



CHINA
DEVELOPMENT
FINANCIAL

Keppel Corporation Ltd

(KEP SP/KPLM.SI)

BUY - Maintain

Price as of 23 Apr 2018	8.31
12M target price (S\$)	9.43
Previous target price (S\$)	8.04
Upside, incl div (%)	16.7

Trading data

Mkt Cap (S\$m) / (US\$m)	15,053 / 11,433
Issued Shares (m)	1,811.4
Ave Daily Traded (3-Month) Vol / Val	5.3m / \$43.2m
52 week lo / hi	\$6.16 / \$8.92
Free Float	99.9%

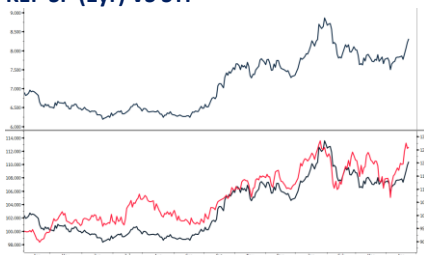
Major Shareholders

Temasek	20.7%
Blackrock	5.9%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
26-Dec-17	BUY	7.47	8.04
15-Dec-17	BUY	7.59	8.67
24-Jul-17	BUY	6.53	7.61
24-Apr-17	BUY	6.53	7.02
1-Jan-17	HOLD	6.27	6.50

KEP SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

Strength through its diversified business model

Event

1Q18 results were above expectations, which we believe clearly shows the strength of KEP's diversified business model. 1Q18 net profit of S\$337mn was the highest since 2015. Profits for the quarter was a 34% YoY increase mainly due to higher contribution from its property division. Most operating metrics improved with annualised ROE rising to 11.4% and net gearing declining to a healthy 0.42x as at end Mar-18 compared to 0.46x as at end Dec-17.

Impact

Unlocking value. KEP recorded a S\$289mn net gain from the divestment of KEP Land China's stake in Keppel China Marina Holdings, which held the Keppel Cove asset in Zhongshan. Looking forward, it had acquired the remaining 10% stake in Saigon Sports City, putting it in a better position to develop the integrated township with its various units (e.g. Keppel Urban Solutions, Keppel Capital).

O&M future-ready. We are convinced that KEP's long-term strategy of building new capabilities in LNG production-related projects will bear fruit in the next 3-5 years. We believe this strategy will help generate long-term recurring income for KEP and its partners. Recovery in the sector is already underway with KEP's O&M orderbook increasing to S\$4.3bn as at end Mar-18 compared to S\$3.9bn at end Dec-17. Brent oil prices >US\$70 is creating a renewed sense of confidence in the sector.

Valuation & Action

Attractive long-term growth story. We reiterate our BUY recommendation in view of KEP's attractive long-term growth story. We believe valuations are undemanding given the recovery in the O&G sector and continued strength from its property developments. Furthermore, downside may be limited on the back of its 15-year historical low valuations.

Our fair value is based on SOTP valuation of its businesses and mainly driven by property (55% of valuation), O&M (20%) and Keppel Capital (13%). These three businesses contribute 87% of our fair value estimates of the group. KEP's track record of unlocking value via divestments may provide further upside to earnings and dividends forecasts.

Risks

Longer period of low oil prices and a property market slowdown in China.

Financials & Key Operating Statistics

YE Dec (S\$ m)	2016	2017	2018F	2019F	2020F
Revenue	6767.3	5963.8	6182.1	6855.4	8218.7
PATMI	783.9	216.7	1136.0	1173.1	1307.0
Core PATMI	768.8	815.5	1136.0	1173.1	1307.0
Core EPS	42.3	44.9	62.5	64.6	71.9
Core EPS grth (%)	-49.1	6.1	39.3	3.3	11.4
Core P/E (x)	19.7	18.5	13.3	12.9	11.6
DPS (SG cents)	20.0	22.0	26.0	28.0	30.0
Div Yield (%)	2.4	2.6	3.1	3.4	3.6
Net Margin (%)	11.6	3.6	18.4	17.1	15.9
Gearing (%)	54.3	44.5	56.9	48.8	44.5
Price / Book (x)	1.3	1.3	1.2	1.2	1.1
ROE (%)	6.4	1.8	8.9	8.7	9.1

Source: Company Data, KGI Research

SOTP Valuation. Our fair value is based on a SOTP valuation: Book value for its property segment (in-line with large-cap property developers), 2.5x 2018E BVPS for its O&M segment, 20x 2018E EPS for KEP Capital and market prices for its remaining businesses. KEP's valuations for 2018E is expected to be driven by its property segment (55% of total group valuation), with an upside surprise if Brent oil prices can have a sustained recovery >US\$70 in 2018. KEP's track record of unlocking value via divestments may also provide upside to earnings and dividends.

Figure 1: SOTP Valuation

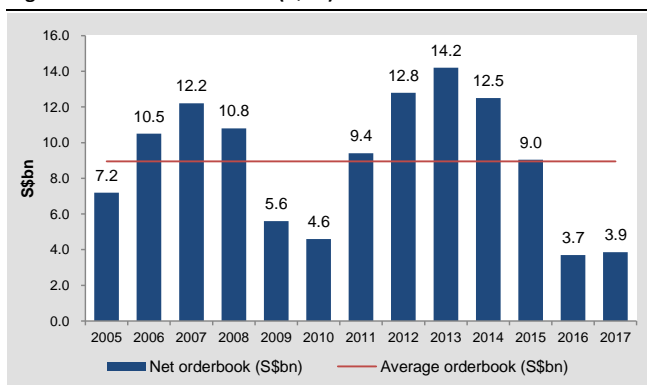
SOTP Valuation						
	Stake (%)	Valuation Method	Value (\$m)	Keppel's Share (\$m)	Per Share (\$)	% of total value
Offshore & Marine						
Offshore & Marine	100%	2.5x FY18F P/B	3,625	3,625	1.99	21%
Property						
Property	100%	1x FY18F P/B	9,110	9,110	5.00	53%
Infrastructure						
Keppel T&T	80%	Market price	867	694	0.38	4%
Keppel Infrastructure Trust	18%	Market price	2,064	376	0.21	2%
Investments						
Keppel Capital	100%	20x FY18F P/E	2,200	2,200	1.21	13%
KrisEnergy	38%	Market price	167	63	0.03	0.4%
Dyna-Mac	25%	Market price	135	34	0.02	0.2%
Tianjin eco-city	45%	Discounted surplus	1,100	1,100	0.60	6.4%
Total Value (\$m)				17,201	9.43	
Shares (m)				1,823		
Value per share (\$m)				9.43		
Current price				8.31		
Upside/(downside)				13.5%		
Dividend yield (%)				3.13%		
Total returns (%)				16.7%		

Source: KGI Research

Figure 2: Company profile

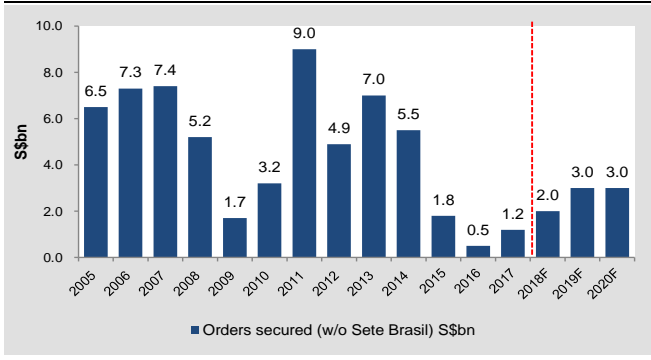
Keppel Corp is a conglomerate with key businesses in the offshore & marine, infrastructure, property and asset management business. It is a leader in offshore rig design and construction, supported by its global network of 20 yards. Its property segment develops residential and commercial properties in Asia. In infrastructure, Keppel Corp develops and operates energy and water related facilities. Keppel Capital manages around S\$26 billion and includes a diversified portfolio of real estate, infrastructure and data centre

Source: KGI Research

Figure 3: O&M net orderbook (\$bn)


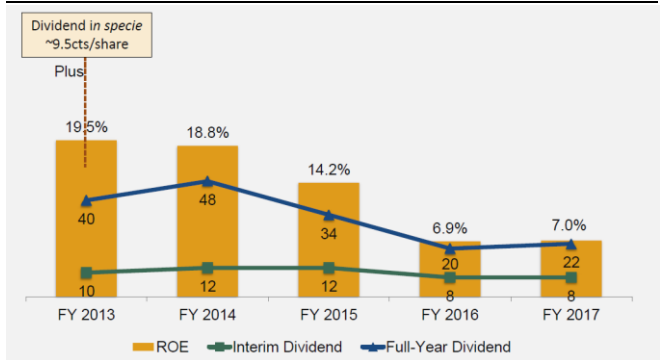
Source: Company data, KGI Research

Figure 4: O&M new orders (\$Sbn) and assumptions



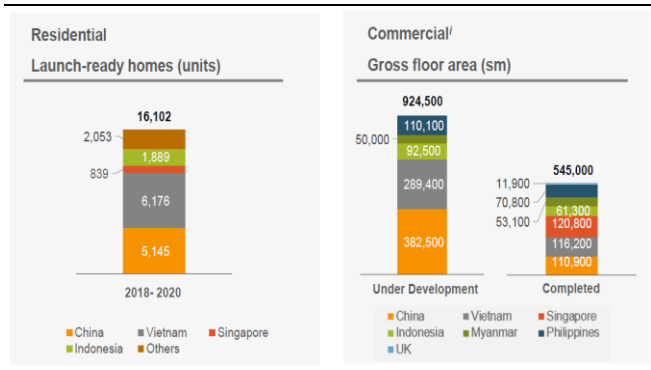
Source: Company data, KGI Research

Figure 5: ROE and dividend trend



Source: Company data, KGI Research

Figure 6: Property pipeline (As at 31 March 2018)



Source: Company data, KGI Research

Figure 7: Keppel Corp growth strategy

<p>Offshore & Marine</p> <ul style="list-style-type: none"> Gas value chain <ul style="list-style-type: none"> Liquefaction & regasification Transportation & bunkering Specialised vessels Re-purposing offshore technology <ul style="list-style-type: none"> Floating infrastructure assets 	<p>Property</p> <ul style="list-style-type: none"> Rising home-ownership aspirations in Asia <ul style="list-style-type: none"> Residential pipeline of >64,000 homes Prime commercial portfolio <ul style="list-style-type: none"> >1 million sm of commercial GA under development
<p>Infrastructure</p> <ul style="list-style-type: none"> Energy & environmental infrastructure <ul style="list-style-type: none"> Power and gas WTE, desalination & wastewater treatment District cooling and energy efficiency management Connectivity <ul style="list-style-type: none"> Data centre development and management Urban logistics, e-commerce fulfilment 	<p>Investments</p> <ul style="list-style-type: none"> Integrated asset management <ul style="list-style-type: none"> Assets management solutions for real assets across Property, Infrastructure, and even O&M sectors Master developer of urban developments <ul style="list-style-type: none"> Sino-Singapore Tianjin Eco-City Jinan Smart City

Source: Company data, KGI Research

Keppel Urban Solutions (KUS) to leverage on the group's expertise and experience. Utilising its experience in integrated developments in China, KEP has set up a new unit KUS to look at developing similar projects in Southeast Asia. For a start, KUS will be developing a 64-hectare township in the prime District 2 in Ho Chi Minh City, Vietnam. The Vietnam project will offer a one-stop hub for sports, entertainment and lifestyle activities, and involves teaming up with industry-leading technology companies like Microsoft to help develop smart urban solutions.

Figure 8: KEP's track record of master developer in several integrated urban developments

<p>China-Singapore Suzhou Industrial Park Large-scale industrial township in China</p>	<p>Jakarta Garden City Well-appointed township in Indonesia</p>
<p>Sino-Singapore Tianjin Eco-City Eco township and model for sustainable development in China</p>	<p>Palm City Integrated waterfront development in Vietnam</p>
<p>Sino-Singapore Jinan Smart City Smart eco-friendly development in China</p>	<p>Keppel Bay Premier waterfront development with luxury homes, a marina and offices in Singapore</p>

Source: Company presentation slides

YE 31 Dec

INCOME STATEMENT (S\$m)	2016	2017	2018F	2019F	2020F
Revenue	6,767.3	5,963.8	6,182.1	6,855.4	8,218.7
Cost of sales	(4,204.1)	(3,999.1)	(4,018.4)	(4,387.4)	(5,342.1)
Gross Profit	2,563.2	1,964.7	2,163.7	2,467.9	2,876.5
Other operating income/(expenses)	(612.6)	(162.0)	174.5	53.8	50.7
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(1,155.4)	(1,027.0)	(989.1)	(1,096.9)	(1,315.0)
Profit from Operations	795.2	775.7	1,349.2	1,424.9	1,612.3
Finance income/(expenses)	(100.5)	(51.3)	(163.6)	(188.9)	(198.6)
Share of JV results	345.0	390.0	331.6	331.6	331.6
Exceptionals/Investment income	15.2	(598.9)	0.0	0.0	0.0
Profit before Tax	1,054.9	515.6	1,517.1	1,567.6	1,745.2
Income tax	(233.1)	(298.4)	(333.8)	(344.9)	(383.9)
Non-controlling interests	(37.8)	(0.5)	(47.4)	(49.6)	(54.3)
PATMI	783.9	216.7	1,136.0	1,173.1	1,307.0
PATMI Normalized	768.8	815.5	1,136.0	1,173.1	1,307.0
BALANCE SHEET (S\$m)	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	2,361.0	2,476.6	2,005.2	3,710.2	5,965.9
Trade and other receivables	3,980.8	3,512.4	3,400.2	3,770.5	4,520.3
Inventory	10,025.8	8,782.3	7,956.4	7,818.4	8,567.7
Other current assets	99.0	181.2	181.2	181.2	181.2
Current Assets	16,466.6	14,952.4	13,543.0	15,480.3	19,235.1
Property, plant and equipment	2,645.5	2,433.0	2,948.1	2,919.8	2,869.4
Other non-current assets	10,122.1	10,727.4	10,948.1	11,175.5	11,409.8
Non-current Assets	12,767.6	13,160.4	13,896.1	14,095.3	14,279.2
Total assets	29,234.2	28,112.8	27,439.1	29,575.5	33,514.3
Trade and other payables	6,423.0	7,136.5	4,371.4	4,772.9	5,811.5
Borrowings (current)	1,835.3	1,714.1	1,854.6	2,056.6	2,465.6
Other current liabilities	912.2	601.6	406.4	417.5	456.5
Current Liabilities	9,170.5	9,452.1	6,632.4	7,247.0	8,733.6
Borrowings (non-current)	7,217.7	6,078.9	7,418.6	8,226.5	9,862.4
Other non-current liabilities	512.3	621.3	621.3	621.3	621.3
Non-current liabilities	7,730.0	6,700.2	8,039.9	8,847.8	10,483.7
Shareholders equity	11,658.9	11,432.7	12,191.8	12,856.1	13,618.0
Non-controlling interests	674.7	527.7	575.1	624.8	679.0
Total Equity	12,333.6	11,960.4	12,766.9	13,480.8	14,297.0
Total Liabilities and Equity	29,234.2	28,112.8	27,439.1	29,575.5	33,514.3
CASH FLOW STATEMENT (S\$m)	2016	2017	2018F	2019F	2020F
Net income before tax	1,054.9	515.6	1,517.1	1,567.6	1,745.2
Depreciation & non cash adjustments	849.1	(842.0)	(550.9)	329.9	323.0
Change in Working Capital	(641.1)	2,563.4	(1,758.8)	237.4	(350.9)
Income Tax Paid	(708.3)	(670.3)	(529.0)	(333.8)	(344.9)
Interest Paid	(224.5)	(189.2)	(231.8)	(257.1)	(308.2)
CF from operating activities	330.0	1,377.5	(1,553.4)	1,544.0	1,064.2
Purchase/Disposal of PPE	(466.2)	(393.0)	(353.7)	(318.3)	(286.5)
Other CFI	156.3	775.0	413.5	0.0	0.0
CF from investing activities	(310.0)	382.0	59.8	(318.3)	(286.5)
Dividends Paid	(544.7)	(363.5)	(399.7)	(472.4)	(508.8)
Debt Raised / (Repaid)	817.4	(1,007.1)	1,480.2	1,009.9	2,044.9
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(140.2)	(108.0)	0.0	0.0	0.0
CF from financing activities	132.5	(1,478.6)	1,080.5	537.5	1,536.2
Net increase in cash & cash equiv.	159.6	222.7	(471.4)	1,704.9	2,255.7
FX effects	7.1	(58.2)	(58.2)	(58.2)	(58.2)
Beginning Cash	1,859.1	2,018.7	2,241.4	1,770.1	3,475.0
Ending Cash	2,361.0	2,476.6	2,005.2	3,710.2	5,965.9
KEY RATIOS	2016	2017	2018F	2019F	2020F
Core					
Core EPS	42.3	44.9	62.5	64.6	71.9
Core EPS Growth (%)	(49.1)	6.1	39.3	3.3	11.4
DPS (SGD Cents)	20.0	22.0	26.0	28.0	30.0
Dividend Yield (%)	2.4	2.6	3.1	3.4	3.6
Profitability					
Gross margin	37.9%	32.9%	35.0%	36.0%	35.0%
EBITDA margin	15.2%	16.6%	25.3%	24.0%	22.3%
Net margin	11.6%	3.6%	18.4%	17.1%	15.9%
ROE	6.4%	1.8%	8.9%	8.7%	9.1%
ROA	2.7%	0.8%	4.1%	4.0%	3.9%
Growth (% Y-o-Y)					
Revenue	-34.3%	-11.9%	3.7%	10.9%	19.9%
EBITDA	-41.4%	-4.2%	58.4%	5.1%	11.6%
Net income (core)	-48.6%	-72.4%	424.3%	3.3%	11.4%
Diluted EPS (core)	-49.1%	6.1%	39.3%	3.3%	11.4%
Financial Structure (x)					
Interest coverage	3.5	4.1	5.8	5.5	5.2
Total Debt/Equity	0.7	0.7	0.7	0.8	0.9
Net Gearing	0.5	0.4	0.6	0.5	0.4

Source: KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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