

Keppel Corporation

Urban Development weighs on FY22 earnings


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SINGAPORE | CONGLOMERATE | RESULTS

6 February 2023

- FY22 net profit was below expectations, at 92% FY22e profit. Net profit of \$927mn (-9% YoY) was under our expectations as Urban Development continued to underperform due to headwinds from China's property market.
- \$4.6bn in asset monetisation was announced, on track to exceed \$5bn by this year. Another ~\$10bn in assets to be monetised.
- Asset management target raised to \$200bn from \$100bn previously. This segment is the fastest-growing segment of the Group and the largest contributor to its earnings in FY22.
- Maintain BUY with higher SOTP TP of \$9.54 (prev. \$8.95).** We adjusted our estimates for Keppel O&M and Asset Co higher, following the partial reversal of impairments made and the clearer path to divestment. Our TP translates to about 1.2x FY23e book value, a slight premium to its historical average as the Group's transformation plans gain traction. Catalysts expected from approvals obtained for the transaction.

BUY (Maintained)

LAST CLOSE PRICE	SGD 7.180
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 9.540
TOTAL RETURN	37.5%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,752
MARKET CAP (USD mn / SGD mn) :	9502 / 12579
52 - WK HI/LO (SGD) :	7.72 / 5.8
3M Average Daily T/O (mn) :	3.12

MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	21.0%
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Results at a glance
Revenue by segment (1)

S\$m	2H22	2H21	YoY	Comments
Energy & Environment	2,120	2,245	-5.6%	In-line.
Urban Development	372	720	-48.3%	Below. Weighed by slower home sales in China.
Connectivity	675	674	0.1%	In-line. Mobile revenue continue to expand while higher fee income from data centre also lifted performance.
Asset Management	97	84	15.5%	In-line.
Total	3,264	3,723	-12.3%	

Source: Company data, PSR

1. Revenue comparison is based on continuing operations (exclude discontinued operations which has been proposed for divestment to Sembcorp Marine).

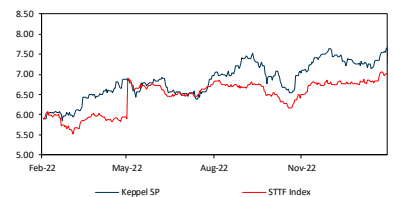
Positives

+ \$4.6bn in asset monetisation, on track to exceed \$5bn by this year. Another ~\$10bn in assets to be monetised. Keppel has unlocked \$4.6bn in capital from asset monetisation since announcing its target to monetise \$3-5bn within three years. We believe the Group is set to exceed this target by this year. Moving ahead, we believe Keppel will move to monetise another ~\$10bn of assets it previously identified for monetisation. It had previously listed \$17.5bn of assets it is seeking to monetise as part of its strategy to transform its Group to be more asset-light.

+ Write-back of \$293mn of impairments for certain legacy rig assets. With improving offshore and marine market conditions, including recovery of oil prices, higher rig utilisation and day rates contracted, the Group has partially written back \$293mn of impairments which had been made in 2020 for certain legacy rig assets. This raised the Group's total realisable value from its proposed O&M transactions to \$9.6bn (or \$5.52 per share) from ~\$9.3bn (or \$5.34 per share) previously.

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.1)	3.3	32.9
STTF RETURN	4.0	9.5	5.8

PRICE VS. STTF


Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$, 'mn)	FY20	FY21	FY22e	FY23e
Revenue	6,574	6,611	6,620	6,890
EBIT	37	1,234	614	1,109
NPAT	(508)	1,236	850	1,088
Dividend yield	1.3%	4.6%	4.6%	4.6%
P/NAV (x)	1.2	1.1	1.1	1.1
P/E (x)	(25.8)	10.5	15.6	12.1
ROE (%)	-4.5%	10.5%	7.0%	8.9%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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+ Asset management target raised to \$200bn from \$100bn previously. Having achieved its AUM target of \$50bn at the end of 2022, Keppel has raised its previous target of growing its AUM to \$200bn over time from \$100bn previously. This segment is the fastest-growing segment of the Group and was the largest contributor to the Group's net profit in FY22.

Negatives

- FY22 net profit below expectations, at 82% of FY22e profit. Net profit of \$927mn (-9% YoY) was under our expectations as Urban Development continued to underperform due to headwinds from China's property market. Contribution from the Sino-Singapore Tianjin Eco-City were also lower YoY, as there were no land sales in 2022, compared to the sale of a commercial and residential land plot in 2021.

FY22 segment developments

Energy & Environment: Net profit for the year was \$260mn, a reversal from the net loss of \$414mn in 2021. This was driven by the absence of an impairment related to its exposure to KrisEnergy and its infrastructure business, which was driven by higher electricity and gas sales and contributions from Keppel Seghers' projects abroad.

Urban Development: Weighed down by China's property market. Completed the divestment of Upview and Sheshan Riviera projects in Shanghai in 2022, and booked a gain of \$20mn.

Connectivity: Higher net profit from M1 offset the absence of disposal gains from Keppel Logistics (Foshan) and Wuhu Sanshan Port Company.

Asset Management: Driven by a 20% increase in revenue and higher fair value gains on investment properties under Keppel REIT.

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.

Upon the completion of the proposed transaction, Keppel will distribute 19.1 SMM shares to its shareholders for every Keppel share they hold. Based on SMM's closing price of 14 cents, the implied value of its distribution in specie would be even higher at \$2.67 per Keppel share. This means that the theoretical ex-dividend in specie price of Keppel would be \$4.51.

Despite the weaker performance from its Urban Development business this year, market sentiments are improving following the relaxation of Covid-related restrictions.

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 higher SOTP target price of \$9.54 (prev. \$8.95)

We maintain our BUY recommendation with higher SOTP TP of \$9.54. We adjusted our estimates for Keppel O&M and Asset Co higher following the partial reversal of impairments made and the clearer path to divestment. 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 FY23e 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 FY23e earnings. For the Asset Management division, we valued Keppel Capital at 10x FY23e 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 FY23e 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 \$mm	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	5,692	5,692	3.13
Keppel Infrastructure Holdings	10x FY23e 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 FY23e earnings	84%	9.0	65	488	0.27
Asset Management						
Keppel Capital	10x FY23e earnings	100%	10.0	182	1,825	1.00
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)						11.92
Holdco discount						20%
Fair value of Keppel Corp						9.54

Source: Company data, PSR

Financials
Income Statement (1)

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	6,574	6,611	6,620	6,890	7,385
Materials and Subcontract costs	(4,591)	(5,082)	(5,174)	(4,995)	(5,354)
Staff costs	(1,120)	(665)	(668)	(695)	(745)
Depreciation and amortisation	(414)	(291)	(207)	(207)	(207)
Other items	(412)	661	43	116	109
EBIT	37	1,234	614	1,109	1,189
Net finance expenses	(130)	(82)	(55)	(159)	(175)
Share of results of associates	(162)	459	536	452	456
Profit before tax	(255)	1,611	1,095	1,402	1,470
Taxation	(253)	(375)	(245)	(314)	(329)
Net Profit	(508)	1,236	850	1,088	1,141
Net Profit (excl. Impairments)	143	1,535	884	1,088	1,141
Profit attributable to owners	(506)	1,249	839	1,082	1,146

(1) Income statement for FY20 and FY21, FY22 not directly comparable as FY21 and FY22 has stripped out discontinued operations.

Per share data (\$)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	6.13	6.83	6.54	6.81	7.26
DPS	0.09	0.33	0.33	0.33	0.35
EPS	(0.28)	0.69	0.46	0.59	0.63

Cash Flow

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Operating profit	8	1,129	727	1,021	1,079
Adjustments	91	(685)	(405)	211	175
WC changes	595	(263)	426	(41)	(75)
Cash generated from ops	694	181	747	1,191	1,180
Others	(430)	(417)	(566)	(473)	(504)
Cashflow from ops	263	(236)	181	718	675
CFI					
CAPEX, net	(488)	(615)	(696)	(562)	(562)
Others	214	2,723	107	1,381	931
Cashflow from investments	(274)	2,108	(589)	819	369
CFF					
Dividends paid to owners	(273)	(346)	(643)	(601)	(328)
Proceeds from borrowings, net	1,028	(668)	(419)	(739)	(737)
Proceeds from equity issuance	-	-	-	-	-
Others	(42)	339	(459)	(42)	(42)
Cashflow from financing	713	(675)	(1,522)	(1,381)	(1,106)
Net change in cash	702	1,198	(1,929)	156	(62)
Cash at the start of the period	1,778	2,408	3,660	1,561	1,717
Currency translation	(27)	(27)	(27)	(26)	(25)
Others	-	-	-	-	-
Ending cash	2,408	3,660	1,561	1,717	1,655

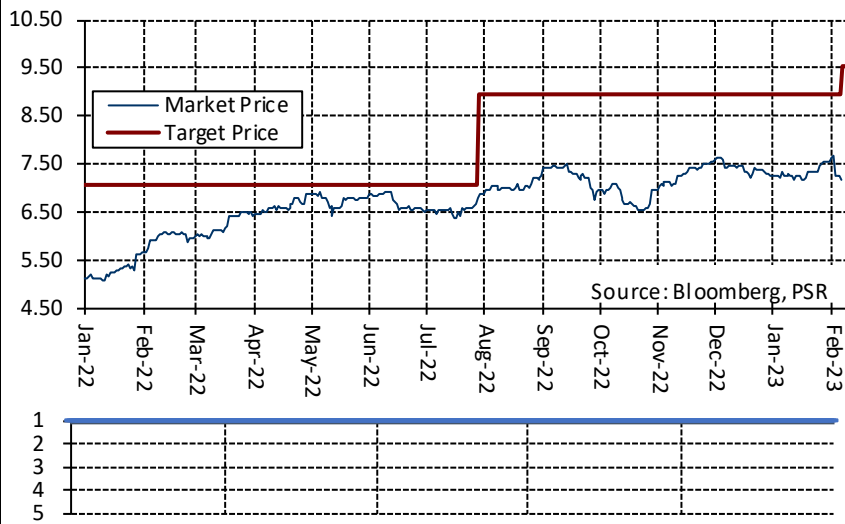
*nm - not meaningful

Balance Sheet

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	6,973	6,830	5,501	5,776	5,849
Others	10,745	10,647	10,554	10,554	10,554
Total non-current assets	17,717	17,477	16,055	16,330	16,403
Cash and cash equivalents	2,480	3,617	1,142	1,717	1,655
Stocks	4,959	4,604	2,301	2,395	2,567
Contract assets	2,657	3,170	256	266	285
Others	3,284	2,927	1,620	1,670	2,165
Total current assets	13,380	14,318	5,319	6,048	6,672
Assets classified as held for sale	1,009	528	9,561	9,561	9,561
Total Assets	32,106	32,323	30,935	31,939	32,637
LIABILITIES					
Trade and other payables	4,604	4,957	2,786	2,900	3,108
ST borrowings	4,502	4,749	3,614	3,614	3,614
Others	2,866	2,091	736	736	736
Total current liabilities	11,971	11,797	7,136	7,250	7,458
LT borrowings	8,101	7,268	6,766	6,438	6,111
Others	762	778	896	1,624	1,624
Total non-current liabilities	8,863	8,046	7,662	8,062	7,735
Liabilities classified as held	115	38	4,224	4,224	4,224
Total liabilities	20,950	19,882	19,022	19,536	19,417
EQUITY					
Share Capital	1,306	1,306	1,306	1,306	1,306
Retained profits	9,436	10,354	10,329	10,816	11,629
Others	414	782	279	282	285
Total equity	11,156	12,441	11,913	12,403	13,219
Total equity and liabilities	32,106	32,323	30,935	31,939	32,637
Valuation Ratios					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	-25.9	10.5	15.6	12.1	11.4
P/B (x)	1.2	1.1	1.1	1.1	1.0
EV/EBITDA (x)	2434.5	17.4	34.7	19.2	18.2
Dividend yield (%)	1.3%	4.6%	4.6%	4.5%	4.8%
Growth & Margins (%)					
Growth					
Revenue	-13.3%	0.6%	0.1%	4.1%	7.2%
EBITDA	-89.5%	619.4%	17.7%	3.3%	-3.2%
EBIT	-96.0%	nm	-50.3%	80.7%	7.2%
PBT	-126.7%	nm	-32.0%	28.0%	4.8%
Margins					
EBITDA margin	2.0%	14.3%	16.8%	16.6%	15.0%
EBIT margin	0.6%	18.7%	9.3%	16.1%	16.1%
Net profit margin	-7.7%	18.7%	12.8%	15.8%	15.4%
Key Ratios					
ROE	-4.5%	10.5%	7.0%	8.9%	8.9%
ROA	-1.6%	3.8%	2.8%	3.5%	3.5%
Net Gearing (%)	89.5%	67.3%	77.1%	66.8%	60.7%

Source: Company, Phillip Securities Research (Singapore) Estimates

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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