



CHINA
DEVELOPMENT
FINANCIAL

Keppel Corporation Ltd

(KEP SP/KPLM.SI)

BUY - Maintain

Price as of 15 Dec 2017	7.59
12M target price (S\$)	8.67
Previous target price (S\$)	7.61
Upside, incl div (%)	16.8

Trading data

Mkt Cap (S\$m) / (US\$m)	13,761 / 10,218
Issued Shares (m)	1,813.1
Ave Daily Traded (3-Month) Vol / Val	4.5m / \$32.7m
52 week lo / hi	\$5.73 / \$7.83
Free Float	99.9%

Major Shareholders

Temasek	20.7%
Blackrock	5.9%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
24-Jul-17	BUY	6.53	7.61
24-Apr-17	BUY	6.53	7.02
1-Jan-17	HOLD	6.27	6.50
31-Oct-16	BUY	5.29	5.93
22-Jul-16	HOLD	5.58	5.67

KEP SP (1yr) VS STI



Source: Bloomberg

Joel Ng
65 6202 1192
joel.ng@kgi.com

See the last page for important disclosures.

Diversification strategy paying off

Event

KEP has been able to offset the weakness in its O&M segment with growth from property and investments. Its major property projects such as Tianjin Eco-city is finally contributing meaningfully to the overall performance of the group. Meanwhile, its investment division led by Keppel Capital has grown its AUM to S\$28bn following the latest commitment of ~US\$1bn from investors such as the Canada Pension Plan Investment Board.

O&M division well-positioned for future growth. We are convinced that KEP's long-term strategy of building new capabilities in production-related projects will bear fruit in the next 3-5 years. KEP has been focusing on the whole gas value chain in LNG delivery, where the group also seeks to be co-owner and co-developer. We believe this strategy will help generate long-term recurring income for KEP and its partners.

KEP's property landbank in Asia sufficient for 10 years. KEP sold 3,790 residential units in 9M17 worth about S\$2.0 billion, contributing ~60% of the group's bottom line. KEP's property segment still has 6,000 – 7,000 residential units to be launched p.a. in China and Southeast Asia. Based on the average sales p.a., its existing land bank of 62,000 residential units is sufficient for the next ten years.

Valuation & Action

Long-term story even more convincing now. We reiterate our BUY call as we believe 1) downside may be limited on the back of its 15-year historical low valuations and 2) KEP has a compelling growth story that leverages on synergies between its various businesses. Our fair value is based on a SOTP valuation (Figure 1): book value for its property segment (in-line with large-cap developers), 2.0x FY18F P/B for its O&M segment, 19x FY18F P/E for KEP Capital and market prices for its remaining businesses. KEP's valuations for FY18 is expected to be driven by its property segment (60% of total group valuation), with an upside surprise if oil prices can have a sustained recovery >US\$60 in 2018. Keppel's track record of unlocking value via divestments may also provide upside to earnings and dividends.

Risks

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

Financials & Key Operating Statistics

YE Dec (S\$ m)	2015	2016	2017F	2018F	2019F
Revenue	10296.5	6767.3	6078.9	6182.1	6855.4
PATMI	1524.6	783.9	817.7	885.4	963.3
Core PATMI	1509.7	768.8	817.7	885.4	963.3
Core EPS	83.0	42.3	45.0	48.7	53.0
Core EPS grth (%)	-20.0	-49.1	6.4	8.3	8.8
Core P/E (x)	9.0	17.6	16.8	15.5	14.3
DPS (SG cents)	34.0	20.0	18.0	22.0	22.0
Div Yield (%)	4.5	2.6	2.4	2.9	2.9
Net Margin (%)	14.8	11.6	13.5	14.3	14.1
Gearing (%)	51.5	54.3	59.0	53.0	50.5
Price / Book (x)	1.2	1.2	1.1	1.1	1.0
ROE (%)	12.8	6.4	6.3	6.6	6.9

Source: Company Data, KGI Securities

Figure 1: SOTP Valuation

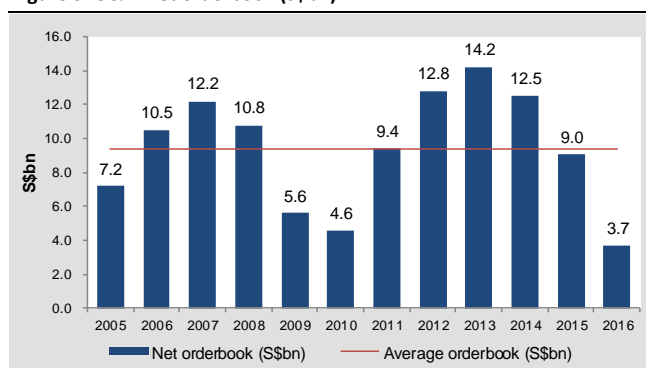
	Stake (%)	Valuation Method	Value (S\$m)	Keppel's Share (S\$m)	Per Share (S\$)	% of total value
Offshore & Marine						
Offshore & Marine	100%	2x FY18 P/B	4,300	4,300	2.36	27%
Property						
Property	100%	1x FY18 P/B	9,050	9,050	4.96	57%
Infrastructure						
Keppel T&T	80%	Market price	882	705	0.39	4%
Keppel Infrastructure Trust	18%	Market price	2,218	404	0.22	3%
Investments						
Keppel Capital	100%	19x FY18F P/E	1,140	1,140	0.63	7%
K1 Ventures	36%	Market price	329	118	0.06	0.7%
KrisEnergy	38%	Market price	139	52	0.03	0.3%
Dyna-Mac	25%	Market price	138	35	0.02	0.2%
Total Value (S\$m)				15,805	8.67	
Shares (m)				1,823		
Value per share (S\$m)				8.67		
Current price				7.59		
Upside/(downside)				14.2%		
Dividend yield (%)				2.64%		
Total returns (%)				16.8%		

Source: KGI Research

Figure 2: Company profile

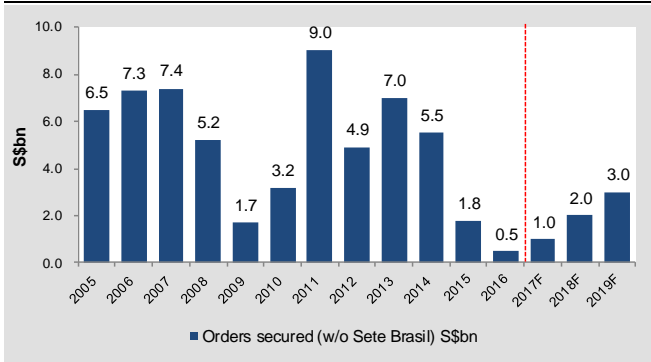
Keppel Corp is a conglomerate with key businesses in the offshore & marine, infrastructure, property and asset management business. It is a leader in offshore rig design and construction, supported by its global network of 20 yards. Its property segment develops residential and commercial properties 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 (S\$b)


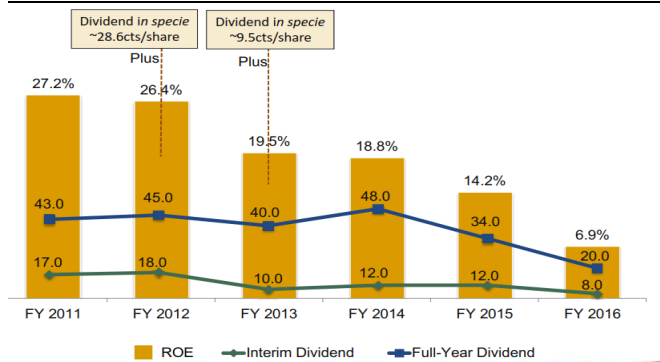
Source: Company data, KGI Research

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



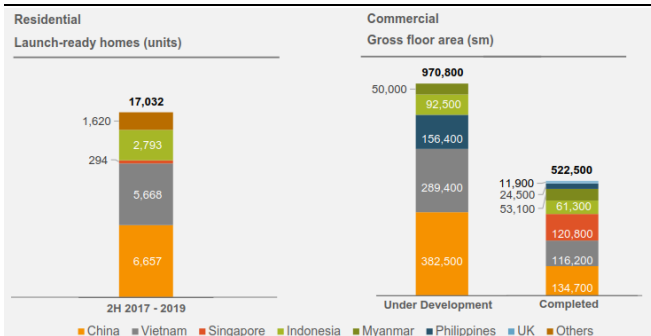
Source: Company data, KGI Research

Figure 5: ROE and dividend trend



Source: Company data, KGI Research

Figure 6: Property pipeline



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 being 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)	2015	2016	2017F	2018F	2019F
Revenue	10,296.5	6,767.3	6,078.9	6,182.1	6,855.4
Cost of sales	(7,023.3)	(4,204.1)	(3,829.7)	(3,956.6)	(4,387.4)
Gross Profit	3,273.1	2,563.2	2,249.2	2,225.6	2,467.9
Other operating income/(expenses)	(159.5)	(612.6)	(316.8)	(285.6)	(292.1)
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(1,600.0)	(1,155.4)	(1,063.8)	(989.1)	(1,096.9)
Profit from Operations	1,513.6	795.2	868.6	950.8	1,079.0
Finance income/(expenses)	(35.5)	(100.5)	(90.2)	(84.9)	(110.2)
Share of JV results	504.3	345.0	331.6	331.6	331.6
Exceptionals/Investment income	15.0	15.2	0.0	0.0	0.0
Profit before Tax	1,997.4	1,054.9	1,110.0	1,197.4	1,300.4
Income tax	(404.4)	(233.1)	(245.3)	(264.6)	(287.4)
Non-controlling interests	(68.3)	(37.8)	(47.0)	(47.4)	(49.6)
PATMI	1,524.6	783.9	817.7	885.4	963.3
PATMI Normalized	1,509.7	768.8	817.7	885.4	963.3
BALANCE SHEET (S\$m)	2015	2016	2017F	2018F	2019F
Cash and cash equivalents	2,118.0	2,361.0	1,872.0	2,147.3	3,187.8
Trade and other receivables	3,808.2	3,980.8	3,343.4	3,400.2	3,770.5
Inventory	10,650.5	10,025.8	8,425.4	7,834.0	7,818.4
Other current assets	0.0	99.0	99.0	99.0	99.0
Current Assets	16,576.7	16,466.6	13,739.8	13,480.5	14,875.7
Property, plant and equipment	2,845.5	2,645.5	2,912.1	2,865.5	2,792.3
Other non-current assets	9,509.8	10,122.1	10,902.1	11,688.2	12,480.7
Non-current Assets	12,355.4	12,767.6	13,814.2	14,553.7	15,272.9
Total assets	28,932.1	29,234.2	27,554.0	28,034.2	30,148.6
Trade and other payables	7,640.4	6,423.0	4,166.2	4,304.2	4,772.9
Borrowings (current)	1,656.7	1,835.3	1,823.7	1,854.6	2,056.6
Other current liabilities	609.0	912.2	487.3	506.6	529.4
Current Liabilities	9,906.1	9,170.5	6,477.1	6,665.4	7,358.9
Borrowings (non-current)	6,601.9	7,217.7	7,659.5	7,418.6	8,226.5
Other non-current liabilities	498.1	512.3	512.3	512.3	512.3
Non-current liabilities	7,100.1	7,730.0	8,171.7	7,930.8	8,738.7
Shareholders equity	11,095.7	11,658.9	12,183.4	12,668.9	13,232.3
Non-controlling interests	830.2	674.7	721.7	769.1	818.7
Total Equity	11,925.9	12,333.6	12,905.1	13,437.9	14,051.0
Total Liabilities and Equity	28,932.1	29,234.2	27,554.0	28,034.2	30,148.6
CASH FLOW STATEMENT (S\$m)	2015	2016	2017F	2018F	2019F
Net income before tax	1,997.4	1,054.9	1,110.0	1,197.4	1,300.4
Depreciation & non cash adjustments	(328.0)	234.6	59.8	181.3	265.9
Change in Working Capital	(1,922.8)	(641.1)	127.9	819.5	260.9
Income Tax Paid	(302.4)	(708.3)	(670.3)	(245.3)	(264.6)
Interest Paid	(149.1)	(224.5)	(237.1)	(231.8)	(257.1)
CF from operating activities	(705.0)	330.0	390.3	1,721.1	1,305.5
Purchase/Disposal of PPE	(1,147.0)	(466.2)	(373.0)	(335.7)	(302.1)
Other CFI	1,273.1	156.3	(580.0)	(580.0)	(580.0)
CF from investing activities	126.1	(310.0)	(953.0)	(915.7)	(882.1)
Dividends Paid	(872.5)	(544.7)	(363.6)	(327.2)	(399.9)
Debt Raised / (Repaid)	923.6	817.4	430.1	(209.9)	1,009.9
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(3,353.6)	(140.2)	0.0	0.0	0.0
CF from financing activities	(3,302.4)	132.5	66.5	(537.2)	609.9
Net increase in cash & cash equiv.	(3,853.2)	159.6	(489.0)	275.4	1,040.5
FX effects	28.1	7.1	7.1	7.1	7.1
Beginning Cash	5,712.4	1,859.1	2,018.7	1,529.7	1,805.1
Ending Cash	2,118.0	2,361.0	1,872.0	2,147.3	3,187.8
KEY RATIOS	2015	2016	2017F	2018F	2019F
Core					
Core EPS	83.0	42.3	45.0	48.7	53.0
Core EPS Growth (%)	(20.0)	(49.1)	6.4	8.3	8.8
DPS (SGD Cents)	34.0	20.0	18.0	22.0	22.0
Dividend Yield (%)	4.5	2.6	2.4	2.9	2.9
Profitability					
Gross margin	31.8%	37.9%	37.0%	36.0%	36.0%
EBITDA margin	17.1%	15.2%	18.3%	19.4%	19.5%
Net margin	14.8%	11.6%	13.5%	14.3%	14.1%
ROE	12.8%	6.4%	6.3%	6.6%	6.9%
ROA	5.3%	2.7%	3.0%	3.2%	3.2%
Growth (% Y-o-Y)					
Revenue	-22.5%	-34.3%	-10.2%	1.7%	10.9%
EBITDA	-33.3%	-41.5%	7.8%	8.0%	11.2%
Net income (core)	-19.1%	-48.6%	4.3%	8.3%	8.8%
Diluted EPS (core)	-19.4%	-49.1%	6.4%	8.3%	8.8%
Financial Structure (x)					
Interest coverage	9.8	3.5	3.7	4.1	4.2
Total Debt/Equity	0.7	0.7	0.7	0.7	0.7
Net Gearing	0.5	0.5	0.6	0.5	0.5

Source: Bloomberg, KGI Research

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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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