

# Keppel Ltd

Energy buttressed bottom line



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## SINGAPORE | CONGLOMERATE | FY23 RESULTS

- FY23 core net profit grew 5.6% YoY, in line with our expectations. Recurring income grew 54% to S\$773mn, or 88% of net profit. Infrastructure made up 90% of this.
- Growth was underpinned by a higher margin from energy sales, offset by the doubling of interest expense to S\$328mn, and S\$111mn loss on distribution of K Reit units to Keppel shareholders.
- Energy earnings are sustainable, with 60% of capacity locked in on long-term contracts for more than 3 years. A lower interest rate environment could rejuvenate M&A and fundraising, lifting funds under management. The sale of the rigs in AssetCo could return S\$3.1bn to the group, we estimate.
- Downgrade to ACCUMULATE from BUY on recent share price gains. We raised FY24e net profit projections by 0.4%. Our SOTP-derived TP is revised higher to S\$7.98 (prev S\$7.52), as recurring income takes a bigger share of net profit.

### Highlights

Y/E 31 Dec (S\$m)	FY22	FY23	% chg	Comments
Infrastructure	298	699	134.7%	Improved energy spark spread from integrated power business, higher fund management fee at KIT
Real Estate	464	315	-32.1%	Lower operating income, higher interest expense, S\$111mn loss on distribution in specie of K REIT units
Connectivity	98	127	29.2%	Higher operating gain from M1, gain from dilution of stake in subsea cable
Corporate	(22)	(256)	1089.1%	Higher net interest expense, higher overheads
<b>Net profit</b>	<b>839</b>	<b>886</b>	<b>5.6%</b>	
Discontinued operations	88	3,182	3515.9%	Disposal of Keppel O&M
<b>Total net profit</b>	<b>927</b>	<b>4,068</b>	<b>338.8%</b>	

Source: Company, PSR

### The Positives

**+ Integrated power business doubled operating income and margins**, benefitted from improved energy spark spread and exit from low-margined legacy contracts. 90% of its capacity is contracted for >1 year, providing visible and sustainable earnings. KIT contributed higher fees after a change in fee structure.

**+ M1 grew revenue by 6%, after the acquisition of a Malaysian ICT in late 2022.** Key drivers were higher enterprise customer sales (+27%) and total customers (+2%), and recovery of roaming services to 80% of pre-COVID.

### The Negatives

**- Real estate division was impacted** by higher interest expense, lower fair value gains on investment properties and higher overheads at asset management units. The distribution of K Reit units to Keppel shareholders led to a S\$111mn loss as the book value exceeded the market value.

**- Recurring fee income from fund management fell 5.5% to S\$86mn.** About S\$5bn new funds was raised in FY23. Investors' appetite was muted amidst rising interest rates and

5 February 2024

### ACCUMULATE (Downgrade)

LAST CLOSE PRICE	SGD 7.290
FORECAST DIV	SGD 0.340
TARGET PRICE	SGD 7.980
TOTAL RETURN	14.1%

### COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,762
MARKET CAP (USD mn / SGD mn) :	9562 / 12847
52 - WK HI/LO (SGD) :	7.32 / 4.45
3M Average Daily T/O (mn) :	3.37

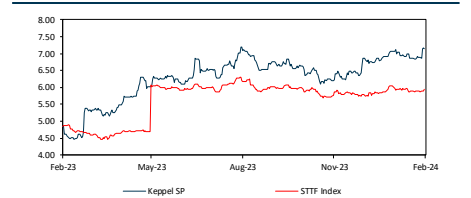
### MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	21.0%
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### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.1	17.2	57.6
STTF RETURN	(1.5)	3.2	(1.1)

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (S\$, 'mn)	FY22	FY23	FY24e	FY25e
Revenue	6,620	6,966	7,732	8,196
EBIT	565	1,076	1,160	1,229
NPAT	927	4,067	946	1,007
Dividend yield	4.5%	37.0%	4.7%	4.7%
P/NAV (x)	1.2	1.2	1.2	1.1
P/E (x)	14.0	3.2	13.5	12.7
ROE (%)	6.9%	7.7%	8.3%	8.4%

Source: Company, PSR

### VALUATION METHOD

SOTP valuation

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tighter credit conditions. But the pace could pick up in FY24, as recently-acquired Aermont Capital extends its investor reach, and the interest rate environment turns favourable.

- **Net gearing rose to 0.9x.** Management has an internal net gearing threshold of 1x. Free cash flow was negative S\$228mn. Net debt as at end Dec was S\$9.7bn, at an average interest cost of 3.75%. Interest expense doubled to S\$328mn.

### Outlook

Energy sales are expected to buttress the group's net profit, providing a stable and visible stream of earnings and cash flow till early 2026, when the new 600MW Keppel Sakra Cogen plant becomes operational. Earnings growth could be derived from higher recurring income from the fund management platform.

The near-term share price catalyst would be asset monetisation. Keppel is sticking to its target to monetise a further S\$5-7bn of assets by 2026, after a slow FY23 (S\$0.9bn). It has S\$12.6bn worth of assets on its balance sheet that can be disposed of or converted into future funds under management. These include vendor notes issued by Asset Co which holds the legacy rigs.

**Downgrade to ACCUMULATE (prev. BUY) on recent share price gain.** We raised TP to S\$7.98 (from S\$7.52) to take into account a bigger share of recurring and sustainable income.

## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>Revenue</b>	<b>6,611</b>	<b>6,620</b>	<b>6,966</b>	<b>7,732</b>	<b>8,196</b>
Materials and Subcontract costs	(5,082)	(5,174)	(4,998)	(6,031)	(6,393)
Staff costs	(665)	(668)	(704)	(773)	(820)
Depreciation and amortisation	(291)	(207)	(221)	(193)	(220)
Other items	556	(6)	34	425	466
<b>EBIT</b>	<b>1,129</b>	<b>565</b>	<b>1,076</b>	<b>1,160</b>	<b>1,229</b>
Investment income	105	49	78	80	80
Net finance expenses	(82)	(55)	(263)	(291)	(291)
Share of results of associates	459	536	322	330	340
<b>Profit before tax</b>	<b>1,611</b>	<b>1,095</b>	<b>1,214</b>	<b>1,279</b>	<b>1,358</b>
Taxation	(375)	(245)	(290)	(294)	(312)
Minority interests	16	5	(27)	(27)	(27)
Perpetual securities holders	-3	-12	-12	-12	-12
<b>Net Profit</b>	<b>1,249</b>	<b>844</b>	<b>885</b>	<b>946</b>	<b>1,007</b>
Discontinued operations	(226)	83	3,181	-	-
<b>Profit attributable to owners</b>	<b>1,023</b>	<b>927</b>	<b>4,067</b>	<b>946</b>	<b>1,007</b>

### Per share data (\$)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	6.41	6.29	5.85	6.23	6.64
DPS	0.33	0.33	2.70	0.34	0.34
EPS	0.56	0.52	2.31	0.54	0.57

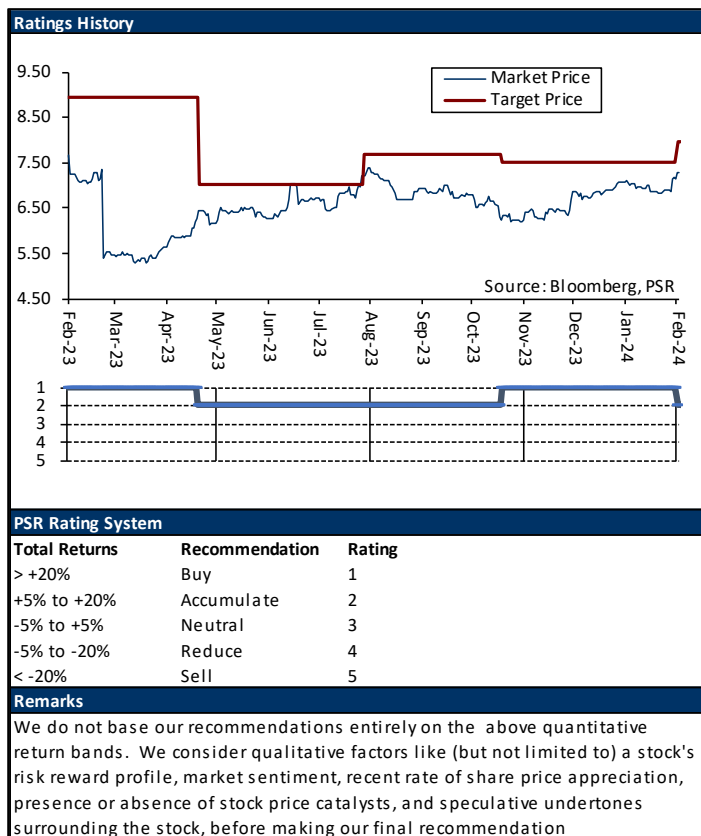
### Cash Flow

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

Source: Company, PSR estimates  
n.m. not meaningful

### Balance Sheet

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
PPE & Investment Properties	6,830	5,501	5,781	6,168	6,528
Others	10,647	10,554	14,691	14,681	14,671
<b>Total non-current assets</b>	<b>17,477</b>	<b>16,055</b>	<b>20,472</b>	<b>20,849</b>	<b>21,199</b>
Cash and cash equivalents	3,617	1,142	1,266	2,039	2,477
Stocks	4,604	2,301	2,110	2,251	2,290
Receivables	2,169	1,228	1,694	1,377	1,460
Others	3,401	(8,913)	573	573	573
<b>Total current assets</b>	<b>14,318</b>	<b>5,319</b>	<b>6,004</b>	<b>6,601</b>	<b>7,162</b>
Assets - held for sale	528	9,561	362	362	362
<b>Total Assets</b>	<b>32,323</b>	<b>30,935</b>	<b>26,838</b>	<b>27,812</b>	<b>28,722</b>
<b>LIABILITIES</b>					
Trade and other payables	4,957	2,786	2,586	2,971	3,149
ST borrowings	4,659	3,578	2,422	2,422	2,422
Others	2,219	4,996	1,131	1,047	1,066
<b>Total current liabilities</b>	<b>11,835</b>	<b>11,360</b>	<b>6,139</b>	<b>6,440</b>	<b>6,637</b>
LT borrowings	6,796	6,603	8,538	8,538	8,538
Others	1,174	(7,390)	531	531	531
<b>Total non-current liabilities</b>	<b>8,008</b>	<b>3,438</b>	<b>9,376</b>	<b>9,376</b>	<b>9,376</b>
Liabilities - held for sale	38	4,224	307	307	307
<b>Total liabilities</b>	<b>19,882</b>	<b>19,022</b>	<b>15,821</b>	<b>16,123</b>	<b>16,319</b>
<b>EQUITY</b>					
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	10,035	10,721
Others	11,655	11,178	10,307	10,953	11,640
Others	786	735	709	736	763
<b>Total equity</b>	<b>12,441</b>	<b>11,913</b>	<b>11,017</b>	<b>11,689</b>	<b>12,403</b>
<b>Total equity and liabilities</b>	<b>32,323</b>	<b>30,935</b>	<b>26,838</b>	<b>27,812</b>	<b>28,722</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	13.0	14.0	3.2	13.5	12.7
P/B (x)	1.1	1.2	1.2	1.2	1.1
EV/EBITDA (x)	14.9	28.5	17.4	16.1	14.7
Dividend yield (%)	4.5%	4.5%	37.0%	4.7%	4.7%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	0.6%	0.1%	5.2%	11.0%	6.0%
EBITDA	236.9%	-45.7%	68.1%	4.3%	7.1%
EBIT	nm	-50.0%	90.4%	7.8%	6.0%
PBT	nm	-32.0%	10.8%	5.4%	6.2%
<b>Margins</b>					
EBITDA margin	21.5%	11.7%	18.6%	17.5%	17.7%
EBIT margin	17.1%	8.5%	15.4%	15.0%	15.0%
Net profit margin	18.9%	12.7%	12.7%	12.2%	12.3%
<b>Key Ratios</b>					
ROE	10.6%	6.9%	7.7%	8.3%	8.4%
ROA	3.8%	2.7%	3.1%	3.5%	3.6%
Net Gearing (%)	63.0%	75.9%	88.0%	76.3%	68.4%



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