

22 October 2019

Industrials | Offshore & Marine

Keppel Corp (KEP SP)

Buy (Maintained)

Temasek Offer – Prelude For Restructuring; BUY

Target Price (Return)	SGD7.80 (+34%)
Price:	SGD5.84
Market Cap:	USD7,786.5m
Avg Daily Turnover (SGD/USD)	16.7m/12.3m

- **Maintain BUY with new SGD7.80 TP from SGD7.18, 34% upside plus c.4% yield.** Temasek's announcement of a cash partial offer for 30.55% of Keppel shares points to the current market price being undervalued. If successful, Temasek will end up with an aggregate 51% shareholding in Keppel. We believe the partial offer raises the possibility of restructuring at Keppel, which could unlock value. As such, we lower our conglomerate discount to 13% (from 20%), which leads to a higher TP.

- **Temasek is offering SGD7.35/share in cash to acquire an additional 30.55% stake in Keppel Corp.** Upon completion, Temasek will own 51% stake in Keppel. The intention is for Keppel to remain listed on SGX. The partial offer can only be made after the pre-conditions (including domestic and foreign regulatory approvals) have been fulfilled or waived, and this may take several months.

- **The partial offer represents an opportunity** for shareholders to realise part, or potentially all, of their investment at a premium over the last traded price prior to the announcement.

- **The partial offer is successful if:**

- Of the total number of shares voted (Temasek is not eligible to vote), more than 50% are in favour of the partial offer; and
- At least 30.55% of the shares are tendered into the partial offer, such that Temasek holds 51%.

- Following the successful close of the partial offer, Temasek intends to work with Keppel's board of directors to undertake a comprehensive strategic review of the company's businesses, with the objective of creating sustainable value for all shareholders.

- **Valuation.** Diversified asset structure with huge value unlocking potential. Keppel has multiple businesses in different industries, and we use the SOP methodology for valuation, before arriving at a new TP of SGD7.80/share based on a 13% conglomerate discount, vs a previously higher 20% discount.

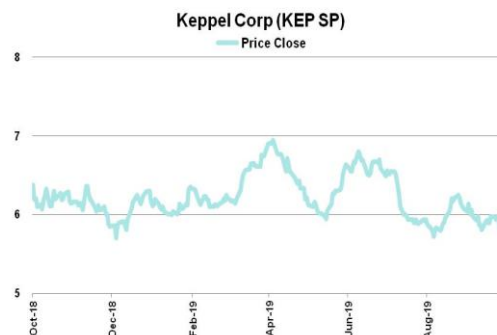
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	(3.9)	(11.1)	(13.4)	(12.0)
Relative	(3.6)	(3.4)	(4.2)	(7.2)	(14.7)
52-wk Price low/high (SGD)					5.67 - 6.97



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	5,964	5,965	7,477	7,868	8,407
Recurring net profit (SGDm)	196	944	769	1,082	1,149
Recurring net profit gr (%)	(75.0)	381.5	(18.5)	40.7	6.3
Recurring P/E (x)	54.0	11.2	13.8	9.8	9.2
P/BV (x)	0.9	0.9	0.9	0.9	0.8
P/CF (x)	8.8	84.8	(16.2)	6.9	7.5
Dividend Yield (%)	6.3	6.8	3.6	5.1	5.4
EV/EBITDA (x)	15.9	13.2	15.1	13.2	11.8
ROE (%)	1.7	8.3	6.7	9.1	9.0
Net debt to equity (%)	46.1	48.0	68.3	59.5	47.6
Interest coverage (x)	4.2	5.3	4.1	4.7	4.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	Recurring EPS (SGD)	0.11	0.52	0.42	0.60	0.63
Offshore & Marine	DPS (SGD)	0.37	0.40	0.21	0.30	0.32
Keppel Corp	BVPS (SGD)	6.32	6.23	6.38	6.72	7.35
KEP SP	ROE (%)	1.7	8.3	6.7	9.1	9.0
BUY						
	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Valuation basis	Recurring P/E (x)	54.0	11.2	13.8	9.8	9.2
SOP methodology	P/B (x)	0.9	0.9	0.9	0.9	0.8
	FCF Yield (%)	7.7	(1.2)	(9.0)	11.1	9.5
Key drivers	Dividend Yield (%)	6.3	6.8	3.6	5.1	5.4
i. Value unlocking through capital recycling;	EV/EBITDA (x)	15.9	13.2	15.1	13.2	11.8
ii. Improving O&M division outlook	EV/EBIT (x)	20.1	15.5	22.2	16.2	14.2
	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Key risks	Total turnover	5,964	5,965	7,477	7,868	8,407
i. Possible slowdown in China property market;	Gross profit	979	789	1,158	1,282	1,365
ii. Slowdown in O&M industry	EBITDA	1,013	1,225	1,238	1,367	1,454
	Depreciation and amortisation	(212)	(182)	(394)	(250)	(252)
Company Profile	Operating profit	801	1,043	844	1,117	1,202
Keppel Corp is a conglomerate with business interests in property, offshore & marine	Net interest	(51)	(34)	(83)	(102)	(126)
	Pre-tax profit	441	1,240	965	1,372	1,464
	Taxation	(244)	(284)	(182)	(271)	(294)
	Net profit	196	944	769	1,082	1,149
	Recurring net profit	196	944	769	1,082	1,149
	Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Change in working capital	1,101	(183)	(980)	1,231	1,100
	Cash flow from operations	1,203	125	(652)	1,543	1,403
	Capex	(393)	(255)	(299)	(368)	(397)
	Cash flow from investing activities	557	677	(1,340)	(292)	(304)
	Dividends paid	(364)	(526)	(460)	(462)	(12)
	Cash flow from financing activities	(1,479)	(1,025)	1,590	(941)	48
	Cash at beginning of period	2,019	2,241	1,972	1,540	1,823
	Net change in cash	281	(223)	(402)	311	1,147
	Ending balance cash	2,241	1,972	1,540	1,823	2,943
	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	2,274	1,981	1,540	1,823	2,943
	Tangible fixed assets	2,433	2,373	3,316	3,320	3,295
	Total investments	9,833	9,556	9,751	10,142	10,586
	Total assets	28,686	26,606	28,438	29,219	31,034
	Short-term debt	1,714	1,481	2,536	2,340	2,426
	Total long-term debt	6,079	6,068	7,123	6,927	7,013
	Total liabilities	16,713	15,019	16,548	16,711	17,393
	Total equity	11,973	11,587	11,890	12,507	13,641
	Total liabilities & equity	28,686	26,606	28,438	29,219	31,034
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	(11.9)	0.0	25.4	5.2	6.9
	Recurrent EPS growth (%)	(75.0)	381.5	(18.5)	40.7	6.3
	Gross margin (%)	16.4	13.2	15.5	16.3	16.2
	Operating EBITDA margin (%)	17.0	20.5	16.6	17.4	17.3
	Net profit margin (%)	3.3	15.8	10.3	13.7	13.7
	Capex/sales (x)	6.6	4.3	4.0	4.7	4.7
	Interest cover (x)	4.2	5.3	4.1	4.7	4.5

Source: Company data, RHB

Figure 1: Keppel's SOP valuation

Segments	Shares (m)	Stake	Price (SGD)	Value (SGDm)	Value/share (SGD)	Remarks
Offshore & Marine				4,014	2.21	1.4x FY20F P/BV
Infrastructure (1)				1,771	0.98	10x FY20F P/E
Property (2)				6,600	3.63	0.6x FY20F RNAV
Investments						
-Keppel Capital				1,188	0.65	15x 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 (SOP)				16,352	9.00	No. of KEP shares =1816m
Conglomerate discount				13%		
SOP after discount				14,161	7.80	

Note (1): Keppel T&T is subsumed under Infrastructure, Keppel DC REIT is subsumed under Keppel T&T, Kep Infrastructure Trust is subsumed under Infrastructure

Note (2): KREIT is subsumed under Property

Source: Bloomberg, RHB

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