



CHINA  
DEVELOPMENT  
FINANCIAL

# Keppel Corporation Ltd

(KEP SP/KPLM.SI)

## Land grab

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- **Hot property market.** KEP achieved a net profit of S\$297mn in 1H2021, a turnaround from the S\$536mn losses in 1H2020. Its business is still very much reliant on the property segment to drive earnings and value.
- **SPH acquisition will add more properties.** The proposed acquisition of SPH will add more properties to KEP. While it's a good move on KEP's part to swap out underperforming assets, we are neutral on the acquisition. The key advantage we see is the higher AUM from the acquisition, which will increase recurring income. Post-acquisition, KEP can focus on its ultimate 2030 goal to become a leading sustainable solutions provider in Asia.
- **Maintain OUTPERFORM** with a lower TP of S\$6.22, based on SOTP valuation, and implied 1.0x FY2021F P/B.

YE Dec (\$ m)	2019	2020	2021F	2022F	2023F
Revenue	7579.7	6574.3	7063.3	7246.7	7947.9
PATMI	707.0	-505.9	684.8	804.4	894.0
Core PATMI	716.7	-535.2	684.8	804.4	894.0
Core EPS	39.5	-29.4	37.7	44.2	49.2
Core EPS grth (%)	-23.2	-174.5	-227.9	17.5	11.1
Core P/E (x)	14.0	-18.9	14.7	12.5	11.3
DPS (SG cents)	20.0	10.0	22.0	24.0	25.0
Div Yield (%)	3.6	1.8	4.0	4.3	4.5
Net Margin (%)	9.3	-7.7	9.7	11.1	11.2
Gearing (%)	83.2	88.9	90.1	84.2	79.3
Price / Book (x)	0.9	0.9	0.9	0.9	0.9
ROE (%)	6.1	-4.5	6.0	6.7	7.2

Source: Company Data, KGI Research

**1H2021 financial review.** KEP reported a core net profit (excluding revaluations, impairments, and divestments) of S\$280mn in 1H2021, vs a core net loss of S\$72mn in 1H2020. Its Urban Development segment, led by Keppel Land, contributed the bulk of earnings, mainly from higher contribution from China and the divestment gain of the 30% stake in Dong Nai Waterfront city. Home sales under Keppel Land surged more than 100% YoY to 2,650 units from properties across all markets (China, Singapore, and Vietnam). KEP generated S\$152mn from recurring income in 1H2021, making up 51% of the headline earnings. The 12 Scts 1H2021 dividend (Ex dividend on 6 Aug) is the highest since 2018, a consolation for shareholders who only received 3 Scts in 1H2020 and 8 Scts in 1H2019.

**It's all about land...** Keppel Land under its Urban Development segment still makes up the bulk of the group's earnings and value. In 1H2021, Urban Development contributed >90% of profits. As at end June 2021, Keppel Land's land bank remains robust at 46,000 homes, while its commercial portfolio had around 1.6mn sqm of GFA. In line with its ongoing monetisation strategy, the group expects to unlock more value from Keppel Land.

**...and more land.** On 2 Aug, KEP announced a scheme of arrangement to acquire 100% of SPH, with the intention to delist and privatise SPH. The deal looks positive both from EPS accretion and AUM growth. KEP expects Keppel Capital's

OUTPERFORM - Maintain			
Price as of 4 Aug 21 (SGD)	5.58	<b>Performance (Absolute)</b>	
12M TP (\$)	6.22	1 Month (%)	2.6
Previous TP (\$)	6.34	3 Month (%)	2.4
Upside, incl div (%)	15.4	12 Month (%)	8.5
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	10,099		
Issued Shares (mn)	1,820		
Vol - 3M Daily avg (mn)	3.9		
Val - 3M Daily avg (\$mn)	20.6		
Free Float (%)	78.9%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Temasek	20.4%	12-Nov-20	Outperform \$6.34
Blackrock	5.0%	21-Oct-19	Outperform \$7.44
Vanguard	2.4%	22-Jul-19	Neutral \$7.43

AUM to increase 27% to S\$47bn, with most of it from SPH's property-related businesses. SPH's key assets include UK student accommodations, stake in SPH REIT, and other development assets (e.g., Woodleigh Residences).

**Swapping out underperforming assets.** KEP only needs to fork out around S\$1bn in cash, with the rest paid for by units in KEP REIT and SPH REIT. Post-acquisition, KEP will retain around 20% stakes in both REITs. Around half of the S\$1bn can be funded by the proposed divestment of Keppel O&M (KOM) later this year. We think this is a clever move for KEP, as it basically swaps out underperforming assets with minimal impact on the balance sheet.

**Deal or no deal – it's really up to SPH shareholders.** The acquisition of SPH rests on the successful carving out of SPH's media business. If the media carve out fails, there will not be any deal. We think it is likely that SPH shareholders will go ahead and agree to the divestment of the media business. In the event the carve out fails, we expect the alternative to be a long-drawn out process for SPH given that it will then have to divest assets on a stand-alone basis.

**Timeline.** The proposed acquisition of SPH is expected to be completed by Dec 2021, subject to approval from both KEP's and SPH's shareholders at their respective EGM in the coming months.

**Valuation & Action: Maintain OUTPERFORM but with a lower target price of S\$6.22.** Our fair value is based on SOTP valuation of its businesses and mainly driven by urban development and Keppel Capital. These two businesses contribute the majority of our fair value estimates of the group.

**Risks:** KEP's property segment contributes the largest share of profits. As a result, a slowdown in the property sector in its key markets like China and Singapore will have the largest impact on KEP's valuations.

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<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
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