10 March 2020

Energy & Petrochemicals | Oil & Gas Services

Keppel Corp (KEP SP)

Buy (Maintained)

A BUY Even After Crude Oil Price Collapse

Target Price (Return):	SGD7.60 (35%)
Price:	SGD5.62
Market Cap:	USD7,405m
Avg Daily Turnover (SGD/USD)	18.0m/13.1m

- **Maintain BUY, with a new SGD7.60 TP** from SGD7.80, offering 35% upside plus c.4% FY20 yield. The recent OPEC+ meeting ended with no agreement, and Brent crude sank to USD36.00/bbl, vs the past 12 months' average of USD63.00/bbl. If sustained at a low price, this could adversely affect Keppel's offshore and marine (O&M) forward orderbook. However, Dec 2019 net O&M orderbook of SGD4.4bn (higher than Dec 2018's SGD4.3bn) is a plus. In the meantime, its property division's earnings should support dividends.
- **We cut earnings forecast due to Brent crude price collapse.** This week, our house view for Brent crude 2020 average is cut to USD47.00/bbl (from USD62.30/bbl). Consequently, we lowered our O&M earnings, which led to Keppel's FY20F net profit being cut by 13%.
- **Our SGD7.60 TP valuation for Keppel is based on SOTP**, as Keppel has a diversified asset structure with huge value unlocking potential. We value the O&M segment at 1.35x FY20F P/BV – at a discount to the 5-year average 1.56x P/BV of Sembcorp Marine (SMM SP, BUY, TP: SGD1.45). Its infrastructure segment is valued conservatively at 10x FY20F P/E, while its property arm is valued at a 40% discount to RNAV – close to the average discount to RNAV applied for China-listed property developers. Property, which is less affected by the crude oil price slump, accounts for 42% share of Keppel's RNAV, and should help support its share price.
- **Our current TP assumes the following for 2020: Brent crude average of USD47.00/bbl, global GDP growth of 3.3%, and Singapore GDP growth of 0.6%.** If the current global fears escalate further, we will review our forecasts and TP for Keppel again.
- **No further impairment required for Floatel.** Floatel International recently announced that its financial situation was unsustainable as liquidity was under pressure and there was a material uncertainty on the servicing of financial liabilities and net working capital requirements over the next 12 months. As of Dec 2019, Keppel's carrying value of its investments in Floatel was SGD477m (after impairment losses), and Keppel's assessment is that no further impairment is required.
- **We await further newsflow regarding Temasek's partial offer** to acquire an additional 30.55% stake in Keppel for SGD7.35/share. The announcement was made in Oct 2019, and Temasek can only make the offer after the pre-conditions (including domestic and foreign regulatory approvals) are fulfilled or waived. If Temasek is successful in raising its stake to 51%, the subsequent strategic review could lead to more value created for shareholders.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	5,965	7,580	7,597	8,333	8,804
Recurring net profit (SGDm)	944	707	893	1,037	1,235
Recurring net profit growth (%)	381.5	(25.1)	26.3	16.1	19.1
Recurring P/E (x)	10.78	14.40	11.39	9.81	8.24
P/B (x)	0.9	0.9	0.9	0.8	0.7
P/CF (x)	81.59	na	7.58	7.95	7.03
Dividend Yield (%)	7.1	3.6	4.4	5.1	6.1
EV/EBITDA (x)	5.41	7.34	8.61	7.15	5.80
Return on average equity (%)	8.4	6.3	7.8	8.6	9.5
Net debt to equity (%)	46.9	78.6	71.9	62.6	50.2

Source: Company data, RHB

Analyst

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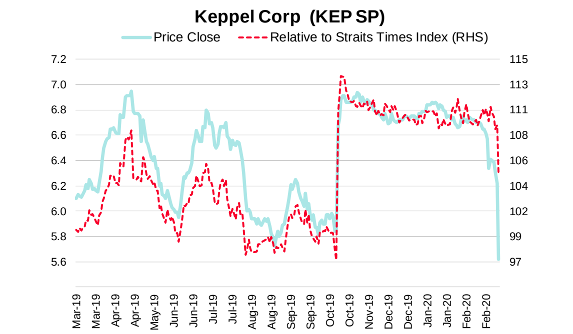
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.0)	(16.3)	(16.4)	(7.0)	(7.9)
Relative	(3.3)	(3.7)	(3.9)	4.6	5.0
52-wk Price low/high (SGD)					5.62 – 6.95



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Energy & Petrochemicals
Keppel Corp
KEP SP
Buy

Valuation basis
SOP

Key drivers
Higher O&M orderbook replenishment

Key risks
Lower-than-expected orderbook replenishment

Company Profile
Keppel Corp is a conglomerate with diversified business interests in offshore & marine, property and infrastructure.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.52	0.39	0.49	0.57	0.68
DPS	0.40	0.20	0.25	0.29	0.34
BVPS	6.23	6.20	6.43	6.87	7.55
Return on average equity (%)	8.4	6.3	7.8	8.6	9.5

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	10.78	14.40	11.39	9.81	8.24
P/B (x)	0.9	0.9	0.9	0.8	0.7
FCF Yield (%)	(1.3)	(13.2)	9.6	8.7	10.2
Dividend Yield (%)	7.1	3.6	4.4	5.1	6.1
EV/EBITDA (x)	5.41	7.34	8.61	7.15	5.80
EV/EBIT (x)	6.35	10.48	10.94	8.79	6.87

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	5,965	7,580	7,597	8,333	8,804
Gross profit	803	1,150	1,008	1,181	1,431
EBITDA	1,238	1,252	1,124	1,301	1,556
Depreciation and amortisation	(182)	(375)	(240)	(242)	(242)
Operating profit	1,056	877	884	1,059	1,313
Net interest	(41)	(135)	(102)	(126)	(144)
Pre-tax profit	1,246	954	1,139	1,321	1,580
Taxation	(285)	(192)	(229)	(263)	(323)
Reported net profit	949	707	893	1,037	1,235
Recurring net profit	944	707	893	1,037	1,235

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)	1,343	1,281	1,448
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	1,859	2,641
Net change in cash	(223)	(167)	110	808	1,178
Ending balance cash	2,004	1,787	1,865	2,641	3,794

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	2,118	1,905	2,006	2,798	3,952
Tangible fixed assets	2,373	3,166	3,181	3,164	3,154
Total investments	10,219	11,678	10,975	11,425	11,614
Total assets	26,588	31,322	30,166	31,652	33,416
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	12,041	12,846	14,070
Total liabilities & equity	26,588	31,322	30,166	31,652	33,416

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	0.0	27.1	0.2	9.7	5.7
Recurrent EPS growth (%)	381.5	(25.1)	26.3	16.1	19.1
Gross margin (%)	13.5	15.2	13.3	14.2	16.3
Operating EBITDA margin (%)	20.8	16.5	14.8	15.6	17.7
Net profit margin (%)	15.9	9.3	11.8	12.4	14.0
Capex/sales (%)	4.3	6.8	4.8	4.8	4.7
Interest cover (x)	5.15	2.80	3.71	4.00	4.59

Source: Company data, RHB

Figure 1: Keppel's SOP valuation

Segments	Stake	Value	Value/share	Remarks
		(SGDm)	**(SGD)**	
Offshore & marine		3,964	2.18	1.35x FY20F book value
Infrastructure (1)		1,786	0.98	10x FY20F P/E
Property (2)		6,754	3.72	0.6x FY20F RNAV
Investments				
-Keppel Capital		648	0.36	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		15,932	8.77	No. of KEP shares =1816m
Conglomerate discount		13%		
SOTP after discount		13,797	**7.60**	

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
Source: Bloomberg, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-24	Buy	7.80	6.75
2019-10-22	Buy	7.80	6.68
2019-10-18	Buy	7.18	5.84
2019-10-07	Buy	7.30	5.91
2019-07-19	Buy	7.30	6.57
2019-06-10	Buy	7.33	6.14

Source: RHB, Bloomberg

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(1) they do not have any financial interest in the securities or other capital market products of the subject companies mentioned in this report, except for:

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-	-

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