

Keppel Ltd

Surfing the huge data centre wave



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SINGAPORE | CONGLOMERATE | 9M24 UPDATE

25 October 2024

- Limited financials provided except 9M24 net profit comparable YoY. We believe 3Q24 net profit declined due to lower real estate earnings. Monetisation more than doubled by S\$453mn to S\$733mn.
- The huge wave in data centre demand has catalysed multiple growth drivers for Keppel: 1) Around S\$10bn of funds under management are available for greenfield data centres; 2) Prices for Bifrost transmission cable has more than doubled; 3) Imported green power into Singapore will more than double; 4) Huge demand with the commercialisation of two data centres in Genting Lane. There will be opportunities for both divestment gains and long-term recurrent asset management, operations, and maintenance fees.
- No change to our FY24e forecast and SOTP-derived TP of S\$7.60. Our BUY recommendation is unchanged. Asset monetisation target of S\$10-12bn from 2020 to end-2026 was not changed (or another S\$4-6bn). Leading the asset sale is Rigco, where operating conditions continue to improve. In the medium term, the surge in data centre demand will drive the need for more power, funds under management and elevate the valuations of Keppel's greenfield submarine cable and data centre assets.

BUY (Maintained)

LAST CLOSE PRICE	SGD 6.490
FORECAST DIV	SGD 0.340
TARGET PRICE	SGD 7.600
TOTAL RETURN	22.3%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,806
MARKET CAP (USD mn / SGD mn) :	8882 / 11721
52 - WK HI/LO (SGD) :	7.45 / 5.76
3M Average Daily T/O (mn) :	4.26

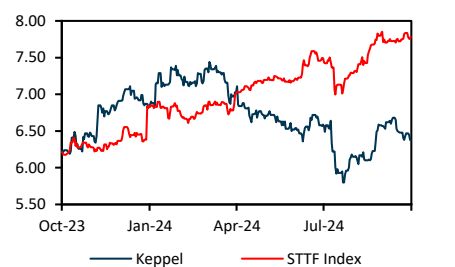
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	20.6%
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TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(1.5)	1.2	(3.5)
STTF RETURN	(0.9)	6.6	16.3

PRICE VS. STTF



KEY FINANCIALS

Y/E Dec (S\$ mn)	FY22	FY23	FY24e	FY25e
Revenue	6,620	6,966	6,827	7,236
EBIT	565	1,076	1,113	1,085
NPAT	927	4,067	794	810
Dividend yield	4.8%	5.0%	5.0%	5.0%
P/NAV (x)	1.1	1.2	1.1	1.1
P/E (x)	13.2	3.0	15.2	14.8
ROE (%)	6.9%	7.7%	6.7%	6.8%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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The Positive

+ Multiple assets ready for divestments. The company updated that operating conditions in Rigco continue to improve, and some monetisation is possible in 12-18 months. Another asset primed for monetisation is two data centres in Genting Lane (Keppel DC Singapore 7 operational and 8 being completed). Both assets are booked at cost and market valued when closer to operating. Around S\$453mn of properties in Saigon have been sold but are pending recognition and approval. BiFrost submarine cable is enjoying a significant uplift in pricing, and the focus is getting the system ready for service next year.

+ Power demand is healthy in Singapore, esp. green. Singapore's peak demand for electricity is expected to grow by 3% to 5% p.a. over the next 10 years. 2023 growth was 1.2%. Green electricity will be imported to support the growth in demand. Singapore's low carbon imported energy target was raised last month from 4GW to 6GW by 2035. Green power can be priced at a premium as carbon tax in Singapore will jump 9x from S\$5 last year to S\$45 per ton in 2026. Keppel has 200MW of imported power in 2024 and another 300MW in 2028. Data centres will be a key off-taker for imported energy.

The Negatives

- China real estate still needs time. The financing environment for buyers has improved but still early to be optimistic. Shanghai property prices have seen some modest recovery.

- Spectrum payments by M1. M1 has been allocated the 700MHz spectrum, and the S\$188mn payment can be deferred until June 2025. We are unclear about the benefits or returns to be generated by this additional bandwidth.

Outlook

The lack of real estate sales will pressure earnings this year. FY25e will likely be the timeline for monetising legacy and infrastructure assets, supported by a lower interest rate environment. The demand for data centres has spurred growth and valuations in asset management, infrastructure, and connectivity divisions.

Maintain BUY with unchanged TP of S\$7.60

Financials

Income Statement

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	6,611	6,620	6,966	6,827	7,236
Materials and Subcontract costs	(5,082)	(5,174)	(4,998)	(4,847)	(5,210)
Staff costs	(665)	(668)	(704)	(669)	(724)
Depreciation and amortisation	(291)	(207)	(221)	(193)	(220)
Other items	556	(6)	34	(4)	3
EBIT	1,129	565	1,076	1,113	1,085
Investment income	105	49	78	75	80
Net finance expenses	(82)	(55)	(263)	(291)	(264)
Share of results of associates	459	536	322	130	200
Profit before tax	1,611	1,095	1,214	1,027	1,102
Taxation	(375)	(245)	(290)	(236)	(253)
Minority interests	16	5	(27)	(27)	(27)
Perpetual securities holders	-3	-12	-12	-12	-12
Adj. Net Profit	1,249	844	885	752	810
Discontinued operations/FV	(226)	83	3,181	42	-
Profit attributable to owners	1,023	927	4,067	794	810

Per share data (\$)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	6.41	6.29	5.85	6.15	6.49
DPS	0.33	0.33	0.34	0.34	0.34
EPS	0.56	0.52	2.31	0.45	0.46

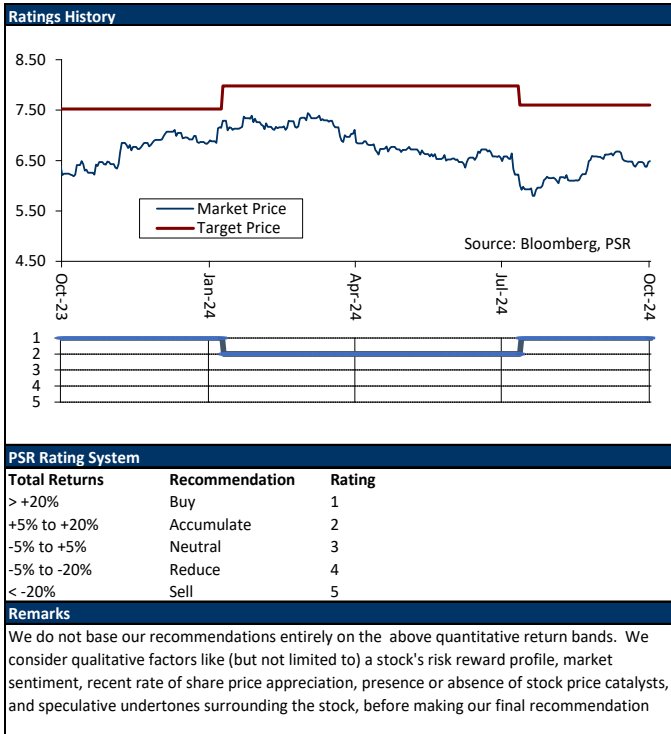
Cash Flow

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	1,611	1,095	1,162	1,235	1,301
Adjustments	(1,283)	(773)	(377)	(406)	(389)
Working capital changes	(263)	426	146	54	42
Cash generated from ops	65	747	931	883	953
Others	(106)	(235)	38	54	48
Cashflow from ops	(40)	512	969	937	1,002
CFI					
CAPEX, net	(615)	(696)	(600)	(580)	(580)
Others	2,383	(249)	1,801	-	-
Cashflow from investments	1,768	(946)	1,201	(580)	(580)
CFF					
Dividend paid	(357)	(688)	(4,149)	(311)	(326)
Proceeds from borrowings, net	(674)	(308)	1,000	-	-
Proceeds from equity issuance	-	-	-	-	-
Others	385	(500)	-	-	-
Cashflow from financing	(646)	(1,496)	(3,149)	(311)	(326)
Net change in cash	1,082	(1,929)	(980)	47	96
Cash at the start of the period	2,408	3,544	1,445	163	210
Currency translation	53	(170)	-	-	-
Others	-	-	(302)	-	-
Ending cash	3,544	1,445	163	210	306

Source: Company, PSR estimates

Balance Sheet

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	6,830	5,501	5,781	6,168	6,528
Others	10,647	10,554	14,691	14,481	14,331
Total non-current assets	17,477	16,055	20,472	20,649	20,859
Cash and cash equivalents	3,617	1,142	1,266	2,104	2,552
Stocks	4,604	2,301	2,110	1,957	2,022
Receivables	2,169	1,228	1,694	1,216	1,289
Others	3,401	(8,913)	573	573	573
Total current assets	14,318	5,319	6,004	6,211	6,798
Assets - held for sale	528	9,561	362	362	362
Total Assets	32,323	30,935	26,838	27,222	28,018
LIABILITIES					
Trade and other payables	4,957	2,786	2,586	2,583	2,781
ST borrowings	4,659	3,578	2,422	2,422	2,422
Others	2,219	4,996	1,131	990	1,007
Total current liabilities	11,835	11,360	6,139	5,994	6,209
LT borrowings	6,796	6,603	8,538	8,538	8,538
Others	1,174	(7,390)	531	531	531
Total non-current liabilities	8,008	3,438	9,376	9,376	9,376
Liabilities - held for sale	38	4,224	307	307	307
Total liabilities	19,882	19,022	15,821	15,677	15,891
EQUITY					
Share Capital	1,306	1,306	1,306	1,306	1,306
Treasury shares	-5	-456	-387	-387	-387
Retained profits	10,354	10,329	9,389	9,891	10,445
Others	11,655	11,178	10,307	10,809	11,363
Others	786	735	709	736	763
Total equity	12,441	11,913	11,017	11,545	12,127
Total equity and liabilities	32,323	30,935	26,838	27,222	28,018
Valuation Ratios					
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	12.2	13.2	3.0	15.2	14.8
P/B (x)	1.1	1.1	1.2	1.1	1.1
EV/EBITDA (x)	14.3	27.5	16.8	16.0	15.6
Dividend yield	4.8%	4.8%	5.0%	5.0%	5.0%
Growth & Margins					
Growth					
Revenue	0.6%	0.1%	5.2%	-2.0%	6.0%
EBITDA	236.9%	-45.7%	68.1%	0.7%	0.0%
EBIT	nm	-50.0%	90.4%	3.5%	-2.5%
PBT	nm	-32.0%	10.8%	-15.4%	7.3%
Margins					
EBITDA margin	21.5%	11.7%	18.6%	19.1%	18.0%
EBIT margin	17.1%	8.5%	15.4%	16.3%	15.0%
Net profit margin	18.9%	12.7%	12.7%	11.0%	11.2%
Key Ratios					
ROE	10.6%	6.9%	7.7%	6.7%	6.8%
ROA	3.8%	2.7%	3.1%	2.8%	2.9%
Net Gearing	63.0%	75.9%	88.0%	76.7%	69.3%



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