

Keppel Corporation

SMM announce EGM on 16 Feb 2023



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SINGAPORE | CONGLOMERATE | UPDATE

2 February 2023

- Sembcorp Marine (SMM) will hold an extraordinary general meeting (EGM) on 16 Feb 2023, to vote on its proposed acquisition of Keppel offshore & marine.
- The independent financial adviser (IFA) for the deal saw its terms as fair and reasonable, and had advised the independent directors to recommend that shareholders vote in favour of the deal.
- We believe the better clarity on the deal time-line and future management team will reduce overhang on the stock. The new enlarged Group will also be able to better capitalise on the energy transition.
- Maintain BUY with unchanged SOTP TP of \$8.95.** We valued the Group based on the four new segments unveiled during Vision 2030 to better reflect the Group's reporting segments going forward. Our TP translates to about 1.2x FY22e book value, a slight premium to its historical average as the Group's transformation plans gain traction and ROE expands to 8.8%. Catalysts are expected from approvals obtained for the transaction.

The news

SMM has released a [circular](#) (link here) detailing the EGM to be held on 16 Feb, to vote on its proposed acquisition of Keppel's offshore & marine unit.

Key highlights of the circular - The newly merged entity will have a new board and management team. Chris Ong, CEO of KOM, will replace Wong Weng Sun as CEO of the new merged entity. Mr Wong will remain as Senior Adviser to the new board for an unspecified period to facilitate a smooth transition. The existing SMM directors (except for Mr Yap Chee Keong, Deputy Chairman) will be stepping down upon the completion of the proposed combination to allow for a re-constitution of the Board.

The IFA are of the view that the terms of the proposed combination are fair and reasonable. It has recommended SMM shareholders vote in favour of the proposed combination.

Recall that based on the aggregate consideration of S\$4.495bn for KOM (Deloitte, the independent valuer valued KOM at S\$4.3-5.3bn), SMM will issue approximately 36.8bn new shares to Keppel at the issue price of S\$0.122 per share.

Should the proposed transaction be approved by SMM shareholders, SMM expect the completion of the entire transaction on or prior to 28 February 2023.

Positives

+ Better clarity on the deal time-line and future management team will reduce overhang on stock. We believe the clearer roadmap for the merged entities will provide more clarity to shareholders and reduce the overhang on the stock.

+ New enlarged Group will be able to better capitalise on the energy transition. With Chris Ong, a veteran at the helm of the new enlarged Group, we believe the Group will be able to take advantage of opportunities in offshore renewables and new energy. Chris Ong has been the CEO of KOM since July 2017, and is concurrently the Managing Director of Keppel Renewable Energy.

BUY (Maintained)

LAST CLOSE PRICE	SGD 7.640
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 8.950
TOTAL RETURN	21.5%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,752
MARKET CAP (USD mn / SGD mn) :	10194 / 13385
52 - WK HI/LO (SGD) :	7.72 / 5.68
3M Average Daily T/O (mn) :	3.00

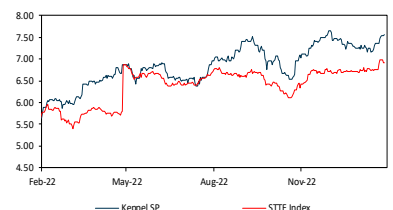
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	21.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	4.0	8.3	40.7
STTF RETURN	2.9	8.4	6.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$, 'mn)	FY20	FY21	FY22e	FY23e
Revenue	6,574	8,625	9,898	8,449
EBIT	37	1,009	1,117	1,148
NPAT	(508)	1,010	1,135	1,151
Dividend yield	1.2%	4.3%	4.5%	4.6%
P/NAV (x)	1.2	1.1	1.1	1.0
P/E (x)	(27.5)	13.6	12.2	12.0
ROE (%)	-4.5%	8.6%	8.9%	8.7%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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Outlook

The divestment of KOM will further transition the Group towards an asset-light structure. More importantly, the new enlarged SMM entity, which Keppel will hold 5% of, will be better equipped to compete against global well-resourced players from South Korea and China.

With changes made to the Asset Co transaction, we believe management can now forge ahead to further de-risk its legacy rig assets. Management disclosed that it continues to receive active enquiries for its legacy rigs on the back of a more favourable environment. The completion of the Asset Co transaction is expected to take place on or prior to 28 February 2023.

ESG

Keppel Corp has the highest triple-A rating MSCI ESG ratings. It has held the triple-A rating since February 2020. Keppel is ranked among the top 8% of global industrial conglomerates, based on ESG criteria, in the MSCI All Country World Index.

Keppel has been recognised by Corporate Knight's Clean 200, as one of the companies leading the way in the transition to a cleaner energy future. We view its Vision 2030 plan to reach 7GW of renewable energy positively as it should lead to better profitability over time.

Maintain BUY with unchanged SOTP target price of \$8.95

We maintain our BUY recommendation with an unchanged SOTP TP of \$8.95. We valued the Group based on its four new segments unveiled during Vision 2030 to better reflect the Group's reporting segments. For its Energy & Environment business, we valued its O&M division at 0.8x book value but crank up the realisable value of its rigs. Keppel Infrastructure Holdings is valued at 10x FY22e earnings. For its Urban Development segment, we lowered the discount on Keppel Land's RNAV to 35% (prev. 40%) on better clarity on the monetisation plans for its Urban Development portfolio and 1.5x price to book value of the Sino-Singapore Tianjin Eco-City. In the Connectivity segment, we valued M1 at 9x FY22e earnings. For the Asset Management division, we valued Keppel Capital at 10x FY22e earnings, a slight discount to its peers.

We also applied a holding-company discount of 20% to the Group. Our TP translates to about 1.2x FY22e book value, a slight premium to its historical average as the Group's transformation plans gain traction. As Keppel accelerates its transformation into an integrated asset-light business, we believe there is room for a further reduction in the Holdco discount we apply to the Group over time. We will review the discount we apply to the Group as the Group continues its transformation.

Risks to our view include: 1) a delay in the approvals required for the Keppel-Sembmarine transaction; and 2) a worsening global economy.

Figure 2: Keppel SOTP valuation

SOTP valuation S\$mn	Basis	% owned	Multiple (x)	Book value / RNAV / Earnings	Share of Book value / RNAV / Earnings	/ share
Business Segments						
Energy & Environment						
Keppel O&M	Net asset	100%	0.8	4,882	4,882	2.68
Keppel Infrastructure Holdings	10x FY22e earnings	100%	10.0	158	1,581	0.87
Urban Development						
Keppel Land	35% discount to RNAV	100%	35%	12,938	8,410	4.62
Sino-Singapore Tianjin Eco-City (SSTEC)	Net asset	50%	1.5	420	315	0.17
Connectivity						
M1 Limited	9x FY22e earnings	84%	9.0	62	468	0.26
Asset Management						
Keppel Capital	10x FY22e earnings	100%	10.0	131	1,314	0.72
Listed entities	Market values					
- Keppel REIT		49.0%	1.0	3,906	1,914	1.05
- Keppel DC REIT		20.9%	1.0	4,304	900	0.49
- Keppel Infra Trust		18.2%	1.0	2,720	495	0.27
- Keppel Pacific Oak US REIT		7.3%	1.0	1,093	80	0.04
Fair value of Keppel Corp (before Holdco discount)						11.18
Holdco discount						20%
Fair value of Keppel Corp						8.95

Source: Company data, PSR

Financials

Income Statement

Y/E Dec, (\$'mn)	FY19	FY20	FY21	FY22e	FY23e
Revenue	7,580	6,574	8,625	9,898	8,449
Materials and Subcontract costs	(5,267)	(4,591)	(6,603)	(7,413)	(6,126)
Staff costs	(1,163)	(1,120)	(1,116)	(1,386)	(1,183)
Depreciation and amortisation	(375)	(414)	(406)	(425)	(431)
Other items	167	(412)	510	443	438
EBIT	941	37	1,009	1,117	1,148
Net finance expenses	(135)	(130)	(141)	(138)	(148)
Share of results of associates	147	(162)	467	478	478
Profit before tax	954	(255)	1,335	1,457	1,478
Taxation	(192)	(253)	(325)	(322)	(327)
Net Profit	761	(508)	1,010	1,135	1,151
Net Profit (excl. Impairments)	761	143	1,374	1,135	1,152
Profit attributable to owners	707	(506)	1,023	1,139	1,156

Per share data (\$\$)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
BVPS	6.41	6.13	6.83	7.10	7.39
DPS	0.20	0.09	0.33	0.34	0.35
EPS	0.39	(0.28)	0.56	0.63	0.63

Cash Flow

Y/E Dec, (\$'mn)	FY19	FY20	FY21	FY22e	FY23e
CFO					
Operating profit	877	8	898	923	914
Adjustments	117	91	(570)	(12)	(6)
WC changes	(1,437)	595	(187)	(5,759)	4,427
Cash generated from ops	(443)	694	142	(4,848)	5,335
Others	(382)	(430)	(417)	(460)	(474)
Cashflow from ops	(825)	263	(276)	(5,308)	4,861
CFI					
CAPEX, net	(517)	(488)	(538)	(557)	(562)
Others	(1,171)	214	2,564	2,112	1,923
Cashflow from investments	(1,688)	(274)	2,025	1,555	1,361
CCF					
Dividends paid to owners	(418)	(273)	(346)	(655)	(619)
Proceeds from borrowings, net	3,003	1,028	(668)	(628)	(656)
Proceeds from equity issuance	0	-	-	-	-
Others	(239)	(42)	345	(11)	(11)
Cashflow from financing	2,346	713	(668)	(1,295)	(1,286)
Net change in cash	(167)	702	1,082	(5,047)	4,935
Cash at the start of the period	2,429	1,778	2,408	3,544	(1,504)
Currency translation	(27)	(27)	(27)	(27)	(26)
Others	-	-	-	-	-
Ending cash	1,778	2,408	3,544	(1,504)	3,432

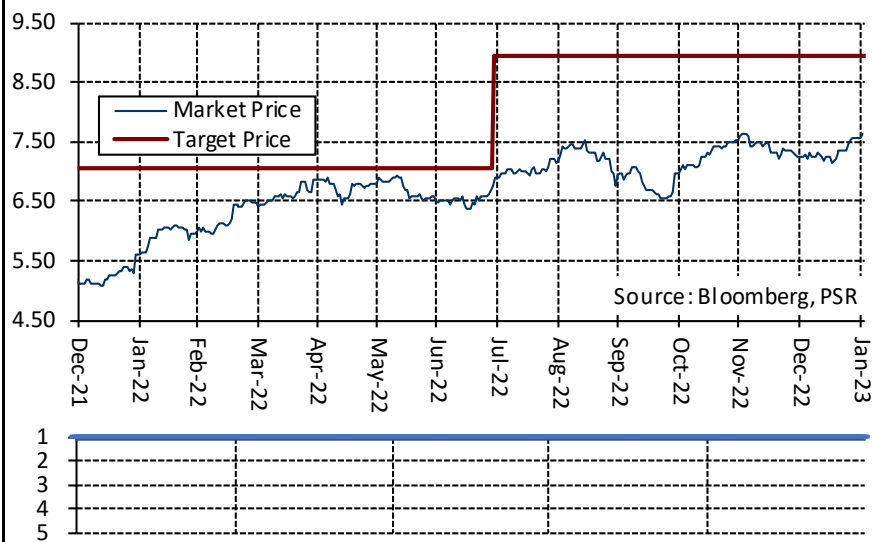
*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'mn)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE & Investment Properties	6,684	6,973	6,830	8,172	8,494
Others	10,339	10,745	10,647	10,647	10,647
Total non-current assets	17,023	17,717	17,477	18,819	19,141
Cash and cash equivalents	1,784	2,480	3,617	(1,504)	3,432
Stocks	5,543	4,959	4,604	5,076	5,076
Contract assets	3,497	2,657	3,170	9,204	4,173
Others	3,475	3,284	2,927	3,669	3,596
Total current assets	14,298	13,380	14,318	16,445	16,276
Assets classified as held for sale	-	1,009	528	528	528
Total Assets	31,322	32,106	32,323	35,792	35,946
LIABILITIES					
Trade and other payables	4,605	4,604	5,099	4,862	4,668
ST borrowings	4,623	4,502	4,749	4,749	4,749
Others	2,720	2,866	2,072	5,246	5,590
Total current liabilities	11,947	11,971	11,920	14,856	15,007
LT borrowings	7,034	8,101	7,268	6,977	6,650
Others	694	762	655	996	791
Total non-current liabilities	7,729	8,863	7,923	7,973	7,441
Liabilities classified as held for sale	-	115	38	38	38
Total liabilities	19,676	20,950	19,882	22,868	22,486
EQUITY					
Share Capital	1,292	1,306	1,306	1,306	1,306
Retained profits	9,933	9,436	10,354	10,833	11,366
Others	421	414	782	785	788
Total equity	11,646	11,156	12,441	12,924	13,459
Total equity and liabilities	31,322	32,106	32,323	35,792	35,946
Valuation Ratios					
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	19.6	-27.5	13.6	12.2	12.0
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	15.7	2434.5	21.9	21.2	21.5
Dividend yield (%)	2.6%	1.2%	4.3%	4.5%	4.6%
Growth & Margins (%)					
Growth					
Revenue	27.1%	-13.3%	31.2%	14.8%	-14.6%
EBITDA	1.2%	-89.5%	619.4%	17.7%	3.3%
EBIT	-11.6%	-96.0%	nm	10.7%	2.8%
PBT	-23.4%	-126.7%	nm	9.1%	1.5%
Margins					
EBITDA margin	16.5%	2.0%	10.9%	11.2%	13.6%
EBIT margin	12.4%	0.6%	11.7%	11.3%	13.6%
Net profit margin	10.0%	-7.7%	11.7%	11.5%	13.6%
Key Ratios					
ROE	6.6%	-4.5%	8.6%	8.9%	8.7%
ROA	2.6%	-1.6%	3.1%	3.3%	3.2%
Net Gearing (%)	83.7%	89.5%	67.3%	102.2%	59.0%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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