10 June 2019

Industrials | Offshore & Marine

Keppel Corp (KEP SP)

Buy (Maintained)

Asset Value Waiting To Be Unlocked

Target Price (Return)	SGD7.33 (+23%)
Price:	SGD5.95
Market Cap:	USD7,877m
Avg Daily Turnover (SGD/USD)	17.6m/12.9m

- **Maintain BUY and SOP-based SGD7.33 TP from SGD7.92, 23% upside, plus 4% yield.** We like Keppel for its potential for prime landbank-value unlocking in China and Vietnam. Its O&M division would see recovery in contract flows, with FPSO conversion jobs expected to pick up in 2019, after securing SGD1.8bn of 2019 O&M orderbook YTD (exceeding SGD1.7bn for FY18).
- **Management is targeting mid-to-long term ROE of 15%** for Keppel Corp by being a powerhouse of urbanisation solutions. It sees this as a realistic target, given the average 17.7% ROE recorded from 2009 to 2018.
- **Property division accounted for the bulk of group earnings.** Property accounted for 99% of Keppel's EBIT. While government policies have tightened up in recent years, we believe its China property business would still yield significant profit in the coming years, as its business is focused largely in prime areas, namely, Chengdu metropolis, Greater Bay Area, Yangtze River Delta and Jing-Jin-Ji.
- **Huge overseas landbank unlocking potential.** Keppel has 3m sqm of remaining residential area for sale in China – mainly in Shanghai, Chengdu, Wuxi and Tianjin. Assuming ASP per sqm of CNY10,000, the GDV is c.CNY30bn. Of the 21,584 remaining units for sale in China, ~8,500 are ready to be launched from 2019 to 2021. In Vietnam, Keppel is developing the Saigon Sports City township in a prime area near Ho Chi Minh City (HCMC).
- **O&M division probably saw its worse in 2018.** We believe Keppel's offshore and marine (O&M) division saw its worse in 2018, with orderbook replenishment expected to be ramped up in 2019, driven by floating production storage and offloading (FPSO) conversion jobs from higher project sanctions (especially in Brazil and Mexico) expected as oil prices stabilise. Chances of winning the conversions, in our opinion, is high given Keppel's impeccable track record in FPSO conversions. LNG-related projects should also support the O&M division. Sete Brasil's auction of two uncompleted Keppel semi subs is also a positive development.
- **Group structure allows for capital recycling.** Keppel plans to unlock more value through capital recycling. To illustrate, the group is expected to carry out a conversion job for Gimi FLNG for the client as an EPCC contractor. It has also bought a 30% stake of the soon-to-be-completed Gimi FLNG asset to enjoy future recurring income from the asset utilising Keppel Capital, its asset management business arm. We believe the group possesses the capability to build assets for its clients, while at the same time, move into asset ownership through stake acquisition via Keppel Capital.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	5,964	5,965	7,037	7,888	8,427
Recurring net profit (SGDm)	196	944	956	1,037	1,089
Recurring net profit gr (%)	-75.0	381.5	1.3	8.4	5.1
Recurring P/E (x)	55.0	11.4	11.3	10.4	9.9
P/BV (x)	0.9	1.0	0.9	0.9	0.8
P/CF (x)	9.0	86.4	6.0	7.2	7.8
Dividend Yield (%)	6.2	6.7	4.4	4.8	5.1
EV/EBITDA (x)	16.1	13.3	12.8	11.0	9.6
ROE (%)	1.7	8.3	8.3	8.6	8.5
Net debt to equity (%)	46.1	48.0	37.6	30.9	21.8
Interest coverage (x)	4.2	5.3	5.1	4.9	4.8

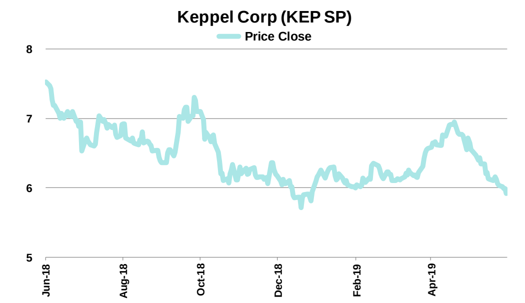
Source: Company data, RHB

Analyst

Leng Seng Choon, CFA, PBM
+65 6232 3890
leng.seng.choon@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.2	(9.6)	(4.4)	(4.4)	(21.7)
Relative	(1.8)	(1.9)	(1.1)	(3.5)	(11.6)
52-wk Price low/high (SGD)					5.67 – 7.68



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Offshore & Marine
Keppel Corp
KEP SP
BUY

Valuation basis

SOP

Key drivers

i. Value unlocking through capital recycling
ii. Improving O&M division outlook

Key risks

i. Possible slowdown in China property market
ii. Slowdown in O&M industry

Company Profile

Keppel Corp is a conglomerate with business interests in property, offshore & marine

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (SGD)	0.11	0.52	0.53	0.57	0.60
DPS (SGD)	0.37	0.40	0.26	0.29	0.30
BVPS (SGD)	6.32	6.23	6.50	6.82	7.41
ROE (%)	1.7	8.3	8.3	8.6	8.5

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	55.0	11.4	11.3	10.4	9.9
P/B (x)	0.9	1.0	0.9	0.9	0.8
FCF Yield (%)	7.5	(1.2)	13.8	10.5	9.1
Dividend Yield (%)	6.2	6.7	4.4	4.8	5.1
EV/EBITDA (%)	16.1	13.3	12.8	11.0	9.6
EV/EBIT (%)	20.3	15.7	14.7	12.6	10.9

Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	5,964	5,965	7,037	7,888	8,427
Gross profit	979	789	1,117	1,248	1,348
EBITDA	1,013	1,225	1,197	1,333	1,437
Depreciation and amortisation	(212)	(182)	(152)	(164)	(177)
Operating profit	801	1,043	1,045	1,169	1,260
Net interest	(31)	(24)	(10)	(2)	(3)
Pre-tax profit	441	1,240	1,218	1,338	1,417
Taxation	(244)	(284)	(244)	(282)	(306)
Net profit	196	944	956	1,037	1,089
Recurring net profit	196	944	956	1,037	1,089

Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	1,101	(183)	1,547	1,231	1,100
Cash flow from operations	1,203	125	1,784	1,499	1,373
Capex	(393)	(255)	(299)	(368)	(397)
Cash flow from investing activities	557	677	(202)	(292)	(304)
Dividends paid	(364)	(526)	(460)	(462)	(12)
Cash flow from financing activities	(1,479)	(1,025)	(771)	(941)	48
Cash at beginning of period	2,019	2,241	1,972	2,753	2,992
Net change in cash	281	(223)	812	267	1,117
Ending balance cash	2,241	1,972	2,753	2,992	4,083

Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	2,274	1,981	2,753	2,992	4,083
Tangible fixed assets	2,433	2,373	2,420	2,510	2,560
Total investments	9,374	9,091	9,287	9,678	10,122
Total assets	28,686	26,606	27,111	27,847	29,603
Short-term debt	1,714	1,481	1,355	1,159	1,246
Total long-term debt	6,079	6,068	5,942	5,746	5,833
Total liabilities	16,713	15,019	15,029	15,193	15,874
Total equity	11,973	11,587	12,082	12,654	13,729
Total liabilities & equity	28,686	26,606	27,111	27,847	29,603

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	(11.9)	0.0	18.0	12.1	6.8
Recurrent EPS growth (%)	(75.0)	381.5	1.3	8.4	5.1
Gross margin (%)	16.4	13.2	15.9	15.8	16.0
Operating EBITDA margin (%)	17.0	20.5	17.0	16.9	17.0
Net profit margin (%)	3.3	15.8	13.6	13.1	12.9
Capex/sales (%)	6.6	4.3	4.2	4.7	4.7
Interest cover (x)	4.2	5.3	5.1	4.9	4.8

Source: Company data, RHB, Bloomberg

Property Development Possess Huge Value Unlocking Potential

Property division main contributor in recent earnings. Keppel's earnings have been anchored by its property division in the past two years. In FY18, 99% of EBIT was from its property development division, whilst the offshore marine and investments divisions were in the red due to the challenging market.

The property division completed 10 major transactions including property project sales and commercial property divestment totalling SGD1.7bn in 2018. Earnings profile of the group's China property business is largely skewed towards more defensive and megacity clusters namely Jing-Jin-Ji (Tianjin, Beijing) and Yangzte River Delta (Shanghai, JiangSu and Zhejiang).

Targeting to launch 2,000 residential units in China in 2019. In 1Q19, the property division sold 390 homes (with a total sales value of SGD230m), more than the 300 units sold in 1Q18. Most of the homes were sold in China, mainly in Wuxi. Keppel just launched its new Nanjing residential project in middle April, and all 271 units in Phase 1 were fully sold at launch. Keppel plans to push out some 2,000 units across China in 2019.

Figure 1: Focusing on growth areas in China

Source: Company data, RHB

Growth in China still not done yet. The group would still source for further growth in the China property market, with focus on high growth areas namely, Jing-Jin-Ji, Yangtze River Delta and Greater Bay Area, which possess ample room for further value unlocking through property and township developments. With an estimated combined GDP of USD5.9bn, we believe fundamentals of the property market of group's focus areas are still intact and will still provide the growth sustainable return on investment in the foreseeable future.

China housing prices gain defies soggy economy. According to a Bloomberg news in mid-May 2019, the average value of new China homes rose 0.62% in April 2019, following a 0.61% gain in March 2019, on the back of the rebound in big cities. The new-home sales by value surged 18.1% in April 2019, the fastest pace since July 2018. The increase in home prices signals a possible rebound in the housing market.

China's commercial real estate gains with surging investment transaction volumes. The strength is supported by the asset turnover, Greater Bay Area and Beijing's economic stimulus. South China Morning Post cited that the investment volume in the 1Q19 rose to a record high of USD17bn. Key catalysts were the government's deleveraging campaign, the Greater Bay Area initiative and other stimulative policies.

Figure 2: The Greater Bay Area plan

Source: BBC

The Great Bay plan. Home to about c.70m people, the Chinese Government has unveiled the Great Bay Area plan to foster growth by developing technology and innovation, boosting infrastructure and increasing financial links between cities with some drawing comparisons to the likes of Silicon Valley. Chinese Premier Xi Jinping has officially opened a bridge connecting Hong Kong to Macau and mainland China city Zhuhai – leading to Shenzhen city, making it the longest sea crossing bridge in the world.

Linking three major hubs with different focuses. The three major cities complement each other, and the synergies could be potentially enhanced, in our view, due to greater mobility of resources between these cities. While crystallisation of the plan would take a long time, we opine that the landbank within Greater Bay Area (which is a key focus area for Keppel) could benefit from the flow over effect from increased economic activities in the area in the form of long term appreciation of property prices.

Valuable land bank to be developed in Jing-Jin-Ji cluster. Keppel owns significant landbank in the Jing-Jin-Ji cluster with 1.3m sqm left for long term development. Based on the group's previous projects Tianjin's ASP per sqm ranges between CNY10,000 and CNY18,000. Assuming ASP per sqm of CNY10,000, the group could be looking at CNY13bn worth of GDV to be developed over the span of 10-15 years, depending on market conditions.

Figure 3: China property assets

Residential Landbank - China	Location	Stake	Total GFA (sm)	Total Units	Units Launched	Units Sold
8 Park Avenue	Shanghai	99%	133,393	918	918	895
Seasons Residences		100%	128,917	1,102	1,062	1,060
Sheshan Riviera		99.4%	83,174	217	53	25
Park Avenue Heights	Chengdu	100%	203,129	1,535	1,535	1,531
Hill Crest Villas		100%	163,147	274	-	-
Serenity Villas		100%	289,181	867	84	48
V City		35%	557,529	5,399	5,399	5,393
Chengdu Tianfu New Area Devt		30%	94,522	864	-	-
Pidu Devt		100%	66,930	561	-	-
Waterfront Residences	Wuxi	100%	308,372	1,403	699	638
Park Avenue Heights		100%	171,000	1,281	676	558
Seasons Residences		100%	395,732	2,904	-	-
Serenity Villas	Tianjin	100%	81,391	340	340	257
Mixed-use Devt		100%	1,358,202	11,299	-	-
Tianjin Eco-City		100%	624,605	4,152	3,806	3,805
Waterfront Residences		100%	63,235	341	341	340
Waterfront Residences II (10.97ha)		100%	87,760	572	-	-
Stamford City	Jiangyin	99.4%	309,322	1,470	1,125	1,093
China Chic (Jiangbei New Area)	Nanjing	40%	190,552	1,597	-	-
Hill Crest Residences	Kunming	68.8%	48,819	263	166	132
Total			5,358,912	37,359	16,204	15,775

Note: As at end-Mar 2019
Source: Company data

Vietnam: Rising Dragon In ASEAN

Keppel also made inroads early in Vietnam's property market. As at end-March, there was 1.83m sqm of remaining area for sale in Vietnam. Keppel's exposure in terms of land holdings is mainly in HCMC (Districts 2, 7 and 9) implying that its focus would still be in prime areas whereby opportunity for property value appreciation is still high

Vietnam – a thriving real estate market in South-East Asia. According to asiapropertyhq.com, buoyant sentiment for Vietnam's property market is due to strong GDP growth, favourable shift in government legislation, increased manufacturing, booming tourism, and quick development of coastal cities. Spurring foreign investment, alongside a growing cohort of well-heeled domestic buyers looking to invest in property could boost property prices.

Key trends to impact Vietnam's real estate market in 2019 according to JLL include:

i. Mid-end and affordable apartment segment – shifting in buyer's favour to increasing demand in small and convenient apartments;

ii. Flexible workspaces – higher demand due to lower cost incurred and limited supply of traditional office space;

iii. Technology companies emerging office segment – strong growth in e-commerce in Vietnam boosting the office market;

iv. Logistics – a boon to real estate market due to the development potential of the e-commerce market and the manufacturing sector;

v. Hotel lifestyle – evolving preference on hotel concept and shortage of hotel supply is receiving considerable attention from investors.

HCMC saw robust foreign direct investment (FDI) inflows. Vietnam Investment Review, a Vietnam newspaper, cited in January, that HCMC was leading the country in attracting foreign investment capital, mainly through capital contribution and share acquisition deals. HCMC attracted USD745.7m of FDI (39.1% of the total pledged FDI) and called 245 projects for investment in 2019. According to xinhuanet.com, in April, HCMC also licensed 254 FDI projects with a total registered capital of USD288.8m in 1Q19 (+4.3% YoY). Some 52.7% was poured into the real estate sector.

Figure 4: Vietnam property mortgage rates

Year	Mortgage Rate
2011	17.0%
2012	13.5%
2013	10.4%
2014	8.7%
2015-2017	7%

Source: asiapropertyhq.com

Downtrend in mortgage rates also a boon for Vietnamese property market. Aside from foreign investors, local demand for properties saw robust growth in the past few years due to the declining trend of property mortgage rates. According to asiapropertyhq.com, mortgage rate in Vietnam fell to 7% in 2017 from 17% in 2011, which lowered the local population's cost of property ownership, thereby driving local demand for properties in the market. Therefore, we opine that the Vietnam property market still has legs for growth in the foreseeable future, given the relatively open government policy to foreigners, and its emergence as one of the favourite manufacturing hubs for companies due to its cost competitiveness.

Figure 5: Saigon Sports City

Source: asiapropertyhq.com

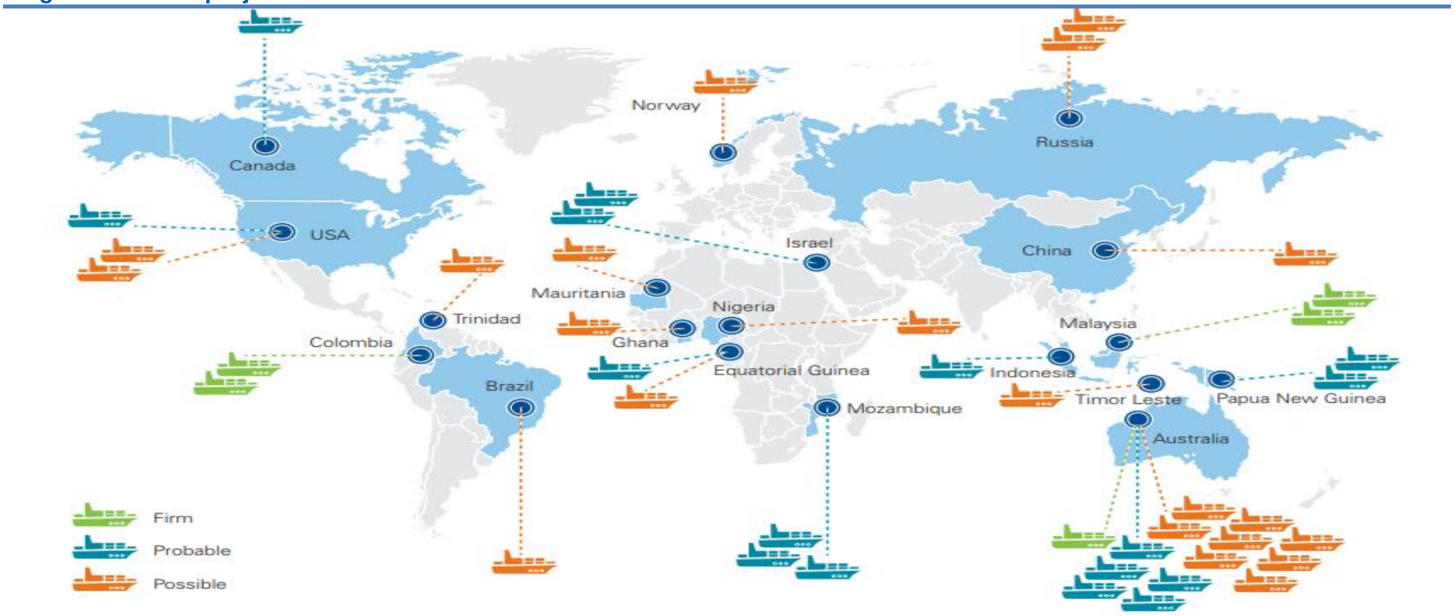
Saigon Sports City, prime Vietnam township development. The group is currently in the midst of developing the 64ha township in the prime District 2 in HCMC. With an estimated GDV of USD1.3bn, Saigon Sports City is an integrated township comprising 4,300 premium homes including iconic features such as a waterfront boulevard, an open public plaza and Vietnam's first one-stop lifestyle hub with sports, entertainment, shopping and dining experiences combined.

Offshore And Marine (O&M)

FPSO conversion to dominate the headlines. In line with our expectations of pick up in FPSO conversion jobs up for grabs globally, we believe Keppel's O&M division would see higher contract flows for FPSO conversion jobs in 2019 due to high number of FPSO projects expected to be sanctioned particularly in Brazil and Africa. According to Rystad Energy, more than 30 FPSO projects could be sanctioned between 2019 and 2021, while the Energy Maritime Associates forecasts between 83 and 173 orders for floating production systems over the next five years.

With a strong track record in FPSO conversions, we believe Keppel stands a high chance of winning a number of potential conversion orders to be awarded in 2019-2020. Putting things into perspective, in 2018, the group completed two conversion projects for FPSO La Noumbi for Dixtone, and FPSO BW Adolo for BW Offshore.

Figure 6: FLNG project overview world wide



Source: KPMG

Floating LNG assets, a stepping stone for future recurring income. LNG-related projects (infrastructure, liquefaction & regasification and vessel) are expected to receive larger attention in the next decade due to increasing prominence of natural gas as a source of feedstock for power generation due to its relatively lower carbon footprint compared to coal. Wood Mackenzie reported that 2019 is expected to be a record year for LNG project sanctions, with the capacity of the projects likely to reach Final Investment Decision (FID) to over 60m tonnes pa (mmtpa) in 2019 from 21 mmtpa sanctioned in 2018.

While new build LNG projects remain an unchartered territory for the group, Keppel has successfully converted Hilli Episeyo operating offshore in Africa. To recap, Hilli FLNG was a vessel converted from 1975-built Moss LNG carrier with a storage capacity of 120,000 cbm. It was designed for a liquefaction capacity of about 2.4m tonnes of LNG pa with first LNG production back in Mar 2018.

Early foray into recurring FLNG asset ownership. Keppel Group, through Keppel Capital (asset management arm of the group), in Feb 2019, subscribed to a 30% stake of Gimi MS Corp (which owns Gimi FLNG asset – another FLNG asset to be converted by the group post Hilli project). The Gimi conversion project had an original value of USD705m, and another USD242m incremental scope was subsequently added. The maximum outlay by Keppel (for the 30% stake) is USD250m. The asset would be chartered to BP on a 20-year contract to service the Greater Tortue Ahmeyim project offshore Mauritania and Senegal. Moving forward, we believe Keppel will capitalise on the model of executing on the project conversion work on other upcoming FLNG assets.

Figure 7: Keppel orderbook schedule

	Contract Value (SGDm)		
	Gross	Net	Client
For delivery in 2019			
9 JUs/1 FPSO Modules Fabrication & Integration/1 TLWP Engineering & Construction Services Support/2 FPSO Conversions /1 FSRU Conversion*/3 Dredgers/2 LNG Carriers/ 1 Production Barge/1 Dual-fuel Bunker Tanker	4,713	146	Grupo R/Clearwater/BOT Lease Co.(i) /Ensco/Borr Drilling/Fecon/TS Offshore/PTSC/Petrobras/ SBM/Jan De Nul/Stolt-Nielsen/Mitsui/KrisEnergy/ *Name Withheld/Woodside
For delivery in 2020			
7 JUs/1 Semi*/1 Dredger/2 LNG Bunkering Vessels/2 LNG Containerships/1 FLNG Turret/1 LNG Carrier/2 FPSO Module Fabrication & Integration*/65 Gas Scrubber Retrofits/1 Liftboat	3,063	1,432	Borr Drilling/*Name Withheld/Jan De Nul/FueLNG/Pasha Hawaii/SOFEC/Modec/ Shturman Koshelev/ Stolt-Nielsen (ii)/Crystal Height
For delivery in 2021			
1 Semi/2 Trailing Suction Hopper Dredger/1 LNG Carrier	819	734	Awilco/Van Oord/Stolt-Nielsenii
For delivery in 2021-2022			
1 Semi/2 FLNG Conversions	2,434	2,390	Awilco/Golar
Total (iii)	**11,029**	**4,702**	

Note: Construction contract of a jackup rig being built for BOT Lease was novated to Borr Drilling on 1 April 2019
Note 2: The contracts to build two small-scale LNG carriers for Stolt-Nielsen Gas had lapsed on 12 April 2019 as certain conditions precedents had not been met
Note 3: Excludes semis for Sete Brasil
Note 4: As of end-Mar 2019
Source: Company data

Existing orderbook looks promising. Keppel's O&M division has SGD4.3bn of orderbook as of end-2018, of which more than 70% are non-drilling solutions. 2019 YTD, Keppel's O&M has another SGD1.8bn of orderbook, the bulk of which are non-oil – which is higher than the SGD1.7bn for FY18. Keppel's O&M won SGD700m in orders for two offshore windfarms for the North Sea and Taiwan, and these have not been included in 1Q19 numbers. In 2019, we expect more FPSO conversion jobs to be secured by Keppel due to expectation of sanctioning of more major FPSO projects.

Figure 8: Keppel's orderbook breakdown

SGDbn	2017	2018
Period end orderbook b/d	3.9	4.3
-Newbuild jackups	0.7	0.5
-Newbuild semis	0.2	0.5
-FPSOs/FLNGs	2.2	2.1
-Specialised vessels	0.7	0.9
-Others	0.1	0.3

Source: Company data

Figure 9: Keppel Sete drill ship completion schedule

	Progress since 2015	Rig value (USDm)	Value of work in progress (USDm)
1st	90%	800.0	720.0
2nd	70%	800.0	560.0
3rd	40%	800.0	320.0
4th	20%	800.0	160.0
5th	10%	800.0	80.0
6th	10%	800.0	80.0
Total		4,800.0	1,920.0

Source: Company data

Sete Brasil legacy issue. Sete Brasil has been created in 2010 to build, own and operate a fleet of ultra-deepwater drill ships and semi-submersibles to develop the Petrobras-operated pre-salt oil fields off Brazil's Atlantic coast. Sete Brasil was awarded a mega project by Petrobras to construct 29 rigs. Sete Brasil awarded the contract for six semisubmersible drilling rigs (semi subs) to Keppel. Keppel started construction work on the six semi subs thereafter. In Nov 2014, Sete Brasil stopped making progressive payments, not only to Keppel but also other rig builders. Keppel stopped work on these six semi subs in Nov 2015.

Keppel made provisions for the Sete Brasil contract. Whilst Sete Brasil has made cumulative cash flows of USD1.3bn to Keppel for the work in progress, Keppel has since made SGD478m of provisions for the six semi subs. The net carrying value of work in progress sitting on Keppel's balance sheet is ~USD186m.

Sete Brasil's auction of 2 Keppel semi subs a positive development. Keppel's contract with Sete Brasil is still valid. The six uncompleted semi subs are sitting in Keppel's yard. Sete Brasil wants to auction off four rigs (of which two are under construction by Keppel) - Keppel is bidding for the two rigs that are constructed by Keppel. There are two possible outcomes:

i. If Keppel wins the bid, Keppel will complete the construction work on these two rigs and have 100% ownership of the rig. Keppel will engage a drilling operator to provide the drilling services to Petrobras. This will give Keppel long term stable income;

ii. If another player wins the bid, then Keppel will likely also complete the construction works and deliver the two semi subs to the new owner.

Either way should be positive for Keppel.

Forecast and Valuation

Relatively stable earnings forecast. We forecast relatively stable earnings from 2018 to 2021. Our 2021 net profit forecast of SGD1,089m is 15% higher than 2018's SGD944m.

i. **Property division –** FY19 property segment earnings are expected to be lower YoY. 1Q18 saw Keppel benefitting from a SGD289m gain from en-bloc sale of Keppel Cove in Zhongshan, China, and lower contribution from Singapore property trading.

ii. From FY20 onwards, we expect the division's EBIT to be ramped up, driven by higher recognition of Vietnam property sales (Empire City, Rivera Point and Saigon Sports City project focusing in HCMC). For China, we are taking a more conservative approach with flattish earnings forecasted as bigger projects are stretched out to 8-10 years due to bigger project sizes.

iii. **O&M division –** We expect the division to be profitable in FY19-21 from a loss in FY18, as we imputed higher FY19F-21F orderbook replenishment of ~SGD3bn for each year in view of higher job flows from FPSO and FLNG conversions;

iv. **Infrastructure division –** Earnings are expected to be relatively stable between 2018 and 2021;

v. **Investments division –** from a 2018 net loss of SGD54m, we forecast a profitable 2019. 1Q19 investment division net profit of SGD49m is a reversal from 1Q18's SGD44m loss – mainly due to fair value gain from re-measurement of previously held interest in M1 at acquisition date, and higher M1 contribution arising from consolidation of M1.

Figure 10: Consensus vs RHB forecasts

SGDm	Dec-19F	Dec-20F	Dec-21F
Revenue (consensus)	6,760	7,888	7,655
Net income (GAAP) (consensus)	950	1,165	1,150
RHB/Consensus net income (%)	101%	89%	95%

Source: RHB, Bloomberg

Figure 11: Keppel's SOP valuation

Segments	Shares (m)	Stake	Price (SGD)	Value (SGDm)	Value/share (SGD)	Remarks
Offshore & Marine				4,695	2.58	1.7x book value
Infrastructure (1)				1,727	0.95	10x FY19F P/E
Property (2)				6,180	3.40	0.6x FY18 RNAV
Investments						
-Keppel Capital				1,290	0.71	15x FY19 P/E
-Tianjin eco-city		45%		1,200	0.66	Valuation from KCL
-M1		84%		1,579	0.87	SGD2.06/M1 share offer
-KrisEnergy	1,502.8	40%	0.03	19	0.01	Market value
Total Sum Of Parts				16,691		
Conglomerate discount				20%		
Shares (m) (4Jun19)				1,817.1		
KEP SP's TP (SGD)				**7.33**		

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: (2) KREIT is subsumed under Property certain conditions precedents had not been met
Source: Bloomberg, RHB

Valuation – diversified asset structure with huge value unlocking potential. As the company has multiple businesses with exposure in different industries, we took the SOP methodology to value the company, and arrived at TP of SGD7.33 per share based on several assumptions: -

i. **O&M division** is valued based on price to 1Q19 book of 1.7x, a premium over the 4-year average 1.5x P/BV of Sembcorp Marine (SMM SP, BUY, TP: SGD1.99). We believe that the valuation is justified on the expectation of better news flow in offshore & marine globally and we expect its valuation of Singaporean yards to exceed the 4-year average valuation;

ii. **Infrastructure division** is valued conservatively based on 10x FY19F earnings. The infrastructure division has relatively stable earnings and thus P/E valuation is appropriate;

iii. **Property division** is valued at 40% discount to RNAV – close to the average discount to RNAV applied for China listed property developers. The RNAV valuation includes matured investment property assets which are income generating – pointing to a very conservative valuation;

iv. **Investments division, which includes Keppel T&T, Tianjin Eco-City and M1 -** M1 is valued based on Keppel Corp's offer price of SGD2.06 per M1 share to privatise the company in Mar 2019.

Keppel has great potential for value asset unlocking – especially property with huge landbank in prime areas of China. That aside, the company is also able to create more value across its several divisions whereby asset could be constructed in its O&M arm, then parked at infrastructure listed vehicle or Keppel Capital as one of the sources for long term recurring income.

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

Investment Research Disclaimers

RHB has issued this report for information purposes only. This report is intended for circulation amongst RHB and its affiliates' clients generally or such persons as may be deemed eligible by RHB to receive this report and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not intended, and should not under any circumstances be construed as, an offer or a solicitation of an offer to buy or sell the securities referred to herein or any related financial instruments.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

All the information contained herein is based upon publicly available information and has been obtained from sources that RHB believes to be reliable and correct at the time of issue of this report. However, such sources have not been independently verified by RHB and/or its affiliates and this report does not purport to contain all information that a prospective investor may require. The opinions expressed herein are RHB's present opinions only and are subject to change without prior notice. RHB is not under any obligation to update or keep current the information and opinions expressed herein or to provide the recipient with access to any additional information. Consequently, RHB does not guarantee, represent or warrant, expressly or impliedly, as to the adequacy, accuracy, reliability, fairness or completeness of the information and opinion contained in this report. Neither RHB (including its officers, directors, associates, connected parties, and/or employees) nor does any of its agents accept any liability for any direct, indirect or consequential losses, loss of profits and/or damages that may arise from the use or reliance of this research report and/or further communications given in relation to this report. Any such responsibility or liability is hereby expressly disclaimed.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions by RHB or any other source may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research. The performance of currencies may affect the value of, or income from, the securities or any other financial instruments referenced in this report. Holders of depositary receipts backed by the securities discussed in this report assume currency risk. Past performance is not a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to RHB and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. RHB expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

The use of any website to access this report electronically is done at the recipient's own risk, and it is the recipient's sole responsibility to take precautions to ensure that it is free from viruses or other items of a destructive nature. This report may also provide the addresses of, or contain hyperlinks to, websites. RHB takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to RHB own website material) are provided solely for the recipient's convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or RHB website shall be at the recipient's own risk.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content.

The research analysts responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. The research analysts that authored this report are precluded by RHB in all circumstances from trading in the securities or other financial instruments referenced in the report, or from having an interest in the company(ies) that they cover.

The contents of this report is strictly confidential and may not be copied, reproduced, published, distributed, transmitted or passed, in whole or in part, to any other person without the prior express written consent of RHB and/or its affiliates. This report has been delivered to RHB and its affiliates' clients for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above. By electing to view or accepting a copy of this report, the recipients have agreed that they will not print, copy, videotape, record, hyperlink, download, or otherwise attempt to reproduce or re-transmit (in any form including hard copy or electronic distribution format) the contents of this report. RHB and/or its affiliates accepts no liability whatsoever for the actions of third parties in this respect.

The contents of this report are subject to copyright. Please refer to Restrictions on Distribution below for information regarding the distributors of this report. Recipients must not reproduce or disseminate any content or findings of this report without the express permission of RHB and the distributors.

The securities mentioned in this publication may not be eligible for sale in some states or countries or certain categories of investors. The recipient of this report should have regard to the laws of the recipient's place of domicile when contemplating transactions in the securities or other financial instruments referred to herein. The securities discussed in this report may not have been registered in such jurisdiction. Without prejudice to the foregoing, the recipient is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

The term "RHB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, RHB Investment Bank Berhad and its affiliates, subsidiaries and related companies.

RESTRICTIONS ON DISTRIBUTION

Malaysia

This report is issued and distributed in Malaysia by RHB Investment Bank Bhd. The views and opinions in this report are our own as of the date hereof and is subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. RHB Investment Bank Bhd has no obligation to update its opinion or the information in this report.

Thailand

This report is issued and distributed in the Kingdom of Thailand by RHB Securities (Thailand) PCL, a licensed securities company that is authorised by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is a member of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. RHB Securities (Thailand) PCL does not endorse, confirm nor certify the result of the Corporate Governance Report of Thai Listed Companies.

Indonesia
This report is issued and distributed in Indonesia by PT RHB Sekuritas Indonesia. This research does not constitute an offering document and it should not be construed as an offer of securities in Indonesia. Any securities offered or sold, directly or indirectly, in Indonesia or to any Indonesian citizen or corporation (wherever located) or to any Indonesian resident in a manner which constitutes a public offering under Indonesian laws and regulations must comply with the prevailing Indonesian laws and regulations.

Singapore
This report is issued and distributed in Singapore by RHB Securities Singapore Pte Ltd which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. RHB Securities Singapore Pte Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, RHB Securities Singapore Pte Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact RHB Securities Singapore Pte Ltd in respect of any matter arising from or in connection with the report.

Hong Kong
This report is issued and distributed in Hong Kong by RHB Securities Hong Kong Limited (興業僑豐證券有限公司) (CE No.: ADU220) ("RHBSHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact RHBSHK. RHBSHK is a wholly owned subsidiary of RHB Hong Kong Limited; for the purposes of disclosure under the Hong Kong jurisdiction herein, please note that RHB Hong Kong Limited with its affiliates (including but not limited to RHBSHK) will collectively be referred to as "RHBHK." RHBHK conducts a full-service, integrated investment banking, asset management, and brokerage business. RHBHK does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this report as only a single factor in making their investment decision. Importantly, please see the company-specific regulatory disclosures below for compliance with specific rules and regulations under the Hong Kong jurisdiction. Other than company-specific disclosures relating to RHBHK, this research report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

United States
This report was prepared by RHB and is being distributed solely and directly to "major" U.S. institutional investors as defined under, and pursuant to, the requirements of Rule 15a-6 under the U.S. Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, access to this report via Bursa Marketplace or any other Electronic Services Provider is not intended for any party other than "major" US institutional investors, nor shall be deemed as solicitation by RHB in any manner. RHB is not registered as a broker-dealer in the United States and does not offer brokerage services to U.S. persons. Any order for the purchase or sale of the securities discussed herein that are listed on Bursa Malaysia Securities Berhad must be placed with and through Auerbach Grayson ("AG"). Any order for the purchase or sale of all other securities discussed herein must be placed with and through such other registered U.S. broker-dealer as appointed by RHB from time to time as required by the Exchange Act Rule 15a-6. This report is confidential and not intended for distribution to, or use by, persons other than the recipient and its employees, agents and advisors, as applicable. Additionally, where research is distributed via Electronic Service Provider, the analysts whose names appear in this report are not registered or qualified as research analysts in the United States and are not associated persons of Auerbach Grayson AG or such other registered U.S. broker-dealer as appointed by RHB from time to time and therefore may not be subject to any applicable restrictions under Financial Industry Regulatory Authority ("FINRA") rules on communications with a subject company, public appearances and personal trading. Investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States. The financial instruments discussed in this report may not be suitable for all investors. Transactions in foreign markets may be subject to regulations that differ from or offer less protection than those in the United States.

DISCLOSURE OF CONFLICTS OF INTEREST

RHB Investment Bank Berhad, its subsidiaries (including its regional offices) and associated companies, ("RHBIB Group") form a diversified financial group, undertaking various investment banking activities which include, amongst others, underwriting, securities trading, market making and corporate finance advisory.

As a result of the same, in the ordinary course of its business, any member of the RHBIB Group, may, from time to time, have business relationships with or hold positions in the securities (including capital market products) or perform and/or solicit investment, advisory or other services from any of the subject company(ies) covered in this research report.

While the RHBIB Group will ensure that there are sufficient information barriers and internal controls in place where necessary, to prevent/manage any conflicts of interest to ensure the independence of this report, investors should also be aware that such conflict of interest may exist in view of the investment banking activities undertaken by the RHBIB Group as mentioned above and should exercise their own judgement before making any investment decisions.

Malaysia
Save as disclosed below and to the best of our knowledge, RHBIB hereby declares that:

1. RHBIB does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report, save and except for the following:
   (a) -

2. RHBIB is not a market maker in the securities or capital market products of the subject company(ies) covered in this report, save and except for the following:
   (a) -

3. None of RHBIB's staff or associated person serve as a director or board member* of the subject company(ies) covered in this report, save and except for the following:
   (a) -
   **For the avoidance of doubt, the confirmation is only limited to the staff of research department*

4. Save as disclosed below, RHBIB did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months, save and except for the following:
   (a) -

5. RHBIB did not receive compensation or benefit (including gift and special cost arrangement e.g.company/issuer-sponsored and paid trip) in relation to the production of this report, except for the following:
   (a) -

Thailand
RHB Securities (Thailand) PCL and/or its directors, officers, associates, connected parties and/or employees, may have, or have had, interests and/or commitments in the securities in subject company(ies) mentioned in this report or any securities related thereto. Further, RHB Securities (Thailand) PCL may have, or have had, business relationships with the subject company(ies) mentioned in this report. As a result, investors should exercise their own judgment carefully before making any investment decisions.

Indonesia
PT RHB Sekuritas Indonesia is not affiliated with the subject company(ies) covered in this report both directly or indirectly as per the definitions of affiliation above. Pursuant to the Capital Market Law (Law Number 8 Year 1995) and the supporting regulations thereof, what constitutes as affiliated parties are as follows:

1. Familial relationship due to marriage or blood up to the second degree, both horizontally or vertically;
2. Affiliation between parties to the employees, Directors or Commissioners of the parties concerned;
3. Affiliation between 2 companies whereby one or more member of the Board of Directors or the Commissioners are the same;
4. Affiliation between the Company and the parties, both directly or indirectly, controlling or being controlled by the Company;
5. Affiliation between 2 companies which are controlled, directly or indirectly, by the same party; or
6. Affiliation between the Company and the main Shareholders.

PT RHB Sekuritas Indonesia is not an insider as defined in the Capital Market Law and the information contained in this report is not considered as insider information prohibited by law. Insider means:

a. a commissioner, director or employee of an Issuer or Public Company;
b. a substantial shareholder of an Issuer or Public Company;
c. an individual, who because of his position or profession, or because of a business relationship with an Issuer or Public Company, has access to inside information; and
d. an individual who within the last six months was a Person defined in letters a, b or c, above.

Singapore
RHB Securities Singapore Pte Ltd and/or its subsidiaries and/or associated companies do not make a market in any securities covered in this report, except for:
(a) -

The staff of RHB Securities Singapore Pte Ltd and its subsidiaries and/or its associated companies do not serve on any board or trustee positions of any issuer whose securities are covered in this report, except for:
(a) -

RHB Securities Singapore Pte Ltd and/or its subsidiaries and/or its associated companies do not have and have not within the last 12 months had any corporate finance advisory relationship with the issuer of the securities covered in this report or any other relationship (including a shareholding of 1% or more in the securities covered in this report) that may create a potential conflict of interest, except for:
(a) -

Hong Kong
The following disclosures relate to relationships between RHBHK and companies covered by Research Department of RHBSHK and referred to in this research report:

RHBSHK hereby certifies that no part of RHBSHK analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

RHBHK had an investment banking services client relationships during the past 12 months with: -.

RHBHK has received compensation for investment banking services, during the past 12 months from: -.

RHBHK managed/co-managed public offerings, in the past 12 months for: -.

On a principal basis. RHBHK has a position of over 1% market capitalization of: -.

Additionally, please note the following*:*

Ownership and material conflicts of interest: RHBSHK policy prohibits its analysts and associates reporting to analysts from owning securities of any company covered by the analyst.

Analyst as officer or director: RHBSHK policy prohibits its analysts, and associates reporting to analysts from serving as an officer, director, advisory board member or employee of any company covered by the analyst.

RHBHK salespeople, traders, and other non-research professionals may provide oral or written market commentary or trading strategies to RHB clients that reflect opinions that are contrary to the opinions expressed in this research report.

KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax :+6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211