	(941)	(169)	49
Cash at beginning of period	2,274	1,981	1,784	1,920	2,755
Net change in cash	(223)	(167)	171	861	1,221
Ending balance cash	2,004	1,787	1,926	2,755	3,951

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	2,118	1,905	2,067	2,912	4,109
Tangible fixed assets	2,373	3,166	3,014	2,829	2,640
Total investments	10,219	11,678	10,975	11,425	11,614
Total assets	26,588	31,322	29,936	31,230	32,834
Short-term debt	1,481	4,555	4,359	4,446	4,532
Total long-term debt	6,068	6,504	6,308	6,395	6,481
Total liabilities	15,011	19,676	18,124	18,806	19,346
Total equity	11,577	11,646	11,812	12,424	13,488
Total liabilities & equity	26,588	31,322	29,936	31,230	32,834

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	0.0	27.1	(2.8)	4.4	10.7
Recurrent EPS growth (%)	381.5	(25.1)	(2.5)	26.6	27.0
Gross margin (%)	13.5	15.2	13.6	15.2	16.6
Operating EBITDA margin (%)	20.8	16.5	15.2	16.7	18.1
Net profit margin (%)	15.9	9.3	9.4	11.3	13.0
Capex/sales (%)	4.3	6.8	5.0	5.2	4.9
Interest cover (x)	5.15	2.80	2.99	3.31	3.92

Source: Company data, RHB

Figure 1: KEP's EBIT breakdown

FYE: Dec (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue	5,965	7,580	7,366	7,693	8,514
-O&M	1,875	2,220	2,111	2,284	2,776
-Infrastructure	2,629	2,927	3,007	3,140	3,218
-Property	1,340	1,336	1,213	1,220	1,465
-Investments and others	121	1,097	1,035	1,049	1,055
Operating EBIT	1,055	877	712	876	1,121
-O&M	(73)	60	38	137	189
-Infrastructure	105	114	241	134	156
-Property	1,044	508	328	427	586
-Investments and others	(21)	195	105	178	190

Source: Company data, RHB

Figure 2: KEP's SOP valuation

Segments	Stake	Value	Value/share	Remarks
		(SGDm)	(SGD)	
O&M		3,809	2.09	1.3x FY20F book value.
Infrastructure [1]		3,003	1.65	10x FY20F P/E.
Property [2]		6,633	3.64	0.6x FY20F RNAV.
Investments				
-Keppel Capital		(488)	(0.27)	14.6x FY20F P/E.
-Tianjin eco-city	50%	1,200	0.66	Valuation from KCL.
-M1	84%	1,579	0.87	SGD2.06/M1 share offer.
Total Sum Of Parts		15,736	8.63	Number of KEP shares = 1,823m.
Conglomerate discount		15%		
SOTP after discount		13,305	**7.30**	

Note: [1]Keppel T&T is subsumed under "Infrastructure", Keppel DC REIT is subsumed under "Keppel T&T", and Keppel Infrastructure Trust is subsumed under "Infrastructure"
Note 2: [2]KREIT is subsumed under "Property"
Note 3: Will amend SOP valuation according to redefined segments after KEP provides more details
Source: Bloomberg data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-29	Buy	7.40	5.97
2020-03-10	Buy	7.60	5.70
2020-01-24	Buy	7.80	6.75
2019-10-18	Buy	7.18	5.84
2019-10-07	Buy	7.30	5.91
2019-06-10	Buy	7.33	6.14
2017-10-20	Buy	7.92	7.30

Source: RHB, Bloomberg

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